EY Family Business
Center of Excellence

# Family business philanthropy

## Creating lasting impact through values and legacy

University of St.Gallen

EY
Building a better working world

# Foreword

Family business philanthropy operates at the intersection of family, business and society and is of crucial importance to social goods such as education, health and humanitarian aid around the world. For instance, corporations and foundations in the US, many which are family-owned, donate over US$67 billion per year. In the UK, the top 100 family businesses and foundations contribute £908 million per year to societal causes and in Germany, family foundations donate around €490 million every year to philanthropic projects.[1]

Past studies have revealed that philanthropic activities can be motivated by moral interests (e.g., altruism), as well as strategic interests (e.g., marketing and branding). However, we knew less about what drove families to engage in philanthropy or how family business philanthropy was managed and evaluated. For practitioners, the following five questions regarding family business philanthropy are particularly relevant and had been little explored before our study:

- What form of philanthropy do family business owners pursue?
- What drives family business philanthropy?
- How is family business philanthropy organized?
- Does the government support family business philanthropy?
- How is family business philanthropy evaluated?

These were the high-level questions that we put to respondents as part of a large-scale international survey of family business owners and managers, which encompasses 525 responses from 21 countries. The survey was dedicated exclusively to family business philanthropy and was conducted by EY in collaboration with the Center for Family Business at the University of St. Gallen between January and February 2016.

The study sheds new light on those central themes in order to enhance our understanding of the increasingly important field of family business philanthropy and its global contribution to society. We believe that this report provides unique and novel insights into family business philanthropy, which are valuable for family businesses as well as those who advise them.

Yours sincerely,

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University of St.Gallen

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Peter Englisch
EY Global Family Business Center of Excellence

1 Feliu and Botero, 2016; National Philanthropic Trust, 2013; Pharoah, Jenkins, and Goddard, 2014.

# Executive summary

Family business philanthropy plays a vital role in alleviating social and environmental problems around the world. Our study analyzes family business philanthropy as an increasingly important global phenomenon. The results of the study can be highlighted in five summary findings.

## 1 Family businesses apply a portfolio approach to philanthropy

We found that families use several philanthropic vehicles at the same time, applying a portfolio investment approach. In particular, family businesses are developing a strong interest in social impact investing. This indicates a trend toward effective giving, and reflects the current situation of global markets. The focus on effectiveness is also reflected in the levels of families' personal involvement in directing philanthropic activities as well as in their approach toward evaluation.

Two-thirds of all respondents indicated that their wealth is to some extent dedicated to social impact investing. On average, family businesses globally invest 3.1% of their wealth in social impact, with the Middle East, Europe and Asia leading this trend.

## 2 Family businesses have a holistic perspective, centered on the founder's values

Family business philanthropy is driven by a holistic view, as a unifying means of expressing the family's ethical values and beliefs. The expression of family values develops over time into a strong instrument to bring the family together. It seems to be a common pattern that founder values and transgenerational motivations play a very important role in driving family business philanthropy.

The founder's value system has a lasting effect on the character of each family business's philanthropy, as has the owners' desire to pass the business on to the next generation and to perpetuate the family's legacy.

## 3 Philanthropy is organized through both family and business

We can only obtain a complete picture of how family business philanthropy is organized by exploring its two dimensions – the family and the business. Around two-thirds of family business owners organize their philanthropy through a family-specific vehicle, such as a family foundation, trust or office. However, 50% of our respondents state that philanthropy is also organized directly through the family business. The people involved in managing the family's philanthropy tend also to be active in the business, notably as CEO of the business (40%) or as board members (40%). Only 15% of our respondents state that family members who are not active in the business are involved in family philanthropy.

## 4 Governmental support is a decisive factor in family business philanthropy

Family businesses' governance and their control of philanthropy are adjusted to their operating conditions and reflect regional and country differences. Families reflect on their cultural, political and jurisdictional environment and choose appropriate vehicles for their philanthropic initiatives.

In countries where owners perceive that the laws promote tax benefits for giving, family businesses are more likely to engage in philanthropy. The perception of governmental support for philanthropy varies greatly between countries. Whereas the vast majority of respondents in Germany and France believe that they receive tax relief for their philanthropic giving, only a third of family business owners in Australia say the same.

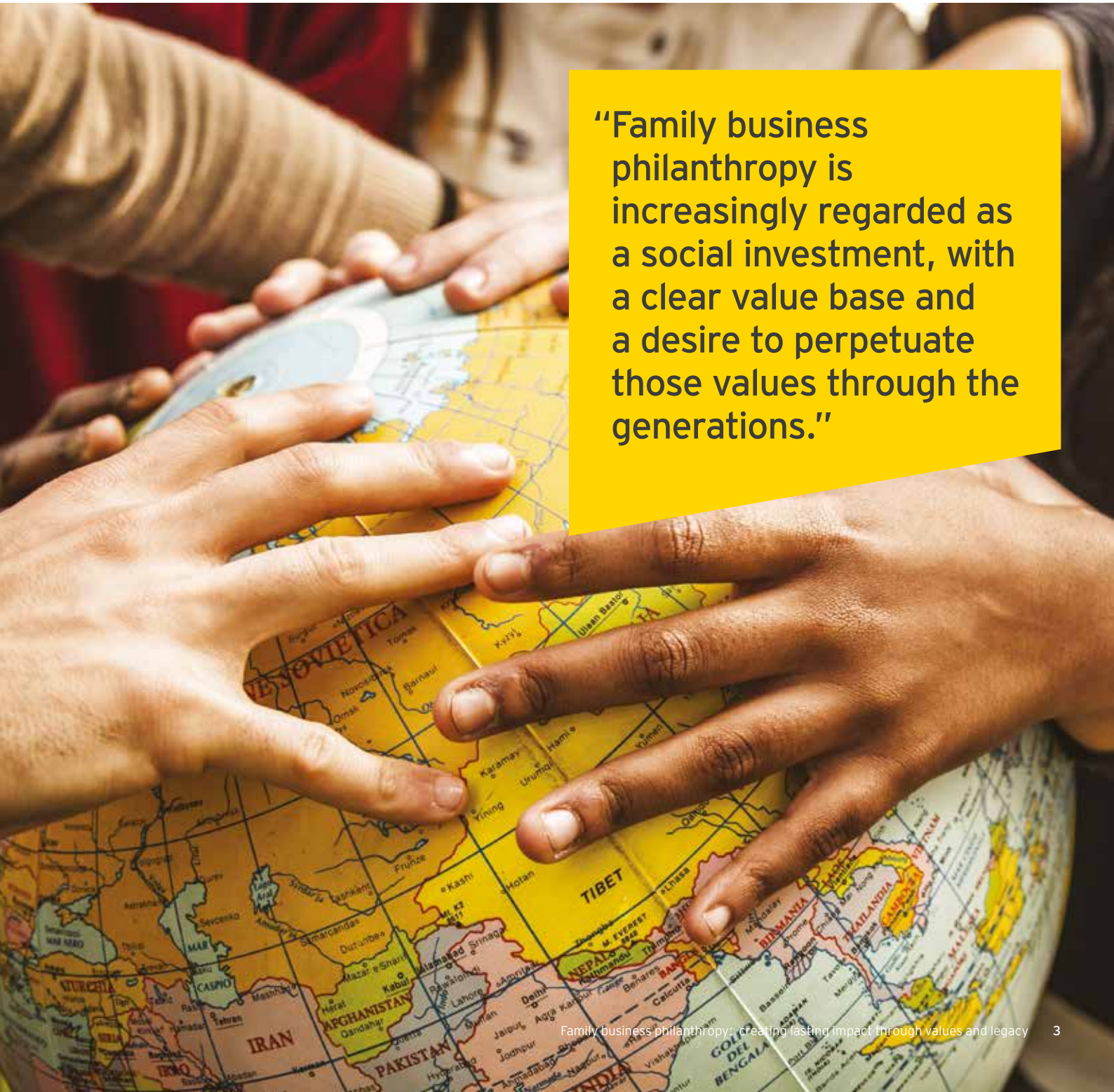
Surprisingly, perceptions of the tax and regulatory environment are primarily driven by the notion that conditions for social impact investing are either better than or similar to traditional philanthropy, despite the fact only

one country – the UK – has introduced legislation that is specifically applicable to social impact investing.

## 5 Family businesses are keen on effective solutions

Families' personal involvement in evaluating philanthropic progress is indicative of their overall interest in effective giving. The owners of smaller and larger family businesses believe that personal oversight contributes to effectiveness, while for medium-sized family business, professional mechanisms such as the family office reduce personal involvement.

Family businesses often believe that philanthropy can only make a beneficial social or environmental impact if it is effective – and if that effectiveness is carefully measured and evaluated.




"Family business philanthropy is increasingly regarded as a social investment, with a clear value base and a desire to perpetuate those values through the generations."

# Table of contents


01 Family businesses apply a portfolio approach to philanthropy ..... 6

02 Family businesses have a holistic perspective, centered on the founder's values ..... 12

03 Philanthropy is organized through both family and business ..... 22

04 Governmental support is a decisive factor in family business philanthropy ..... 28

05 Families are united in their search for effective solutions ..... 34

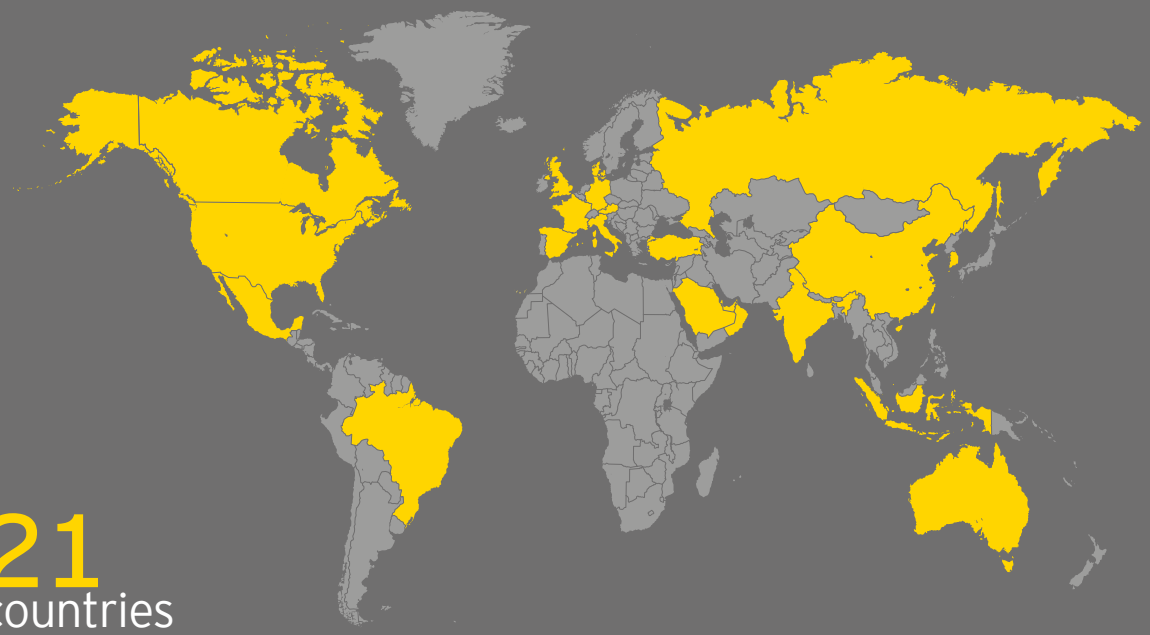
06 Conclusions ..... 40

07 References ..... 43

08 About the authors ..... 44

09 EY Family Business Services ..... 46


## Survey demographics



21 countries

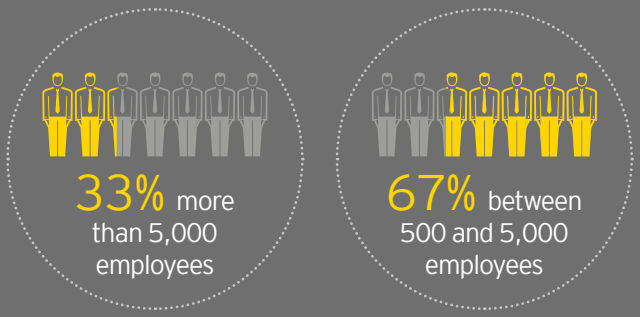
# What do we mean by family business philanthropy?

Family business philanthropy can be defined as the business's, or owning family's, voluntary donations of resources (i.e., money, knowledge, time and effort) to support social or environmental causes.

There are two major forms of philanthropy. Traditional philanthropy is a way of giving back to the community, which can be done through financial donations to charitable projects – often organized by non-profit organizations like UNICEF or the Red Cross – or through providing a service to communities, such as donating time and goods to support a local project. Social impact investing involves investments made into companies, organizations or funds with the intention of generating a social or environmental impact alongside a financial return. Such investment constitutes a new form of philanthropy that has recently become very popular.

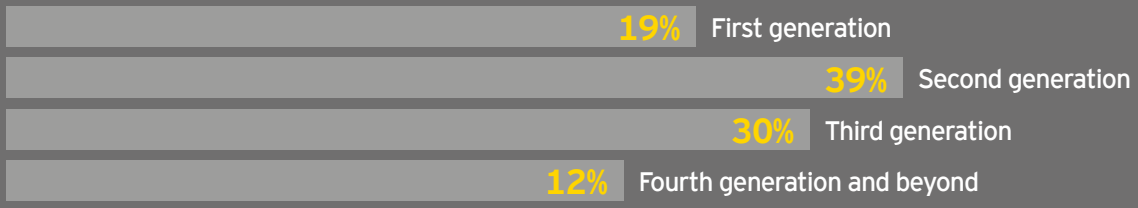
In addition to these two main forms of philanthropy, there is the concept of corporate social responsibility (CSR). This refers to the socially responsible core business functions of the company and has developed rapidly over the last decade. Activities undertaken as part of a business CSR strategy can be seen as additional forms of philanthropy.

