Weaving philanthropy into the family business

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When thinking of philanthropy we usually picture the grey-haired, wise patriarch who inherited and increased a fortune created over generations, or stepped into a long tradition of family giving. In the business context, most of us have come across stories of corporate foundations, the grant-making vehicles of large, publicly traded corporations, for example Ronald McDonald Houses, the Goldman Sachs Foundation, the Coca Cola Foundation or google.org. But what about philanthropy alongside the privately held family businesses? In the following article we share successful case studies and draw some conclusions for effective giving in the family business context.

Family businesses, CSR and philanthropy

The most recent European Family Business Barometer published by KPMG and EFB in December 2013 reports that despite Europe's economic setbacks in recent years, European family businesses retain a positive outlook toward the future and are confident about their companies' economic situation. In fact, the report shows that the family businesses surveyed are optimistically focused on investments 'traditionally associated with longer term rewards', such as internationalisation, diversification and R&D activities to develop their core business. Despite the challenges of the last few years, many family businesses have thrived. According to the European Family Business Barometer, families recognise that good governance, fairness and processes are among the drivers of success for their enterprises.

Balancing family concerns and business interests is an important consideration for business families. Along with good governance structures, clear succession rules and the goal of maintaining family control of the business, families stress the importance of an atmosphere of dialogue and communication among family members and across generations. Growth and long-term business success can only happen when family members are engaged, share common values and have harmonious, solid relationships,

That top business leaders are also leading philanthropists is hardly a surprise. Bill Gates is a brilliant example. In addition, in light of the aforementioned, we believe philanthropy should be part of a successful business family's long-term strategic focus. In the long run, doing good makes real business sense.

These days, bringing up philanthropy in the boardroom is no longer a major challenge. Family firms increasingly acknowledge the tangible and intangible benefits of corporate social responsibility (CSR), a management concept whereby companies integrate social and environmental concerns into their business operations and interaction with their stakeholders. In a study of the 500 largest US companies and data from the S&P 500, it was found that family firms practice more CSR activities than their public counterparts, often driven by their commitment to their community.[1] As a result, family businesses implementing philanthropy and active corporate citizenship are more likely to have a good relationship with their employees, customers and suppliers, which they believe delivers a valuable business advantage. Not only are family businesses concerned about the quality and impact of their engagement in the community, they are mindful of its intangible aspects, such as philanthropy's effect on their reputation and image.

Triggers for philanthropic engagement

So, what triggers a philanthropic engagement of a family business? The reasons vary substantially and include corporate, financial and family related considerations.

CSR and community service considerations are probably the most popular business triggers, followed by staff engagement. Usually, not only money, but also time and know-how is donated. Companies allow their team members to volunteer a certain number of hours or days per year. They invite staff to suggest organisations and projects to support. Companies often offer matching contributions, to encourage staff and partners to engage in charitable causes. Moreover, staff members are encouraged to initiate meaningful projects of their own or engage in fundraising team activities such as charity races for good causes. Family businesses operating in less-developed economies also offer scholarship grants and loans to extended families of their employees and those of their suppliers.

Financial triggers could be the sale of an affiliate or of a larger shareholding in the family business leading to a substantial increase in cash, a number of highly profitable years, or tax considerations.

Other business-related reasons could be a company anniversary, social problems in the town where the business is headquartered, or a natural disaster in a country where the company has offices, suppliers or other strategic interests.

However, for business families, personal aspects may be even more important rationales to engage in philanthropy. Family governance is often cited. Through philanthropic projects, several of the family related challenges can be addressed. These include communicating established family values, transmitting family traditions, enhancing cooperation and reducing conflict among family members. Family governance can also enable a smooth transition from generation to generation and effectively be used for educational means in preparing the next generation to become responsible business owners in the future.

A recent case highlights such personal aspects. When setting up a charitable foundation for a very successful and globally operating entrepreneur, finding the right way into philanthropy took well over a year. The difficulty was trying to find a strategy linking his wish to help the poorest, with personal passions, family considerations and keeping his consumer goods business in mind. Born and raised in South Africa, he eventually ventured into supporting children and women in Sub-Saharan Africa through entrepreneurial educational and vocational training. A self-made businessman, entrepreneurship is close to his heart and through his personal story he knows about the challenges of working in those countries, where he has contacts, both personal and professional. The foundation board has trustees from both family and the business world, and enables the exchange of ideas between personal and professional contacts. His wife acts as vice-president and learns a lot about working in Africa, the regional problems, but also the deeply rooted traditions in the area where her husband was raised. The couple's teenage children are learning about the challenges children their age are facing, realising how fortunate they are and they have started email exchanges with some of the students supported by the foundation, thereby monitoring progress first hand. With this strong family-based linkage, the base for an effective, long-term engagement is set.

