Family philanthropy

Benefitting the community and the family.

There are two advantages to family philanthropy – the benefits to the community from the generosity of wealthy families and the value that accrues to the families themselves. No one would dispute that our hospitals, galleries and social service programs could not provide the services that the public demands without significant donations from wealthy individuals and families. However, it's not just the organizations that benefit from the generosity of such donors. The donors are also beneficiaries themselves, particularly when they are thoughtful and strategic in their approach to giving.

This article looks at some of the advantages derived by a family when giving is organized through an effective granting program and delivered through a family foundation.

Why the emphasis on an effective granting strategy?

As Aristotle said, "To give away money is an easy matter and in any man's power." He went on to add, "but to decide to whom to give, and how large, and when, and for what purpose and how, is neither in every man's power nor an easy matter." Clearly Aristotle was distinguishing that there is a difference between philanthropy and charitable giving. In other words, giving money away can be effortless, but it requires thought and effort to make donations that provide relief to a specific situation and make a lasting difference. Unlike charitable giving, which can be characterized by writing cheques to worthy causes, philanthropy entails setting goals that can be achieved through rational and thoughtful decision-making, along with diligent monitoring and assessment. It needs funds, but also requires vision, effort and a long-term perspective.

> "Family philanthropy should be based on their beliefs and values."

Developing an effective granting strategy

To be effective in the long term, and meaningful to family members, family philanthropy should be based on their beliefs and values. These should be carefully identified and agreed upon, and can form the basis of a mission statement for a family foundation that can put them into action. The family's values and philanthropic interests will set a course that will transcend generations and serve as a legacy within both the community and the family itself.

Having set goals for their foundation, a family should ask some questions:

- What are the most pressing issues in the sector that we have chosen to fund?
- Which organizations are best equipped to address these issues?
- Are there funding gaps that our foundation can address?

It is crucial to ask these kinds of questions and seek out answers in order to better understand the causes of an issue and apply the most appropriate solutions. Such research will also help to identify the pressure points of the issue and ways that the foundation could have the greatest impact. An analysis of the issues is essential to determining a strategy whereby the foundation can best meet its goals.

A case study: The Stephens family[1]

To illustrate, let's consider the role that philanthropy has played in the lives of the Stephens family.

After their marriage and graduation from university in the early 1960s, Liz and Bill, both of whom had studied business and commerce, agreed to join Bill's father's small hardware company. Their aim was to apply their newly acquired knowledge to grow the company into a larger enterprise. Within a few years, Liz gave birth to a daughter, then a son and another daughter. With three children to raise, she was less involved in the business than Bill, who was consumed with growing it into an extensive multi-store operation. As teenagers, the children worked summers and weekends in the hardware stores, but none of them chose to make a career in the family business.

When Bill had a fatal heart attack in his 60s, Liz reluctantly accepted an attractive offer to sell the business to a major international company. The family, which had always lived modestly, now found themselves with more money than they could have anticipated. Raised by Depression-era parents, Liz was concerned about the possible impact of this new wealth on her children and, particularly, on her grandchildren.

A few years before his death, Bill and Liz had established a small family foundation. Since Bill felt a need to give back to the community that had enabled him to prosper, the foundation supported a variety of community projects. It had no distinctive interest or focus to its funding.

After Bill's death, Liz decided to use some of the funds from the sale of the business to increase the foundation's endowment. She thought it was time to introduce her children and grandchildren to the foundation, and to give it a clearly defined mandate – one to which they could all relate. She saw the foundation as a means for keeping her now far-flung family more connected by having them work together to achieve common goals. She also thought the foundation would help the grandchildren to become more comfortable with wealth and learn to be good stewards of the wealth that they would inherit.

Liz recognized that she did not have the experience or skills to develop a clearly defined mission statement that everyone could support, nor to create a structure for strategic granting. She would need help bringing the family into this process. Also, she realized that a non-family member who was experienced in such work would be more credible to family members, and by engaging the whole family in the process the outcome would be more easily accepted. She consulted with her existing professional advisors and located a consultant that would not only be able to help the family articulate their collective vision and values, but would also assist them in their grant making.

The consultant took the family through a process that involved several steps:

- First, she interviewed each family member individually about their experiences, values, aspirations and interests related to the charitable sector.
- The consultant also needed to know how the family worked together as a unit. For the foundation to function effectively, the family would need to be able to work together constructively. Therefore, as part of the interviews with each family member, she also posed probing questions about family dynamics. How did they make decisions? Were there any barriers to communication in the family? How strong was the level of trust?
- The family and the consultant then discussed the report arising from the individual interviews. The report summarized the consultant's observations, conclusions and recommendations for developing a mission statement and granting strategy that would represent the core values and interests of family members. Together, they made the necessary adjustments.
- They also developed a governance structure to enable the family to administer the foundation in a professional manner, and thereby avoid unnecessary personal squabbles.
- Another important issue they addressed was how and when to involve the next generation of the family in the work of the foundation. To that end, they added some of the older cousins to the grants review committee.
- The consultant worked with the family over a few granting cycles to help them identify worthwhile projects, to coach them on how to review the projects and to teach them how to monitor and evaluate their grants.

The impact of the foundation on family members

While supporting innovative programs in Bill and Liz's home city, the foundation also created many unexpected benefits for the family.

