

# Gaining strength through philanthropy: How emerging-market families can make a difference

**Answering five questions can help families increase the impact of their giving.**

Naina Dhingra, Doug Scott, and Lynn Taliento

Philanthropic giving has become a focused and strategic undertaking over the past few decades. One indication of this trend is that more and more families are institutionalizing their philanthropic activities in the form of trust funds or foundations. In emerging markets in particular, there is an enormous amount of activity—but not nearly as much experience as in countries where structured philanthropy has a longer history.

In our work with emerging-market philanthropists, we have noticed how philanthropy can strengthen and deepen family ties and improve the performance and health of family-owned business. And we believe that these efforts can make a major difference, particularly in their home regions.

Effective philanthropy, whether it is done by establishing a family foundation or through the family-owned business itself, requires many of the same skills as creating a business. The process entails defining the problem and then crafting an approach to address it, using professional management and fact-based decision making. Those who recognize the importance of this process are more likely to see their foundations succeed and endure. The first step is to articulate their underlying values. Only then will families be able to identify where their efforts can do the greatest good and determine which structure best suits their goals.

In this article, we discuss trends in philanthropy in emerging markets and offer five strategic questions for families looking to improve their chances of making a difference.

## An emerging force

While the concept of individual philanthropy typically brings to mind billionaire Americans such as Warren Buffett and Bill Gates, the next frontier is in emerging markets. People such as Mo Ibrahim (Sudan), Hüsnü Özyeğin (Turkey), and Carlos Slim (Mexico) are becoming major players in the field. With fast and sustained economic growth in many emerging markets, there is more money to spare—and a growing commitment to share it.

There is a long history of philanthropy in emerging markets. What is changing is the extent to which it is becoming organized, often through family-owned businesses. This has its challenges. Wealthy families that historically made donations privately now want their children to understand why and how to give, but they may not know how to engage the younger generation. Other families want to give away significant sums but are conflicted about how visible to be. Some Gulf State donors believe that, for ethical reasons, philanthropy must be anonymous; in other cases, donors worry about being embarrassed if their efforts fall short. In countries with relatively few philanthropists, some families worry that public giving will only lead to more pleas for funding.

Despite these difficulties, the number of family foundations outside the traditional philanthropic centers of Europe and North America has soared as cultural mores change and families become more aware of the advantages of a structured approach to giving. Younger generations in particular are often keen to create independent family foundations; they are aware of the power of philanthropy done well and see this as a way to contribute to the family enterprise.

Family-owned businesses have established six foundations in the United Arab Emirates and three in Saudi Arabia, each with an endowment of at least $1 billion. In India, in 2012, more than 70 percent of donors had less than three years of grant-making experience. Wealthy Chinese businesspeople are also getting in the game, albeit more slowly; recently, a private company announced the formation of a $3 billion foundation, the country's largest. Almost half of Brazil's foundations were first registered after 1999.

## Reasons for giving

What accounts for this charitable boomlet? For most families, philanthropy is an end in itself, a way to fulfill a sense of obligation to the society in which they earned their wealth. But there are often other considerations as well.

According to a 2011 study by INSEAD and UBS on giving in Asia, the desire to instill values, strengthen family ties, and promote knowledge and leadership are important reasons to engage in philanthropy. Some families use philanthropic platforms to develop leadership and management capabilities before the next generation takes on leadership roles in the business.

In addition, philanthropy can be a powerful tool for enhancing a company's reputation. This can be especially important in developing countries, where a business may face outsize expectations. Philanthropic efforts can also generate financial value for the family's business by improving talent attraction, morale, and retention; facilitating new-market entry; gaining knowledge of local consumer needs; and improving relations with local governments and regulators.

Finally, families may also be responding to changing expectations. In a 2008 poll, 90 percent of senior executives from developing countries agreed that consumers expect businesses to take a broader interest and role in dealing with environmental, social, and political issues.[1]

---

[1] *Business's Social Contract: Capturing the Corporate Philanthropy Opportunity*, CECP, 2008, cecp.co.