Individual motivators may be a fulfilling career move into leading the family foundation. While many may consider philanthropy as their next big endeavour upon retirement, it is no less rewarding and meaningful to pursue charitable giving as a key activity of a growing family enterprise. It will allow the family to witness first-hand the benefits mentioned above, which ultimately contribute to the family business' bottom line. This job will demand adequate resources of time, money and commitment to become a successful undertaking.

The decision to engage in strategic philanthropic activity may also be triggered by the death or an illness of a family member, by moral and ethical considerations, culture or religious duties.

One of the five fundamental tenets of the Islamic religion is to support good causes through the *zakat*, an obligatory annual almsgiving payment based on accumulated wealth. In addition to the *zakat*, Islam also favours the support of longer-term projects under the principle of recurring or continuous charity (*sadaka gariya*), such as the construction of schools or hospitals. For many Muslim-owned family businesses, patriarchs often look to follow such Islamic principles.

Funding of structures may be achieved either by *inter vivos* donations or by will. It is permissible for an individual governed by Islamic inheritance laws to leave up to one-third of his estate, otherwise than to family members. Islamic philanthropists may use all or part of this freely disposable one-third share to provide for such charitable aims.

The traditional fiduciary structure is known as a *waqf*. There are two different forms of the *waqf*: that primarily for family purposes (*waqf ahli*) and that exclusively for charitable, religious or pious purposes (*waqf khayri*). There may also be ones for mixed purposes. In the family *waqf*, the founder may appoint his family members as primary beneficiaries.

Historically, while trusts in common-law jurisdictions were required to be limited by a perpetuity period, the duration of a *waqf* would generally be unlimited. In contrast to trust law, the *waqf* must ultimately be for charitable purposes and its true owner is acknowledged as *Allah*. As a further difference from a trust, the *waqf* must be unconditional and irrevocable, only the fruits (income) rather than the underlying asset (capital) may be consumed and *waqf* property would be inalienable. This rule was subject to the exception that there may be an exchange of *waqf* property of equal value and equivalent attributes. Alternatively, any transaction alienating the *waqf* property would need to be legally authorised, for example by an Islamic judge (*qadi*). Early examples were a *waqf* for cats and a *waqf* for unwanted riding animals in Damascus. By the latter period of the Ottoman Empire in the nineteenth century, a large fraction of agricultural land was held within such *waqf* structures.

As a further variation from trusts, although there would generally be no restriction on investments to be settled in a trust, for property to be settled in a *waqf*, it would not be permissible to settle assets that did not comply with Islamic law. Typically, this would, for example, prohibit the settling or holding interests in business ventures involving alcohol or pork production or gambling.

Although arguably the *waqf* may have pre-dated the trust and certain features of Islamic jurisprudence may have played a part in the evolution of English trust law, nevertheless, the *waqf* framework became much less flexible. To meet the need for more flexible structures, some Islamic philanthropists now adapt trusts to incorporate key Islamic principles and objectives, but retain within such trust structure greater flexibility to achieve their objectives.

As is the case for several foundations, one story from India encompasses many of these triggers including religion, culture, tradition, an emerging local problem and a bold business idea. In the 1930s the late Gujarmal Modi founded the Modi Group of companies from a small family-run business near New Delhi. The village, then known as Begumabad, was underdeveloped. Lawlessness prevailed among the impoverished population. Modi ventured into forming various townships and laid the foundation of industry, starting with the construction of a sugar mill in 1933. The mill, and later other industries, brought growth through commerce and industry together with creating much-needed employment opportunities in and around the village. Modi was pivotal in establishing the city of Modinagar, as it was later renamed by the British government. Throughout his life Gujarmal Modi not only ensured that Modinagar succeeded as an industrial hub, producing textiles, soap, varnishes, rubber tyres, torches, flour and much more, he also ensured that the inhabitants of the town received ancillary benefits through social initiatives in education, public health and welfare. In the 1980s, the Modi Group mills in Modinagar were closed, leaving unemployment at an all-time high. Workers returned to their native cities, or went to New Delhi in search for work. Modinagar managed to convert itself into a well-known educational hub and many private engineering, dental, management, medical and educational colleges, as well as an art school, now are based in Modinagar, many of which were established or supported by the Modi family. Today the Modi Group is a huge, diversified business conglomerate based in New Delhi.

