A Personal Calling: Reflections on Family Philanthropy
A Discussion with Dr. Josh Baron
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By Diane Coutu

Diane Coutu, our former Director of Client Communications and a former senior editor at Harvard Business Review, talks to Dr. Baron about a new model of philanthropy and how giving can help reduce family conflict.

You have a Ph.D. in Political Science. How did you end up working with business-owning families?

I've always been interested in family businesses – a branch of my family has been in business going back to the 1850s, when my great great grandfather moved to the U.S. from Russia. He lost all his money in a banking crisis and ended up founding several general stores in the mountains of Colorado. Although the businesses have shifted over the years to selling furniture and real estate development, since the 19th century there have always been Baron fathers and sons working together, until me. My father was a lawyer, but he gave up his practice 12 years ago to help my grandfather on a real estate development project in the town where he grew up. So working with families in business just feels familiar to me.

The fact that I have ended up in an advisory role is something I probably also owe to my dad. By nature he's a problem solver, and so am I. I love figuring out the right answer to questions like: "How do you structure the business?" or "What strategic moves should you make?" That's the analytical side, and it's very satisfying. Family businesses are wonderfully complex, and the systemic approach that we take at Banyan is a natural fit for me.

But you often talk about the emotional rewards of working with business-owning families.

Yes, the work is intellectually challenging, and I very much enjoy helping my clients to address issues across the family, business, and ownership circles. But at the end of the day, the reason I like advising business-owning families is that if I can help brothers to stop competing in an unhealthy way, or help a father to better understand and value his daughter, then I know I'm making a real difference in somebody's life.

I also work with family businesses because I truly believe they have the potential to change the world. The corporate sector is trying very hard to emulate a form of capitalism that is best embodied by family businesses, but that's turning out to be not so easy. For example, a lot of companies talk about values nowadays; they're trying to make corporations be about more than just money as a way to foster loyalty among customers and employees. Family businesses are inherently about values – values that come from the families themselves. Business families also think about their communities in a way that corporations don't, or if they do, they do so in a very different way. When I was studying business, there was a lot of discussion around the company's stakeholders, i.e., not just the shareholders but also the employees, the communities, and so on. Family businesses do this much more naturally because they're not thinking only about what is the quickest way to make money. They are known personally in the community, and that makes a difference. Also, most of them take a long-term perspective on the business, which means that investments in their employees and communities often make good business sense.

At Banyan, you lead the philanthropy practice. What drew you to the social sector?

At the most personal level, the explanation is my mom – if you met her, you'd understand in a second. She's a social worker who has spent her entire life helping other people. She works with families to help the adult children understand the options for their elder adults in terms of where they may live, or programs in which different groups of seniors may participate. She has incredible compassion. Because of her, my siblings and I grew up volunteering in senior centers, soup kitchens, and so on. So, at least in part, my interest in the social sector comes from her. But it also comes from a desire I have honestly never fully understood – no, it's not even really a desire, but a need, a sense of responsibility to make the world a more equitable place, and I believe philanthropy is one way we have of giving everyone an equal opportunity to be successful in society. I would almost describe this feeling of responsibility as a calling, and it has been with me for as long as I can remember. My career – the reason I went into the social sector as well as the reason I studied International Relations – is that I want to make a difference with my life. I want to help families make a difference. External success in the world is very nice, and I don't dismiss it at all, but when I think about what makes me happy, it's doing some good.

Did you ever consider becoming a social worker yourself?

Not really, no. I am truly the son of both my parents – a mixture of both the deeply analytical and the deeply emotional, which hasn't always been easy to blend together. I studied business as an undergraduate and went into the consulting world because I thought it was the best place to get trained, and it was. I joined Bain, and it was a fantastic experience. I learned how to approach the issues facing organizations in a structured and data-driven manner, and that training has helped me in everything I have done since. But it was not for me. I enjoyed the work intellectually, but it lacked the sense of meaning that ultimately drives me. Then, as luck would have it, in 2000 a former CEO of Bain decided to start Bridgespan – a firm that would bring rigorous and analytical business approaches to philanthropy – and I was part of a small team that joined in the start-up phase. That's when I moved to the social sector, and I've worked in it ever since. It was my interest in philanthropy that rekindled my interest in family businesses, and paved the way for me to come to Banyan.

Can you say a little more about that?

