Philanthropy is good business

BY SUSAN WINER

MANY SUCCESSFUL family businesses are rooted in strong personal values. In their book *Family Business Values*, authors Craig Aronoff and John Ward write, "Family values are instrumental in helping to shape future generations..... Shared family values also contribute to tangible success such as inspiring performance, supporting long-term vision and shaping a business's response to a crisis."

Philanthropy is a way to demonstrate and extend family values and position both the company and the family as thoughtful leaders in the community. Giving back and being a good corporate citizen can create a "feel good" moment for the family and potentially garner positive public relations for the business. But this will happen only if family members remember that a company's philanthropy is a business decision first and foremost, not an extension of family members' personal interests or passions of family members. Corporate philanthropy must have its own process and strategy, defined and driven by the board or whoever makes the major business decisions in the company.

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Kelin Gersick, a preeminent consultant to family firms and family foundations, points out that when it comes to philanthropy there are three distinct streams of activity:

- **Personal giving.** The individuals and branches in the family give to organizations or issues of particular importance to them.
- **Collaborative family philanthropy.** This often takes the form of a family foundation and requires a degree of consensus among family members (or those members who want to participate as a family).
- **Corporate philanthropy.** A family-controlled business supports specific causes or organizations with funds or other forms of philanthropy.

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"Of course, there may be some overlap wherein some of the same causes are supported," says Gersick, "but good governance requires honoring the differentiation between business and family structure, no matter how many family members are in the company."

Gersick, who is the lead author of *Generation to Generation: Life Cycles of the Family Business* and *Generations of Giving: Leadership and Continuity in Family Foundations*, notes, "All the principles of good corporate governance practice that make for good business apply to philanthropy. What is most important is to remember that no matter how much value a family places on charitable giving and good citizenship, when it's the company's philanthropy it is funded by the company's operating revenues and therefore must reflect the values of the company."

Launching a corporate philanthropy program

Corporate philanthropy should advance the company's business interests while at the same time substantiating its image as a caring member of the community, a good corporate citizen and an enterprise that's committed to making a difference in the world. If implemented correctly, the philanthropic efforts can yield increased market penetration and brand recognition as well as higher customer approval ratings. The initiative also can create good will among employees, leading to greater retention and empowerment, and make the company more attractive to prospective employees.

A corporate philanthropy program is no different from any other departmental activity. It needs clear directives, an action plan, clear measurement criteria and a budget.

Here are some tips on initiating an effective corporate philanthropy program:

1. Decide where to "house" the program. The marketing or public relations departments are often assigned to manage the program when philanthropy is tied to brands or market penetration. Sometimes philanthropy falls to human resources or the executive offices.

2. Assign management and staff to support implementation. It's also important to create a succession plan to ensure the sustainability and continuity of the program.

3. Assign a committee to define goals. Senior management or the ownership group (and/or the chair of the board of directors if there is one) should be represented on the committee to signal support for the program from the top. In addition, the committee should include the manager of the department overseeing the program. Rank-and-file employees should be represented on the committee to help achieve staff buy-in. If the program is not housed in the marketing or PR department, these entities should be represented.

4. Create a charitable mission. The mission should tie in with your company's products or services or represent the greatest needs in the communities you serve. Having a focus for the program avoids a scattershot approach to philanthropy and provides a baseline for measuring the return on investment.

5. Determine the parameters of the program. What is its purpose? (Examples: increased brand recognition, stronger relationships with local communities, better employee relations.) What is the focus? (Examples: regions where your products are sold, populations that reflect your customer base.)

6. Determine the extent of resources available for the program. What is the company's financial tolerance? Can it afford to make cash contributions as its primary charitable activity or underwrite in-kind or pro bono services? Would donations of products, or a fully supported employee volunteer program, be possible? Many companies opt for more than one form of contribution, such as employees' time as well as corporate dollars. If your company plans to match employee donations, make sure to set a ceiling.

7. Make sure there are clear and measurable parameters for pro bono or volunteer work. Can employees choose the organization or cause they want to work with? If so, how many hours will be the company pay for? Have a procedure in place to track and report volunteer time.

8. Solicit suggestions from employees. Seeking employee input involves them early on in the program design. This is particularly important if the company decides to support organizations or causes that align with its markets, products or services.

9. Incorporate the philanthropic activities into the company's marketing materials, website and employee information. This kind of visibility reinforces accountability and creates good internal and external PR that reflects the "heart" of the company. If there is an annual report, include the outcomes of the company's philanthropy. The annual report can also include profiles of the organizations or causes that the company supports so that all stakeholders are aware of this aspect of the business.

10. Document everything! Neal Barnett, a partner in the law firm of Sills, Charboneau & Barnett in Troy, Mich., points out that there are tax benefits for a company's philanthropic activities so it's critically important to have a paper trail for tax purposes. According to Barnett, "If pro bono or volunteer time is underwritten by the company, then it's important to track the hours donated. Use the total hourly rate for employees, not just base salary. The cost of products donated is the wholesale price, not the market price."

11. Make sure the organizations you support are properly vetted. Thorough due diligence reduces problems later on. Make sure you know whether each group's Form 990s (IRS forms for tax-exempt organizations) are current, and whether their missions align with your company's mission.

12. Annually evaluate the program's viability and impact. Should you be considering other organizations or issue areas where there is more immediate need? Have your company's markets or demographics changed?

Finally, a few things you should *not* do:

- Don't initiate a philanthropic program solely to offset negative publicity or to detract from legal issues. It will only call more attention to the problems.
- Don't treat your philanthropic program as a short-term investment. It takes time to see the results of the effort.
- Don't transfer assets to a foundation or charity to protect them from third-party claims. This not only is fraudulent but also can expose the company to litigation.

Giving has many benefits

In a family enterprise—particularly in a multigenerational family business—the company is often a dominant aspect of the family's identity. Adding a philanthropic track to the enterprise not only creates a significant return on investment in terms of the company's relationship with its customers and employees, but also can reaffirm the core values of the family.

A well-designed philanthropic program can strengthen family bonds and help the company achieve its business objectives. Best of all, it helps to make the world a better place. FB