STRATEGIC PHILANTHROPY IN FAMILY BUSINESS

LANSBERG·GERSICK

Institute for Family Business

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STRATEGIC PHILANTHROPY IN FAMILY BUSINESS

BACKGROUND

In conversations with enterprising families, we are often approached with common concerns and challenges about being more strategic with their various philanthropic activities.

Lansberg, Gersick & Associates (LGA) and the Institute for Family Business (IFB) have teamed up to provide family business owners with a brief and effective guide that makes available a strategic and practical framework for addressing these crucial dilemmas.

Whether you are just beginning your philanthropic journey or already established and looking to take your activities to the next level, this guide will help you organize strategic conversations across your family enterprise and set your shared philanthropic efforts on a sound footing for long lasting impact.

Lansberg, Gersick & Associates (LGA)

We are a global professional advisory firm supporting the world's leading family enterprises on all aspects of governance and continuity. In addition to our advisory services, we are committed to research, writing, and teaching on topics of relevance to enterprising families. We believe that family enterprises are uniquely positioned to generate superior long-term benefits for all of their key stakeholders - shareholders, employees, family members and their communities - and we work with families across generations to support these outcomes.

Institute for Family Business (IFB)

We are the UK family business organisation. Our mission is to help family businesses remain successful across the generations. We provide a safe space where they can share their challenges and successes openly. We know family businesses are the backbone of our economy and communities, and work closely with them championing their contribution and voicing their needs. As a not-for-profit organisation, we put the needs of our members at the heart of everything we do.

PHILANTHROPY IN FAMILY BUSINESS

A FRAMEWORK FOR STRATEGIC PLANNING

BY NEUS FELIU, WENDY ULASZEK AND DEVIN DECIANTIS

SHARED philanthropic activities can be a rewarding way for enterprising families to engage in common projects, enhance their corporate brands, and generate positive impact in the world. This activity often begins informally when individual family members are asked for contributions to worthy causes within close familial and social circles. In other systems, philanthropy emerges over time based on a blend of family values, cultural norms, individual preferences and tax incentives – often leading to a broad portfolio of charitable activities without a coherent unifying vision.

While every family's relationship to philanthropy is unique – based on entrepreneurial legacy, family values, cultural context, business performance and stakeholder expectations – in our experience there are generic lessons for all families who are contemplating a more strategic approach to engaging in these activities.

THE FAMILY BUSINESS ADVANTAGE

The process of launching a new foundation or restructuring an existing foundation may seem overwhelming at first, but there is good news for families who are open to the possibility.

By their very nature, enterprising families are ideally configured for strategic philanthropy. At their best, family companies are decisive, focused on the generational horizon, patient with their capital, purpose-driven and values-centered. They practice stewardship, are proud of their entrepreneurial legacy and recognize the importance of healthy stakeholder ecosystems. These attributes make them open to the economic and social opportunities that strategic philanthropy presents – and acutely sensitive to the risks from inaction.

So what is preventing more families from getting started?

On the one hand, business families whose philanthropy is integrated throughout their enterprise often make it look deceptively easy.

The reality is that it takes a lot of time and investment to launch and manage a Foundation (and other philanthropic activities) that do more than simply cut checks to aspiring grantees. Developing a shared strategic vision and delivering on a family's desired impact in the world can be every bit as complex as strategic planning within an operating company.

On the other hand, diving straight into conversations about program areas, donor advised funds, venture philanthropy, and next generation discretionary grants can be overwhelming to the uninitiated. At its best, it wastes time and money. At its worst, it could lead to paralysis, major family conflict and even reputational risk.

However, with a structured set of conversations about the purpose and focus of their philanthropic activities, families can sidestep many of the pitfalls associated with a more reactive, tactical approach to grantmaking.

Whether you are just getting started with a philanthropic project or have an established family foundation, **the following framework of questions and lessons from other philanthropic families will help you take a more strategic approach**.

SIX QUESTIONS EVERY FAMILY WITH PHILANTHROPIC INTERESTS SHOULD ASK

What follows is a list of questions that families should ask themselves when exploring the possibility of a common philanthropic project. These can be addressed through personal reflection, a facilitated family workshop, or a dedicated family task force. Whatever process your family prefers, you will find it helpful to answer the questions in the order provided.

1. Why should we give as a family?

Entrepreneurial families may choose to engage in philanthropy for a variety of reasons. Some are highly motivated by traditions and values:

Some generations ago my ancestors including my Grandfather set up a number of foundations that supported their local area, community and their own legacy. The reason lay in the philanthropic principles of the Quaker heritage that has always underpinned the family and the business.