## Firm size




**525** responses from the largest family businesses in each country

## Generation



# 01 Family businesses apply a portfolio approach to philanthropy

When we asked what form of philanthropy family businesses pursue, we found that the majority use several philanthropic vehicles at the same time, applying a portfolio investment approach. In particular, family businesses are developing a surprisingly strong interest in social impact investing. This indicates a trend toward effective giving and reflects the current situation of global markets.

## Providing services to the community is the most common form of family business philanthropy

In figure 1 we see that providing services to the community is the most prevalent form of family business philanthropy, followed by monetary contributions to charities and then social impact investing. Interestingly, small and medium-sized family businesses (with 500 employees or fewer) engage significantly less in all forms of philanthropy when compared to larger family businesses. This finding is surprising because small and medium-sized family businesses are often believed to be highly engaged in their local communities, and they should therefore score higher on service to community as a category of philanthropy.

Figure 1 also shows that more than a third of all family business owners indicate that they are highly engaged in social impact investing, with the proportion up to 47% for large family businesses. As it becomes clearer that the problems facing society cannot be effectively addressed by government aid and charity alone, the concept of social impact investing — making investments that intentionally target specific social objectives along with a financial return — has become an attractive option to those who want "to do good while doing well".

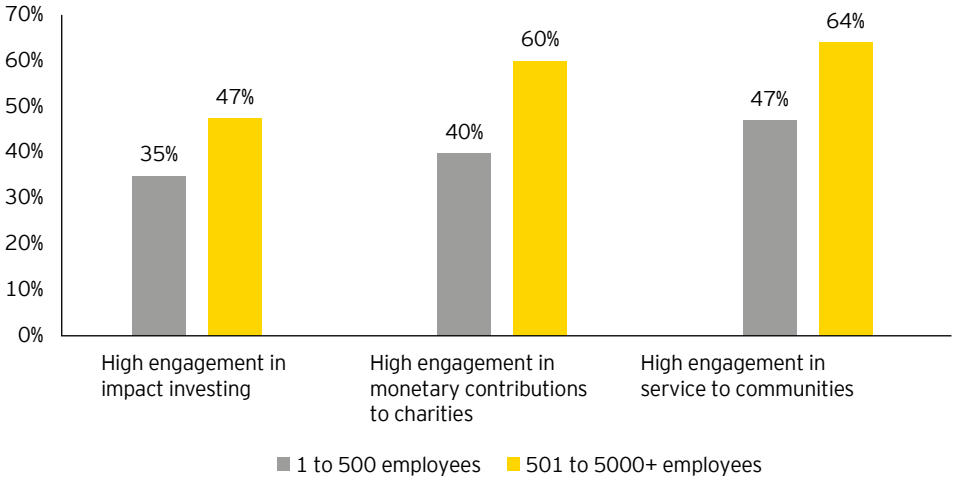



**Figure 1:** Form of philanthropy by firm size

## Social impact investing is a popular new form of family business philanthropy …

As figure 2 shows, more than two-thirds of all respondents indicated that their wealth is to some extent dedicated to social impact investing. On average, family businesses globally invest 3.1% of their wealth in social impact, with the Middle East, Europe and Asia leading this trend. Given that social impact investing is still in its infancy – although clearly growing rapidly – this result is a surprisingly positive one.

**What percentage of the family's wealth is dedicated to social impact investing?**

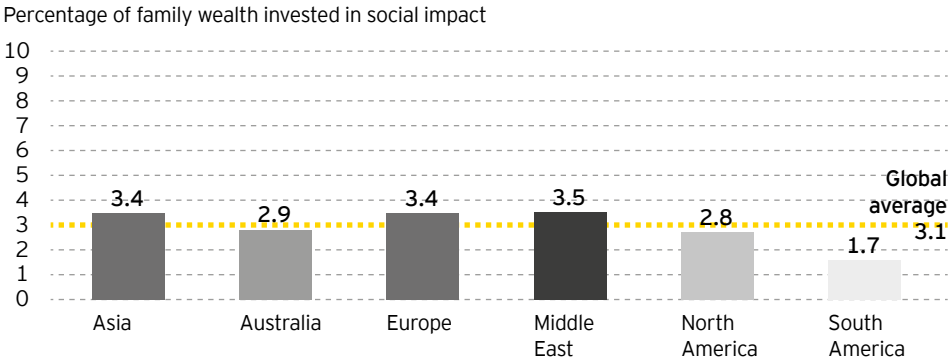



**Figure 2:** Investment in social impact by region

## … but is there a perceived trade-off between social impact investing and traditional forms of philanthropy?

Figure 3 shows that 76% of family business owners feel that there is some degree of trade-off between social impact investing and traditional philanthropy. This trade-off might arise because many projects supported by traditional forms of philanthropy do not generate a financial return for the family and therefore would not be suited to social impact investing. This implies that many family business owners seem to be torn between engaging in traditional forms of giving, for instance through charitable contributions, and the new form of social impact investing.

**Is there a trade-off between social impact investing and traditional philanthropy?**

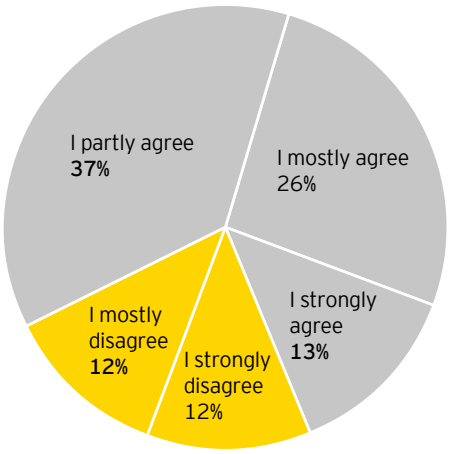



**Figure 3:** Perceived trade-off between impact investing and traditional forms of philanthropy

## Supporting a philanthropic project should also provide a financial return

We find that the perceived importance of a financial return varies greatly from country to country, as shown in figure 4. On average, family business owners in Switzerland, China and Italy mostly disagree that a philanthropic project should also provide a financial return. In contrast, family business owners in Japan, France and South Korea place significantly more emphasis on the financial return of philanthropy.

**How important is a financial return on philanthropic projects?**

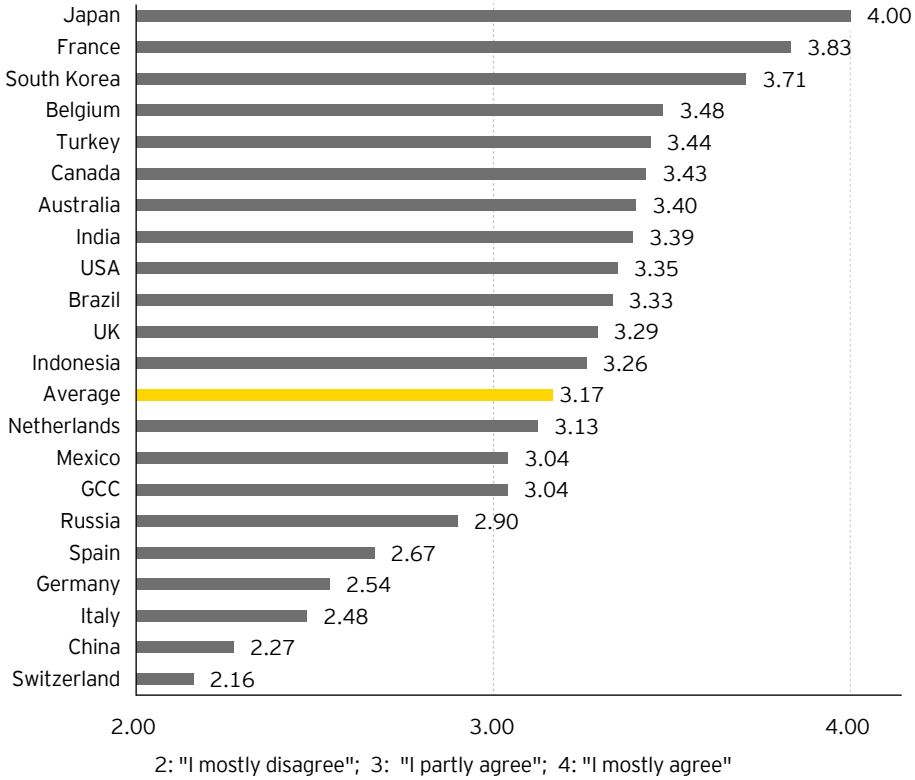
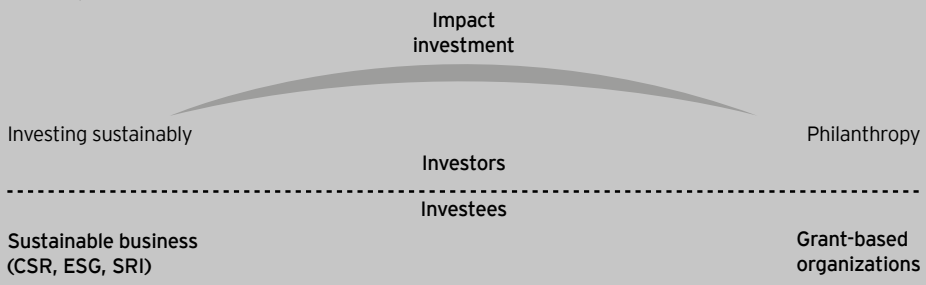



**Figure 4:** Wish for financial return of philanthropy projects by country

## The impact continuum

It is interesting where social impact investing is positioned in the recent report by the G8 Social Investment Taskforce in 2014. It sits in the middle of an impact continuum between philanthropic organizations on one side and – on the other – investors committed to taking into account social, environmental and governance factors when allocating capital to businesses.

**The impact continuum**




Source: *Impact investment: the invisible heart of markets*, G8 Social impact investment taskforce, 2014

# Main findings

- On average, 44 % of family business owners indicate that they actively engage in social impact investing.
- There are regional differences – social impact investing is least common in South America and most prevalent in Europe, Asia and the Middle East.
- The majority of all respondents (76%) perceive a trade-off between social impact investing and traditional philanthropy.
- Small and medium-sized businesses engage less in all major forms of philanthropy compared with larger family businesses.
- The wish to generate a financial return from family business philanthropy is country-specific, with Switzerland scoring lowest and Japan scoring highest. However, on average the respondents do expect some level of financial return on their philanthropic projects.

## Questions for social impact investors

01 How do we experience the potential trade-off between traditional forms of giving and social impact investing?

02 How do we resolve this trade-off and create a coherent, long-term strategy for family business philanthropy?

03 What role should a financial return play in this strategy?

04 Do we have competent advisors who can help us increase our engagement in social impact investing?

## Questions for small and medium-sized family businesses

01 How can we, as a small or medium-sized business, increase our philanthropic engagement?

02 Which form of philanthropy and which charitable causes best fit our business and family culture?

03 Can we strengthen our ties to the local community by dedicating time and goods to local philanthropic projects?

04 Have we explored social impact investing as a new "device" in the philanthropic landscape?

"Social impact investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both."

The G8 social impact investment taskforce

# 02 Family businesses have a holistic perspective, centered on the founder's values

Family business philanthropy is driven by a holistic view, as a unifying means of expressing the family's ethical values and beliefs. The expression of family values over time develops into a strong instrument to bring the family together. It seems to be a common pattern that founder values and transgenerational motivations play a very important role in family business philanthropy.

## There is a positive relationship between transgenerational intentions and family business

Transgenerational intentions are defined as the owners' wish to pass on the business within the family. Figure 5 shows that there is a positive relationship between transgenerational intentions and family business philanthropy.

Our findings indicate that family business owners with strong transgenerational intentions are particularly concerned for the well-being of future generations and are therefore more motivated to address long-term social and environmental issues by engaging in philanthropy. Such engagement also helps to create a positive family legacy that is likely to encourage next-generation family members to take over the business.

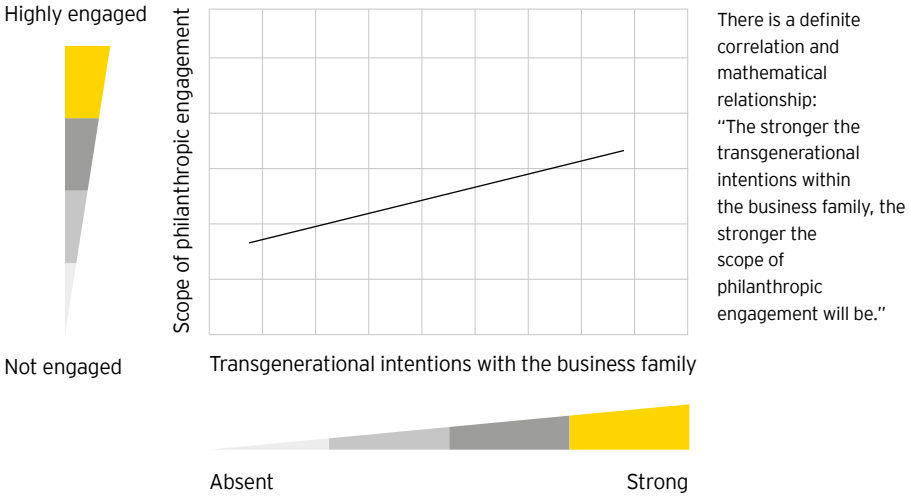



**Figure 5:** Do transgenerational intentions drive philanthropy?

## Philanthropy helps to engage the next generation

As a second step, it is also vital to understand what most strongly influences the transgenerational intentions of family businesses, which ultimately result in family business philanthropy. Our case study on the Wates Group's philanthropy (page 26) highlights how members of several branches and generations of the family are encouraged to identify suitable recipients of support and funding.

In this context, figure 6 shows that transgenerational intentions are not automatically present and equally strong in every family business. However, the number of family members active in the top management of the business overall enhances the business's long-term, transgenerational focus. Accordingly, where no family member is active in the management of the business only half of the respondents (50%) agree that philanthropic projects should help to engage the next generation. This number increases to 74% where four to five family members occupy managerial positions and decreases slightly to 71% in the case where more than five family members are active in the top management of the business.