I went to Bridgespan thinking that philanthropy was a gentlemen's game, but my eyes were quickly opened. I found out pretty fast that leaders in the social sector tend to be as much or even more competitive with each other than leaders are in the private sector. A lot of that has to do with fighting for limited resources, the way you do in all businesses. But in the social sector, people are fighting for things that they believe in the core of their beings and for that reason they can sometime be less collaborative than you might expect.

There are many reasons why it's almost impossible for everyone to cooperate together in the social sector. A client once said to me that working in philanthropy is a lot like working in a socialist economy: you have to operate through the connections you have. You go over to that person you know and try to get something done, and then go to that person over there and try to get something done, and then you have to try to cobble it all together. And that's one of biggest challenges of doing strategy in the non-profit sector: you have to always have one eye, the dominant eye maybe, focused on funding market and funders. You can't do anything you can't get funding for, and for me that's the biggest "so what" of working in the world of philanthropy.

If you're really interested in changing the way the social sector works, to make it more analytical and effective, then you eventually have to find your way to working with the people who have the money. That's why I moved in my career from a focus on non-profits to working very closely with individual philanthropists. I wanted to see if I could help them treat their giving in a more structured, business-like way. But I found out that unless I truly understood the family side of philanthropy, it would be hard to do anything really well.

Why are families so important for understanding philanthropy?

Philanthropy is embedded in the family – that's just the way that most philanthropy is done around the world – not all, but a lot of it is. Take Bill Gates for example. Microsoft is not a family business, but the Bill & Melinda Gates Foundation is. Bill is there. His wife and dad are there. Of course, the Gates Foundation is at the top of the pyramid in terms of size, but in general, when you see philanthropy, you do tend to see it in a family context. Now, a lot of families struggle with what they're trying to accomplish through their philanthropic work. They don't know how to get started and this is where Banyan has a real role to play. What I love about the work that I do here is that discussions about philanthropy are not separate from other family conversations on, say, governance, trusts, or business strategy. The way we do philanthropy in this firm is by integrating discussions about it into other conversations and discussions the family is having. And I believe that this integrated approach to advising families makes their philanthropy considerably more productive – both for themselves and for society.

What lessons did you take away from Bridgespan that business-owning families might most benefit from?

What's happened in the last ten to fifteen years, and this is what Bridgespan is all about, is that there's been a real push by donors to think about the social sector in a strategic way with regards to resources such as time, money, talent, and so on. This is the so-called "new" philanthropy, and it has revolutionized the social sector. In the older style philanthropy, which was primarily driven by social workers, some incredibly gifted and devoted people did some amazing work by creating organizations that often turned out to be very successful. But the founders didn't always have the hard business skills to help their organizations thrive, or bring them to scale, and some organizations got stuck because of it.

Of course, I'm not saying that old-school philanthropists weren't business-oriented. There were always some smart business-minded people who were doing this sort of thing – Carnegie, Mellon, Rockefeller, and so forth – but not in as great a number as today. And nowadays I find that philanthropists and foundations are more interested than they were before in ensuring that the work they fund has a bigger, even longer-lasting impact. They expect the people working in the field to bring strategy and management skills to bear in the social sector. Certainly, if a client family comes to us at Banyan with several million dollars it wants to use, say, for feeding the homeless, then we encourage family members to think of that giving as a business problem.

At the same time, while new philanthropy has turned up some amazing success stories, there's an incompleteness to it. The business approach to giving works very well for some folks, but the vast majority of people still do something like the old philanthropy, which tends to focus more on giving money to personal connections such as universities and churches. This giving is done with minimal measurement of results, and so it does seem that we have reached a limit as to how far the business model of philanthropy can take us. The fact is that not many philanthropists are willing to hire people to do a lot of analysis on where giving is having a social impact. To my mind, this is just one more reason why the family business model is so much more compelling than the business model in our approaches to philanthropy.

Can you elaborate on the family business approach to philanthropy?

Think about the way families deal with motivation. You don't have to work long with business-owning families to realize that they really do care about the results of their work for society. But beyond their social concerns, they also have economic, personal, and religious motives for their giving, and this is a good thing. To me, what makes philanthropy so interesting is precisely that it is so resistant to a simple-minded approach. That's important to remember. When we look at philanthropy exclusively through a business lens, we tend to focus too much on the social dimension of philanthropy. Just as managers of publicly-owned businesses keep both eyes fixed on shareholders, so adherents of the corporate model of philanthropy assume that what philanthropists care about, and *only* care about, is returns to society. I just don't think that's a reasonable assumption, or even the best way to look at philanthropy. Because of everyday realities forced upon them, families understand that the motivations people have for giving are not simple but complex.

