

# Philanthropy and its Relevance for Families

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This is an excerpt from a recent private event:

## **Q: Why is philanthropy relevant for families?**

**HM** If you look at the issues family face there are common themes. Of course families are all different with different needs and aims but there are typical concerns which arise. Most families worry about the overall well being of their families, their own family relationships, the motivation and success of their young, as well as the issues around the money they have, and the wealth they hold. Typical questions arise: How much and when to give to the young? How can we encourage our young to be socially responsible and financially aware, and have a sense of family stewardship? How can we ensure the wealth that we have, or the money we have earned, or the money we have suddenly received, will do what we want, and for as long as we want?

And, for business families: How can we leave the overall control of our business to younger members when choosing one might lead to acrimony with the others? How can we ensure that the business will thrive unless we make this choice? How can we be fair to each of our children when they have different aspirations. And, ultimately how can we ensure a smooth succession?

Philanthropy can play a significant role in addressing these issues and reaching the answers. Most families give to charities but a strategic approach to this through family philanthropy can achieve much more than benefits to the causes chosen. It can provide a proper governance tool for family boards and family councils, where risks are identified and considered, and relevant advice taken from the right people. For business families the overall risk to family wealth is the health and growth prospects of the business, and business succession. Most entrepreneurial families recognise the need for a smooth succession without which the overall wealth of the family will be severely impacted, and possibly diluted.

## **Q: Why is philanthropy particularly useful for business families?**

**HM** Nothing dilutes family wealth more than family acrimony and the capacity for acrimony is greater in business families where succession means there is one role to fill – and possibly several claimants. Sibling rivalry has destroyed many businesses, and in turn severely diluted the overall wealth of the family. Businesses have also been devalued by delayed succession prompting the more talented and able family members, and aspiring employees, to build their careers elsewhere, leaving the less talented in the business. This may create a downward spiral impacting the income of all family members dependant on the success of the business. The business may represent what the family is, and stands for, and personified with the image of the patriarch or matriarch - with no younger member having the gravitas for this role, and with no alternative role available for the incumbent, succession is delayed further with the business more likely to remain static.

Without an effective plan to confront these issues, confusion easily arises as to who is going to take control. When the demise of the patriarch or matriarch is unexpectedly sudden, uncertainty takes over with the impact touching non family employees, who might be vulnerable to competitor approaches at a time when their knowledge is most needed. The demise might impact material relationships, favourable funding arrangements, and general perception. It might seem that in effect, the game is over. The business faced with this can easily decline and might collapse.

Sound governance means succession must be planned and this is easier and more effective if there is the time and will to do it when the principal is alive and well, and when the decisions taken and the reasons for them can be carefully communicated to the family. Philanthropy can play a meaningful role in this process.'



**Heather Maizels**

**Q: Why use philanthropy in succession planning?**

**HM Philanthropy can achieve many things. Let me share some:**

**A new and fresh role for the principal:**

The role of active principals inevitably diminish if they hand over operating control, and being on hand to give wise counsel may not provide the social and business engagement they need. Successful business people often support charitable causes that matter to them, or their family, or relate to their business in some way. With a strategic approach to their giving through formal associations with established charities or through a newly created family foundation, a meaningful role for the principal can be created - with opportunity to develop new circles of friends and associations beyond the ones they have.

**It provides an easy path for the founder to exit:**

Importantly, the initial step is not too great a one to take. To use the time and energies that a principal might have, if free from the operational control of the business, to achieve more for their favourite charities, and something more for themselves, their family and their business is often not considered, but typically founders are well disposed to hear more about it. And frequently quickly see the point.

**It can provide a new image for the founder, or give new meaning to the one they have:**

Many charitable causes are under funding pressures, and keen to encourage donors who can contribute beyond giving much needed funds, and happy for donors to influence the funds committed to them. They see the potential of wider connectivity, and may offer trustee roles conferring status in circles which might matter to the principal. But, for many, with the energy and will to do more, it is better to set up a family foundation, run in the way they want, to benefit the causes that matter to them, and to work with people they like.

‘What will he do?’ thwarts many successions. Philanthropy might solve this.

**Q: What can a family foundation achieve for the rest of the family?**

**HM Similarly, new roles can be created for other family members**

A family foundation can create roles to fit the inclination, interests and talents of other family members or those former loyal employees whose roles are marginalised or cease if the founder leaves. This may encourage those reluctant to leave the business to move providing longed for space for the new incumbent, and perhaps the opportunity to recruit



vital non-family management.

‘What about the others?’ is a frequent cry. Philanthropy might solve this.

**HM Financially everyone might benefit with philanthropy**

As well as enabling the principal to move out, and younger management to take over, for the benefit of the business and the overall family wealth, philanthropy might also add value to the business. Family businesses often support charities which relate to their businesses - retail businesses support charities associated with their suppliers and their work forces. A family foundation visibly personifying the good things the family business does may become a valuable asset for the business. Some families have used their foundations to carry the family brand into new market or through their foundations create new effective on the ground distribution channels.’

**HM Sibling issues can be smoothed and may be pre-empted**

Successful strategic succession takes time. Philanthropy might alleviate issues of fairness between siblings. If the whole family is engaged in family philanthropy. Some families have equal votes on which causes are included irrespective of age or ability, with shared involvement in the direction of funds and the results achieved. The aim is not to encourage competitive behaviour but to glue disparate family members. For some families, philanthropy means they travel together every year as a family sweeping up all their family around a common interest which matters to each person in an individual way.

### **HM Enabling the young to take responsibility for their own lives**

Most successful business heads want to leave successive generations with a sense of family worth, and to be equipped to the challenges that they face with the prejudices and vulnerabilities that known family wealth might bring. A family foundation will resonate the social responsibility of the family and can better equip the young to deal with the prejudices they may face from future employers or from avaricious friends. With the confidence to deal with these issues, many families find their young becoming more motivated to use the resources they have to be successful themselves.

### **HM And, preparing for the next succession**

One of the joys of a family foundation is the opportunity it provides to instill in each child a sense of social awareness and wealth responsibility. The financial awareness of many financially naïve children is aroused through philanthropy if they are given 'ownership' of some committed funds. Is my money safe in these people's hands? Will they spend it in the way I want? Are cries frequently heard when micro-financed projects are chosen? Later, children can look at business plans for the village co-operatives, learn about currency issues, sales, distribution, and how profits can be made by doing business in the right way.

### **Q: How do you get this on the agenda in business families?**

**HM** Typically families come to us for investment advice and also for some to manage their investment portfolios or want advice on specific financial or business issues. The overall aim – and the usual aim is to ensure their wealth is sustainable and succession is invariably part of the conversations we have. We will discuss all the issues and the choices. We see family philanthropy as an opportunity to alleviate many of the concerns families have. We will share the experience we have so the family can decide whether it might also make sense for them.

*Heather Maizels is managing Director of Victoria Private Investment Office, an independent business providing consultancy advice and investment management to families and their advisers. This includes overall advice on all wealth matters including succession plans, and the uses of family philanthropy. Heather is a founder trustee of the Institute for Philanthropy and a frequent speaker on family wealth issues.*