Enodo.

Briefing
November 2020

# Philanthropy: the delights and dangers

**For**
Your family ✓
Your firm
Your society ✓

**Reading time**
7 minutes

**Enodo can help**
By supporting the development of your family philanthropy strategy, ensuring alignment with your values and objectives

By creating an appropriate governance structure to oversee your philanthropy activities

By developing an appropriate investment policy and strategy for your family foundation

By analysing and monitoring philanthropic opportunities for effectiveness, impact and discipline

By helping to prevent behavioural biases


**Executive summary**

**We've seen first-hand the impact that philanthropy can have. We've observed wealthy families transform the lives of others, often in novel and audacious ways. Whether it has been through direct support for those in poverty – at times, *literally* feeding the hungry, funding educational scholarships for the intellectually rich but financially disadvantaged, supporting the economy at large by investing time and energy in young entrepreneurs, or advancing aspects of medical research for the good of all. It has been a privilege to see family wealth used so powerfully. In addition, philanthropy has often been used as a vehicle for the next generation to get involved early in the stewardship of family resources – again, with great positive effect.**

Whilst the impact for the recipients of philanthropy is generally – and rightly – the greatest focus for anyone giving, psychological research demonstrates that giving brings joy to the giver with positive neural processes when generous choices are made versus selfish ones. Giving can also be good for self-image and self-confidence, literally making you feel better about yourself and your place in the world. A study in the UK found that people who felt greater levels of personal accomplishment were more likely to give generously. Philanthropy can therefore be a literal *win-win* for donor and beneficiary alike.

We firmly believe that philanthropy is best done with a clear strategy. . In our experience, a haphazard approach to giving never leads to the best outcomes for a generous family. It is therefore critical to:

- Establish the philosophy and values that sit behind a family's desire to give, ensuring that there is a common vision that unites not divides
- Establish what causes resonate and to create the necessary focus
- Ensure that the right governance structures and investment strategy is in place, as well as the right selection and monitoring process for philanthropic partners

It is also critical to avoid the pitfalls that might blow you off course, in particular behaviour biases. These include: (1) the strategies and techniques of fundraisers, (2) acting to response to guilt, (3) donating *in the moment*, perhaps outside the family philanthropy strategy.

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Whilst the impact for the recipients of philanthropy is generally – and rightly – the greatest focus for anyone giving, psychological research demonstrates that giving brings joy to the giver with positive neural processes when generous choices are made versus selfish ones.[i] [ii] Giving can also be good for self-image and self-confidence[iii], literally making you feel better about yourself and your place in the world. A study in the UK found that people who felt greater levels of personal accomplishment were more likely to give generously.[iv] Philanthropy can therefore be a literal *win-win* for donor and beneficiary alike.

## The delights: giving strategically, and with true purpose

At Enodo, we firmly believe that philanthropy is best done with a clear strategy. It can be all too easy to chase a current fashion or trend, or simply to give to the last charity that asked, irrespective of their effectiveness or impact. In our experience, a haphazard approach to giving never leads to the best outcomes for a generous family. Therefore, when working with families, we debate the following with them:

- **Do you actually even want to give?** Whilst we have witnessed the huge positive impact of philanthropy, and believe in philanthropy personally, we do not seek to force a particular world view on the families we work with. In the end, funds belong to you and no one else. As a consequence, it is important to debate the philosophy and values at the heart of a family to determine a common vision for the whole family on philanthropy. Ultimately, the joy of giving should be something that *unites* not *divides* a family.

- **What do you want to give to?** It is evident that the needs in the world are very significant indeed, and it can be all too tempting, therefore, to adopt a scattergun approach. But even the world's greatest and richest philanthropists have been focused, with a desire to try and own, and then solve a particular issue (for example, The Bill & Melinda Gates Foundation and malaria). Through structured and authentic discussion, it is possible for a family to determine the issues that matter to them most, and where they can reasonably have an impact given their capacity. Most families want to see real change – whether it is something as expansive as preventing a global disease or narrow as transforming the fortunes of their immediate local community.

- **How do you want to give?** For a family, is it about establishing a foundation that perhaps distributes income only and will therefore exist through generations, creating a long-term legacy? Or is it about giving from capital and income in the present with very immediate results? Then, is it about outright one-off donations, regular multi-year commitments, capacity building loans, co-investing with others (for example, providing matched funding) or even a venture capital style approach to philanthropy. Each approach can have merit, depending on your circumstances and objectives. But, each will require different levels of effort and skill.

- **How do you choose the right partners, and measure impact?** The reality is that the non-profit organizations – that you will likely need to partner with – will vary significantly in quality and the impact they can deliver. The sustainability of their actions and interventions will also vary considerably. It is critical to employ proper analysis of potential partners to ensure that they will do what they promise. For example, examining their leadership, track-record, financial accounts and reputation can provide valuable insights into whether an organization can be trusted.