And where does this mix of motivations for philanthropy come from in families?

Families have always used philanthropy for different ends. For example, some families use their foundations to create jobs for in-laws or children who don't have the interest to enter business. Or, conversely, some families use their foundations as a training ground for the next generations that need to learn how to be on boards, how to be executives, and how to do strategy. They feel that the stakes are much lower when you make mistakes in the foundation rather than in the business. Or sometimes families want to do philanthropy to create the personal legacy that they will leave for society. Look again at Bill Gates. For me, it's a very interesting question as to whether Bill Gates will be remembered years from now as the founder of Microsoft or as the founder of the Bill & Melinda Gates Foundation. What will his legacy be? The answer to that question has huge relevance to business-owning families that want to leave something behind. We now have a client family in Latin America, the founder of a billion–dollar business, who keeps talking about how many family companies in the region have not made it past the third generation. (All the examples in this interview are true, but disguised). "But their foundations are still going strong," he keeps on saying, as he ticks off the various foundations. "The values of these families have endured." Clearly, there are ways in which business-owning families choose their social goals that can redefine what they can accomplish as a family.

You talk as if philanthropy is good, but not very pure.

It's a real mistake to think that philanthropy has to be pure. It's not pure – I can tell you that from having worked on all sides of the equation from start-up social enterprises to large organizations to big foundations to small foundations to individual philanthropists to work with families. But the fact that you have multiple motives doesn't at all mean that you don't also have a real heartfelt desire to make a difference. And if you treat philanthropy as something that we only do for pure motives to give something back to society, then you're limiting the potential impact of it.

Right now, for example, we're working with one of the more prominent families in Southeast Asia that wants to do philanthropy because they see how important it is tied to keeping the country successful and stable. If the country goes in the other direction, their wealth might be appropriated by a new government. They see philanthropy as a necessity if their family is to remain a family of wealth. So they have become committed philanthropists.

Sometimes people get embarrassed about being self-interested about philanthropy, but to me there's no right or wrong motivation, so long as you get there; that's what really matters. I think one might even argue that if your giving is in your self-interest, then you're going to give more and be more effective with it than someone who's just doing it because he or she has a general desire to give back to society, or because they want to be recognized in the community. Those are very honorable motivations; they truly are. But sometimes there can be other much more pragmatic motivations, if you will, and that is good, too. The best of us are altruistic only a small part of the time; most of our time and energy focuses on things that somehow benefit ourselves. If we hope to harness the full potential that family companies bring as an engine for change, then we must be clear about the benefits that giving brings to people beyond the psychic rewards. It's far better, and more sustainable, to acknowledge our interests rather than to give only when a feeling of altruism sweeps over us.

As we move towards new philanthropy in the social sector, what happens to all that passion that people used to bring to the older philanthropy?

Passion is a huge part of what philanthropy is all about, both in the older style of philanthropy and in the new. It's passion that makes the social sector work – people are doing this for psychological, not financial, rewards. But here is yet another reason why the family business model is so compelling: in family businesses we don't treat passion and business as trade-offs. We don't ever try to create a dichotomy by saying either you're business oriented or family oriented. What makes family businesses successful is precisely the values and commitment of the family. Family business leaders work all the time not because they need the money but because they feel the emotional connection to the business, and that transfers over to their employees. As advisors, we try never to strip away a family's passion, but rather we try to create supporting structures around that passion to make the family business able to be successful in changing contexts.

This connection between emotions and funding is what I think philanthropy really needs. If we are too uncreative in the ways we follow the corporate model, philanthropy will lose its soul and effectiveness. The family business model lets you do philanthropy without losing the personal connection that is so essential to success in the social sector. The personal connection brings the passion, and without the passion the commitment you need for sustainable philanthropy – and it needs sustaining – simply isn't there. To make a real difference in society, you have to be able to stick with your objectives through some pretty difficult struggles. Even the most determined philanthropists get discouraged by projects they are deeply committed to because the issues are really quite intractable. The Annenberg Foundation spent $500M of its own money on trying to improve the US education system in the 1990s, and there was little tangible improvement to show for it. You're not going to solve the world's biggest problems overnight, so most people just give up after a certain amount of frustration. But let's say that you have a business in the food industry and that has spurred a passion for addressing the hunger issue in your country. If so, you are likely to stay with the problem longer, and therefore have a much better chance of making a real difference.

Let's shift gears for a moment. Your doctorate focused on issues of war and peace. Where does that interest come from and does it inform your work?

