

Philanthropy - What it provides to families in business

Family business philanthropy, though widely practiced all over the world, is an area that is still unexplored and little commented on. The field is, however, fast evolving and has witnessed much innovation. **Etienne Eichenberger**, Co-founder of Wise - Philanthropy advisor, and **Jessie Johnsson**, Key Client Manager at Wise, discuss what makes a successful engagement and the benefits for families that get involved in philanthropy. Two case studies are presented that illustrate the successful implementation of philanthropy for families in business.

Philanthropy: Are we observing a momentum?

Philanthropy is an evolving sector. The 2010 World Wealth Report by Merrill Lynch and Capgemini, found that the allocation of High-Net-Worth-Individuals in philanthropic activities grew in every regions except North America. The same report reveals that 35% of HNWI in the Middle East said they planned to increase their level of philanthropic engagement this year. Every region and country has its own philanthropic culture. There currently seems to be an interesting momentum for family businesses in the Middle East. Two observations draw our attention.

While family businesses are playing an important role in the economy and studies have regularly shown that on the long-term they outperform other businesses, there is a continuous challenge of succession to the next generation. Our observation

35

percent

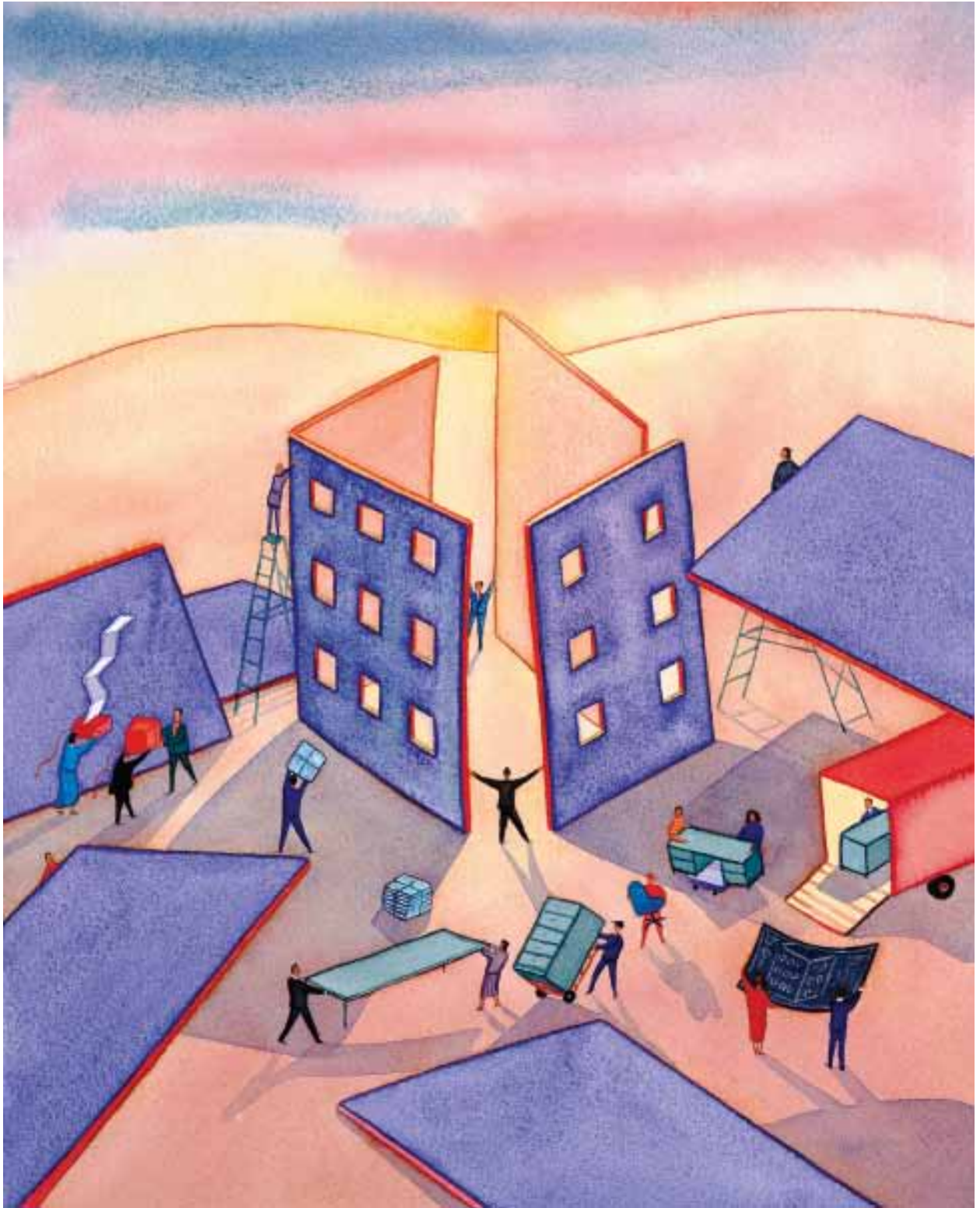
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is that an increasing number of family businesses are reaching a moment in which the questions of transition and family governance are essential. This long-term vision of family businesses, striving to insure that the future generations will benefit from the successful enterprise, can benefit from the platform, which philanthropy offers to them.