These insights are interesting because one existing study indicated that family involvement in management in combination with high family ownership can have a negative effect on family business philanthropy (Campopiano, De Massis, Chirico, 2014). What we highlight here is that family involvement in management overall increases the wish to engage the next generation in philanthropic projects, which should have a positive effect on family business philanthropy.

**Do transgenerational intentions drive family firm philanthropy?**

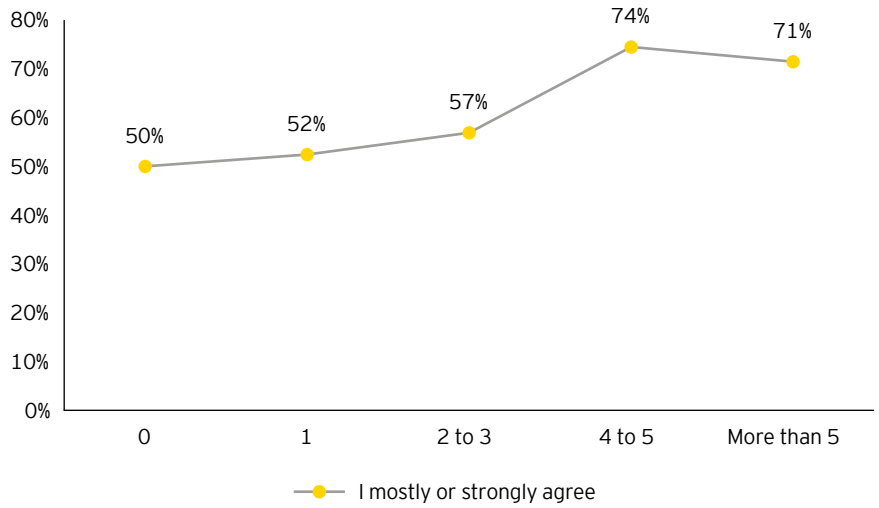



**Figure 6:** Wish to involve next generation family members, by numbers of family members in top management positions in the family firm

**Peter Englisch**
Global Family Business Leader, EY

In 2015, EY and Kennesaw State University conducted a survey among the world's largest family businesses, *Staying power: how do family businesses create lasting success*?

The survey revealed that:

- 81% of the world's largest family businesses practice philanthropy.
- Giving is almost equally split between charitable donations and service to the community.
- 47% of family businesses have a family foundation.
- 37% plan to increase their philanthropic contributions in 2015 and 62% plan to give at the same level.

What these businesses know is that philanthropy is a key element in keeping the bonds of the family strong through generations. A focus on philanthropy tangibly demonstrates the family's core values and allows family members who aren't directly involved in the business to make meaningful contributions.

In a family business, there's a tricky balancing act between business and family objectives. Not all family members are interested in joining the business, but it's important to keep them feeling connected. Philanthropy is one way to express the family's core values – it demonstrates that the business cares about the long-term future of the world. In philanthropic endeavors, everyone can contribute and everyone's welcome.

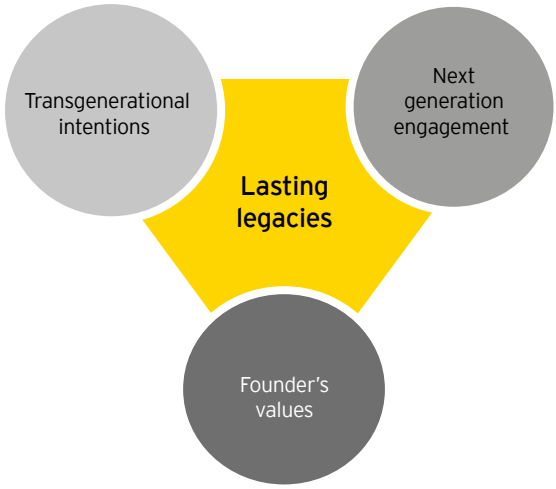
Philanthropy also helps engage the younger generations of the family. Making money often isn't a driver for them. Instead, they're interested in fairness, work-life balance and not being forced into their parents' mold. Philanthropy creates a good platform for them to contribute to the business without any pressure to compromise their ideals. It can also be a training ground for their entrepreneurship.

Family foundations are a great way for family businesses to be philanthropic. They create space for family members to come together that are separate from the business itself. The Rockefeller Foundation is an excellent example. Eileen Rockefeller – who joined us at the **EY Global Family Business Summit in Monaco last year** – said that her family's foundation is the way the Rockefellers, who made their wealth more than 100 years ago, can give back collaboratively.

She and the Rockefeller Foundation are leading proponents of Philanthropy 2.0 – also known as social impact investing. This is investment made both to generate financial return and to make a social or environmental impact. It offers mutual benefit for investors and companies without turning into a business model. More money is pooled to make a bigger difference in the places it's most needed. And, unlike traditional philanthropy, the impact can be closely measured and monitored, ensuring transparency and accountability.

To recap: why philanthropy? Because it defines family goals and values. Philanthropy creates room for engagement on family members' own terms – working together toward a joint family goal. It promotes family cohesion, encouraging family members to become more responsible shareholders and even to take active positions in governance. And the best way for family businesses to practice philanthropy is through family foundations and social impact investing.

For more information about this study, visit ey.com/stayingpower.




Source: EY Family Business Center of Excellence, 2016

## The founder's social and environmental motives drive family business philanthropy

Next to the wish to engage future generations, many family business owners pay particular attention to the past and cherish the business's heritage. In this context, we explored the extent to which the business's founder pursued a social or environmental mission. Figure 7 shows that the social and environmental motives of the business's founder have a direct and positive impact on family business philanthropy today.

As in the case of transgenerational intentions, it seems that legacy motives, this time directed to the past, are very important for family business philanthropy. Family businesses are interested in philanthropy because it provides a vehicle to learn about and build on what the family business's founder achieved in the past and to perpetuate the family legacy. While previous studies have often argued for such a legacy motive (Eichenberger and Johnson, 2013; Prince, File, and Gillespie, 1993), empirical studies remain scarce.

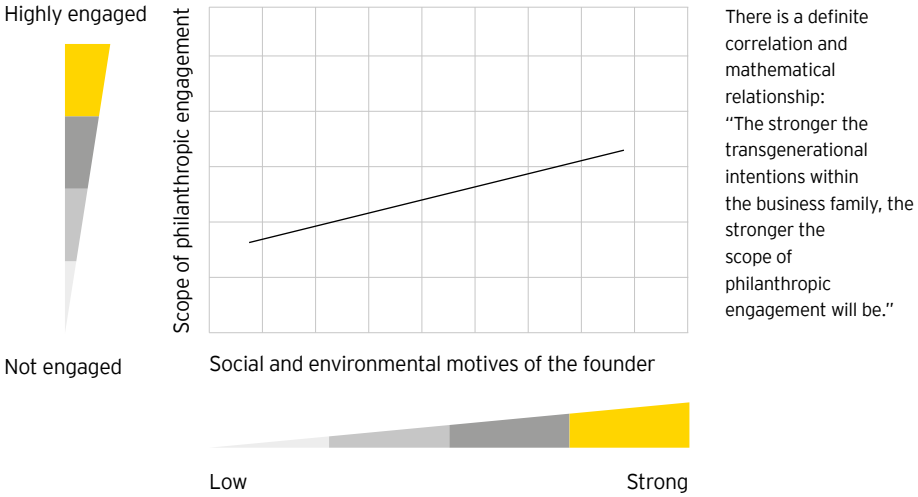



**Figure 7:** How social and environmental motives of the founder drive philanthropy?

## The founder's values strongly influence future generations

Interestingly, figure 8 shows that the founder's effect on family business philanthropy is stronger the more removed the current family generation is from the founder. Accordingly, 89% of family members of the sixth generation agree that philanthropic projects should be in line with the founder's values, compared to only 62% of family members in the first generation. This provides additional evidence that the legacy motive is particularly important to many family businesses and becomes stronger over time. However, we also see that the role of the founder decreases temporarily in the third generation of family ownership before rising again in the fourth and subsequent generations. This finding might be explained by the fact that many family businesses in the third generation struggle to establish what the family legacy is and how it should be perpetuated.

**Do the values of the founder drive family firm philanthropy?**

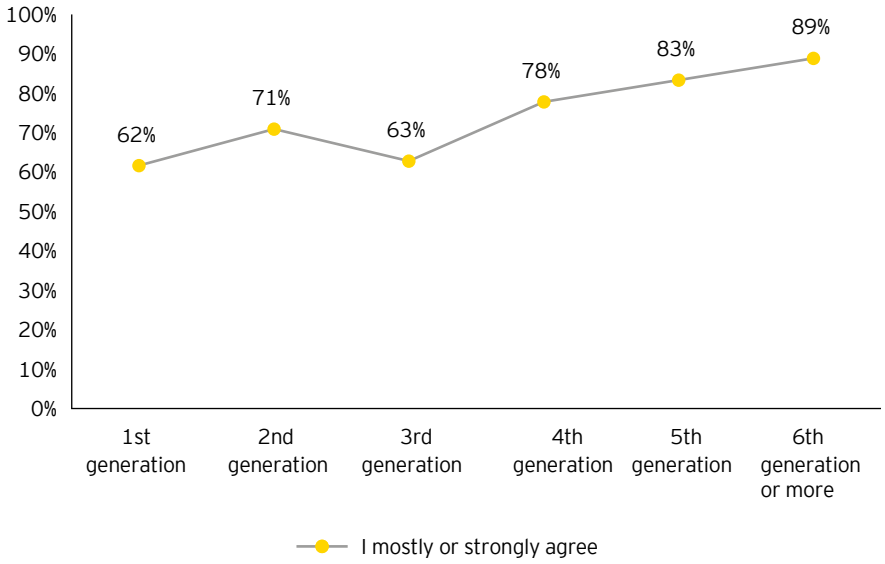



**Figure 8:** Wish to act according to the founder's values, by generation of family members active in the firm

## Geographical proximity influences family business philanthropy

Next to legacy motives, family businesses are often more embedded in their local environment compared to non-family businesses, because many owning families live and participate in their own community. We find that this embeddedness impacts family business philanthropy: 61% of our respondents prefer to support projects in their local communities instead of supporting the most important causes irrespective of location. This insight supports previous studies revealing that family business owners want to leave a mark on the communities in which they live and operate and one way of doing so is by engaging in philanthropy (Litz and Stewart, 2000, Breeze 2009). This is certainly the case with UK-based family business, Wates Group Ltd. Its approach to philanthropy is described in a case study in this report and includes funding a wide range of local community projects.

However, we also see in figure 9 that the importance of geographical proximity varies between countries. In Italy, this wish to give back to the local community is particularly prevalent, with only 4% of respondents indicating that they support the most pressing issues irrespective of location. However, in other countries such as Russia more emphasis is given to the severity of the cause (65%) rather than location.

**How important is geographical proximity for your philanthropic activities?**

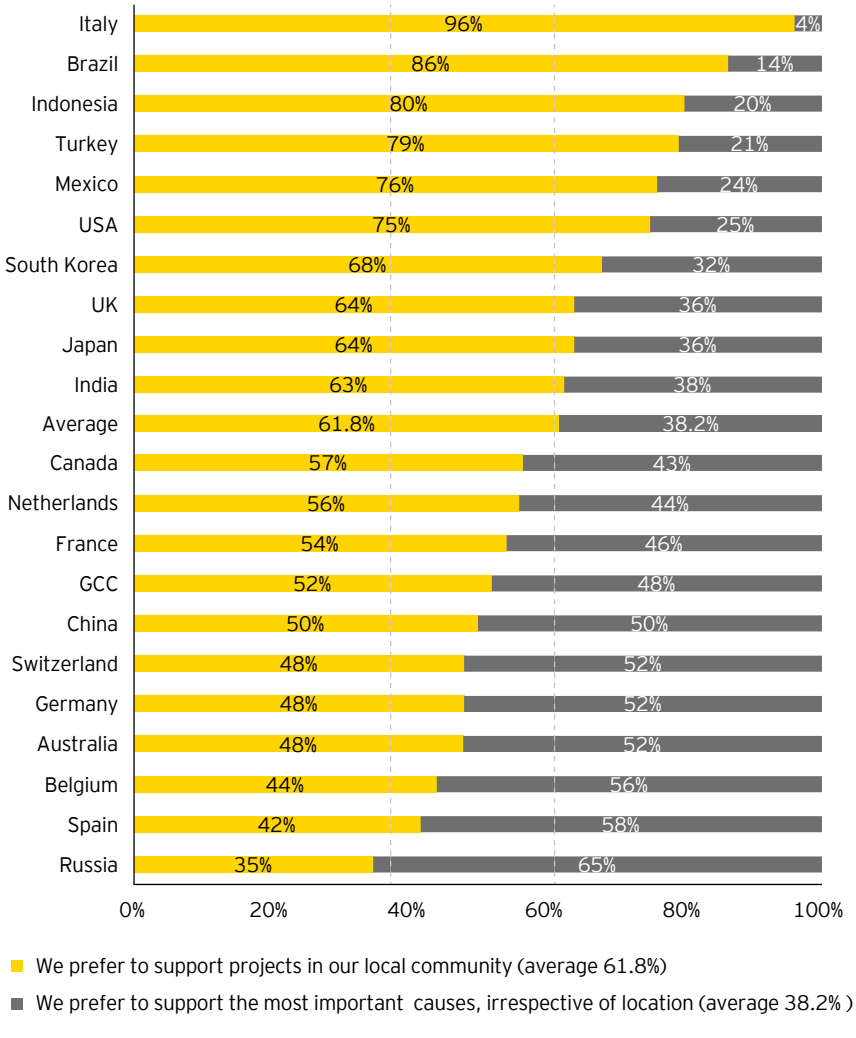



**Figure 9:** Role of geographical proximity for family firm philanthropy

## Family business branding increases involvement in philanthropy

Many family businesses draw on their family ownership for marketing and public relations purposes and is referred to as "family branding". Figure 10 shows that family businesses that rely on family branding are also more likely to communicate their philanthropic engagement.

A family business branding increases the visibility of the owning family. As a consequence, family businesses are more motivated to be involved in and communicate philanthropic projects, because these projects help family business owners to be seen as a positive influence on the community and society. This positive perception can increase the reputation of the family business as well. Indeed, past studies have indicated that family businesses tend to have a better reputation than non-family businesses (Deephouse and Jaskiewicz, 2013).