In our experience, while families usually get into philanthropy for altruistic reasons, a successful philanthropic venture, either through the family-owned business or a foundation, can initiate a virtuous circle in which doing good leads to a better reputation, which helps the family-owned business, and so on. At the very least, the fact that there can be beneficial side effects to philanthropy makes the case for pursuing it more compelling.

## Five strategic questions

Enthusiasm and goodwill are no substitute for careful planning and thoughtful decision making. Establishing a philanthropic venture must be done deliberately. The key to success is to invest the time up front to figure out the philanthropy's mission and operating model, as well as the role of the family. The most senior and influential family members must lead this process, with full engagement from the younger generations. Developing a strategy is an iterative process, but it's critical to get off to the right start. Regardless of the place or kind of activity being considered, families should ask and answer these five questions.

1. **Why are we doing this?**
   This sounds simple; it is not. Families might share a deep commitment to philanthropy but still not have the same goals. Younger family members may be passionate about specific causes or organizations, and older ones may be chiefly concerned with bolstering the family's long-term legacy and thus may be more risk averse. Business leaders need to keep in mind the company's reputation and relationships with key stakeholders. These differences can lead to ad hoc decision making or the creation of separate smaller funds to support individual interests.

   One European family, for instance, created different charitable entities for specific purposes or for individual family members. Although this approach satisfied numerous interests, it did not allow for the possibility of a single strategic vision around which the family could structure its long-term giving. The result was organizational disarray, with some two dozen legal entities. That fragmentation added costs and diluted the family's influence. It now faces the painful process of unwinding these entities and merging them into a more manageable whole.

   Families should therefore work to develop a shared vision by asking one another several questions: What values define us? What do we stand for? Exploring these issues helps to anchor the philanthropic mission. It also reinforces the sense of purpose and gives family members something to refer to as the foundation evolves.

2. **What do we want to achieve?**
   Philanthropists need to define the long-term objectives of their philanthropy and then set and monitor specific goals. A number of dimensions should be considered:

   - **Impact on society.** For example, is the intended impact making a measurable difference on an important issue, serving specific population groups, or supporting particular organizations? We have seen families make specific commitments to increasing the number of girls in school in their region or to reducing the burden of preventable childhood diseases.

   - **Relationships with stakeholders.** This can mean strengthening family ties, building employee and consumer involvement, or improving relationships with communities and government officials.

   - **Benefits to the business.** Such benefits could include improving the company's reputation, deepening local knowledge of consumers, or developing new growth opportunities.

Determining where the family's time, skill, and financial resources can yield the best return involves understanding the problem the foundation seeks to address, identifying those most affected, and determining what is already being done. All this should be underpinned by knowledge of the latest thinking in the field.

For the Lucie and André Chagnon Foundation, which defined its mission as preventing poverty in Québec, this meant that the founders went on a three-year "listening journey," meeting major North American foundations, philanthropic leaders, experts, and academics. Chagnon learned that there were many organizations running similar programs, but they lacked sufficient capacity to do the work well. After piloting some specific approaches, it decided to serve as a catalyst, providing fund-raising, specialist support, and networking for the nonprofits it supports.

3. **What do we have to offer?**

Families need to consider the full range of assets they can deploy, including money, people, business assets, and networks and reputation:

- **Financial resources.** Setting clear objectives is crucial to define the scale of resources required to achieve them. Philanthropists may also set the amount based on principle; for instance, those who sign the Giving Pledge attest that they will give away at least half of their wealth in their lifetimes. Others make an explicit link to the business. This promotes economic sustainability and emphasizes the importance of the work. Some companies dedicate a fixed percentage of profits to their foundations every year or give the foundation a percentage of shares in the business. Any of these approaches can work. What matters is being realistic about what can be achieved based on the scale of investment compared with the scale of the problem. It's important to know what has worked before—and what hasn't. Too often we have seen philanthropists with unrealistic expectations of what can be achieved without sufficient investment or partnerships.