In parallel, family businesses are increasingly becoming global actors in their sector and, thus, developing a more global commitment. These businesses are likely to seek a more international approach to the act of giving in addition to continuing their charity to their communities.

Family giving: how it mirrors the family business

In our experience, we often observe that the impulse to engage in philanthropy often comes from one family member before it turns into a family project.



Philanthropy is plural and the reasons to involve the family are as varied as families themselves. Here are some of the common impetuses:

Nurturing family legacy

Family entrepreneurs’ long-term vision for their business is anchored in the ambition to create value and wealth for their descendants and for society. The business development is often aspired by sustainability and these entrepreneurs want the future generation as well as the community to benefit from their success. Hence, philanthropy becomes a natural expression of personal and spiritual values. It can translate the desire to ‘give back to the community’ and help the development of action promoting general interest to leave a strong family legacy.

Strengthen the bond between and among generations

Philanthropy can become a common ground, or a sort of neutral ground that can include parents, children, partners, and grandchildren in a project that is not the family business. In other words, it becomes a place for encounters, dialogues, or exchanges of shared altruistic interests. It is a wonderful opportunity to bring together, and even to unite family members. It also provides a space to create new conversation topics, especially around intangible values. As such, it also offers opportunity for personal growth. In an increasingly rapidly changing cultural, economic and social context, sharing a common family project can bridge geographic distances as well as generational gaps. In this sense philanthropy is a channel between and among generations.

Involving the next generation

Philanthropy can also be a learning tool giving parents the possibility to...

- ◆ Accustom their children to share their resources and to give them the opportunity to do so,

FIG. 1: Drivers for Family Business Philanthropy



Leverage your Resources

- ◆ Guide them in finding their modus operandi that will help shape their personalities,
 - ◆ Learn how to defend one’s point of view within the family,
 - ◆ Make them understand the value of money and teach them to work together,
 - ◆ Explain the importance of wealth management
- In this sense, it can help the younger generation to acquire practical skills and develop the entrepreneurial attitude that will be important in life as well as in the business world. One of the approaches to involve the younger family members is to have a separate next generation fund allowing them to allocate smaller grants to their individual choices. This experience helps them to take responsibility and to develop confidence by recognising their preferences.

Some Good Giving Principles?

Donors want generosity to go hand in hand with real opportunities. However, in the words of a donor “the hardest part is to find a balance between heart and reason- it is a perpetual challenge”. Maintaining professional standards is, nevertheless, essential to families who have built their business successfully. In other words, being good at doing good.

FIG. 2: Trends in Philanthropy

Emerging new style in philanthropy

Former paradigm

- ▶ Doing on your own
- ▶ Responding to solicitations
- ▶ Non-for-profit as a recipient
- ▶ Giving to general cause

New paradigm

- ▶ Learn from others, get advised, involve children
- ▶ Pro-active on issues of interest
- ▶ Donors & social enterprises as partners
- ▶ Specific objectives to create impact

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Pro-active engagement

“Giving” is about making choices and taking a position on what you consider to be the right course of action. “Giving” is also about selecting trustworthy actors on issues close to your heart in order to optimise the impact of a donation and to be part of a rewarding and challenging experience. Such an engagement calls for a rigorous definition of interests to ensure that the best suited partners and the most appropriate mechanisms are found.

Project approach

At a time when greater transparency and

accountability are called for, having the right tools for project management has become essential. Project management is a complex process that requires multiple stages including the planning of objectives and results, taking into account the predictability and sustainability of a project. Defining a specific project within the chosen organisation will enable the donor to get to know the partner organization better and to build trust for greater impact.

Exit strategy

The sustainability of the organisation is assured once it can provide its activities autonomously or with a variety of support. Predictability lets an organisation anticipate the end of a support cycle. An exit strategy combines these two perspectives. At the same time an exit strategy allows for a project planning phase (3 to 5 years). When finalising this phase, an analysis of the challenges, failures and successes of the project serves as lessons for future improvements. At the end of a project cycle you will be able to choose between renewing your support for a new phase or project, or retract from the organisation with the feeling of having contributed to a significant and lasting impact.

Leveraging your engagement

It is important for donors to ensure that their family dynamic as well as their available resources converge to fulfil social impact. For many families time is a constraint and financial resources are limited. We draw from our experience working with families to put forward hereunder ways of leveraging philanthropic engagement:

Meet with peers

Inspiration through peers is important. Gatherings that are exclusively for families engaged in philanthropy allows donors to learn



about other families' modus operandi or discuss pertinent issues ranging from strategic choices of funding approaches to family dynamic. This opportunity to share practical experiences among peers allows donors to enrich their philanthropic engagement.