**Does family firm branding drive family firm philanthropy?**

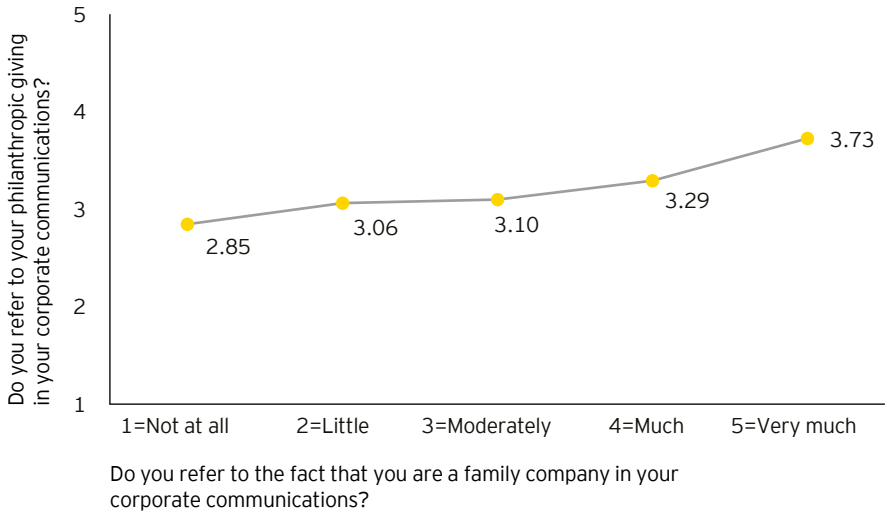



**Figure 10:** Relationship between family branding and philanthropy for corporate communication purposes

# Main findings

- The wish to transfer the family to the next generation (transgenerational intention) has a positive impact on family business philanthropy.
- Family businesses are believed to be different from non-family businesses because their owners often pursue certain family-specific, non-financial goals, such as the wish to pass on the business to the next generation and to perpetuate the family legacy.
- The founder's value system has a lasting effect on family business philanthropy. Overall, the importance of the founder's values increases through the generations of family business ownership, although there is a temporary drop in the third generation.
- The majority of family business owners prefer to support local philanthropic projects, even if they perceive more distant causes to be more important. This preference is, however, country-specific, with Italy scoring highest and Russia lowest.
- Family businesses that rely on a family branding are also more likely to communicate the family business's philanthropic efforts.

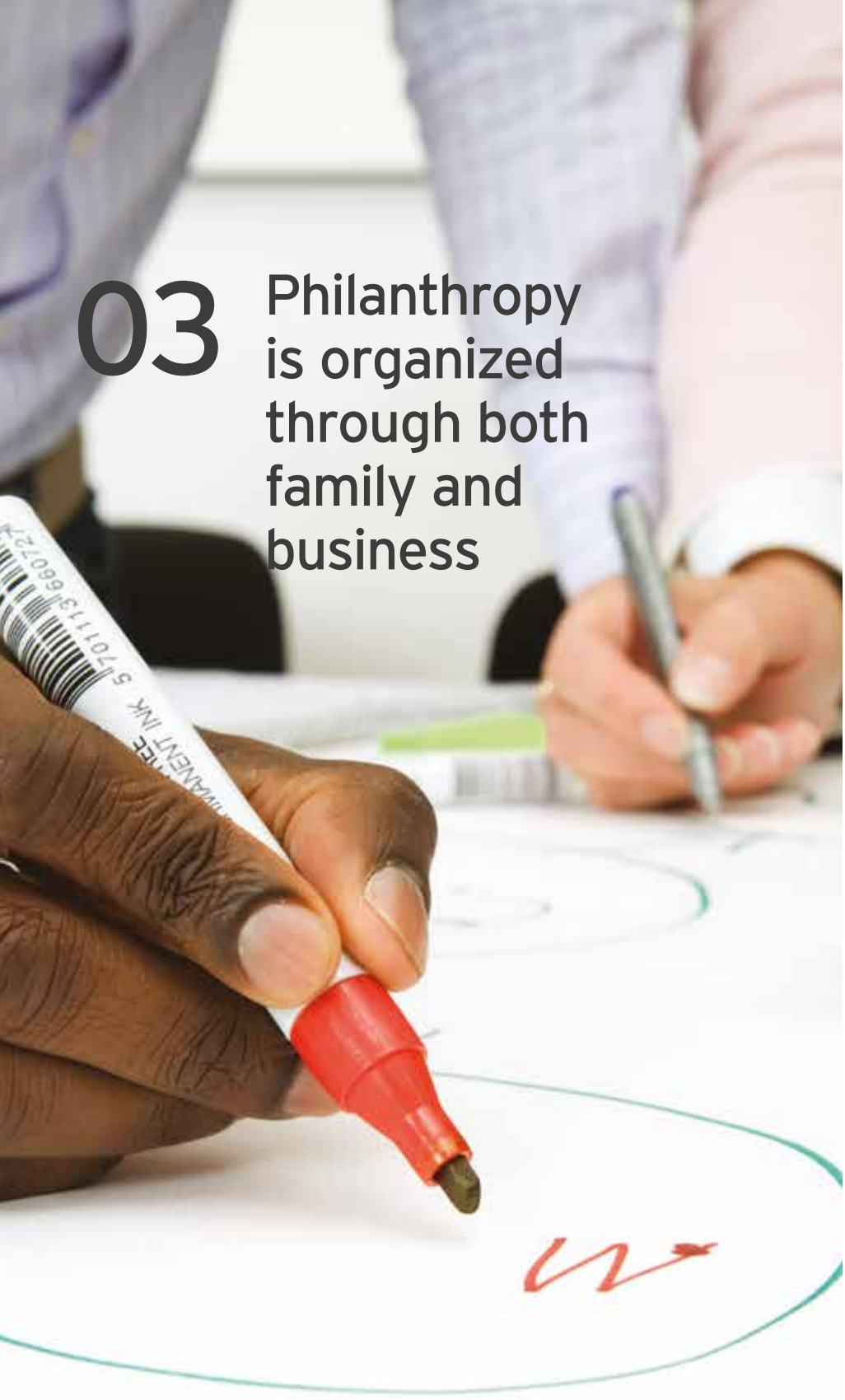
## Questions for legacy builders

01 What legacy and values do we want to pass on to future generations and how can philanthropy help us in this regard?

02 How well do we know the founder's values and to what extent is the family business influenced by those values? How do these values relate to our current philanthropic engagement?

03 Do we prefer to support philanthropic activities in our local community and, if so, why? What are the barriers to support more distant but perhaps more pressing issues? How could we overcome those barriers?

04 Do we refer to our philanthropy for strategic communication purposes? How could the communication of philanthropy foster our branding as a family business? What reputational advantages would be associated with such a favorable family business branding?



# 03 Philanthropy is organized through both family and business

Previous reports and academic research have either studied philanthropy at the business level, by assessing the philanthropic spending of family businesses, or at the family level (e.g., by exploring donations by family foundations). However, a complete picture of how family business philanthropy is organized can only be obtained by exploring both dimensions — the family and the business.

## Family business philanthropy is organized through business and family

Figure 11 shows how family business philanthropy is organized. Family owners and managers were able to choose multiple options, because family business philanthropy is often organized in several ways (as in our Wates Group case study). More than two-thirds of the respondents indicate that they make use of a dedicated vehicle to pursue philanthropy, with 40% having a family foundation or trust and 30% operating through a family office. Half of the respondents (50%) also indicate that philanthropy is organized directly through the family business and only 21% state that family members do not coordinate their philanthropic projects but instead pursue separate philanthropic engagements.

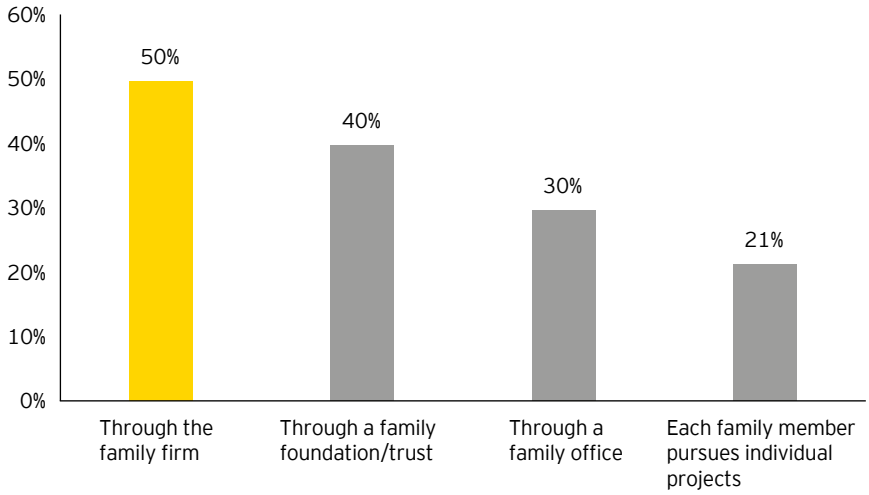



**Figure 11:** How do you engage in philanthropy?

## Active family business members manage the family's philanthropic activities

Interestingly, although only half of the respondents indicate that the family's philanthropic activities are organized directly through the business, the family's activities seem nevertheless to be managed by people who are active in the business. Accordingly, as figure 12 shows, only 15% of respondents indicate that family members not active in the business are involved in managing the family's philanthropic activities. Similarly, only 16% indicate that non-family experts and advisors play a significant role. By contrast, in more than 40% of cases the CEO of the business is actively involved in running the family's philanthropic activities. Again, 40% indicate that board members of the business manage the family's philanthropic engagement and 25% state that other family members active in the business are involved.

**Who is involved in managing the family foundation or the family's philanthropy activities?**

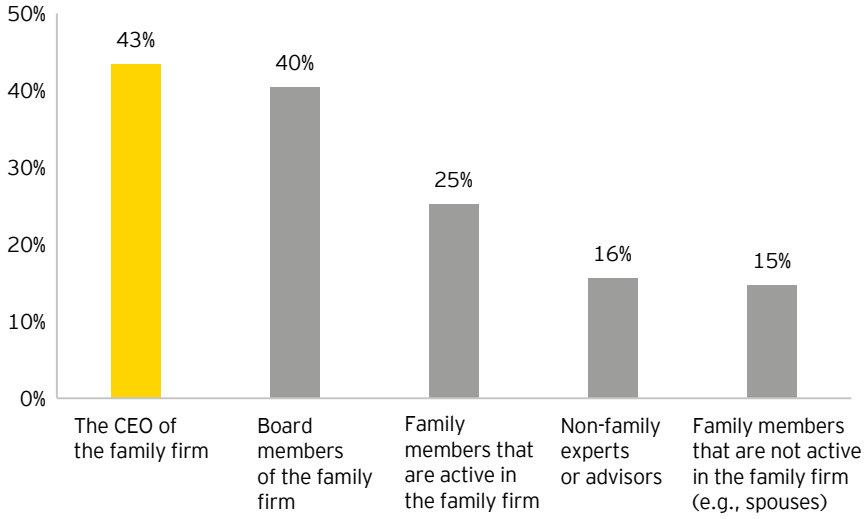



**Figure 12:** Involvement in the family's philanthropic activities

## Business philanthropy is independent of the business's CSR approach

Whereas philanthropy is a way of giving back to the community through financial donations and non-cash contributions, CSR refers to the socially responsible core business functions of the company. Accordingly, it is important to understand the intersection of those two forms of citizenship behavior. Is family business philanthropy mainly targeted at further improving issues also addressed through the business's wider CSR engagement (e.g., environmental pollution in the business's environment) or does it occur separately from the business's CSR activities (e.g., by supporting education projects in a developing country)?

Figure 13 shows that the alignment of philanthropy and CSR is dependent on the norms and culture prevailing in different countries. Whereas in the US almost two-thirds of respondents indicate that philanthropy and CSR occur largely independently of each other, the large majority of respondents in Indonesia and Italy indicate that philanthropy is closely linked to their CSR approach.

**How well are philanthropic and CSR projects integrated?**

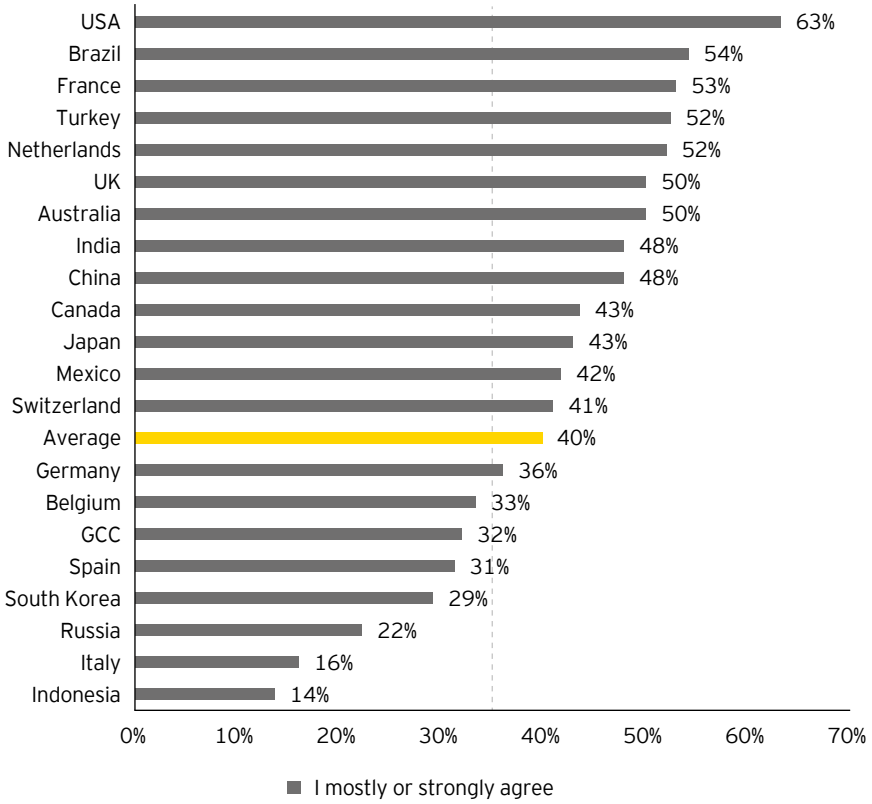



**Figure 13:** Integration of firm philanthropy and corporate social responsibility (CSR)

# Case study

## Wates — linking CSR and philanthropy

Wates Group Ltd, a UK construction business, has developed a coherent and robust philanthropic program strongly linked to its business efforts. A family business run by members of the fourth generation of the Wates family, the company and its owners are well-known advocates of stakeholder values. A big part of its stakeholders' concerns is the range of communities Wates operates in, and this helps to define its philanthropic ambitions.