Philanthropic objectives and family business strategy

It may be helpful to provide early examples of family business philanthropy. Thomas Coram was born in 1668 in England. He spent much of his early life at sea and in the American colonies. He operated a shipbuilding business in Massachusetts. He also became a successful London merchant. In 1717, he tried to found a philanthropic colony in part of Maine, as a haven for debtors. In 1735, he also sponsored a colony in Nova Scotia for unemployed artisans.

Returning to London, he was appalled by many abandoned, homeless and starving children. In 1739, he obtained a royal charter granted by George II to establish ‘a hospital (the Foundling Hospital) for the maintenance and education of exposed and deserted children’. This initiative was supported by the composer George Frederick Handel and the painter William Hogarth.

The Cadbury family was another example of early family business philanthropy. In 1861, following taking over their father’s business, George and Richard Cadbury moved their cocoa and chocolate business from central Birmingham to a new site (Bourneville) on its outskirts. The Cadburys were concerned to treat their staff with great respect, to provide good wages and good working conditions as a means of securing loyal and hardworking employees. The Cadburys pioneered pension schemes, joint works committees and a full staff medical service.

George Cadbury planned, at his own expense, a model village, to alleviate the evils of the cramped living conditions in Birmingham. The Cadburys were particularly concerned with the health and fitness of their workforce, incorporating park and recreation areas in their Bourneville village plans. They also encouraged swimming, walking and other forms of outdoor sports. In 1900, the Bourneville Village Trust was set up to control the development of the estate independently of the Cadbury company. The Trust focused on providing schools, hospitals, museums, public baths and reading rooms.

When looking at large corporate foundations, they often align their philanthropic objectives with their corporate strategy. The foundation of the pharmaceuticals company Novartis works to improve access to healthcare services and to safe and affordable medicines in underdeveloped countries. The foundation's aim is to fight the transmission of leprosy and to terminate malaria. The foundation of Nestlé, one of the world's largest food companies, initiates and supports research in human nutrition with public health relevance in lower-income countries.

Not only does philanthropy benefit the image of the company, but know-how and skills learned and used within the company can be implemented to create an impactful philanthropic venture, leading to a win-win situation. Moreover, through the business operation, especially where a company works closely with local communities, family and staff learn about the most pressing needs, leading to an effective and solution-oriented approach to doing good.

When it comes to family businesses, charitable causes may support the family business strategy or be aligned with corporate engagement, but more often they are driven by family values, or passions of some of the family members. The Hess family, known for the Californian Hess Collection Wines, was in the beverages industry for generations. Their philanthropy, though, focuses largely on an important art collection, following one of the passions of Donald M. Hess, the fourth-generation business leader.

Ideally, the giving may be aligned with both the business as well as the family values, but the latter may shift over time, especially for long-established multi-generational family enterprises and large, global families. An example of an aligned strategy for family business and giving is Switcher. Founded by Robin Cornelius in the late 80s, Switcher produces minimalist garments – linking commercial activity with ethical production and using biological and recycled materials for many years in the design of garments, including raincoats made of recycled PET (Polyethylene terephthalate) bottles. The products are '100 per cent traceable' meaning that through a so-called 'respect code' on the garment, each piece can be traced, from the raw materials in Asia, to dying and sewing, all the way to delivery at the retail outlet in Switzerland and $C0_2$ emissions and water consumption are measured for each product. In 2004, the Switcher Foundation was established with the belief that it is company responsibility to take an interest in civil society where the company, but also its suppliers, operate across the world. The foundation focuses on education and health issues for the employees of both Switcher and its partners, but also supports their extended families.

Where the philanthropy is strategic and aligned to the corporate strategy and the business' marketing and communication, corporate giving becomes a driver for corporate success.

Structuring and funding of family business philanthropy

As with most family enterprises that have become prominent and global, structuring and financing are essential to family philanthropy.

