The Intersection of Family Philanthropy and Business Philanthropy

harp-weaver LLC

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Introduction

Think about walking past the community soccer fields on a Saturday morning. The fields are packed with children running around in bright colored shirts. Take a closer look and you will probably notice the names of companies on those shirts – those companies are probably family-owned businesses supporting the community in which they live and work.

Family owned businesses are crucial to our economy in terms of creating jobs, generating wealth and building community. According to Family Enterprise USA, there are 5.5 million family-owned businesses in the United States. What is astounding about these businesses is that according to that same study, 95% of them are engaged in philanthropy. That is a lot of soccer shirts! [1]

Corporate philanthropy (whether a business is family-owned or not) has been in the midst of change for quite some time now. To simplify, what has emerged are three ways of thinking about the outward expression of company values. These are ***philanthropy***, ***community involvement*** and ***social innovation***. When combined, these practices ultimately define the company's culture and, in the case of a family-owned business, they define the family's culture and those things they deem important.

This paper explores the above and also reviews different models to consider when thinking about infusing philanthropy into a family-owned business. With an aim to always keep things practical, there are a series of questions at the end of the paper. These questions can be used to facilitate a discussion amongst business' leadership as they go through the process of either evaluating or articulating how they would like to engage in philanthropy.

[1] Annual Family Business Survey, March 2011. Family Enterprise USA (FEUSA). Available at http://c.ymcdn.com/sites/www.familyenterpriseusa.org/resource/resmgr/Docs/2011_Annual_Family_Business.pdf.

Emerging Practices In Corporate Philanthropy

Over the past couple of years, companies have had to figure out how to accomplish their goals with fewer resources. During this time, many companies have challenged the way they have traditionally supported causes and their local communities. What has surfaced is a greater emphasis on corporate citizenship. Corporate citizenship refers to an organizations responsibility

to create business value by caring for the well-being of all stakeholders including the environment.[2] Below is a diagram showing the components of a corporate citizenship program.

Philanthropy: Philanthropy represents both gifts of cash and in-kind donations (goods and services) given by companies to organizations carrying out work that is aligned with company values. It is a critical piece to an overall corporate citizenship framework. This paper explores further the different models companies employ to engage in philanthropic work.

Community Involvement: Community involvement is really about engaging employees to offer their time, treasure, and talents to serve the communities in which they live and work. Volunteer programs and service trips have become part of a suite of ways to enhance an employee's experience and loyalty to the company. And it is a two-way street in that the employee feels supported while representing the company doing good work in the community.

Social Innovation: This area has probably seen the most growth. It has to do with how businesses align their core competencies to create both a business and environmental/social impact. Social innovation can be achieved in many ways – from how products are produced to having a greater conscience of the footprint the company is

2 Glavas, A., & Piderit, S. K. (2009). How Does Doing Good Matter?: Effects of Corporate Citizenship on Employees. Journal of Corporate Citizenship, (36), 51-70. doi:Article

making. It is commonplace for companies to recycle and employ green technologies. More and more businesses are also redesigning their products and services to minimize the impact on the environment and maximize the impact on society.

While companies re-emerge, they continue to examine what they can offer at a local level, how they can better support their employees and how they can operate their businesses in a more sustainable way – hence the focus on philanthropy, community involvement and social innovation.[3]

Philanthropy Models

There are many ways of going about infusing philanthropy into your business. This paper focuses on four approaches, which can be considered singularly or combined to create a program that is not only reflective of the family but also the culture of the company.

A Corporate Giving Program typically makes charitable grants throughout the year as part of the company's annual budget. Some small businesses naturally blend their corporate giving with family philanthropy by directing their financial support through their company. The management of this process typically resides with senior management – the owners of the company. Many businesses also donate their own goods and services throughout the year to nonprofit organizations as a way of both supporting the organization and promoting their business amongst the community.

A Corporate Foundation is created as a tax-exempt private foundation independent from the company. Corporate foundations can be seeded with a single gift from the company and becomes an entity to add future contributions. The officers are usually the owners of the company and other key senior managers. There are many examples at larger companies where employee committees are created to oversee and direct the work of the foundation.

A Corporate Donor Advised Fund is advisable for smaller businesses. It may be a better route to run a company's giving program as a donor advised fund at a community foundation or a national organization like National Philanthropic Trust. Community foundations and national donor advised funds can offer infrastructure and expertise to manage the program for a small administration fee. One of the biggest mistakes companies (and individuals) make is setting up a foundation without fully understanding the work involved with running the entity and staying in compliance.

An Employee Match Program can be employed individually or in conjunction with the models already described. Companies will often match employee gifts of cash or volunteer time. And many companies facilitate employee charitable giving by offering payroll deduction for employees. This type of program is positioned as an employee benefit. It creates a culture of giving within the company at the same time it is seen as a

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3 Ketvirtis, Sarah. (2012, June 3). How Corporate Citizenship Impacts Employee Engagement. Available at http://www.sesp.northwestern.edu/msloc/knowledge-lens/stories/2012/how-corporate-citizenship-impacts-employee-engagement.html

perk for the employee who can leverage their giving to the causes and organizations they hold dear.