## Wates — the structure of philanthropy

The mechanics of all the Wates philanthropic efforts are overseen by the Wates Family Charities, which employs a team of professionals to oversee the award process and coordinate the investment side of the Trust and the Foundation. The Wates Family Office, which was set up recently, also plays a role in the award process, and meets with representatives of the Trust, Wates Group, and the Family Charities group to assess new applications and develop policy proposals.

Wates splits its philanthropic efforts into its corporate side, which is led by Wates Giving, and the family side, which is led by the Wates Foundation. Tim Wates, Chairman of Wates Giving, the corporate foundation, says the company's philanthropic efforts are part of the company's overall commitment to CSR. "Wates Giving is a natural extension of the family's corporate responsibility, the ethos and values that we exercise as owners of a thriving commercial business. We believe it is a way in which we can demonstrate our belief that business has a philanthropic role to play in the community, that shareholders should be engaged stewards of a family enterprise which blends wealth creation with social responsibility."

## Wates Giving

Created in 2008, Wates Giving is run and funded by the Wates Family Enterprise Trust from a proportion of Wates Group profits each year. That contribution is expected to be around £1.1m in 2016, according to Tim Wates.

Since it was set up, Wates Giving has invested over £8m in more than 800 local initiatives, which are directed at five themes: education, employment and training, social enterprise, sustainability, and community building.

All proposals for Wates Giving awards come from Wates employees or the Wates family, which further links the initiatives of the business with the company and the family's philanthropic efforts. Employees are encouraged to back good causes and can apply for awards to support specific initiatives they have come up with. These awards have funded a host of appeals like the Japanese tsunami appeal and the Royal Marines Charitable Trust. Wates Giving has supported and funded numerous community and health projects, and education initiatives, and sports and arts ventures. Although Wates Giving can sign big cheques, it also is involved in many smaller projects with a value of less than £1,000.

## The Wates Foundation — a vehicle for family engagement

Beyond Wates Giving, the Wates family also has a foundation, which is independent of the Wates group of companies, although it drives its funding from the profits of these companies. The Wates Foundation was set up by the second generation—brothers Norman, Ronald and Allan - in 1966. When it was established, its mission was arguably well ahead of its time: "to harness the generosity of the Founders to the enthusiasm and knowledge of the Wates family and present Trustees to improve for the public benefit the quality of life of the deprived, disadvantaged and excluded in the community in which we live."

It is now run by each one of the three family branches of the brothers' descendants. Over its 50 years the Foundation has made grants of more than £100 million. Recent awards have includes funds for the Mayday Trust, which supports people through difficult life transitions, the Dulwich Picture Gallery's 'Make Sense' initiative, a social and artistic hub for older people, and the Utulivu Women's Group.

The Foundation encourages Wates family members to seek out charities to support, often from within their own community. This, says Tim Wates, results in greater family engagement with the supported charity. Generally, a Wates family member will lead a grant assessment visit and often return for a follow up visit as the grant progresses.

Tim Wates with Dolly Parton's Imagination Library, proudly supported by Wates Giving, this innovative literacy programme provides a free book each month to every child in the Luton borough, from birth until the age of five.

# Main findings

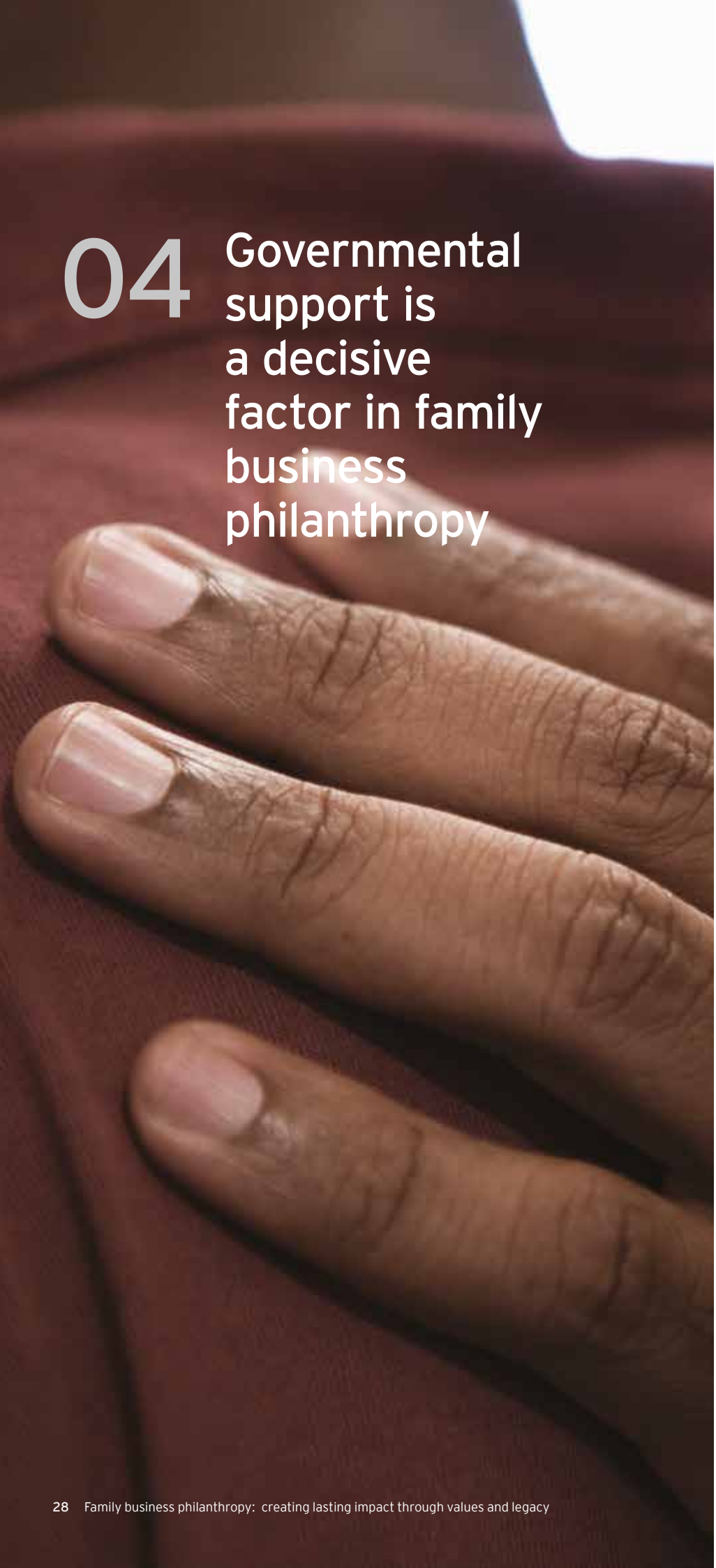
- Around two-thirds of family business owners organize their philanthropy through a family-specific vehicle, such as a family foundation, trust or office. However, 50% of our respondents state that philanthropy is also organized directly through the family business.
- The people involved in managing the family's philanthropy tend also to be active in the business, notably as CEO (40%) or as board members (40%). Only 15% of our respondents state that family members not active in the business are involved in family philanthropy.
- The alignment of family business philanthropy and the business's CSR activities is dependent on the country of origin. In the US, for example, these two forms of citizenship behavior are the least aligned whereas in Indonesia they seem to be much more integrated.

## Questions for the effective alignment of family and business philanthropy

01 How do we currently organize our philanthropic efforts – through the family business or through a family-specific vehicle such as a foundation, or both? What are the benefits and disadvantages of the different ways of organizing philanthropy?

02 How significant is the overlap in personnel between people in charge of family philanthropy and people in charge of the family business? How often do those two groups meet? What synergies, if any, could result from a tighter interaction? How can the business benefit from the family's philanthropic activities and vice versa?

03 Do we prefer to support philanthropic projects that relate to the core business function of our business or do we want to support philanthropic causes independently of our business? What are the benefits and drawbacks associated with aligning the philanthropic and CSR activities of our business?



# 04 Governmental support is a decisive factor in family business philanthropy

Family businesses' governance and control of philanthropy are adjusted to their operating conditions and reflect regional and national differences. Their philanthropic portfolio's composition will vary according to the framework of cultural, political and jurisdictional conditions within which the family lives. Families reflect on their tax and regulatory environment and choose appropriate vehicles for their philanthropic initiatives.

## The perception of governmental support for philanthropy varies from country to country

Figure 14 shows that the perception of government support for philanthropy varies substantially. In Germany and France more than 90% of all respondents believe that they receive tax relief for philanthropic giving. By contrast, only a third of respondents in Australia consider that philanthropy is supported by the government through tax relief.

**Can your family or your firm get tax relief for donations?**

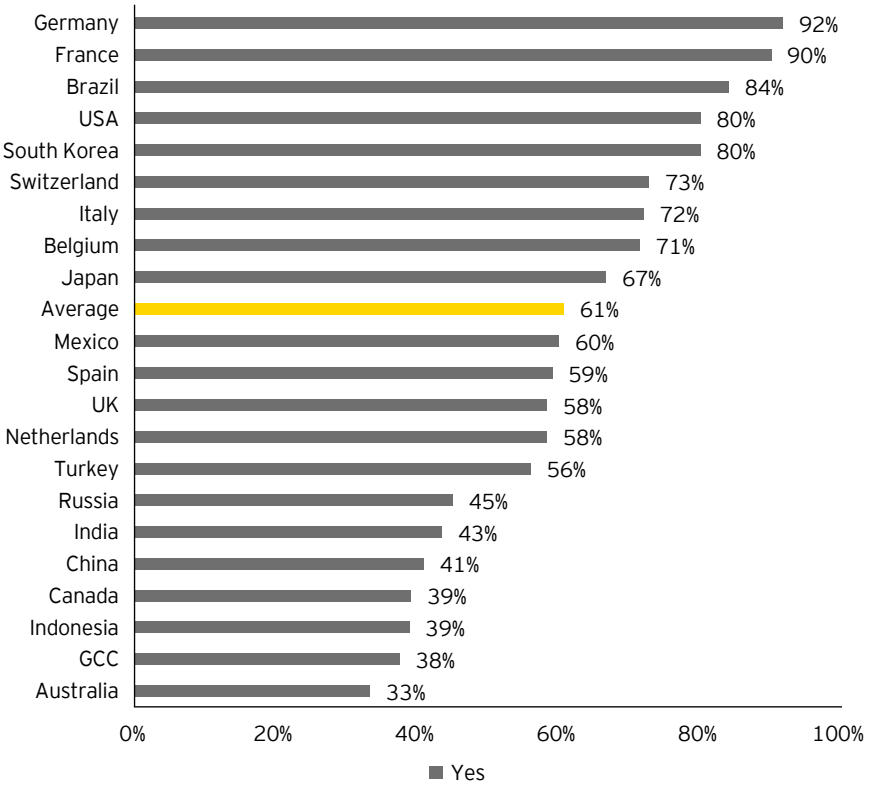



**Figure 14:** Tax relief for charitable donations by country

A previous EY survey[2] found that while the majority of the jurisdictions reviewed do not set a legal limit on the value of charitable donations, most do set limits on the tax relief available for those donations. Most countries (e.g., Austria, New Zealand, Spain, Switzerland and Turkey) limit the amount that can be deducted according to the donor's annual taxable income or revenue. Some jurisdictions have maximum amounts for deduction (e.g., the Netherlands), while others have carry-forward provisions that allow donors to distribute a donation over several years for tax purposes (e.g., Australia, Korea and India).

2 Global Giving – Private trends and public challenges, November 2015, EY

## Governmental support does not differ for social impact investing – though some respondents believe it does

Interestingly, governmental support for social impact investing is on average perceived as better (28%) or similar (62%) compared to traditional forms of giving. However, this perception again varies among countries. Figure 15 shows that, in India, 55% of respondents indicate that the tax relief for social impact investing is more advantageous than that for traditional philanthropy while 45% perceive it as similar. In contrast, family owners and managers in the Netherlands perceive the support for social impact investing to be worse (32%) rather than better (18%) when compared to traditional philanthropy.