An exclusive donors' network such as 'Families in Philanthropy' provides a platform to discover and share ideas with families represented across different generations involved in philanthropy.

Work with advisors

Giving involves choosing. In a dynamic sector where choosing organisations you trust in areas you are drawn to or making common family decisions can be overwhelming, getting the support of professional advisors can be key. "They help us figure out what we can expect from the various projects that are presented to us and more importantly, they share their experiences at a time when we could get carried away by excessive idealism" says a member of a family who relies on philanthropy advisors for their engagement.

CASE STUDIES 1: "I wanted to include philanthropy in the family governance"

Laure, her brothers and sister are involved in the company that their father Matteo founded twenty years ago. As a young immigrant from Italy who arrived in France in the 1960s, he studied in Alsace before starting to work in the conversion of old buildings owned by the steel industry.

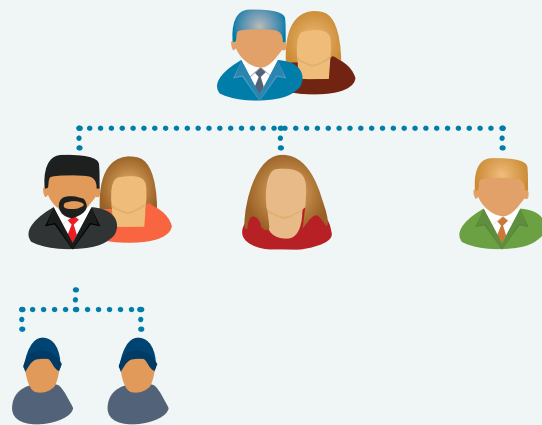
Matteo and his wife wanted to express their gratitude for the opportunity that was given to them by personally engaging, with their family, in a philanthropic project. "When we started reflecting on family governance five years ago, we wanted philanthropy to be included and we decided it was the right moment to start our family engagement. We wanted to include our children and our grand-children in the project" says Matteo. The family agreed immediately.

They started by putting down in writing the first values and principles that mattered to them. This became the first "family charter." As Laure explains, "We and our spouses thought about the strengths of our family, what kept us together, and what was meaningful to us all". The charter inspired the founding document of the foundation that they established a year later.

Since then, they have supported about ten projects in France and abroad. All family members are involved in the decision-making process, which gives meaning to philanthropy, and unites the family. It is particularly important for the spouses who are not involved in the

business, because of strict family rules that pertain to them. However, they are strongly encouraged to play a role in the family's philanthropic projects, which helps to strengthen the family's values.

Laure believes that this strictly family approach to philanthropy was actually an excellent choice. Keeping family philanthropy separate from the company policy on philanthropy allows each structure to play its role efficiently, according to guidelines, without succumbing to the constraints of the other, even if they have very similar values and motivations. The reputation of the family or of the business is not at stake, should either of them be subject to criticism.



Learning by doing

Learning from experiences is an important part of philanthropy. A philanthropic engagement has several stages: the initial phase, based on a few issues that speak to us, where the donor can test his assumptions by making preliminary commitments; the evaluation phase where you highlight what you liked, what worked and what you learned from exchanges with other philanthropists; the expansion phase where the initial pilot is scaled up while refining the principles of action; and

the learning phase in which you take the time to review your experiences and learn from them. Philanthropy is multi-faceted and it is important that the initial vision be allowed to evolve. ♦

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CASE STUDIES 2: Creating a legacy

Ahmad inherited the financial business from his father and made it even more profitable. Ahmad and his wife are very attached to the values of simplicity and respect that were nurtured in their family; they raised their four children modestly. When the older children left, the family dynamics changed; it turned out to be the right time to unite all children around a project that embodied these values.

Ahmad and his wife were already giving to different organisations in their community. “For us it is important to share with our children the values that our parents transmitted to us”, explains the father. By involving them actively in this project, it was also encouraging them to spend more time together, so that they could get to know each other better, in spite of the geographic distance imposed by their studies. Finally this project was also an opportunity to give the children a notion about asset management.

After understanding their parents’ perspectives, Jasmine and her three brothers accepted the challenge. In the first months, the children defined their first project – providing assistance to troubled youth. They started with projects close to them, in Lebanon. After learning a lot from culturally familiar cases, they decided to expand their horizons and extend their action to other areas.

Three years into the project, the parents are thrilled to see that their children have become more proactive, make group decisions, and also like to give individually to smaller projects. “They do not feel that they are giving, but rather sharing with others, which is very enriching and motivating” says Ahmad. Looking ahead, they are now thinking of establishing a foundation, hoping it will encourage the children to give themselves when they will make a living.