William Pedder, C&J Clark

Others follow the examples of friends or other families. Still others have strong feelings of gratitude about their wealth and success which creates a desire to give back:

As a family we have always believed in returning something to the communities in which we live and work, both of our time and of our resources, and in general in 'making a difference'.

Michael Bartlett, Bartlett Group

Yet, some families may be driven by the long-term value that philanthropic activities can have on their businesses such as brand and talent management.

Whatever the reason, it is important to begin the strategic journey by asking your family members about their motivations for giving and seek alignment within the distribution of perspectives and opinions.

2. Should we give collectively or individually?

Giving individually allows for autonomy of decision-making, which is a particularly powerful motivator in transitions from a strong founding owner to a second generation sibling partnership.

Making philanthropy a family project can unleash the potential for pooled resources (both financial and human) to support a common purpose and also provides an opportunity for a community of family members – many of whom may not work in the family business – to unite behind an ambitious common project that creates value for the family and for the communities the families want to support:

We have found that family involvement in the Family Office's philanthropy programme has been exceptional. Our philanthropy programme has acted as a newfound glue and catalyst for wider family engagement.

Paddy Walker, J Leon Group

Shared philanthropy isn't simply an aggregation of individual philanthropic goals and activities. The whole has the potential to be greater than the sum of its parts, and many families take advantage of their scale and influence to affect meaningful, lasting social change within the communities that are most important to them.

Since the decision to give collectively or individually will have profound legal and organizational implications, families should resist the temptation to dive straight into grantmaking until the benefits and risks of each approach have been sufficiently explored.

3. What kind of impact do we expect?

There are countless ways that families can contribute meaningfully to the communities in which they live and operate.

Paradoxically, the scale and scope of felt needs in modern society often encourage families to spread their limited resources too thinly across the grantmaking spectrum to have any meaningful impact. In other cases, families can become paralyzed by the diversity of choice:

> Having a focus, a well-defined priority area is key for optimizing our family's resources. The primary objectives of our giving are the education and welfare of young people under the age of 25, both in the UK and abroad. We know that with focus and structure our giving tranforms lives.
>
> Michael Bartlett, Bartlett Group

Experience with families with successful philanthropies suggests that it requires time, education and vigorous debate to define a philanthropic mission that is both meaningful to the family and impactful in the world.

Once the mission is defined, families need to discuss how success will be measured – in lives saved, students graduated, startups funded and so forth. This will help to keep the family engaged and grantees and staff accountable. It will also increase the likelihood that the programmatic success of a project can be replicated elsewhere:

> Our aim is to understand clearly the verticals that we target, to add value in our chosen areas and, in time, become the go-to family organisation for other families interested in giving to those specific causes.
>
> Paddy Walker, J Leon Group

4. Should our philanthropic efforts be led by the family, the business, or both?

Many families engage in a range of charitable activities across their enterprise – from corporate social responsibility programs managed by marketing teams, to the purchase of tables by executives at high profile social events, to the sponsorship of local non-profits by a family foundation, and to social investments made within the Family Office. Enterprising families need to ask themselves under what circumstances it makes sense for them to integrate their charitable efforts between their businesses, their foundation or donor-advised funds, and their individual discretionary giving:

Our Family Council wants to work closely with the business which has always supported with charities within our catchments areas, we both share the same values. With contributions from our Donor Advised Fund, regular business and family contributions, plus funds raised by our centres we are able to make worthwhile contributions to our communities.

Warren Haskins,
Haskins Garden Centre

In some cases, coordination can amplify the impact the family wants to attain. In others, it could limit the breath and responsiveness of the philanthropic activity based on rigid requirements for program alignment or due to the participation of more voices in decision-making. On the other hand, segmentation of philanthropic efforts can allow the family to express a set of values and social interests that are differentiated from their commercial activities, and reinforce the family's identity (a model pursued by many publicly-traded family firms). Under certain conditions, it can also support greater privacy for the family and their charitable work, and greater flexibility for the business to use these activities for broader stakeholder engagement:

Both the family and business lead separate philanthropic efforts that are not coordinated with each other because the family giving is felt to be personal, very respectful to our ancestors legacy but also open to the interest of our youngest generation. The business, on the other hand, is very sensitive to the needs and concerns of their stakeholders and of the communities in which it operates.