**How does the tax relief for social impact investing compare to that of traditional philanthropy?**

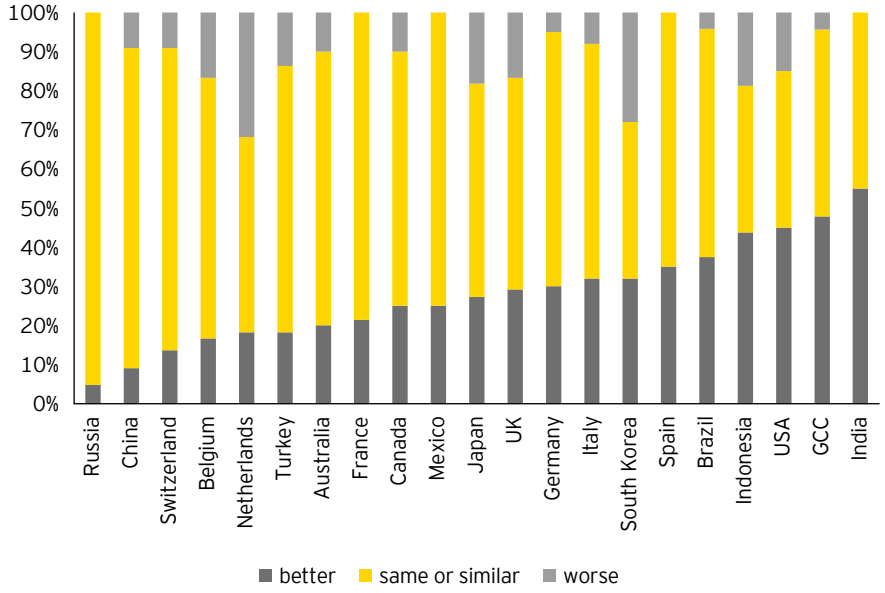



**Figure 15:** Comparison of tax relief for impact investing compared to traditional forms of philanthropy

*The EY Global Giving report 2015* also found that, while the overwhelming majority of jurisdictions recognized social impact investing as an exciting new topic that is increasingly under discussion, most have yet to react to this trend by changing their tax or regulatory rules to accommodate it. So far, the UK is the only country that has introduced specific legislation: as part of the 2014 Finance Act, the Government implemented Social Investment Tax Relief, which offers a range of income and capital gains tax reliefs to individuals who invest in qualifying social enterprises. In most other EU countries, regulation of social impact investing is still based on very rudimentary provisions for charities, which can be rather restrictive with regard to the charitable status of the receiving organization. New legislation to facilitate social impact investing is in the early lawmaking process in several countries, including Austria, New Zealand, Spain and South Africa. In many jurisdictions, the regulatory environment enables donors to make social impact investments via charitable organizations (e.g., Austria and South Africa), charities with limited liability subsidiaries (the Netherlands), private foundations (e.g., Australia, Sweden and Switzerland) and "hybrid" organizations (the US).

**Marnix Van Rij**
Global Head of Private Client Services, EY

The framework for tackling challenging social issues used to be relatively straightforward. Governments used their legislative powers to raise and allocate public funds to help those most in need, while philanthropists and charitable organizations donated or raised private funds. In the 21st century, however, the scale and complexity of social and environmental challenges have become so overwhelming that innovative thinking and new sources of funding are required. Family business philanthropy can be at the cutting edge of these changes.

But governments need to do their part and create tax and regulatory regimes that are fully conducive to charitable giving. Tax is not, of course, a driving factor behind giving for the majority of donors but it is an important consideration where marginal income tax rates exceed 50%. Not only do the tax and regulatory rules governing charitable giving vary dramatically from country to country but they are also experiencing a high degree of change.

A recent EY survey[3] of issues related to charitable giving found that the countries involved offer a diverse array of philanthropic environments, particularly regarding tax relief granted to foreign donations, the ability of foreign entities to qualify as a charity in another country, and the ability to donate through social impact investing.

Of particular note is that tax relief for cross-border giving isn't always available. In the EU, some progress is being made by the European Commission and Member States to implement the non-discrimination principle vis-à-vis the tax treatment of cross-border philanthropy in Europe, as set out in three key judgments of the European Court of Justice.

Society's needs are increasing at a time when governments' ability to meet them is decreasing. Charitable giving from family businesses is needed more than ever, but many hurdles remain. It is therefore critical that policymakers, civil society organizations, and socially-minded individuals and companies work together to identify and address those challenges and create the momentum needed to take philanthropy to the next level. The time for enlightened policymaking is now.

3 EY's survey was conducted in August and September 2015. The countries surveyed were: Austria, Australia, Brazil, Canada, Finland, France, Germany, Greater China, Italy, India, Japan, Korea, Luxembourg, Malta, Netherlands, New Zealand, Pakistan, Portugal, Russia, Spain, South Africa, Sweden, Switzerland, Turkey, United Arab Emirates, United Kingdom, and United States.

# Main findings

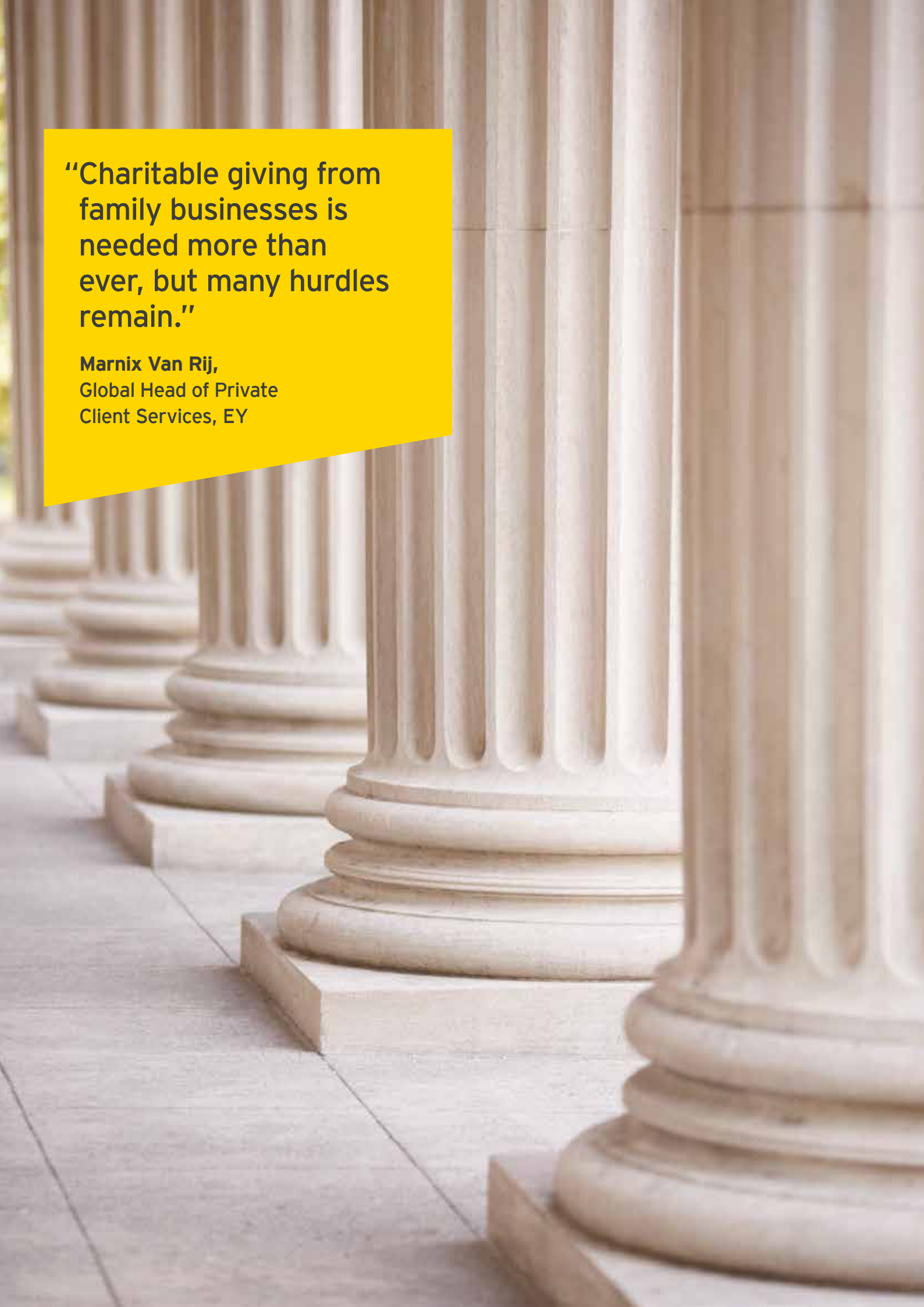
- In most countries, taxation seem to be viewed as a key factor for both philanthropy and social impact investing. In countries where laws promote tax benefits for giving, family businesses are more likely to engage in philanthropy.
- Perceived governmental support for philanthropy varies greatly between countries. Whereas the vast majority of respondents in Germany and France believe that they receive tax relief for their philanthropic giving, only a third of family business owners in Australia feel the same.
- Interestingly, the majority of family business owners perceive governmental support for social impact investing as better than (28%) or similar to (62%) the support for traditional philanthropy. However, there are large country-specific differences.
- We have observed that there is often a gap between a family business's perception of its government's policy on social impact investing, for example, and the reality of the situation

## Questions for legacy builders

01 Do we really know the tax laws in our country with regard to philanthropy? Have we optimized tax relief relative to our giving?

02 Do international tax differences affect our giving and, if so, how?

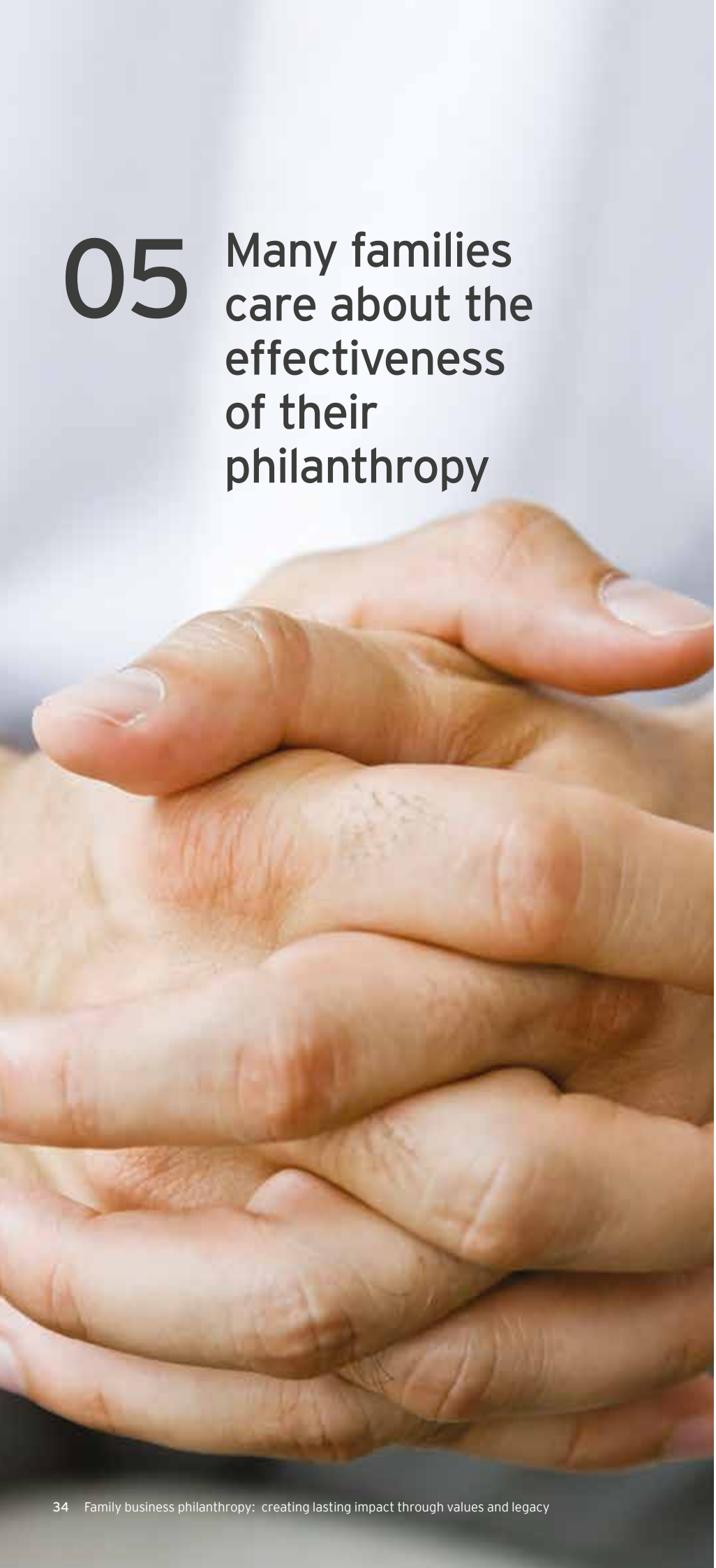
03 Do we make use of the tax relief related to social impact investing? Have we informed ourselves whether the tax laws for social impact investing differ from those for traditional philanthropy?



"Charitable giving from family businesses is needed more than ever, but many hurdles remain."

**Marnix Van Rij,**
Global Head of Private Client Services, EY

# 05 Many families care about the effectiveness of their philanthropy



Family business philanthropy is characterized by a clear value base and transgenerational motivations. Families' personal involvement in evaluating philanthropic progress is indicative of this overall interest in effectiveness. It is principally the owners of the small and larger family businesses who believe in, and can devote time to, personal oversight; for medium-sized family businesses, professional mechanisms such as the family office reduce this personal involvement. Whatever their size, businesses tend to believe that philanthropy can only make a beneficial social or environmental impact on society if it is effective — and if that effectiveness is carefully measured and evaluated.

## The family personally oversees the progress of philanthropic projects

On average, 56% of all family business owners mostly or strongly agree that they personally oversee the progress and effectiveness of their philanthropic projects. Figure 16 shows that this familial supervision is related to business size. Accordingly, small family business owners (100 employees or fewer) are the most likely to oversee their projects personally (67%). However, small family businesses are then followed by very large family businesses (5,000 employees or more), where 58% of the owning families personally oversee their own philanthropy. Interestingly, this familial supervision is lower for businesses in the middle of those two extremes, forming a U-shaped relationship between business size and family control of philanthropic effectiveness.

This finding indicates that many owners of small family businesses do not delegate the evaluation of philanthropy to a third party. As the family business grows, operational complexity increases and the evaluation of philanthropic projects is often outsourced to non-family specialists. However, when family businesses become very large, family owners are often less involved in day-to-day business operations and more likely to take on a supervisory role, which increases the family control over philanthropic projects.

