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Family Philanthropy Matters



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I recently spoke alongside a panel of family office professionals who spend time thinking and advising in the area of successful family succession. While there, I met a successful entrepreneur who, through blood, sweat, and tears (and by his own admission, a little luck!) grew his business over two decades from nothing into a company that he sold for a substantial sum. He “retired” recently, establishing his own family office to manage financial matters for himself, his wife, and his children.

In talking with this first generation wealth creator, I learned that as a child he witnessed his elders nearly lose the family real estate business through the devastated NYC real estate market of the 1970s. This had a profound effect on him, and now that he has secured his own fortune, he does not want it to be squandered or lost. He asked me how a family office can balance providing services and responsible wealth transfer to children without creating unwanted

dependencies and dampening the productive spirit. Although this man has been very intentional in modeling successful entrepreneurship to his children (who are now in their teens and twenties), he does not know whether his children have acquired certain basic financial skills, such as managing a budget or understanding the cost of credit. Unless his children obtain these skills and other financial human capital, his hopes that his fortune will not be lost could go the way of the old adage “shirtsleeves to shirtsleeves in three generations.” Perhaps without knowing it, he was asking a question about how to pass the leadership torch to the next generation—commonly talked about in family offices as “family succession.”

What is Family Succession?

If you read much in the popular or industry press about wealth management or family offices, you might read about techniques for effective family succession.

This is something we think about a lot at Market Street. “Family succession” is a loose term that typically includes the transfer of the head of the family’s leadership and values to the next generation of family members. To improve the possibility of success, this transfer of human capital should precede the transfer of financial wealth to the next generation.

Why Does Intentional Philanthropy Help?

Philanthropy that actively involves your family is one way to strengthen human capital with intentional fashion. When families give together, they naturally discuss and consider topics around the family dinner table or vacation home, such as the following:

- ✿ What causes do we care about, and why? Discussions ensue about the values and interests of the parent, children, and grandchildren.
- ✿ Where should we invest our philanthropic dollars, and why? Let's say there is a family interest in the fight against cancer. Why give to one organization conducting cancer research versus another providing morale boosting beauty and reconstructive services to cancer patients?
- ✿ How should we go about making decisions together? This discussion alone does a lot to transmit family values. Does the family value everyone's opinions? Are inclusivity and cooperation the touchstones?
- ✿ In a family foundation environment, you might choose to consider written grant requests. What makes this organization worthy of receiving the grant? Is their management strong? Do their financial statements show they are viable? Can they really make the impact they hope to make on the cause we care about? Why or why not?

And with vision and some commitment of time and resources, even more can be done! For example, one of the family foundation clients of Market Street conducts an annual internship program for its college-aged family members. The purpose of the program is to foster family commitment to philanthropy and making a difference in a community. But at the same time, the interns cannot help but learn by being exposed to important topics, such as wise grant-making, careful budgeting, responsible investing, and how an effective family foundation board is run. An added benefit is that the foundation's grantees get enthusiastic volunteers to help with the great work those agencies do! Those with the internship experience eventually are poised to take on other family leadership roles. Consider what one of the interns wrote about his experience, in reference to helping

younger children (constituted as a "youth board") make good grant decisions:

"We want to teach them [the younger siblings and cousins] the importance of philanthropy...because it makes such a huge difference. We love it and the kids grow so much."

When the student becomes the teacher, the lesson is learned!



How can you get started?

The successful entrepreneur from the conference could certainly transfer the stewardship principles he hopes his children will develop through fostering their entrepreneurial spirit in establishing and growing companies. There are many ways in which successful successions can occur. But for those who are already philanthropically-minded, doing this through family-oriented giving is a nice option.

If you want to learn more about raising up the next generation of family leaders through engagement with your family philanthropy (whether through a family foundation or other structure) please talk with your Wealth Advisor. It might just be one of the most rewarding things you decide to do, while reaping huge dividends for successful family succession.

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