



BEYOND BUSINESS

THREE REASONS WHY PHILANTHROPY IS IMPORTANT TO ENTERPRISING FAMILIES

By IMD Professor Peter Vogel and Malgorzata Kurak

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

For family enterprises, doing business means a lot more than just running a business. While efficiency and short-term profits matter, enterprising families also care about generational continuity, transgenerational entrepreneurship, family socio-emotional wealth preservation and the family's social capital. One way for families to leverage their human, social, and financial capital – and to ensure that their non-monetary goals are reached – is philanthropy.

Philanthropy (“love of humanity”) is an act of generosity and entails the donation of time, money or expertise. Most established enterprising families practice some form of philanthropy, although it is not always visible to the public because some families prefer to be discrete about it. Depending on the goals and structure of their philanthropic endeavors, there are numerous benefits for the family, the business, and also for society.

1] For the family

Philanthropy helps to keep the family together across generations. Enterprising families are altruistic towards the causes they support. They emotionally engage with stakeholders on their philanthropic journey. The distinctive values of enterprising families are the core reason why they genuinely care about the recipients of their philanthropic contribution. They use these philanthropic activities to educate family members about family legacy and to embed the family values in the next generation. Family foundations can also engage the extended family, who perhaps have nothing to do with the business, creating stronger familial ties. Finally, philanthropy can educate family members (in particular the next generation) in financial literacy, as they need to carefully assess the projects they wish to support and then do the financial budgeting, planning and monitoring to ensure that their means are used in the most effective manner.

2] For the business

Enterprising families often channel philanthropic activities through the business. This can be great for the organization's reputation, signaling commitment to the long term and the importance of non-financial goals. This is important because long-term business goals often translate to the long-term goals of society, and this has a positive effect on the value commitment of the non-family employees. High levels of value commitment tend to lead to a group orientation where harmony and the group's success hold greater value than individual achievement. This helps to reconcile family and non-family forces in the family business.

3] For society

The great challenges of our time are too big to be tackled by one stakeholder group alone. This is why governments, NGOs, businesses, philanthropists, impact investors and entrepreneurs are joining forces to ensure we pass on a world we would like to live in ourselves. We believe that the role of philanthropists will grow in importance as part of this multi-stakeholder effort. This is partly because over the next decades we will witness the greatest transfer of wealth to the next generation in human history. Today, the world's wealthiest individuals are approaching retirement and starting to implement their wealth succession plans. The rising generation fundamentally differs from previous generations in ways of living: millennials and digital natives are globally connected change agents who deeply care about our planet and mankind and who want to tackle the world's biggest challenges. The incumbent generation is willing to help the next generation unleash its energy and passion to create a healthy and sustainable world for everyone. The next generation of entrepreneurs – often social entrepreneurs – have bold ideas. When they match these with next generation of philanthropists and impact investors, great things can happen. This generation wants to see their families' money help alleviate some of the world's greatest problems for altruistic reasons. Family philanthropy is a vehicle for the incumbent generation to secure an enduring legacy for a more sustainable world.

[Peter Vogel](#) is IMD Professor of Family Business and Entrepreneurship and holder of the Debiopharm Chair for Family Philanthropy.

Malgorzata Kurak is Research Fellow – Debiopharm Chair for Family Philanthropy.