

Giving and Gaining

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Whether or not a family has significant liquid wealth, they are still in a position to consider the role of philanthropy in their family governance (FG). Philanthropy may range from charitable giving to impact first investing, be large or small, or only relate to financial capital. It may also offer the families' other assets of: human, intellectual social and sometimes spiritual capital. Solely focussing on the financial capital is to ignore many of the most important contributions that family members bring to the fold. You cannot begin to know how to make the financial decisions until you consider the other types of capital.

Families may wish to retain, consume or disburse their assets, but usually want their decisions in this regard to be theirs, rather than that of a government. Success can be defined as families who retain the control of their own ability to make such decisions through generational change and succession. The striking theme such families have in common is being well advised from the bedrock of an agreed purpose. The fundamental ingredient to this is examining, understanding and aligning family values and seeking effective family governance. Unsuccessful families invariably lose their financial capital by failing to address their other forms of capital. Families that neglect governance issues typically fall into disharmony and infighting resulting from a lack of preparedness and education of heirs, and poor or non-existent succession planning. It is the failure of FG, rather than inefficient tax planning or bad investment performance, which invariably dissipates family wealth.

Cornelius Vanderbilt's estate was worth about \$100m at his death in 1877. At the first Vanderbilt family meeting in 1973, 120 family members gathered. Not a single one was a millionaire. Such stories of extreme erosion of family wealth are widespread, and often in the relatively short time period of two or three generations (numerous studies concur that about 70% of families have lost the majority of their wealth by the end of the second generation and 90% by the end of the third). They illuminate the potent threats that families must address.

Aligned beliefs and effective FG are the best mitigators to these dramatic and dangerous impulses, and philanthropy has a significant role to play. The following five steps may be used as a summary: values, education, communication, philanthropy and putting healthy FG into action. Philanthropy is therefore a core part of governance for families and its positive influence can be transformational. The act of striving for effective FG is in itself a highly beneficial process,



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quite apart from any end result, and so it is with philanthropy. Both should be a continual, living and evolutionary process and the educational and learning benefits imparted will be varied and cumulative.

The most successful multi-generational families routinely employ many of these best practices. A family needs a shared narrative, functioning communication processes, and a desire to continue its legacy, in order to ensure it can manage situations of transition and crisis. The fundamental cornerstone of enduring familial and philanthropic life is seeking family governance from a foundation of aligned family values. Such activity enhances these heirs' various forms of capital, which ultimately are the root to enduring family identity and the long-term protection of family assets.

The concept of philanthropic governance is a subject closely related to family dynamics. It is a bond that reveals the relational benefits of philanthropy to a family that strives to enhance all its capital and create horizontal relationships to enhance decision-making. The principle is interdependence rather than more rigid and hierarchical vertical systems.

Encouraging interdependence is a crucial concept since this can imbue individuals with the family culture in a manner that is true to their character and enhances dialogue and learning between them. Without this approach, too many heirs may germinate the traits of loners, tyrants or weaklings.

The principles that a family holds dear, its views, beliefs and opinions, are invariably challenging to express and articulate. It is usually slightly less difficult to do this for each individual family member, as opposed to trying to generalise and summarise some key consensus threads for a group of people, but even then, being able to describe or even codify such concepts is always testing. Most will agree that ethics and convictions are a foundation of their nature, their outlook and 'emotional investment'. They may term such a worldview in spiritual terms as a creed or faith, others may prefer more humanistic language, such as philosophy, theories, doctrines or ideals, but surely in all cases the values a person holds affects how they treat financial capital. That in turn colours how they treat all forms of capital, especially the human and social capital of their interaction with family, friends, colleagues and society. So, if one is to ask, "What are this family's core tenets", a partial source from which to formulate an answer, will be deliberating on philanthropic priorities, both individual and collective. This represents one of the most significant 'donor-benefits' that a family can gain.

