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PHILANTHROPY FOR FAMILY BUSINESSES

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Everyone at this Workshop knows about the advantages and disadvantages of working with people you love. In this session I will describe some of the major impediments to successful succession and I will suggest that philanthropy can help to maximise the advantages and minimise the disadvantages. I will demonstrate that if this is done well, it can be rewarding economically, socially, emotionally and spiritually. An extravagant promise? I don't think so.

It is easy to define what makes a business successful. We can mostly tell from looking carefully at the balance sheet and other papers. But what makes a successful family? As we all know, family issues are much more complex and much harder to evaluate.

Definitions.

What is philanthropy? According to the *Concise Oxford Dictionary* philanthropy is, first (and literally; from Greek), "a love of mankind" and second, "practical benevolence, especially charity on a large scale."

Let me now propose some other helpful definitions.

Charity is a gift made with no expectation beyond the immediate alleviation of need. For example, giving money to a beggar in the street is charity, so are the occasional donations we might make, say, in response to an appeal. I think charity is a fine thing, but I also think we can do better.

Philanthropy implies a more strategic approach. The donor may want to correct the causes of need, rather than just relieve problems. A nice analogy is that to install an ambulance at the foot of a cliff is charitable, but to erect a fence at the top is philanthropic.

Strategic philanthropy implies an even more considered approach. Extending the previous analogy, strategic philanthropy might involve identifying the need for a fence at the top of the cliff and considering what sort of fence would be most effective and how it could be installed most efficiently.

Social investment takes these ideas a step or two further and introduces some new notions, such as the idea that both the donor as well as the recipient will receive some benefit. The benefit to the donor will probably not be financial, but may be expressed in better family relationships (in the case of family philanthropy) or in a happier and better-motivated workforce (in the case of corporate giving).

At first glance it might seem odd that a person would need help to give away money. What could be easier? Well, of course, if you are content to send off cheques from time to time, perhaps experience a momentary warm glow and claim a tax deduction, I agree you mightn't need much advice. But if that's what you do, you are denying yourself and your family one of life's best experiences.

The people we work with are not just givers, they are social investors and like other sorts of investors that have a specific outcome in mind, a strategic plan, an evaluation process and an exit strategy outcome. But their main characteristics are that they really want to make a change, to share their skills and knowledge as well as their money, and to learn new things.

To return to my theme, what are the main barriers to successful succession?

First, an uncommitted or, worse, an alienated younger generation. It seems that this more often affects the third and later generations, when children are more remote from the exciting early days of shared hopes, tense conversations over the dinner table and the exhilaration of achievement. On the other hand, in a mature business, the extended family will probably be larger and so there should be a larger pool of talented youngsters to draw on. But you still need to motivate them. If the family's culture is positive, strong and shared, the smarter and better-motivated members of the younger generation should be willing to be recruited.

There is no doubt that philanthropy can help establish and maintain a positive, strong and shared family culture. For example, the Myer family in Melbourne has been a leader in Australian philanthropy for almost eighty years. Only a few of the family are now involved in the retail business that made their fortune, but most of them are involved in the work of the Myer Foundation. The Foundation has become the main vehicle through which younger family members are taught about the family's history and its culture. Every couple of years the family holds a two-day muster at which achievements are celebrated and plans made. Everyone attends and everyone seems to enjoy the process.

Philanthropy can teach skills that are essential in business; entrepreneurship (how to recognise opportunities and develop them); the power of money (and its limitations); the value of networks; negotiations skills; decision-making (there are always more deserving cases than you can afford to support); an understanding of society and human nature.

A second category of obstacles to successful succession arise when older people – typically founders – are reluctant to step down. This may be because they fear that no-one can run the business as well as they can, or it may be because they can't bear to lose a role they have spent their lives creating, or it may be that they see it as a reminder that, contrary to all appearances, they are not immortal.

Experts commonly recommend that older people should plan to retire “to” and not “from”, and here too philanthropy can help by providing a new career for older people. Bill Gates is hardly old (indeed, he seems depressingly youthful), but he is already establishing a new career for himself and his wife which will keep them as

busy as they want to be for the rest of their lives. What is the career? They have set up the Bill and Melinda Gates Foundation with the biggest-ever single donation and are now planning to apply it to eradicating certain preventable diseases. (It is worth noting that Gates seems to have learned about philanthropy from his father, Bill Sr, who was also a successful businessman.)

A third category of problems arises from disagreements within a family. As Leo Tolstoy famously remarked in *Anna Karenina*; “All happy families resemble one another. Each unhappy family is unhappy in its own way”. Family business disputes arise in a bewildering variety of ways; between working and non-working family members; between husbands and wives, between siblings and cousins, between in-laws (not forgetting former spouses), between older and younger relatives. And of course they can also arise out of business issues.

Philanthropy can help here in a number of ways. As I described earlier, it teaches skills that are useful in business and in life, but it can also be a safe way for family members to understand one another better and learn to share. Philanthropy can provide alternative careers for people who are not needed or even not wanted in the business. It can provide a shared commitment that will help prevent disputes, or it can provide a vehicle to help resolve them.

Philanthropy can offer a very good way of honouring the memory of deceased family members.

I want very briefly to mention religion and culture. All the world’s major religions impose an obligation to give to the poor or the less fortunate, and indeed this is also one of the measures by which we judge the virtue of a society. It’s hard to disagree with the philosopher, Peter Singer, when he says:

We need to challenge the idea that you can live a morally decent life just by looking after your own family and not actually causing harm to others. We need to develop a sense that if we have an abundance, we are actually doing wrong if we don’t share it

At the start of this talk I mentioned spiritual rewards. These can be hard to define and harder still to quantify, but they are unmistakable. I know of many families and businesses for which philanthropy is the glue that holds the members together.

And here is my final point: Philanthropy is good: good for you, good for your family and good for society. You become a better person. You are respected – even loved. Your business becomes a better business – with better-motivated employees, loyal customers, and respectful suppliers. Thus equipped, the business should become more profitable, and that should lead to happier shareholders.

Of course no-one should think that philanthropy is a panacea, or a last-minute solution. Philanthropy can also be a source of family and business dissension. You

may be suspected of setting up a vehicle that will enable you to support your pet causes in a tax-advantageous way. Your enemies may accuse you of chasing honours and recognition. You may find yourself associated with unpopular causes.

(There is a great deal to be said about avoiding these dangers. This is not the forum to explore them, but if anyone would like to discuss how to maximise the benefits of philanthropy while avoiding its pitfalls, I would be happy to talk to you).

To summarise: if your family business is in trouble because you have failed to plan for succession, philanthropy will probably not offer an instant solution. Its virtue is in the process as much as in the outcome.

But if your family and your business understand and embrace some form of philanthropy or social investment, I firmly believe that problems are less likely to occur and that if they do, that they will do less harm and heal more easily.