**Does the family oversee its philanthropic projects?**

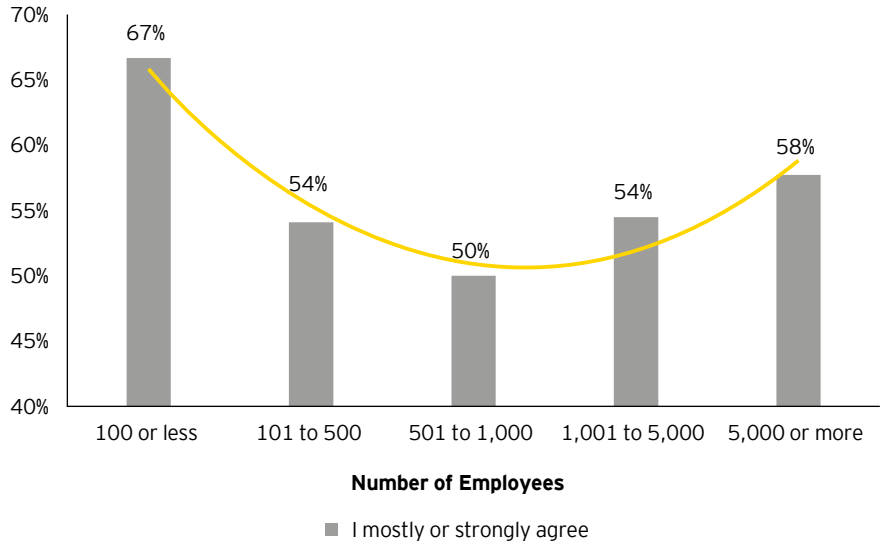



**Figure 16:** Family supervision of philanthropic activities, by firm size

## Family business philanthropy is evaluated through both qualitative and quantitative measures

We find that 51% of family business owners use quantitative measures to evaluate their projects' effectiveness, for instance by conducting surveys among beneficiaries. Slightly more family business owners (56%) rely on qualitative measures, for example by demanding reports from grantees. Interestingly, figure 17 shows that relying on quantitative and qualitative measures is not an either or decision. Instead, family business owners who evaluate their projects on a qualitative basis are more likely to rely on quantitative measures as well in evaluating their philanthropic effectiveness. Accordingly, 88% of family business owners who rely strongly on qualitative evaluation also assess the effectiveness of their giving quantitatively.

**Do you evaluate the effectiveness of your giving though quantitative measures?**

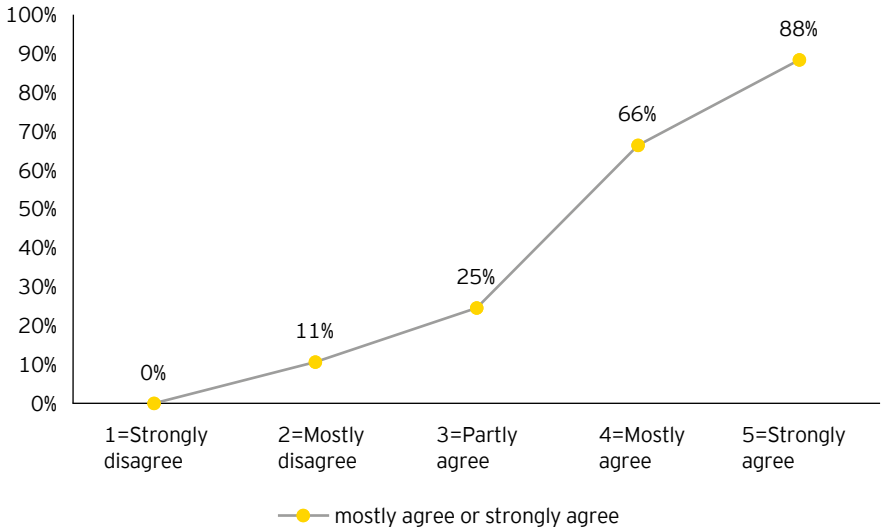



**Figure 17:** Relationship between a qualitative and quantitative evaluation of philanthropy

## Family business owners need to improve their evaluation of philanthropic projects

Overall, 59% of family owners mostly or strongly agree that they wish to enhance their ability to evaluate philanthropic projects. However, this wish also varies substantially between countries. The majority of family business owners in Italy, Spain and Germany are satisfied with their current evaluation of philanthropy whereas the vast majority of family business owners in Japan (86%), Indonesia (81%), Belgium (71%) and the Netherlands (71%) would like to improve the evaluation of their philanthropic engagement.

**Are family business owners satisfied with the evaluation of their philanthropic projects?**

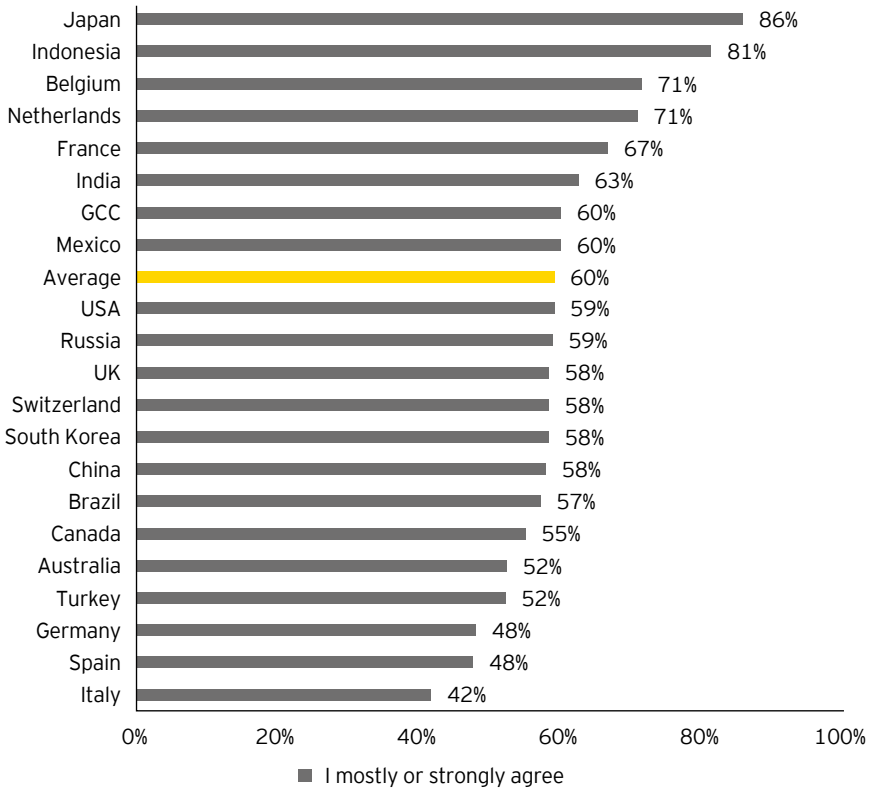



**Figure 18:** Family business owners' wish to enhance the evaluation of philanthropic projects, per country

"We support these groups and individuals in the same way we support any company. These efforts have become a very important part of what we are at Ferd and what we stand for."

**Johan H. Andresen,**

Chairman of the Board, Ferd AS with the initiative Ferd Social Entrepreneurs. The company focuses on giving children new opportunities through education and empowerment.

# Main findings

- On average, 56% of all family business owners personally oversee the progress and effectiveness of their philanthropic projects. Very small and very large family businesses exert more family control than midsized family businesses.
- Family business owners who evaluate their projects on a qualitative basis are more likely to rely on quantitative measures too (e.g., statistical survey data) to evaluate their philanthropic effectiveness.
- Overall, 59% of owner managers wish to enhance their ability to evaluate philanthropic projects. This wish is particularly strong in Japan, Indonesia, Belgium and the Netherlands.

## Questions for effective giving

01 Who from our family personally oversees the effectiveness of our philanthropy? Do we want to increase the family's personal evaluation of philanthropic projects or should we delegate this responsibility to external advisors and experts?

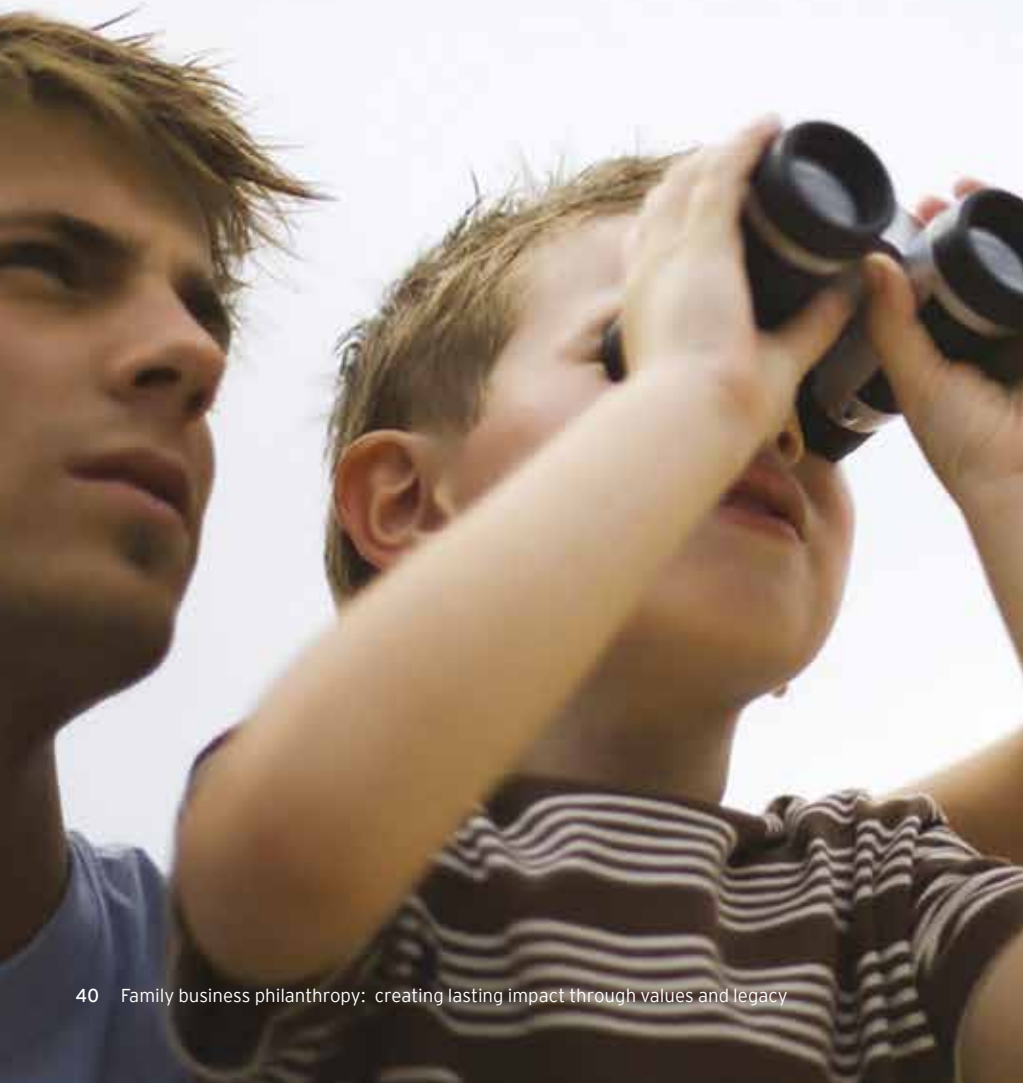
02 How do we measure the effectiveness of our giving? Do we demand qualitative or quantitative evidence from our beneficiaries? Who evaluates this evidence and what are the consequences that such an evaluation brings about?

03 Are we satisfied with our ability to enhance the effectiveness of our giving? If not, where are we lacking in expertise? Could external advisors enhance our ability to evaluate the social, environmental and economic dimensions of philanthropic projects?

## "Children are the future, and they need our help"

**Regine Sixt,**
Senior Executive Vice President of Sixt, founded her own children's aid organization, Regine Sixt Children's Aid Foundation "Drying Little Tears." Today, the foundation has realized over 85 projects in 65 countries and is the official CSR program of the Sixt group.

# 06 Conclusions



Family business philanthropy plays a vital role in alleviating social and environmental problems around the world. This study has shed much-needed light on family business philanthropy as an increasingly important global phenomenon:

It has identified family-specific drivers to engage in philanthropy and explored how family business owners react to the rising trend of social impact investing. Moreover, it has assessed the relationship between traditional philanthropy and CSR in family businesses and explored how closely family philanthropy is integrated in the family business. Finally, it has compared governmental support for family business philanthropy across countries and provided insights into how family business owners experience and deal with the difficulty of philanthropy evaluation.

We hope that our insights advance understanding of family business philanthropy and provide practical implications for family business owners around the globe. The results of the study can be highlighted in five arguments.

## Family business owners have a holistic perspective of their investments

This perspective is, in turn, deeply rooted in the values and beliefs held by the family. Transgenerational motivations are a strong driver for a holistic perspective, and the philanthropic expression of family values over time develops into a strong instrument to unite the family. The overall approach toward traditional philanthropy, social impact investing and CSR is therefore reflected in a whole portfolio of different vehicles which family businesses and their owners use at the same time. We could argue that,

for family business philanthropy just as for corporate strategy, "form follows function". While the preferred form of philanthropic involvement varies with family business size, a strong preference for community-based engagement prevails among all philanthropic activities, followed by monetary contributions to charities and, at some distance, by social impact investing.

## Social impact investing is on the rise

In the current situation of global markets, family businesses already show a surprisingly strong interest in social impact investing. More than two-thirds of our respondents indicate that their wealth is to some extent dedicated to social impact investing. Its role is smallest in South America and highest in the Middle East. In the Middle East a small proportion of family business owners (3%) even indicated that they are very active in social impact investing and invest more than 10% of their wealth in that way. This intense interest in social impact investing as an alternative to traditional philanthropy can be interpreted in line with the first concluding observation: families choose the most effective and promising vehicles to live their family values. The menu of choices is no longer limited to local giving and family business foundations – it offers a prospect of effective social problem solving though investment vehicles.

## Families live their values through personal involvement

This applies both to the level of leadership involvement in their philanthropic activities and organizations and to the level of evaluation, which also shows a high degree of personal oversight. This personal involvement reflects the trust relationships and transgenerational motivations of family business philanthropy. Governing philanthropy through personal involvement is particularly prevalent in low-trust regions, where the risks of corruption or of the failure of grantees or funded organizations may be particularly high.