Don't Recreate The Wheel

Too many smaller businesses, whether they are family-owned or not, make the mistake of thinking the best way to give back and make a difference is by setting up their own foundation or starting a nonprofit. People do not realize that both of these options are a lot of work and require specialized knowledge. If not properly structured, philanthropy could end up being a burden and a distraction to the actual work of running a successful business. The best thing to do is allocate resources to doing some research at the beginning on what solutions and organizations exist that are aligned with philanthropic goals. Even if these organizations are not doing exactly as described – consider partnering as a way to leverage their infrastructure

Philanthropy Considerations

There are a number of things to consider when thinking about creating a philanthropy program regardless of the vehicle. The vehicle is really secondary. So what is primary?

1. ***Creating a mission statement to guide gifting:*** A mission statement provides context and clarifies the intentions of the philanthropy. Mission statements typically include the specific issue areas important to the donor(s), the outcomes they hope to achieve, and the solutions they will invest in to realize these outcomes. Mission statements should be ever evolving to always reflect the relevancy and interests of the donor(s).
2. ***Putting in place good governance:*** Some families are reluctant to put a formal structure in place to guide their philanthropic work, but when the work is intertwined with a family-owned business it is imperative that policies are defined. Some of the things to think about: How will decisions be made? Is there a formal decision-making body charged with overseeing the work? Is this body made up of just family members or outside advisors and colleagues as well? Will the family host formal meetings? If so, will they coincide with family gatherings or the business? How often will the decision-making body meet? How will the due diligence be performed and how will nonprofit grantees be considered and selected? What kind of support will be given? i.e. general operating versus program grants.
3. ***Establishing a plan for the future:*** Some families see philanthropy as a way of preserving family ties even perhaps after the business is no longer family-owned. In these cases it is important for the founder(s) to express their values and objectives at the time of creation and record it for future generations. These expressions of charitable intent give future generations context and reference. Legacy plans typically include how successors will be chosen and subsequently involved in the work, how decisions should be made and reaffirms the mission and intentions of the founder(s) so that future successors can be good stewards.

4. ***Involving the next generation:*** Philanthropy is a tool to pass along values and teach lessons about wealth and inheritance. It is so important to involve future generations early and often in the work of philanthropy. One thing to recognize is that many younger family members may have different approaches to giving than older generations. To be specific, Millennials (ages 18 -29) are typically more hands-on than their parents and grandparents. Some families have been known to allocate funds so that these young family members could have discretion over a certain percentage of the grants budget in order to pursue and support their own passions. This allows discussions over the bulk of funds to really focus on the defined mission rather than the individual pursuits of the decision-making body. Another tactic is allowing next generation members to make a grant at their discretion once per year (a birthday for example). In this way the individual can engage in a due diligence process and receive some real hands-on learning in the field. The purpose of both tactics is to train the next generation in grantmaking so that they will make the best use of the family's charitable assets and carry with them a spirit of generosity.
5. ***Seeking peers:*** It is very common for funders to collaborate with their peers because the benefits are widely understood. Collaboration can help families leverage their dollars and create greater impact.
6. ***Focusing on outcomes:*** Family members are more likely to stay engaged in philanthropy work and develop a sense of pride if they know their gifts are having an impact. It is important, no matter that implementation, to have in place a plan to measure progress on issues of importance. The simple fact is that the more families know about the impact of their gifts, the more likely they will continue the program into the future.
7. ***Having fun:*** While philanthropy is a serious business, it is also an opportunity to have fun! While there are challenges, families who engage in philanthropic work together will find wonderful moments of joy and inspiration.

No matter the model, the more involved a family is in their philanthropy, the greater the potential impact and value of their charitable contributions.

Questions

Joseph Astrachan, Ph.D., Editor of Family Business Review, has noted that about 30% of all family-owned businesses survive into the second generation. Twelve percent will still be viable into the third generation, with 3% of all family businesses operating at the fourth-generation level and beyond. Philanthropy can be a wonderful way to keep families committed to the business and to promote family values within the family.

Below are a few questions to help families, their business colleagues and advisors think about a philanthropy program:

- What are your current business interests?
- What are your future business needs?
- What role does your company / your family want to play in the community?
- What are employees' interests and what causes are they committed to?

- What area of your community or who in the community is most affected by your business?
- Where do your employees live? Where do your customers/clients live?
- What community issues are likely to affect your business and/or employees?
- What is the best way to get more involved in issues the family and company care about?
- What do you want your company to be known for?
- Whom are you trying to reach?
- Who will make decisions?
- What organizations should be considered to match interests?
- Is your current giving having an impact?
- How do you get the next generation involved in philanthropy?

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