William Pedder, C&J Clark

5. What governance architecture do we need?

Based on the answers to the previous questions, and in accordance with legal and tax requirements, enterprising families must design and build the governance forums and processes that will allow them to lead their philanthropic projects and achieve their desired social impact. For example, in complex family enterprises we encourage the creation of a Philanthropy Committee most often reporting to the Family Council or the Family Office. This Committee is responsible for coordinating the various initiatives being pursued throughout the enterprise, from conception through to execution. That said, even the best laid philanthropic plans can run aground if the various governance bodies are not staffed responsibly. Choosing your family and non-family Trustees, Directors, and Investment Committee members wisely, and having proper governance processes in place, are critical for maximum impact.

6. What risks might we face?

We strongly recommend enterprising families educate themselves on the potential risks they face when pursuing meaningful social impact and establish a culture of risk management within their organization.

We have seen several situations that call for a greater attention to risk. For example, systems may be exposed to reputational risk if there is a misalignment in values between a family's corporate activities and their philanthropic work. For the owning family there may be an additional reputational risk if philanthropic resources are used improperly, for instance on excessive compensation for family executives, or if an enterprise cannot meet the commitments to a family foundation that is financially dependent on it. Family foundations also need to be attentive to compliance risks, particularly around giving and investments.

Finally, there is a very plausible risk that the family doesn't achieve the goals or impact that it desires. Managing this risk entails having the correct operational plan in place to support implementation, a proper evaluation process for assessing impact and the willingness to accept and learn from failure.

Whatever the risks that might be encountered, collective philanthropy requires talented leadership and responsible governance. Therefore, it is important for the family to learn and be aware about the challenges that philanthropic activities entail, and assure the development of a good reserve of candidates with the right governance and leadership skills and competencies.

NEXT STEPS

Working through these six questions can take as little as a weekend or as long as a year, depending on the degree of communication and alignment within the system. Leaders need to be patient and attend to both the content outcomes (e.g. defining the family's philanthropic mission, governance architecture, leadership model, etc.) as well as the process outcomes (e.g. creating a sense of alignment and commitment to the mission, fostering family harmony, facilitating effective multi-generational dialogue, etc.).

For those that are ready to dive in on their own, we have included an **six concrete next steps**. For others who are ready to begin the journey but need guidance, contact the authors for additional resources available.

LESSONS LEARNED

Six Steps to Launching a Family Philanthropy Project

1. Set up a Philanthropy Task Force.

Families should begin by deciding who will facilitate the process of asking and answering the six key questions outlined above, as it will powerfully shape whether the strategic review will be successful.

When building a Task Force or Steering Committee to guide this work, many families concentrate authority in the senior generation by default, which produces faster results but can lead to disengagement among the rising generation. Others delegate too much authority to the next-gen to keep them engaged, though these groups often have less managerial and governance experience and will quickly run short on authority.

Families should also consider the mix of business and family focus among participants. If the decisions are made only by those close to the business, the alignment of philanthropic activities with the corporate brand may be enhanced, but it risks being out of alignment with the family's philanthropic vision, values or theory of change.

Families clearly need to be thoughtful about the design of this Task Force – and formally draw a mandate, composition, and expectations.

2. Define a purpose for your giving.

Invest the necessary effort to clearly define your family's vision for collective philanthropy – this will serve as a north star for family and non-family board members and staff once the work begins.

3. Explore full range of structural options.

The first goal of the Task Force should be to reflect on what structure, or combination of structures, will enable the system to achieve its philanthropic goals. Based on your vision, the Task Force needs to educate itself on the different legal structures through which it can pursue its philanthropic activities: a family foundation, a corporate foundation, a charitable company, a trust, a donor advised fund, giving circles, among others. Weight your options and consult your tax and legal advisers.

4. Explore the various paths to launching philanthropic initiatives.

Legitimize and discuss the different approaches to achieving your philanthropic goals and respect the diverse interests among familymembers. Any collective effort requires that the enterprising family develops a comfortable level of knowledge, communication, tolerance and decision-making competencies.

5. Benchmark with other families.

One of the best ways to test a variety of philanthropic hypotheses is to meet with other families who have chosen the various options the Task Force is contemplating. In the business world, this type of peer learning is relatively rare given the economic incentives involved, but in philanthropic circles the degree of generosity and openness is often profound.

We strongly recommend seeking out case studies, attending educational conferences, and benchmarking with other families who are wrestling with similar organizational complexities or philanthropic motives.

Both LGA and the Institute for Family Business can help facilitate confidential and structured benchmarking opportunities for enterprising families to learnfrom other families who have already engaged in similar strategic explorations.

6. Take your philanthropy seriously.

The family foundation is often viewed as the least formal entity within a broader family enterprise, in part because profit motives are noticeably absent.

However, this sends the wrong signal internally about the importance of the family's philanthropic work. Demand that philanthropy keeps to the same high standards of rigor and professionalism that are placed on your operating businesses and family office.

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