Creating a sense of identity and legacy

Through the facilitated process, the family identified the focus for their giving: to help disadvantaged youth who had not had the same opportunities as others to develop to their full potential. Although family members had many other interests, all shared a concern for disadvantaged youth, an issue that was particularly important to Bill. He was known for his generosity to young employees who were struggling financially and for his support of various local educational and recreational programs for youth.

The foundation's granting program offered Bill's children a way to honour their father and perpetuate his values. The process of searching for and funding innovative projects designed to help disadvantaged youth kept Bill's memory alive, particularly when they would ask one another:

"Would Dad have supported this project?" For the grandchildren who had barely known Bill, listening to their parents' discussions gave them insight into their grandfather's character, as well as a sense of what their family valued and believed. Furthermore, the grandchildren saw these beliefs being put into action.

Developing greater family unity

While Bill and Liz's children shared many characteristics and values while young, their academic interests and career paths diverged greatly: one became an accountant, another a teacher and the youngest became a physician. Two of them also moved away from the home city. With young families, as well as demanding careers, the siblings saw each other less with each passing year. Their gatherings were limited mostly to celebrating holidays and birthdays, as well as spending two weeks together at the family cottage.

As Liz correctly foresaw, the foundation provided a means for her adult children to become acquainted on a non-familial level, and to form new bonds by working on projects that were important and satisfying to them.

Similarly, the grandchildren, who spent most of their time together engaged in sports, began to recognize and identify with their common heritage and the values that defined their family. Their relationships evolved beyond talk of sports.

Gaining financial knowledge and analytical skills

Although the accountant in the family was able to read and understand the financial statements and budgets of charitable organizations, neither of her siblings nor the grandchildren had that ability. Nor did they have any experience in reviewing proposals. To make effective grants, they needed to ask, and be able to answer, such questions as: Is this project likely to succeed? What is needed to ensure its success? How much should the foundation grant and over what period of time?

Also, there was the matter of the foundation's investments. While the foundation engaged professionals to manage the endowment, some family members had to have sufficient familiarity with investments to enable them to evaluate the performance of their fund managers.

For the third generation of the family, the grandchildren who would one day inherit considerable wealth and whose values and lifestyles were still being formed, the foundation provided the ideal training ground. They had an opportunity to become financially literate: to learn about the stock and bond markets, the importance of asset mix, the various indices against which the foundation's investment returns were measured, and so on. In discussing the capabilities of various charitable organizations, they had to become familiar with the concepts of assets and liabilities on a financial statement, and the kinds of expenditures to look for in an operating budget. To prepare these family members for their responsibilities, the foundation arranged informal seminars. These were given by the investment counsellor managing the foundation's endowment and the accountant in the family. Some of the older grandchildren also began reading the business section of newspapers to further their education. The grandchildren began to realize if they were to make informed decisions about their future personal wealth, they would need more than a passing familiarity with these concepts.

Learning about governance and decision-making

The foundation's board of directors consisted of Liz, her children and their spouses. However, all family members above the age of 18 were members of the foundation. Although the grandchildren were not yet in a position to make decisions on behalf of the foundation, they had opportunities to contribute through their participation on the grants committee and attendance at the annual general meeting. They learned about the various steps involved in reaching consensus on a grant decision and the process for making well-informed decisions. They began to understand why the foundation applied certain conditions to the grants made and how the charitable organizations would be held accountable for projects funded by the foundation. The experience helped them appreciate the importance of accountability in commitments that they made to others and generally in their relationships.

> "We make a living by what we get, we make a life by what we give."

Ensuring greater success in passing on family wealth

For families with significant wealth, the passing of that wealth from one generation to the next is a matter of great concern. There are countless stories of disastrous wealth transitions – situations in which families lost most of their money and members became estranged from one another.

In fact, it is commonly accepted that about 70% of wealth transfers will be unsuccessful.[2] In other words, the wealth is removed, involuntarily, from the control of the beneficiaries and/or family disharmony results.

One of the many studies[2] on wealth succession has identified the factors that lead to successful transitions:

- total family involvement in estate planning and preparation;
- a process that integrates family learning and development;
- articulated shared values; and
- effective communication, trust, accountability and consensus building.

The study also noted that in the 30% of families with successful wealth succession, family philanthropy was a common element. This is not just a happy coincidence – three of the attributes listed for successful wealth transitions are also associated with effective philanthropy.[2]

By developing an effective granting program based on agreed familial values and learning about financial issues and governance, the Stephens have increased their chances of a successful wealth transitions. They have also built trust and accountability within their family.

Benefitting the family and the community

There are many reasons why families create foundations. Some do it out of religious conviction. Some want to celebrate their good fortune and give back to the community. Others believe that they have more than enough money for their needs and should share with others less fortunate. Some have even stated that their main motivator was to create a means for passing on family values and developing a legacy within the family, as well as in the community.

Regardless of the initial motivation for creating the foundation, families who make the effort to create a meaningful and strategic approach to granting find that they get as much – some say even more – out of the act of giving than the organizations that they support.

They give life to the words of Winston Churchill; "We make a living by what we get, we make a life by what we give."

BMO Private Wealth

[1] Based on an actual client case; however, the names have been changed to protect the family's identity.

[2] Preparing Heirs, Roy Williams and Vic Preisser, The Williams Group, 2011.

10/20-0628A1