As to the structuring, one key issue is whether to create an onshore or an offshore structure. The first key issue to arise, particularly for businesses in high-tax jurisdictions, is the availability of tax relief on donations to onshore registered charities. Going hand in hand with this is a greater measure of supervision and potential judicial oversight to verify that funds are being properly applied. In the UK, this may typically take the form of annual filing, reclaims for tax and potential investment restrictions. This provides a level of statutory governance as to the activities of such registered charities. This is to be compared to offshore philanthropic structures, which may not enjoy any such tax advantages, but do not fall within such regulatory oversight.

Many family foundations own a stake of the family enterprise or hold affiliates in certain countries. Others receive annual contributions, based on annual revenues, or profits from the operative business, flat amounts, or a combination thereof.

In some cases, the actual structuring is an essential part of the wider business-related giving strategy. Stephan Schmidheiny is a fourth generation member of one of the most important industrial dynasties in Switzerland and one of the leading entrepreneurial philanthropists. Following his law studies, he ventured into forestry, banking, consumer goods, power generation and electronic and optical equipment and was appointed to the boards of ABB, UBS, Nestlé and Swatch, to name a few. In the 1980s, Schmidheiny set up FUNDES to support small and medium-sized farms in South America. A decade later he was instrumental in setting up what became the World Business Council for Sustainable Development and 1994 established the Avina Foundation with his personal funding from private means. Avina contributes to sustainable development in Latin America by encouraging productive alliances among social and business leaders and today is a leading player in that field. In 2003, Schmidheiny set up the Viva Trust, an irrevocable trust. He settled the shares in his Latin America industrial group GrupoNueva, worth about USD1 billion, into the trust, which is investing a significant part of profits in the already well-established Avina Foundation.

The costs of running a family foundation are usually born by the family business and there can be a symbiotic relationship between the family foundation and family enterprise. Often, both are situated in the same premises, sharing resources, such as technical knowledge, talent, infrastructure and even benefit from a common culture based on the family's way of working. Weaving the net closer, some foundations additionally engage in fundraising activities through staff and business partners, topping up donations with matching grants from the family business. Volunteering activities may support this even further, providing professional manpower free of charge to the foundation – and of course an important experience for those participating. This relationship can ultimately lead to a very low overhead for the charity, which in turn supports a highly effective operation of the foundation.

Impact for community, family and company

Just as the family business is evaluated against a stringent set of metrics – market share, net profits, and share price – so does its philanthropy require a deliberate effort to measure performance and impact. A wide variety of tools for impact measurement are available today.

When performing philanthropy strategically to support business objectives, it can also be evaluated for its 'return on investment' and its benefit to the business – image and reputation, long-term strategic alliances, low staff-turnover or financial prosperity.

From the point of view of a business family, impact may be best understood as a matter closer to home. One can ask how philanthropy has forged dialogue among the generations. How has it contributed to the family's 'brand', or the transfer of values and traditions? Has it helped to make the youngest members of the clan understand how fortunate they are, but also, what responsibility comes with wealth?

Even though it is our personal understanding that it makes business sense for a successful family business to engage in philanthropy, many successful families are not open to the idea. This is understandable if you consider the financial and personal endeavours every business faces, such as times of constrained finances where cash flow considerations are at the forefront. The same European Family Business Barometer reports that access to finances is a major concern for business families. Over half of the survey's respondents indicated that they experienced challenges in accessing funding and a quarter stated that banks have no interest in financing family businesses.

Another consideration is time constraint. Running a company in economically difficult circumstances takes up almost all of the time and energy of those running the show, with hardly any quality time left for the family. So, a philanthropic family engagement will become of matter of setting priorities. Passion about the cause, support from the extended family and a long-term approach, topped up with a lot of patience, will determine if an endeavour will fly. If it will, it can be extremely rewarding.

We have seen many cases where extremely successful and acclaimed presidents of family enterprises have, in their late 50s or early 60s, stepped down from their operational functions to enter a new phase in their life, and a very challenging one. They are devoting their newly freed time to philanthropy where they can make use of the many tools they have acquired during their business life. These include profound managerial and leadership skills, a well-established, often very international network, the wisdom of age, patience, and the knowledge of understanding some aspects of our complex world. And, they can benefit from the support of their family, with a spouse or children eager to support the new exciting career, and with young, well-educated and innovative youngsters leading the family business into the future.

How exactly the return of philanthropy is defined varies significantly, but it is critical to view philanthropy through the business as well as the family lens.

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1 W.G. Dyer and D. Whetten, 'Family firms and social responsibility', *Entrepreneurship Theory and Practice*, 2006, 30, 785–802.