- **How do you govern your philanthropy strategy?** Establishing a governing committee to oversee donations / investments will allow proper scrutiny of potential partners and provide a forum for regular reporting back. When choosing to make a donation to a particular non-profit organization, it is also critical to ensure that there are agreed key performance indicators upfront. This is a great opportunity for a large number of family members to be involved.

Implementing these steps will allow your family to be truly strategic in their philanthropy. It will allow the building of a common family vision and purpose and will maximise the likelihood of impact from your donations and investments.

## The dangers: avoiding the behavioural pitfalls

In planning your philanthropy, not surprisingly, there are pitfalls that could blow you off course – either *unintentionally*, as a result of behavioural biases, or *intentionally* through the actions of someone else, such as fundraisers. It is important to build an understanding of what can influence your decision-making, so you can act with intention:

- **Greater awareness of a need.** On one level, this is obvious. How can you give to something where you have no awareness? But, if your awareness is influenced deliberately by excessive media coverage or information shared by a fundraiser, this could lead to you supporting something which is not part of your strategic plan or is not aligned to your values or interests.

- **Being asked, and being asked for a specific amount.** The act of being *asked* for a donation will increase the likelihood that you will give to a particular charity versus another one. Furthermore, being asked for a specific amount – ideally a stretching amount, but not excessively so – will increase the size of your gift versus simply being asked vaguely to “make a generous donation”. On one level, this is intuitive, but you should ask: “is the charity asking me, the best charity I could support?” There may be a better charity that delivers greater impact or more impressive outcomes, with similar objectives – don’t succumb just because you asked.

- **Being in a situation where a positive mood is induced.** A positive mood can mean that you give more. Again, this may be no bad thing if such giving is consistent with your intention and strategy. But be aware if your mood is being induced – for example, in a social setting such as a gala or ball, or by a conversation with a fundraiser. Even the act of simply asking someone "how are you today?" can induce a positive mood, as you will likely respond positively. People are also more inclined to give generously if they have been thinking about their own death, about an act of forgiveness, or about things in life for which they are grateful. Be conscious about others instigating thoughts or conversations that might bring about a positive mood.

- **Responding to guilt.** If you are in a bad mood, you will actually be more responsive to the punishments associated with not giving – to guilt. It is then that you will be most likely to respond to a statement designed to exploit your guilt: "imagine how you would feel if you *didn't* help in this situation?" A further example - a study examining giving amongst those entering a church for confession, and then leaving after it, was able to pinpoint *guilt* as the driver for larger donations made by those entering – whilst still feeling guilt – versus those leaving who had received absolution. Similarly, studying committed donors who continue to give to a particular charity reveals that guilt prevents many people from stopping – a belief that they will inflict harm on the beneficiaries by ceasing their giving – even if they no longer really wish to support a particular cause. Be alert to feelings of guilt.

- **Because of an incentive or reward.** There is, in fact, a correlation between what you are given by an organization and what you might then give back. For example, alumni of a university are more likely to donate to the university if the university spent more on them whilst they were studying there. It has been shown the access to exclusive events, such as dinners and concerts, increase the likelihood and levels of giving. Of course, there is nothing inherently wrong with this and, indeed, such events can be rewarding for the donor in particular if the experience cannot easily be bought. But, it is also important to be objective here – the overall impact and effectiveness of the charity should really be the driving factor, not the charity that organizes the best fundraising events. Be aware that incentives lead to a sense of duty.

- **Because of language.** As individuals, we are often open to influence by others. For example, if we are called a "helper" by someone, we are more likely to be *helpful* and to give. Similarly, being called "charitable" leads to increased charitable behaviour. When a discussion takes place on an individual's general theoretical giving intentions, it increases the chance that they will actually give, when subsequently asked. Be cognisant of this inherent desire to live-up to the expectations of others and what they might say to you.

Any of these behaviour pitfalls can lead to you deviating from your philanthropy strategy. These can lead to choosing charities that may be less than excellent at achieving impact. At worst, you may sense manipulation from fundraisers. It is critical that behavioural biases are acknowledged and managed.

## Conclusion

We have seen the huge positive impact of family philanthropy changing lives. The positive impact, in turn, benefits the donor with giving literally bring joy. It is critical to put in place a philanthropy strategy that ensures your giving has the maximum impact. At the same time, managing behavioural biases that can influence you is also critical. At Enodo, we partner with you to think through all of these issues, putting in place your own family philanthropy plan – so the effectiveness and impact of your giving is maximised.

