All in the family

– *Razvan Lungeanu and John L. Ward*

Family businesses are widely accepted as distinct from non-family businesses in the way they are governed and operated. Family businesses may not follow the strict orthodox business policies but can pursue unconventional strategies at times. Many businesses have also established foundations for philanthropy aimed at social welfare. Prof. John Ward, clinical professor of family enterprise at the Kellogg School of Management and Kellogg doctoral candidate, Razvan Lungeanu studied 200 of these philanthropic foundations to ascertain whether differences exist between family-run and non-family run foundations.

Their study found that family-run foundations indeed functioned distinctly compared to the non-family run foundations –

Focused Grantmaking - Family run foundations were found to be very focused in making grants. They regularly contributed to a smaller number of specific welfare activities compared to the diverse philanthropic grants made by non-family foundations. Being focused, helped the family-run foundations do fewer things in a better way and thus be efficient in them. Diversification of grantmaking to cater to multiple areas of social welfare would have unwillingly forced them to depart from existing ways of doing things. This focused approach worked well for family-run foundations also because it kept intact the family's identification with, and their control over, the foundation.

Effect of Board Size – A foundation's board members play the important role of deciding the causes that would get funding support and the quantum of funds to be given for the cause. Ward and Lungeanu found that the larger the family-run foundation's board size, the more it was diversified in grantmaking. Both family and non-family foundations were found to be similar on account of diversity in grantmaking, if their board size exceeded 10 members. The researchers explained that this diversity in grantmaking, was on account of additional board members whose diverse values and philanthropic interests were to be accommodated.

Generation Effect – Ward and Lungeanu found that grantmaking in family run foundations was affected by the mix of family generations that served on the board and their respective proportion. The authors found that though diversity in grantmaking increases over time, the foundations that had board members from the founding generation as well as their children, were more diverse in grantmaking compared to the foundations that had majority of members belonging to a single generation.

Outsider Effect – The researchers divided the family-run foundations into three categories depending on their board constitution – All family directors; Majority family directors and

Minority family directors. They found that family-run foundations with less number of outsiders were more focused in grantmaking compared to the foundations that had lesser number of family members involved.

They found that the generation effect and board composition were interdependent. As new generation members come in, the organisational operations and complexity increases. The organisation moves towards professionalisation and more outsiders get involved. As a result the grantmaking diversifies to various areas of social welfare.

Practical Implications – This research can help those involved in planning for or running family foundations. The findings would help them prepare for succession and ensuing transitions that a family foundation is likely to go through as an evolving organisation. The research also has implications for the grant applicants as it helps them understand the nature of the foundation's grantmaking and its evolution in future.

Source:*Kellog Insight: Focus on research, Nov. 2012.*
(http://insight.kellogg.northwestern.edu/index.php/Kellogg/articleall_in_the_family)