Family offices: Best practices for philanthropy

Family offices today are devoting a greater share of time, resources, and wealth to philanthropy. In fact, charitable giving is one of the main ways many families and family offices define success, and it has also become more integrated into the family office investment and tax functions. For good reason.

Philanthropy is a wonderful way to engage family members, especially younger generations, to share and honor values, explore similarities and differences, and leverage individual strengths. The most successful family offices use philanthropy to teach younger family members about investments, taxes, leadership, and stewardship of family wealth. But often family offices are tasked with facilitating the family's philanthropy despite limited knowledge and resources. As a result, family offices function merely as a conduit, fielding questions and tasks from family members and sending funds to a variety of organizations without a comprehensive, integrated philanthropic plan.

Embracing best practices for the philanthropy function in the family office will help families amplify their philanthropic efforts, produce other intangible benefits, and strengthen the family's charitable impact and desired legacy.

Below, we outline best practices and issues to consider when incorporating a philanthropy function into your family office.

Find a common purpose & focus philanthropic efforts.

Mission and vision statements focus philanthropic efforts, but families sometimes overlook them since it can be tricky to get everyone on the same page. The goal is not to shine a spotlight on individual differences but rather to find areas of consensus and agreement. In conversation, families often draw on their history and breadth of experience to identify shared values. For some families, these discussions flow naturally, while others find it helpful to have a third party facilitate. (Families can leverage many tools, such as those available through family wealth coaches or organizations like 21/64.org.)

A mission statement can take various approaches. Some focus on family legacy and allow for support across geographies and programmatic themes, while others home in on specific places and community needs. There is no right or wrong; the process of having these discussions is often as valuable as the statement itself. And remember that while the family's core values might remain constant over time, the philanthropic mission and its execution likely will evolve. For this reason, it's good practice for families to review their mission every five to seven years to ensure it still represents their philanthropic goals.

Engage in multiple types of stewardship to engage the next generation.

Younger family members in particular may struggle to understand and contribute to broader family objectives. Lack of experience and resources relative to the family's balance sheet can lead to feelings of inferiority. Philanthropy offers a helpful remedy.

The concept of "Time, Talent, Treasure, and Ties*" allows all family members to contribute thoughtfully to the family's stewardship efforts. It also sets expectations that stewardship means more than just sending money to organizations. An increasing number of families are giving both their money and time to charitable causes. For instance, some families set the expectation that any family foundation board members must also volunteer with at least one external organization. This is just one example; families can be creative in how they encourage service to achieve broader participation in charitable activities while also providing clear guidance to family members.

Time
Volunteering or attending events to support a cause

Talent
Lending your skills, talents, or expertise

Treasure
Financial contributions

Ties
Inspiration, connection, & strategic input

Source: Graphic illustration of 21/64.org's "Time, Talent, Treasure, Ties" methodology.

Teach children about stewardship & leadership early.

Many families wait too long to engage and prepare the next generation for managing wealth. Philanthropy can serve as a starting point and bridge. Today's larger allocations of family office resources to philanthropy create additional opportunities for younger generations to get more involved and take on a greater share of leadership responsibilities.

At a relatively young age (think adolescents), children can and should be exposed to the family's stewardship process. Again, the concept of "Time, Talent, Treasure, and Ties" can be a fun and easy way to engage children in the family's philanthropy. The chart above easily can be turned into a simple exercise in which kids brainstorm how they currently — and could potentially — help others using these four resources. Older family members can share how they do the same, creating a valuable and enjoyable dialogue across generations.

Other activities to engage young people include sharing the family mission as well as examples of meaningful ways the family has provided community support — not only in terms of large gifts. Consider giving each child a modest amount to donate to an organization of their choice. For children coming of age (think 18 to 24), increase the amount and consider creating a junior board of directors. You can task the board with collectively deploying a certain amount or making recommendations to the entire family.

These ideas are adaptable to almost any family circumstance. The key is to get started, to be gracious as missteps occur, and to learn from the process.

Embrace philanthropy management activities the family enjoys, delegate the rest.

Most family offices must manage multiple philanthropic buckets, including donor-advised funds, private foundations, and the outright giving by multiple family members. It can be a lot. Best practice is to embrace the most compelling activities and delegate the other tasks.

For example, family foundation directors tend to gravitate toward grantmaking and asset management, sometimes overlooking governance and operations. And that's fine — as long as the foundation delegates responsibilities deemed less interesting to an internal or external resource with expertise in managing private foundations. The goal is to simplify the management process while ensuring the foundation and its directors both fulfill their fiduciary responsibilities and enjoy their philanthropy.

Governance & risk management

- Governing documents
- Board meetings
- Succession planning

Administration & operations

- 990pf filing
- Annual required distribution
- D & O insurance

Grantmaking

- Areas of focus
- Grant distribution
- Grantmaking budget & cycle

Asset management

- Asset allocation
- Investment policy statement
- Mission-related investing

Align family office philanthropic investments with core values & goals.

Families continue to evolve the ways they give back to their communities and society. Many families take a more passive approach and make charitable contributions through their private foundations to public charities. Others combine profit and charitable intent, including through mission-related investing (MRI), especially as it relates to a family's philanthropic dollars.

Mission-related investments can take many forms, from socially responsible investments focused on environmental, social, and governance practices to program-related investments that complement the family's philanthropic contributions. One example would be funding programs that support the homeless while also investing in low-income housing. One is a grant, while the other is a long-term investment, of which both address housing insecurity.

Two decades ago, MRI was a newer trend. Today, it's a common expectation of philanthropic families. But moving from theory to execution of an MRI strategy can be difficult, depending on the mandate outlined in the investment policy and the conviction of the family to stay within its guidelines. A thoughtful MRI strategy well aligned with the organization's mission can take years to fully deploy and requires ongoing management.

Create structure & opportunity for philanthropic efforts.

Creating the right structure to engage family members can be challenging. Younger generations need education and guidance as well as opportunities to voice their perspective and contribute in meaningful ways. Older generations may not want to change their current process. They may have developed a giving routine well known to them but far from clear to the rest of the family. Often, it's the family office that must bring these groups together to work collaboratively toward the family's philanthropic goals.

Complete a needs assessment to identify key priorities and gaps in resources. This helps determine what will be handled by the family, the family office, and outside advisors. Family offices can provide clarity and set expectations by creating simple policies that provide guidance. For example, developing a short list of grantmaking guidelines can empower family members to participate and can alleviate confusion or hurt feelings when individuals make grant recommendations that aren't accepted.

Final thoughts

While there isn't a one-size-fits-all model for family offices to execute a thoughtful philanthropic strategy, philanthropic families and successful family offices adapt these practices to heighten the impact of their charitable efforts.

For both the family and the family office, strong philanthropic knowledge and technical expertise are a must; the focus can't only be on the technical aspects of managing philanthropy. The most successful families welcome the opportunity to discuss values, explore similarities and differences, leverage individual strengths, and work across generations. These families directly embrace what they find compelling and delegate what they don't. If the family office doesn't have the internal resources, it can engage outside advisors and vendors to assist.

Following best practices for managing a family's philanthropic efforts enables greater measurable impact, creates stronger lines of family communication, reinforces the family legacy — and, quite simply, provides more opportunity for joy. Like the broader family office, a family's philanthropic goals will always reflect their core values while the model to execute will continue to evolve.

Please contact us with any questions

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