I became interested in International Relations at a very young age because I had an almost visceral fear of nuclear war. I was probably or eight or nine years old at the time; it was the early 1980s and there was a real sense that something dreadful was going to happen. I remember I used to go to bed afraid that I wouldn't wake up because there would have been this war. From that time on, I became deeply interested in conflict among nations, and more recently, I have transferred that interest to helping families deal with conflict.

In graduate school, I became fascinated with Thomas Hobbes, the English social philosopher. Hobbes is all about the struggle with conflict. He keeps trying to figure out how we can create enough structure around our lives so that people can go about doing what they want the most of the time. Hobbes got a bad name – he's often seen as a pessimistic authoritarian who believed that life is war. But remember the context. Hobbes was trying to make sense of incredibly trying times. England had experienced a vicious civil war and religious differences between Catholics and Protestants were acute and violent. My interest in Hobbes, I think, was born of my own desire to understand and resolve conflict.

You place a lot of emphasis on helping families resolving conflict. Is that a fair summation of how you see your role?

Not quite. Conflict in and of itself isn't necessarily a bad thing. You can have too little of it as well as too much. In fact, I find it much more interesting dealing with families that – at least on the surface – don't have conflicts. It usually means that there's some big unresolved issue they've never yet confronted and in these cases you need to encourage conflict if the family and their business are to evolve. In these situations, our role as advisors is to help clients be more comfortable with conflict. We're working with a client now that has this problem. There are five siblings in the family, in their 50s and 60s, and they inherited the business from their father who was the dominant figure in the family. He tended to be somewhat controlling – for instance, he doled out allowances to his children until they were well into their 40s. Then he died, and now the siblings are trying to live out what they saw as their father's vision. Since he was the one who resolved all the issues, they don't really have the experience of disagreeing about big issues. They're tremendously uncomfortable doing that and as a result have failed to adapt within their business and within their ownership structure to what's been changing around them. They're reluctant to take big decisions. The last big decision is one that their father took, and they've implemented it. Now they're stuck.

As this case illustrates there's a cost to having no conflict. If you can't have disagreements you won't be able to deal with change or make the bold moves necessary for success. That's the case with this family; they really like each other and they get along very well, but they haven't faced up to the difficult decisions they need to confront. Unless they start having some conflicts and – and let's face it – unless they start getting along a little less well, their business will eventually fail.

How does this interest in managing conflict tie in with your interest in philanthropy?

I think it's because philanthropy is one way families can experience and overcome conflict, and work together towards a common goal. As families grow, they get bigger and not everyone in the family wants to be connected with the business. In the third and fourth generations of business-owning families you have more people out of the business than in it. But if they share a common philanthropic interest then they'll be more likely to retain a sense of involvement with the business because the business supports their goals. It can also be a glue for their relationships with relatives still in the business. It works both ways.

But it's not just a question of the insiders and the outsiders. There's a big generational gulf to bridge as well, with a family's younger generations growing up in a very different environment from their parents in terms of material wealth and overall connectedness to society. In general, founders tend to have their ear to the ground, but their children's children go to elite schools and live around the world and are much more removed from the concerns of ordinary people. We often talk about families going from shirtsleeves to shirtsleeves in three generations, but we forget that going from shirtsleeves to business suits in three generations can cause serious problems as well. The first and second generations who maybe grew up quite poor find it hard to relate to the third and fourth generations because their formative experiences are so different. Most of the business-owning families we work with have some version of a story in which the founders start out with nothing and build it up; their kids usually grow up in a prosperous middle class environment. But by the time the grandkids come along the family is extremely wealthy, with all the trappings. At this point, the challenges they deal with are not about finding good schools for the kids, but rather about what it means to be wealthy in society. It's at this point that you start to see problems such as the lack of drive and ambition in the next generations or, in extreme cases, substance abuse. This is where I think that philanthropy can really help. It is a way of keeping the family, especially the younger generations, grounded.

We talk a lot with clients about how you can make later generations responsible for their wealth and ready them for the challenge of managing and growing it. Philanthropy is a way families can have these conversations. It helps parents and grandparents to give the younger generations values that they care about. And by involving the kids and grandkids in philanthropy you can give them responsibilities that they'll take seriously and that will prepare them to make choices about the responsibilities they want to shoulder as they mature – including, perhaps, responsibilities in the family business. And that's really the bottom line in the business of advising families. For if you can help people make those choices well then you're doing yourself and your clients a great service, and you have the opportunity to help business-owning families make the world a better place.