Philanthropy is a compelling vehicle with which to express and reinforce the convictions and identity of a family and then create impact and change. If this world view cannot be established, then it is often difficult to

see what the family stands for and holds as important. This is where conflict can often arise: from lack of defined values, as well as opaque decision-making and unstructured giving. The strongest tool for lessening conflict is the preparation of forward planning and clear communication. From this may flow the 'glue' that binds, challenges and transmits what the family holds to be precious, potentially nothing less than its morals and culture, nothing less than its very identity. Such a legacy is forged from an evolving blend of continuity and flexibility.

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One of the defining characteristics of philanthropy is its ability to transcend borders and cultures. Indeed, in many instances, if it is to be effective, this is a necessary characteristic. Substantial investing families are increasingly 'global multi-jurisdictional families' (GMJF), and so the international nature of their existence informs the character of their likely giving. When a goal of giving is for inheritors to learn about other cultures, as well as other elements in society, there is a necessity for transnational action. This is absolutely what is observable in the patterns of many GMJFs now, and it is a major theme with considerable influence. When there is a desire for an open and flexible mind, this acts as an added spur for the learning gleaned from travelling. This can be combined with philanthropic initiatives and so the educational benefits of the one are combined with those of the other in a truly augmenting way. One first generation Midwestern American family have done exactly this with substantial support of a project in Namibia, providing clean water for drinking, domestic use and irrigation. All their children, aged between 15 and 27 are involved and as their father observed: "Impact on the community, yes, that's crucial, but also impact on our children. The extent of that has been profoundly beneficial. This simply wouldn't have been the same in our own country."

One wonderful characteristic of family philanthropy is that small ideas can seed larger ones and establish the pattern for a lifetime of dedication and collaboration. In addition to promoting family unity, collaboration on philanthropy reinforces the transmission of ideals and culture. Each next generation family member needs to feel confident that he or she can contribute to the family's philanthropy in a way that is both meaningful to them as an individual as well as to the family as a whole. Thus, philanthropy helps enhance the human and individual elements of

family members, while increasing interdependence and learning.

No one can create a utopian environment where all participate equally and are happy with every decision, but good governance is the first step towards reducing conflict in families generally and also in their philanthropy. Notably, in times of rising inequality, philanthropy is doubly important, not only by supporting those in need, but also in creating awareness of such issues in the minds of successors to the rich by “setting a good example”. This concerns more than just charity, it relates to social responsibility, impact (beneficial results) and ultimately a family’s identity. Sir Ronald Cohen sees philanthropy as an antidote to rising social tension from increasing inequality and this mollifying function should not be underestimated.

Philanthropy can provide a double platform to define culture and values and learn about the workings of finance whilst targeting a child’s own interest, rather than that of their parents or the wealth creators. All the while it can be enhancing their other forms of capital. This may be an educational way of learning about asset classes and other commercial matters since the organisation and operation of a philanthropic entity, however modest, will mirror many of the issues present in the running of family operating businesses, even if in microcosm.

Such activity can teach the donor about money and asset classes, especially where allocations of ‘philanthropic capital’ are made as though in the for-profit market: with rigour and discipline. In essence,

philanthropic governance is the approach of a family deliberating on impact first activity within a decision-making framework that is rooted in shared and complementary values.

Perhaps ironically, many families who successfully retain financial capital do so by the learning process of giving some of it away. Philanthropy can offer a unifying context for decisions as to how to give away, and a powerful method of engaging younger members and communicating and clarifying roles to them. Asking them to draft a personal statement of principles can be a sensible starting point. So, when philanthropy is integrated into the broad wealth planning of large families, they can learn more about long-term financial capital retention by employing philanthropic capital; learning to contribute and not just bald accumulation. This process effects change and expresses beliefs whilst offering a family a method to measure its impact in regard to financial, social and legacy outcomes.

Thus it may be summarised that three key ‘secrets’ to successful philanthropy emerge: interest, focus and perseverance. By interest is meant an enduring alignment with values; focus entails the discipline of ongoing application of philanthropic governance and perseverance indicates the application of sheer hard work. The growth in philanthropy is evidence of people searching for meaning, to establish and root their moral standards, determine a purpose for their endeavours and those of their children and explore other forms of capital. Philanthropy helps explain why, to preserve financial capital through successional change, a family should prioritise those assets last.

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