## References

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## About the authors

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Nick has over 20 years of experience in wealth management, predominantly spent at UBS where he was a Managing Director. He held a number of senior leadership roles, including Head of Wealth Management for Global Emerging Markets in London, where he led a sizable business advising wealthy families in Central & Eastern Europe, Middle East, Turkey, Israel, Africa, Latin America and Asia-Pacific.

For six years, Nick was Head of Investment Products and Services where he led the investment management, capital markets, alternative investments, lending and wealth planning functions, responsible for over USD50 billion of client assets, and a sizable lending book. He also founded the client philanthropy unit in the UK, which supported clients in maximising the strategic impact of their giving. He has been a regular media commentator. Over the years, he has also maintained a strong academic interest in business psychology.

He has served on numerous non-profit boards and is currently Vice Chairman of the governing body of Royal Holloway, University of London, amongst the top 25 in the UK and 250 globally. He also chairs the committee overseeing the university's USD100 million endowment.

He holds MSc in Organizational Psychology and MBA in Finance degrees from the University of London, is a Chartered Wealth Manager, Chartered Fellow of the Chartered Institute for Securities & Investment and Member of the British Psychological Society. He was elected Fellow of the Royal Society of Arts for his work in philanthropy. He is also a part-time Doctoral researcher in organizational psychology and family-owned business at Durham University.

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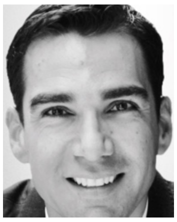

Baris has over 15 years of experience in wealth management and investment banking in London, Zurich and Frankfurt. Between 2006 and 2020, he worked for UBS, where he was a Managing Director.

He served as Head of the Global Family Office, Ultra High Net Worth Emerging Markets and Financial Intermediaries units for UK and Jersey, offering wealth management, structuring, lending and investment banking solutions to the largest clients of the firm. His team was entrusted with over USD12 billion of client assets.

Prior to this, he was responsible for various significant teams serving wealthy families in Central & Eastern Europe, Middle East, Turkey, Israel, Africa, Latin America and Asia-Pacific.

Before joining UBS, Baris was a research assistant to the Chair of International Banking and Finance at the Goethe University Frankfurt and a visiting scholar in Finance at the Wharton School, University of Pennsylvania.

He published papers on global stock exchanges in peer-reviewed academic journals, including the prestigious Journal of Banking & Finance, and was a regular commentator in the media.

Baris holds a Doctoral degree in Finance from Goethe University Frankfurt and the Diplom Kaufmann degree from the University of Regensburg, as well as an MBA degree. He has completed the Chartered Financial Analyst and Financial Risk Manager programmes.

## The story of Enodo

Enodo is the Latin word to explain, literally to *unknot* or *untangle*. This encapsulates our vision – to bring clarity to the complexity of being wealthy.

Our founders have had the privilege of advising some of the world's wealthiest families. They've observed first-hand the liberation and opportunity that wealth can bring – unifying families around a common purpose, creating real economic impact via a family business, or contributing to wider society through audacious philanthropy.

At times, they've also seen the stress and confusion that can result. They've witnessed family disharmony, miscalculations in family business or investment strategy, and the hugely detrimental impact of working with advisors who put their own interests first.

Our founders have engaged in the discipline of advanced academic research. Their own analysis of peer-reviewed academic literature across the disciplines of finance, economics and business psychology, combined with their deep professional experiences, have allowed them to arrive at new perspectives on how *to be wealthy* and how *to manage wealth*.

The result of their thinking is the Enodo Leadership in Wealth™ advisory framework which supports wealthy families in using their wealth to lead across all the dimensions of their life – *family, firm* and *society*. Amongst other things, their framework includes:

*For your family*

- Family governance and family office set-up
- Investment risk and asset allocation – including family business assets and debt
- Chairing a family investment committee
- Selecting the best investment managers
- Analysing investment opportunities, including alternative investments and recent innovations (e.g. cryptocurrencies)
- Understanding the impact of investing in your passions, such as art and collectibles
- Monitoring of performance and risk
- Guiding and analysing where you are in dispute with your investment advisor

*For your firm*

- Organizational culture and performance
- CEO / founder succession and role of family members
- Financial optimisation – including debt, hedging and foreign exchange
- Reviewing your equity and debt capital market opportunities
- Corporate and social responsibility

*For your society*

- Philanthropy and impact investing
- Establishing a family foundation

The Enodo Goal-based Asset and Liability Allocation (GALA) Modeller™ offers ground-breaking insights into optimal strategic asset allocation – examining the risk characteristics of a family business shareholding and analysing  tolerance for risk from psychological personality profiling. You can experience a shortened version of this powerful tool here.

**At Enodo, we offer rigorous, independent and intelligent advice to wealthy families around the world. We aspire to be your trusted partner, wherever life leads you.**

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