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# Foundations Face Pitfalls When Heirs Take Over

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EACH family foundation is unique. But sooner or later, all face succession issues.

Sometimes too many heirs are vying for a seat on the board, sometimes too few. Other rifts may arise when family members disagree over the donor's original intent, on how to divvy up the grants or even on what constitutes family.

"Large families have to decide which generations come onto the board and what to do about in-laws and divorces," said Steve Gunderson, president and chief executive of the Council on Foundations, based in Arlington, Va.

Experts on family foundations say many common pitfalls can be avoided if the donors make their intentions clear from the start. But they also advise donors not to place too many restrictions on future generations.

"One of the things we help clients think about is drafting the founding document in a way that provides flexibility as times change," said Douglas Rothermich, vice president for estate planning and trust consulting at TIAA-CREF.

Mr. Rothermich said he was working with a family that is creating a foundation to further a particular type of medical research. He asked the family to consider what might happen if that research were so successful that there was no longer a reason to fund it. In that case, family members decided, the foundation should focus on another area of medical research.

One of the best ways for founders to communicate their goals is to involve the younger generation in the foundation while older members are still alive, said Sharna Goldseker, a vice president at the Andrea and Charles Bronfman Philanthropies.

“As people are living longer, we don’t just see donors passing away and their heirs discovering their intentions when the will is read,” said Ms. Goldseker, who is the director of 21/64, a consulting division of the Bronfman Philanthropies that advises family foundations on how to deal with multigenerational issues.

Foundations with three generations on the board often call for advice, she said, because the generations disagree about what type of grants to make. In these instances, she encourages them to talk about the values behind their goals. “This can be very illuminating, when the grandparents hear what is motivating their grandkids,” she said.

Interpreting the donor’s original intent or deciding how much to veer from it becomes trickier once the founders have died. The third or fourth generation may want to focus on causes that were not front-burner issues when the foundation was established.

Or the heirs may want some breathing room on the question of where to make grants. Many foundations restrict their grant-making geographically, often to the donor’s hometown or region. But as time goes by, and the family disperses, the heirs may prefer to make their charitable donations where they reside.

Alfred Peguero, a partner at PricewaterhouseCoopers, said he had worked with several families that decided to split up a foundation after the death of their parents because they no longer felt strong ties to where they grew up. He said the heirs commonly rolled the endowments into separate donor-advised funds where each of them lived.

In many cases, though, the heirs want to keep the foundations intact because they see it as part of the family legacy.

But legacy does not mean stasis. Take, for example, the W. Clement & Jessie V. Stone Foundation. Mr. Stone made his fortune in Chicago, building an insurance business from scratch, and through mergers it eventually became the Aon Corporation. He was also an author of popular inspirational books in the mid-20th century, and in 1959, he and his wife established their foundation, which financed many local charities, including the Boys and Girls Club of Chicago.

Their son, Norman Stone, became president of the foundation in 1985. Initially he focused its grant-making on homeless services in Chicago.

“I wanted the family to work together, and most of my nieces and nephews had not been involved with the foundation,” Mr. Stone said recently. “I was sure that meeting these homeless-service providers would be a unifying experience and help develop our compassion.”

Then in 1999, Mr. Stone moved the foundation to San Francisco, where he has long lived. Along the way, the foundation switched gears again and started awarding grants for education and early childhood development, which remain its focus.

The board now has 14 members, including Mr. Stone, 8 of his parents’ 13 grandchildren and some of their spouses. Mr. Stone said he thought the board could grow to about 20 members before becoming unwieldy.

He said the board was already debating what to do once the family grew too large. “We want to deal with this before it becomes an emotionally charged issue,” Mr. Stone said.

Experts say many creative solutions can address this predicament. For example, members of the extended family can take turns serving on the board. Or the foundation can set up pools of money that allow family members not on the board to make smaller discretionary grants. The wealthiest families may even decide to start new foundations.

That is what happened at one of the country’s largest family foundations.

In 1966, William Hewlett, a co-founder with David Packard of Hewlett-Packard, and his wife, Flora, established the William and Flora Hewlett Foundation. But only a fraction of their descendants sit on the board.

“Bill Hewlett was quite clear that this should be a professionally managed foundation, and at no time should a majority of the board members come from the Hewlett family,” said Steve Toben, the president of the Flora Family Foundation, which the Hewlett family created a decade ago so that more family members would have a philanthropic outlet.

Now, a 26-member family council made up of the Hewletts’ descendants and their spouses meets once a year to set the broad agenda for the Flora Family Foundation. The foundation board has two nonfamily members: Mr. Toben and Susan S. Briggs, the family’s longtime lawyer.

Two of the board’s rotating seats are reserved for the children of William and Flora Hewlett, and four for their grandchildren. When someone marries into the family, the board adds an additional seat so the new spouse can serve a two-year term. “We call it our rumble seat,” Mr. Toben said.

The Hewletts found a creative solution to one of the more perplexing problems for family foundations what to do with too many heirs. But what happens if there are no descendants left, or none willing to serve on the board?

The options include dissolving the foundation and distributing the endowment in grants to various charities it has supported, or allowing it to continue as an independent foundation, presided over by outside board members.

“Usually the founding documents will have some kind of an atom-bomb clause,” said Judy Lau, a financial adviser in Wilmington, Del., who specializes in multigenerational wealth management.

This clause is often influenced by why the donors created a family foundation in the first place, rather than simply making lump-sum donations to charities in their wills, she said.

“Some people are more interested in funding a cause” beyond their lifetimes, Ms. Lau said, “while others are more interested in getting their kids to work together.”