This relationship appears indirectly when looking at the respondents' expectation of a financial return from their philanthropic projects. It is lowest in countries such as Germany and Switzerland where philanthropy is regarded more as an altruistic than as a market-driven activity. It is also low in Russia and China, where expecting a financial return from philanthropy is perhaps viewed with skepticism in the light of a weaker transparency culture, and trust is built more through personal relationships.

When looking at the alignment of CSR and philanthropy in a country with a high degree of transparency, such as the US, most respondents strongly agree with the independence of philanthropy from CSR in case a conflict of interest arises. Family values are seen as integrating family business and philanthropy activities and this applies across all political and jurisdictional environments.

## Families reflected on their cultural and political environment and chose appropriate vehicles

It seems to be a common pattern that the founder's values and transgenerational motivations play a very important role in family business philanthropy. Therefore, we cannot identify a single global strategy for family business philanthropy but should rather think of it as a portfolio whose composition varies according to its context.

Surprisingly, perceptions of the tax and regulatory environment are primarily driven by the notion that conditions for social impact investing compared to traditional philanthropy are either better, the same or similar, while only one country (the UK) has introduced specific legislation applicable to social impact investing. It seems that perceptions are dominated by the tax law frameworks in general and the notion that social impact investing suffers from disadvantages is most developed in a country like the Netherlands where the field of social impact investing has grown particularly strong in recent years. It may be that the more critical views of Dutch respondents are a consequence of their greater exposure to, and experience of, this form of investment than is the case elsewhere. In most other countries, the tax environment seems to be viewed as key in the same way for both traditional philanthropy and social impact investing.

Families, however, seem to be united in their search for effective solutions. About 70% of all families include family office driven initiatives and a family foundation in their portfolio of activities, which represents a clear interest in moving beyond individual charitable giving. Their personal involvement in evaluating philanthropic progress is indicative of this overall interest in effectiveness, but in its distribution it also shows that owners of small family businesses believe most strongly in personal oversight. For the medium-sized family businesses, professional mechanisms such as the family office reduce this personal involvement, which only increases again for the very largest family businesses.

## Evaluation in qualitative terms is frequently complemented by quantitative approaches

This indicates that the interest in evaluation may be more a matter of principle and less of a preferred approach. Those who start evaluating also develop a drive toward the full range of instruments. While in all countries but three (Germany, Italy and Spain), a majority of respondents believe in a need for enhanced evaluation abilities, this interest in enhancing evaluation is most pronounced in Japan and Indonesia. The relatively low level of interest in the three European countries invites speculation about whether this is influenced by the century-old tradition of religious giving that still supports some of the largest philanthropic organizations in these countries.

## In summary

Family business philanthropy is driven by a holistic view of expressing family values. Governance and control of philanthropy are adjusted to framework conditions and reflect regional and country differences. Nevertheless, a generally strong interest in social impact investing indicates a trend toward effectiveness, which is also reflected in the levels of personal involvement in governing philanthropic activities as well as in the approach to evaluation. Family business philanthropy is increasingly regarded as a social investment – not unlike the corporate investment by the families – but with a clear value base and transgenerational motivations in mind.

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## Peter Englisch

Global Leader
Family Business Center of Excellence, EY

Alongside his extensive experience as an assurance and business advisory partner for national and international companies, Peter has served family-owned business clients for more than 20 years. As EY Global Family Business Leader, he is responsible for coordinating EY partners leading family business and family office services in more than 90 countries.

Peter founded the EY NextGen Academy – a global program for young successors in family businesses – based on his experience and insights gained through supporting subject-matter professionals and family businesses with their succession and growth strategies. He regularly authors publications about family business and middle-market companies, in addition to leading annual and other market surveys in conjunction with the Center for Family Business at the University of St. Gallen.

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Former Chairman, Mercator Foundation

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### About the Center for Family Business at the University of St. Gallen (CFB-HSG)

The Center for Family Business at the University of St. Gallen is committed to providing family-owned businesses with long-term support. To this end, the Center has established itself as an internationally active expert in family-owned businesses in the areas of research and outreach programs. The Center's work involves initiating, managing, promoting and running training and transfer programs, research projects and executive courses.

For more information please visit **www.cfb.unisg.ch**

See also the Global Family Business Index on **http://familybusinessindex.com/**

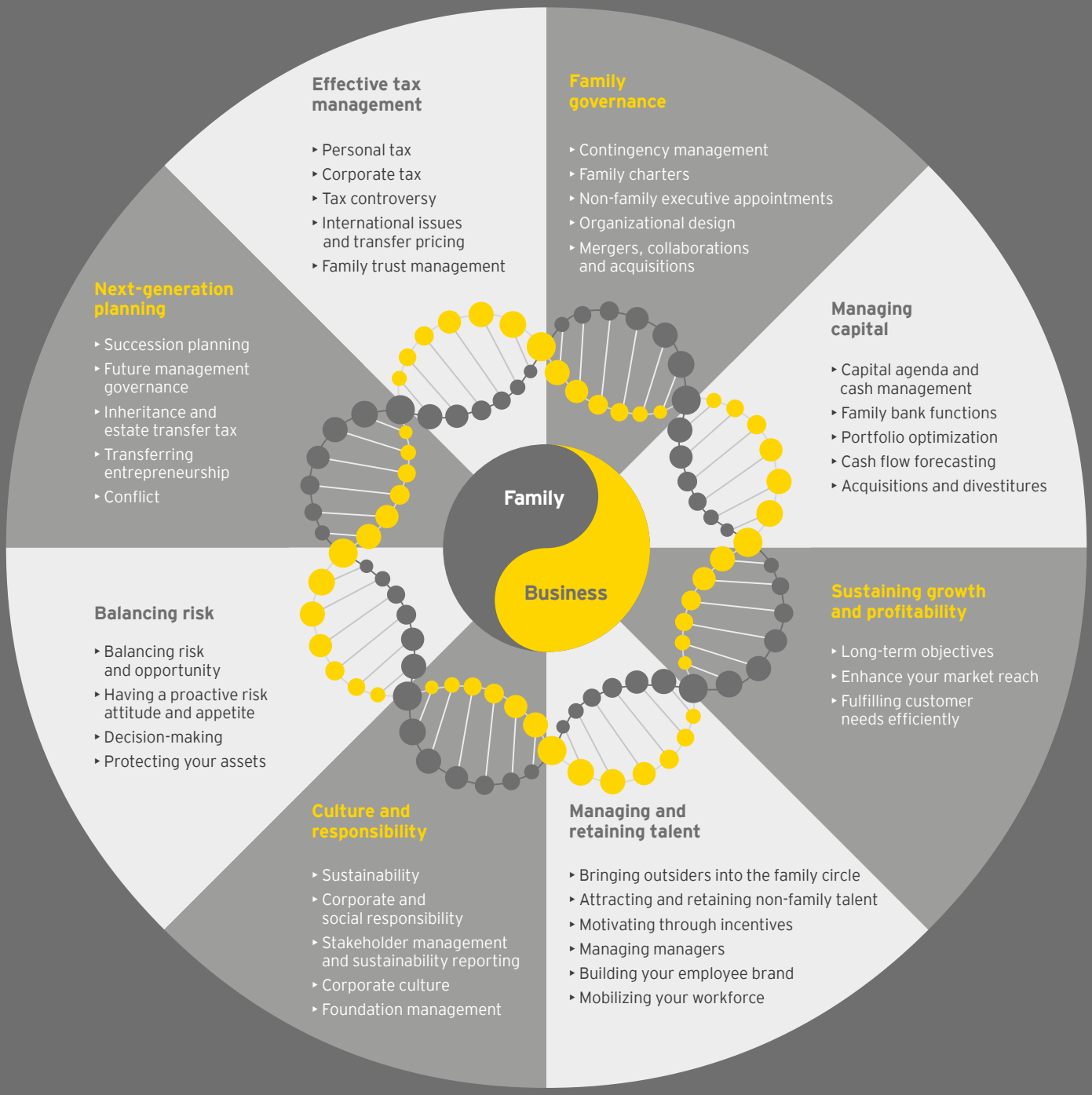
# EY Family Business Services

## Helping you succeed for generations

Family businesses are characterized by their unique combination of dynastic will, family ownership and professional management. This combination produces a dynamic that offers competitive advantages, but it also harbors potential risks. Managing this complexity is a balancing act between the strategic issues related to the family and those connected to the business. It also means steering the business successfully between the forces at work in the marketplace and within the family. Today, 80% of the world's top 500 family businesses rely on our know-how and experience to help them chart the right course to deal effectively with the challenges and opportunities presented as their business moves forward into the future and on to the next generation.

### Growth DNA Model for family business

We know that each family business is unique, yet successful family businesses also have much in common. Understanding these success factors and taking advantage of our knowledge underpin what we call the "Growth DNA Model for family business." Our bespoke model supports both the personal and company performance agenda of family business leaders, and aims to help you succeed for generations. We know that an aligned family and business strategy secures both your family's and your company's values on a long-term basis, and it also forms the foundation for planning ownership and management succession.


Effective tax management
Personal tax
Corporate tax
Tax controversy
International issues and transfer pricing
Family trust management
Family governance
Contingency management
Family charters
Non-family executive appointments
Organizational design
Mergers, collaborations and acquisitions
Next-generation planning
Succession planning
Future management governance
Inheritance and estate transfer tax
Transferring entrepreneurship
Conflict
Managing capital
Capital agenda and cash management
Family bank functions
Portfolio optimization
Cash flow forecasting
Acquisitions and divestitures
Family
Business
Balancing risk
Balancing risk and opportunity
Having a proactive risk attitude and appetite
Decision-making
Protecting your assets
Sustaining growth and profitability
Long-term objectives
Enhance your market reach
Fulfilling customer needs efficiently
Culture and responsibility
Sustainability
Corporate and social responsibility
Stakeholder management and sustainability reporting
Corporate culture
Foundation management
Managing and retaining talent
Bringing outsiders into the family circle
Attracting and retaining non-family talent
Motivating through incentives
Managing managers
Building your employee brand
Mobilizing your workforce

## EY leading practice

Our services tailored to family businesses are the result of our understanding of the difficulties of balancing the concerns of the family and the intricacies of the business and what it takes to address the dual challenge of securing the long-term success of the company and managing the risks of growth.

**Succession planning**
Our integrated service line offering explores what makes a successful succession journey, the key elements of a good plan and how we can help you at every step of the way.

**Family Governance Services**
Our tailored consultancy package supports entrepreneurial families to manage themselves systematically and successfully.

Thanks to experience and insight, we have developed a range of customized approaches and services to address all of your key needs as a family business. Trusting us as your advisor means putting yourself in the hands of more than 100 years of experience helping family businesses succeed for generations.

**Family Philanthropy Services**
Our Family Philanthropy Services can show you how to use your existing resources for maximum effect and how your social commitment can benefit you as a family business, while benefiting society as a whole.

**Family Office Services**
Our broad and integrated approach helps family offices structure their wealth and preserve it for future generations.

## The EY Global Family Business Center of Excellence

**Insights – Inspiration – Education – Connections**

We designed the center to bring together our market leading advisors from across our global network to share knowledge and insights that will address family business challenges and provide a seamless service for globally based family-led businesses, wherever they operate in the world.

Our approach includes providing **insights** to the family business community through thought leadership and academic-led studies, **inspiring** them by sharing their stories and lessons learned, **educating** the next generations about the values of entrepreneurship and legacy, and **connecting** family business owners to support peer-to-peer learning.

## Insights

**We are committed to bringing you the latest thinking about family business, with regular publication of proprietary reports and thought leadership. We collaborate with the most prestigious academic institutions to advance our understanding of family businesses to develop the best approaches.**

**Coming home or breaking free?**
This document offers a closer look at the succession intentions of next-generation family business members.

**Staying power: how do family businesses create lasting success?**
This report is based on 2014 survey data gathered from the world's largest family businesses.

**EY Family Office Guide: pathway to successful family and wealth management**
Our definitive and broad guide on setting up a family office and practices within the sector.

## Inspiration

**Family Business Award of Excellence**
The Family Business Award of Excellence recognizes leaders of outstanding entrepreneurial families. The award was introduced as part of the EY Entrepreneur Of The Year™ Program as a new category in 2012, first as a pilot, and now it is run successfully in the Entrepreneur Of The Year Program in more than 25 countries.

EY Entrepreneur Of The Year™
*Family Business Award of Excellence*

**Family Business Yearbook**
The Family Business Yearbook is designed to celebrate excellence in family businesses, to present some of our latest thinking on the issues facing today's family firms and to provide a glimpse of what is going on inside some of the world's greatest family businesses.

## Connections

**EY Global Family Business Summit**
The global Family Business Summit is a gathering of 300 of the most entrepreneurial business families in the world. The Summit takes place during the EY World Entrepreneur Of The Year™ event in Monaco.

**EY Family Business Roundtables**
We host a series of private roundtables specifically designed for family business leaders to come together in a relaxed and private environment to discuss some of the most pressing issues currently affecting family businesses.

**EY Strategic Growth Forum®**
EY's Growing Beyond: Strategic Growth Forum events represent an opportunity for top CEOs, entrepreneurs, family businesses and government leaders, investors and advisors from around the world to share their experiences with on innovation, transactions, growth and what's shaping the future of the global economy.

**EY Growth Navigator™**
The EY Growth Navigator™ is an interactive tool that can enable you and your leadership team to assess your company's capability to sustain growth. The tool contains the collective knowledge we've gained from the most successful high-growth companies and entrepreneurs around the world.

## Education

**EY NextGen Academy**
The EY NextGen Academy is our unique and exclusive, one-week training event designed for young successors in family businesses. The program combines knowledge from leading international executive business schools with practical experience and advice from EY. To find out more information, visit ey-nextgen.com.

To access the Center and find your local contact, visit ey.com/familybusiness.
Follow us on twitter @EY_Familybiz
Read our Family Business blog Familybusinessblog.ey.com

# EY Family Business Center of Excellence

The Family Business Center of Excellence brings together advisors from the EY global network to share knowledge and insight to address family business challenges and provide seamless service for internationally based, family-owned companies. Wherever you are based or whatever your needs, there is someone ready to help you to succeed for generations.

Visit ey.com/familybusiness for more information about our Family Business Center of Excellence.

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ED None

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