- **People.** There should be explicit discussions about the goals and expectations for family members with respect to roles, time commitments, and governance. Many emerging-market philanthropists govern their philanthropic efforts informally; this may work well initially but becomes challenging over time, particularly when the next generation gets involved. Professional staff is essential both for impact and for effective family engagement; these experts can act as neutral parties focused solely on achieving the mission. They can also bring credibility when interacting with stakeholders and partners. In establishing a foundation, one wealthy Indian family determined that the overall governance would involve family members but be led by an outside CEO with management experience and expertise in the program areas. This enabled the foundation to quickly gain a level of professionalization and sophistication, particularly in how it interacts with its stakeholders.

- **Business assets.** The products, services, and capabilities of the family business can play a distinctive role. For example, there are cosmetic companies that provide financial-literacy services to women in their sales forces, banks that provide scholarships to families based on their credit history, and healthcare companies that send their nurses to work in clinics. Providing opportunities to involve employees can strengthen loyalty while enhancing the company's culture and reputation.

- **Networks and reputation.** These can be even more valuable than money. Using reputation to influence public opinion can be invaluable on issues where success requires a real change in public behavior, such as driving safely or not littering. We all appreciate the power that famous people can have on the public, such as the efforts of Indian celebrities, including Bollywood stars, to stop open defecation. Top business leaders in emerging markets also have star power and may be more credible than celebrities in some instances; the fact is, however, that they rarely use it to shape opinion. In India, one wealthy philanthropist used his convening power to bring together major corporations to get involved with maternal-health efforts and influenced the government to spend more in that area.

4. **How should we deploy resources to do the most good?**
Finding the right partners can be a struggle. Many business leaders worry that ineffective or fraudulent organizations will waste funding, especially in countries where civil society is less developed. Families can also fall into the trap of making decisions based on who they know or where their friends give, rather than on an objective assessment of who is most likely to deliver. Just like a business discussion about entering a new market, there should be an objective, well-informed analysis of the problem and what can be done about it. What does the data say? Who are the other players? What do they do well? What is missing? What could be our distinctive contribution? These assessments are tough to make in most emerging markets because there is limited public data on civil-society organizations and their impact.

In some cases, then, philanthropists might consider alternative approaches to testing. For example, a family foundation in Saudi Arabia that sought to provide opportunities for economic improvement for low-income Saudis conducted extensive focus groups and in-depth interviews with the target population. Because there was limited data and few organizations in the space, the foundation was able to identify potential new solutions to the problem.

5. **What is the right vehicle to organize philanthropic giving?**
It is often difficult to separate personal, family, and corporate philanthropy, in part due to the legal and regulatory considerations around setting up foundations and charitable trusts in emerging markets. Philanthropic giving is usually the province of the family business itself at first, but younger generations often push to create an independent family foundation. In Brazil, corporate foundations and corporate social responsibility have become a driving force in the growth of philanthropy. In India, we see a growing trend to establish separate family foundations among the very wealthy, where examples include the Azim Premji Foundation, the Bharti Foundation, and the Shiv Nadar Foundation.

The choice of vehicle will depend on local regulatory considerations, the desired linkage to the family-owned business, and the family's long-term objectives. Regardless of the choice, clear governance is critical to determine the role of different family members in decision making and to foster ongoing discussions about strategy and oversight to ensure the desired objectives are being met.

■ ■ ■

Families in emerging markets are becoming powerful instruments of social change through philanthropy. Like the causes they serve, however, these efforts cannot be static. There must be a clear mission, strategy, and operating model for the philanthropy that strengthens the family and the business while achieving the stated goals. The process of deeply exploring values, objectives, and assets takes significant time and energy up front, but it pays off well into the future. The best operations regularly refine their mission and strategy in order to adapt and evolve apace with the environment in which they operate.

**Naina Dhingra** is a consultant in McKinsey's New York office, **Doug Scott** is a senior expert in the Chicago office, and **Lynn Taliento** is a principal in the Washington, DC, office. 