

## The Importance of Family Business Philanthropy

By: Craig E. Aronoff, Ph.D. and John Ward, Ph.D.  
The Family Business Consulting Group

The next generation CEO of a successful family business expressed dismay and surprise about part of his job experience:

I never believed giving away money would be so hard! I feel hassled by the many requests for contributions from business associates and from employees. The requests are usually for very worthwhile causes, but where do we draw the line? How do we make these decisions?

While some argue that a corporation's only purpose is to make a profit, virtually every family business we know is quite generous. Family business leaders, however, are often very frustrated about how to handle philanthropy. They have many questions: How much should we give? To what causes? How do we respond to community requests? Employee requests? Family member requests? Most of all, how can we make our giving a more positive experience?

The key, we think, is to have a focused family foundation or donor-advised philanthropic fund. It can be small or large. It doesn't have to cost much to set up. And, we find that it can bring many benefits to a business-owning family.

First, a foundation becomes the major conduit for the family business giving. Charitable requests can be directed to the foundation. The foundation's directors, usually meeting once or twice per year, determine what causes to fund. The CEO or family executives don't need to respond, on the spot, to awkward situations such as requests from friends, customers or a luncheon

tablemate at a trade meeting or civic event. (The company's marketing department can have a separate charitable budget if it is required.)

If the foundation is focused on one or a few purposes, there are several other advantages. A focus — like promoting literacy programs — provides a rationale for selecting among worthy causes. More importantly, a focus gives the foundation a chance to make more of a difference. Putting scarce funds to one or a few pre-determined purposes increases impacts and results.

A focused family foundation can have great impact because business owners, and their families, are often skilled at identifying distinct needs and monitoring the performance of funds. Some families search for unique charitable needs where they can influence the results not just with their money, but with their time and expertise as well. One family we know directs its efforts toward entrepreneurship programs for young people in memory of their grandfather, the founder of the business. Another family gives its funds to research on work place safety because of the nature of its business. Yet another family gives to alcohol and drug clinics because of past family problems.

Several families we know give their foundations funds to scholarships for employees children as a way to show appreciation to the people who have made their success possible. Consider directing family philanthropy toward the celebration of something special about the business' founding, its customers, its industry, its employees, its

community. Then the philanthropy not only can make a particular, focused difference, but it can create side benefits for the business itself.

Establishing a foundation also can emphasize the importance of business profitability. The foundation can be funded by a formula based on profitability. Several businesses set the level as five percent of pre-tax profits. Others choose lesser amounts, say one or three percent of profits.

We know several retired business owners who have become interested in focused philanthropy as a new vocation as they let go of the responsibilities of day-to-day business leadership. We also find family members who are not active in the business appreciating the business more when they see the link between business success and family values. Their active involvement with the family foundation gives them a chance to work with other family members and develop or apply their abilities. They can learn and practice decision making

and policy setting skills. Many families find that such activities reinforce relationships, build family pride, and even provide an element of pure enjoyment. In short, we find families with purposeful family foundations to have more strength for carrying on the business.

The central purpose of a focused family philanthropic fund is not to make life easier on business executives or to provide family with shared activities. However, those are often nice side effects. The purpose, of course, is to reinforce the family's values — especially the value of giving back. There are several beneficiaries: recipients of philanthropy, the business itself — but most of all, younger family members. Younger family members see the family working together — and can learn from it. They get a chance to see that the family's entire identity isn't just the business — then feel more comfortable about their decision on joining the business when the time comes. They also gain some of the humility that we find serves future leaders of family businesses so well.



**John L. Ward, Ph.D.** is a co-founder of The Family Business Consulting Group, Inc., and can be reached at [ward@thefbcg.com](mailto:ward@thefbcg.com) or 847.475.3000.



**Craig E. Aronoff, Ph.D.** is a co-founder and principal with The Family Business Consulting Group, Inc. He can be reached at [aronoff@thefbcg.com](mailto:aronoff@thefbcg.com) or 678.277.9865.

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