THE RESILIENT FAMILY ENTERPRISE SERIES

Beyond business

Philanthropy and strategic investing

While family businesses play a vital role in the giving ecosystem, a cascade of developments has prompted a seismic shift in philanthropy and strategic investing this year, accelerating the need to think more carefully and strategically about giving.[1]

As family businesses assess the ways they can help combat the humanitarian crisis COVID-19 has unleashed, the severity of the pandemic has changed the tenor of philanthropic pursuits and investing decisions. For example, by the end of July 2020, commitments and grants by corporations, institutions, and high-net-worth individuals (HNWIs) to combat COVID-19 had surpassed US$12 billion.[2] Companies and their foundations, as well as independent and family foundations, make up three-quarters of the commitments, according to a global appraisal by Candid, a watchdog organization that tracks charitable donations.[3]

The increasing importance of environmental, social, and governance (ESG) considerations —criteria used by socially aware investors to screen investments—reinforce the broader lens through which companies are often evaluated. Globally, the share of retail and institutional investors that apply ESG principles to at least a quarter of their portfolios surged from 48 percent in 2017 to 75 percent in 2019.[4] In the wake of COVID-19, ESG metrics have become even more important for investors.

For those families whose businesses are rooted in purpose, philanthropy can be a visible demonstration of their commitment to the community and causes they believe are important. Done right, this visibility can help an organization thrive. Purpose-driven companies tend to have higher market-share gains, tend to grow faster than their competitors, and achieve higher employee satisfaction.[5] Conversely, while family businesses don't have to answer to the same regulatory, shareholder, or corporate approvals as do publicly traded companies, they're not immune to scrutiny of the causes they support. Customers and other stakeholders have a wealth of publicly available information to determine whether family businesses are truly practising the values they profess—and to penalize organizations whose pronouncements don't align with their principles.[6]

When Deloitte surveyed US family office executives at its most recent US National Family Office Forum, participants said creating a philanthropic and social legacy was among the most important and strategic long-term challenges facing the family.[7] Though philanthropy can unite families behind a common purpose, especially at critical times such as during the current pandemic, encouraging effective governance and collaboration can help families establish clear goals for their charitable efforts.

Philanthropy can also play an important role in strengthening family bonds. Because not all family members may be involved in management or ownership, a strategic philanthropic agenda can be a rewarding way of fostering family cohesion by offering those non-manager/non-owner members an opportunity to contribute in a meaningful way to the family brand. It can also be a powerful vehicle for engaging the next generation, for whom social responsibility and responsible investing is becoming more and more important. Additionally, because family philanthropy typically can be highly structured with a board and committees, it could be an ideal training ground for future family business leaders.

Setting the stage for social impact

Defining their philanthropic motives and objectives is an important starting point for family businesses in determining purpose beyond profit.

For instance, if environmental sustainability is the lens through which family business leaders view their philanthropic and investment decisions, it's appropriate to expect that beneficiaries and investment targets have a demonstrated focus on conservation. Furthermore, family businesses that engage in these types of investments should have a reasonable expectation that there are mechanisms for accountability built into their strategic investing efforts. Just like their business operations, families should understand the return on investment of their philanthropic activities.

As you evaluate your strategic philanthropy and investing goals, here are some questions to consider:

- Are the family leaders aligned around core values?
- Are those values easily articulated and written somewhere?
- Are the family/business values expressed to the public?
- What gifts have most aligned with the family's values?
- How will I ensure that strategic investment priorities continue to align with the family's values, especially those of the company's leaders?
- How will I ensure transparency in my philanthropic pursuits?
- How will I create shared value through strategic investments? In other words, will my investments create economic value and also address societal problems?
- Am I willing to ask if each investment furthers those values and, if not, pass on the investment?

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Notes

1. Bernice Napach, "Blackrock Adopts New Investing Framework Due to Pandemic," www.thinkadvisor.com, June 30, 2020.
2. Special section: Philanthropic support of coronavirus (COVD-19), www.candid.org, accessed July 30, 2020.
3. Ibid.
4. Advancing environmental, social, and governance investing, Deloitte, 2020.
5. Jim Stengel, "Why Purpose," www.JimStengel com, accessed Sept. 21, 2020.
6. The Deloitte Global Millenial Survey 2020, Deloitte, June 2020.
7. 2020 National Family Office Forum Report, Deloitte, February 2020.