

HOW **NOT** TO START A FAMILY FOUNDATION

If you want to waste money, then you should hire in-house foundation staff to manage your giving. That's a strong statement, but it's true for small family foundations. The 20th century taught wealthy families to create a foundation with employees and office space as a sign that they were serious about their giving. That decision couldn't be more self-defeating today. If you want to increase the effectiveness and efficiency of your giving, hire a philanthropic advisory firm to be your outsourced foundation staff.

Hiring In-House Foundation Staff Wastes Money

If you look at the graph below, you will quickly recognize why *hiring internal foundation staff costs twice as much* as the outsourced option. Hiring a more experienced philanthropic advisory firm typically costs less than an executive director's salary and avoids paying for the benefits, office space, supplies, technology, insurance, and travel costs required for in-house staff.

Expenses	Hire Philanthropic Advisory Firm	Hire Foundation Staff
Service Fee	Yes	No
Salary	No	Yes
Benefits	No	Yes
Office	No	Yes
Technology	No	Yes
Supplies	No	Yes
Insurance	No	Yes
Travel	No	Yes

How Much Money Do You Save with a Philanthropic Advisory Firm?

Let's compare the cost structure of small foundation staffs to the philanthropic advisory firm Excellence in Giving. The over 800 foundation members of the Association of Small Foundations on average have 1.81 full-time employees (FTEs). Generally, small family foundations with less than \$50 million in assets maintain 1.32 FTEs. Family foundations with more than \$50 million in assets average 3.1 FTEs.

What do these statistics mean? If you plan on having a **small** foundation, get prepared to fund salaries, benefits, travel, insurance, equipment & technology needs, and office space for 1 full-time employee and probably another part-time employee (57.8% have at least one part-time employee). A Council On Foundations survey of 101 foundations that have a full-time CEO plus one additional staff person found an average CEO salary of \$104,790. Once you add a part-time salary (~\$25,000),

benefits (~\$27,000), supplies (~\$5,000), technology (~\$10,000), travel/conferences (~\$10,000), membership dues (~\$2,000), and office space (~\$18,000), those **small** foundation costs will run you over \$200,000 every year!

In-House Foundation Staff

Annual funds for distribution \$1,000,000

Foundation expenses

CEO/Executive Director	\$ 104,790
Part-time Assistant	\$ 25,000
Benefits	\$ 27,455
Supplies	\$ 5,000
Technology	\$ 10,000
Office	\$ 18,000
Conferences/Travel	\$ 10,000
<u>Membership Dues</u>	<u>\$ 2,000</u>

TOTAL \$ 202,245

Excellence in Giving Outsourced Staff

Annual funds for distribution \$1,000,000

Foundation expenses

Service Agreement	\$ 95,000
Part-time Assistant	\$ 0
Benefits	\$ 0
Supplies	\$ 0
Technology	\$ 0
Office	\$ 0
Conferences/Travel	\$ 0
<u>Membership Dues</u>	<u>\$ 0</u>

TOTAL \$ 95,000

EIG small family foundation clients benefit from an additional \$107,245 to give annually.

Annual funds for giving \$ 797,755

Annual funds for giving \$ 905,000

In the following 2 examples you can witness the high operating and administrative costs that are found at most family foundations with in-house staff.

Operating Expenses More Than 25% of Annual Distributions

The expense graph below is a classic example of how family foundation "A" (\$13 mm in assets) spends 27% of their annual distributions on operating expenses. In essence the foundation spent \$37 on operating & administrative costs for every \$100 distributed to grantees in 2008.

2008 Foundation Expenses	Amount	Percentage
Grants	\$280,000	73%
Operating & Administration	\$761,000	27%
Total	\$1,041,000	

Foundation "A"
Spends \$37
to Distribute \$100
to Grantees

Operating Expenses Higher Than Grant Distributions

If we only count operating expenses as compensation, benefits, travel, office, and equipment costs, family foundations still exist that spend more on operating costs than grant distributions. For example family foundation “B” (\$68 mm in assets) spends 54% of their legally required annual distribution on operating expenses. In essence the foundation in the graph below spends \$118 on operating & administrative costs for every \$100 distributed to grantees.

2008 Foundation Expenses	Amount	Percentage
Grants	\$977,000	46%
Operating & Administration	\$1,153,000	54%
Total	\$2,130,000	

Foundation “B”
Spends \$118
to Distribute \$100
to Grantees

Efficiency and Effectiveness

Jerry McCoy and Kathryn Miree who wrote the 2009 *Family Foundation Handbook* acknowledge, “Although every foundation would prefer to have an employee with prior family foundation experience, such individuals are rare” (5-88). A philanthropic advisory firm not only provides a low-cost solution but also provides multiple advisors with years of experience in foundation management, the social sector, and the nonprofit sector. It is the equivalent of having access to the expert staff at a dozen foundations for less than the price of hiring one executive director. So you won’t be paying much for their services, but the advisory firm will be able to work with you on the creation of an effective giving strategy and grant evaluation process that results in high impact philanthropy. If you combine the collective wisdom of a philanthropic advisory firm, the low cost, and the fact that their service fees are IRS-approved tax deductible giving services, you will find the best solution for effective philanthropy.

Become A Lean 21st Century Foundation

The 2007-2008 *Foundation Operations and Management Survey* found that the number of foundations with paid staff had increased by more than 50% since 1993. It is time to stop this 20th century trend of creating inefficient family foundations with in-house staff. Wouldn’t you like to cut out 50% of your operating expenses and free up \$100,000 or more for effective grants? Talk to your family foundation board and ask if they would like to hear a presentation on all the advantages of outsourced staff at a philanthropic advisory firm.