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STRATEGIC PHILANTHROPY
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Philanthropic Planning in Your Family Enterprise

In conversations with enterprising families, we are often approached with common concerns and dilemmas related to family philanthropy. This LGA Primer offers a strategic guide to addressing these concerns.

BY NEUS FELIU, WENDY ULASZEK AND DEVIN DECIANTIS

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A framework for strategic conversations

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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.

The Gates and Waltons of the world often make it look easy, but strategic philanthropy does not come naturally to every family and involves considerable time and investment. In our conversations with enterprising families, we are often approached with common concerns and dilemmas about how to be most effective with charitable activities. Many of these discussions resemble the following two vignettes:

> *FAMILY A: "As we become older, my wife and I feel pressure because we don't want to fail the community, institutions and individuals who we have been supporting over the years. We help the helpless, the ones who no one else helps. But no one in our family has ever shown any interest. Sometimes, they even question why we give all this money away instead of undertaking our own project. We also struggle to connect these activities to the important work around our corporate citizenship taking place within our operating company…"*

> *FAMILY B: "We have never been engaged in philanthropic initiatives. This is not for us. We pay our taxes and create enormous wealth for society through our companies. This is how we contribute to the community. However, our next generation is very vocal with their social concerns and they are increasingly questioning the position of our family and corporations in society. Now that the Nextgen are on the Family Council and some of them also hold positions on some of the operating boards, we struggle with how to respond to their concerns regarding the family's social purpose."*

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.

FAMILY ENTERPRISES ARE WELL-DESIGNED FOR STRATEGIC PHILANTHROPY

The process of launching a new philanthropic project or restructuring an existing one 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-controlled companies and their owners 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 philanthropic activities are 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 that does 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, venture philanthropy, donor advised funds and nextgen discretionary grants can be completely 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 side-step many of the pitfalls associated with a more reactive, tactical approach to grantmaking.

SIX QUESTIONS EVERY FAMILY WITH PHILANTHROPIC INTERESTS SHOULD ASK

What follows is a list of questions that families should ask when first 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 ordered provided.

1. **Why should we give as a family?**

   Entrepreneurial families have many different reasons to give. Some are highly motivated by traditions and values: *"Giving back to the community was something that my parents felt strongly about and was evident in their support of local organizations in our home town."* Others follow the example of friends and other business families: *"We got involved in philanthropy and set up a foundation due to the direct experience of the charitable activities of a close friend and colleague."* Still others have strong feelings of gratitude about their entrepreneurial success and want to create a vehicle for giving back: *"We need to share our success with our employees, clients and community; their work and their loyalty to us have been an important part of our success."* Families may be driven by the economic benefits of these activities for brand and talent management or prioritize the long-term value created by a sustainable and resilient supply chain.

   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?**

   Personal values, family history, entrepreneurial legacy, size, and geographic dispersion shape our preferences and perspectives about the benefit of coordinated charitable activities in powerful ways. 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 can also provide 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 world. As one family shared: "*My cousins and I each believe deeply in giving back, but we know we cannot move the needle on big issues alone. If we want to scale our impact we need to join forces in areas of common interest."* Shared philanthropy isn't just an aggregation of individual philanthropic aspirations and activities. The whole has the potential to be greater than the sum of its parts, and many families take advantage of their scale to affect meaningful, lasting social change.

   Since the decision to give collectively or individually will have profound legal and organizational implications, families should resist the temptation to dive 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: *"It's so easy to be distracted by all the non-profits doing great work in the world! That's why it's so critical to clearly define and maintain our philanthropic focus. This helps our staff identify potential grantees more effectively, say no to mismatched grant requests more transparently, and focus resources to maximize impact."*

   Experience with successful philanthropists suggests that it requires time, education and vigorous debate to define a philanthropic mission and vision that is meaningful to the family and will have a material social impact. As another family expressed it: *"our foundation did not begin with a 'grand vision'...finding its purpose has been a process of debate and development."*

   Whatever mission your family chooses to unite its philanthropic activities, be sure to discuss how success will be measured – in lives saved, students graduated, startups funded, and so forth. This will not only help to keep grantees and staff accountable, but also increases the likelihood that your programmatic success can be replicated elsewhere.

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 local social events, to the sponsorship of local non-profits by a family foundation, and

to social investments made by 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. In some cases, coordination can amplify the impact the family wants to have in the world. For other systems, it can limit the breadth of philanthropic activity or the responsiveness of the system to changing needs within the community based on rigid requirements for program alignment.

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 launch the governance forums and processes that will allow them to efficiently govern and lead their philanthropic projects. For example, in complex family enterprises, we encourage the creation of a Philanthropy Committee either at the Family Council or at the Board level, to coordinate the various initiatives being pursued throughout the enterprise.

That said, even the best laid philanthropic plans can run aground if the various governance bodies aren't staffed responsibly. Some families misguidedly use their foundations as a holding tank for family members who can't build a successful career within the operating business or find meaningful employment outside the family enterprise. Choosing your Trustees, Directors, and Investment Committee members wisely is critical for achieving maximum impact. As one family expressed it: "*Balancing family engagement is critical. When family members are fully engaged, they can be catalytic within their Foundations, using their influence among staff and within the community to advance our social mission. However, not all family members get involved for the right reasons, and this has introduced complicated family dynamics around grant-making and staffing. We often ask ourselves what we are missing by not having more outside voices at the table?*"

6. **What risks might we face?**

Despite their best intentions, we strongly recommend that enterprising families educate themselves on the potential risks they face when pursuing meaningful social impact, and establish a culture of risk management within their governance bodies**.** As one family put it: *"Just because you don't have a profit motive, doesn't mean you aren't susceptible to risk!"*

In our work, 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 – like pairing investments in tobacco cultivation with the sponsorship of a lung cancer wing at the local hospital. For the owning family, there may be an additional reputational risk if philanthropic resources are used improperly – for instance on excessive compensation or flashy office space for family executives. Family foundations also need to be attentive to compliance requirements – particularly around giving and investments – or they risk running afoul of regulators and tax authorities.

Collective philanthropy, much like collective entrepreneurship, requires talented leadership and responsible governance. Therefore, it is important not to be tempted to appoint a family member with the

wrong skills and competencies to a governance or leadership role. Finally, there is a very real risk that the family doesn't achieve the goal or impact that it desires with a given level of philanthropic investment. Managing this risk entails having the correct operational plan in place to support implementation, a proper evaluation process of the philanthropic project impact, and the willingness to accept and learn from failure.

Working through these six questions can take as little as a weekend or as long as a year, depending on the degree of alignment within the system and any muscle memory the family may have with respect to shared philanthropic activity. Leaders within these systems 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 Appendix with six concrete next steps. For others who are ready to begin the journey but need some guidance and support, LGA is here to help!

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Appendix

Six Steps to Launch a Collective Philanthropic 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 experience. 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 need to be strategic about the design of this Task Force – and formally defining the mandate, composition, and expectations before staffing.

2. **Define a purpose for your giving.**

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

3. **Explore full range of structural options**.

   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. Weigh 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 philanthropic goals and respect the diverse interests among family members. Any collective effort requires that the enterprising family develops a comfortable level of 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 is often profound. We strongly recommend seeking out case studies, attending educational conferences, benchmarking and learning from different families who are wrestling with similar organizational complexities or philanthropic motives.

6. **Take your philanthropy seriously.**

   The family foundation is often viewed as the least formal entity within a broader family enterprise 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.