The New Family Philanthropy: Investing for Social and Environmental Change

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The way businesses deal with philanthropy is evolving. Donors are increasingly aiming for outcome focused 'impact investing' in the social sector. Maturing of the social sector organisations in the recent years has played a major role in fostering this change. Social organisations are now increasingly driven by new generation entrepreneurs and have improved systems and processes. They have enhanced transparency, which has boosted 'investor' confidence.

Family offices and foundations have been providing financial aid to effect societal change for causes aligned with their core family values. They too now look for 'impact investing' (rather than making discreet donations). In this paper, the authors present their findings on impact investing by business families based on 17 research interviews with trustees and staff of family foundations and offices. The key findings and their implications are presented in this summary.

Impact Investing by Families: Key Trends

The interviews conducted by the authors focused on families' perception of impact investing, factors they considered to invest for impact and the distinct characteristics of impact-oriented venture capital (Impact VC) complementary to family foundation or office. The key trends observed by the authors are the following -

(1) Impact Investing through Venture Capital: Philanthropic motivation of many families is making a local, visible impact on issues they are concerned about. Impact VC enables social entrepreneurs to solve community problems through innovation. This resonates with the family owners as they themselves had been entrepreneurs. As families have more control over the foundation's assets, they can direct those assets to impact-VC even if it is a 'risky investment' in a revolutionary idea. Thus, impact-VC makes high impact and is well suited to family investing.

(2) Internal Champion and Generational Dynamics: Impact investing by family foundations or offices often occurs when there is an internal champion. This person may often be a board member, trustee, staff member or advisor. The internal champion leads the family to re-visit its philanthropic objectives. Many of these champions are passionate young generation members who view impact investing as a means to assert themselves in the family. Thus, leadership is important for impact investing and it often comes from members of the younger generations.

(3) Perception of Tradeoff between Financial Return and Impact: Though some families think that they must forgo financial returns to make a social impact, others do not. The members of latter category opine that investment (impact) portfolios can be constructed with impact components and undergo same financial due diligence just like traditional investments. However, given their societal improvement objective they were willing to accept below-market returns.

(4) Family Foundations and Family Offices: Many families had both foundations and offices. They often tested out impact investing using the endowment assets of their foundations. However, most of them were interested to route their impact investments through their family offices that generally had much larger taxable investment portfolios. Not much of this transition was evidenced in the study. Thus, families follow different strategies presently but for the future there is an opportunity for formulating a better strategy that provides synergy to families.

(5) Investment Advisors and Consultants – Majority of family advisors acknowledged their clients' increased demand for impact investing. The advisors who explored impact investing felt it deepened their existing client relationship. Many of them said they are actively building internal impact investing expertise to better serve their clients and gain competitive advantage in new client acquisition.

Practical Implications

Impact investing is increasingly becoming a popular way through which family foundations are seeking meaningful social change. This requires family foundations and offices to formulate a long-term strategy and implementation plan. They can earmark a part of their corpus for impact investing. Based on their philanthropic motivations they can generate a positive social impact like - geographically targeted job creation, community engagement, environmental project among others.

Family foundations can bring synergies by developing impact investment strategies in consonance with (generally large) taxable family office portfolios. Family business practitioners also need to enrich their knowledge and skills around impact investing and build adequate capabilities to serve their clients' needs. Business families can also benefit from the mutual learning that happens during the planning and implementation of impact investing. Most importantly, impact investing is a good way for next generation’s meaningful engagement.

Source: *Federal Reserve Bank of San Francisco (2013), Working Paper (http://www.frbsf.org/community-development/ - accessed on June 18, 2015)*