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Ideation Center insight

From traditional to impact philanthropy

Creating a legacy for GCC family businesses

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Executive summary

Family businesses in Gulf Cooperation Council (GCC) countries[1] are the region's largest contributors to social and charitable causes, but they have yet to unlock the full potential of their philanthropic activity. Many of them embrace philanthropy in addition to their religious obligations of *zakat* (charitable giving). The annual philanthropic capital of only 100 of the largest GCC family businesses is estimated at a minimum of US$7 billion. However, most of these businesses rely primarily on ad hoc donations and grant-making. Globally, leading family businesses are behind some of the largest philanthropic institutions, conducting major social and health initiatives. Like these giants, GCC family businesses could have a significant impact on their community, business, and family by transforming the way they practice philanthropy.

For family businesses to make the transition to "impact philanthropy," they would need to acquire advanced capabilities that allow them to continue "doing good" while also "doing well." First, they need to institutionalize their philanthropic activity to improve strategic decision-making and better define the scope of work. The benefits of this would include reinforced family cohesion and enhanced core organizational capabilities in philanthropic focus areas. Second, they should take a proactive approach to philanthropy by using innovative financing tools as well as non-financial products and services. This would improve efficiency, maximizing the value of each dollar spent and possibly generating financial returns to sustain their philanthropic activity. Third, they should implement clear assessment frameworks to measure the outcomes of their projects.

This transformation would deliver the necessary capabilities to improve the performance and sustainability of future initiatives while building a lasting legacy around family names. GCC governments have a role to play in enabling this transformation, mainly by improving the regulation and governance of the third sector.[2] In turn, this would increase the sector's contribution to GDP through job creation and community development.

Philanthropic capital in GCC family businesses

Globally, family firms are behind the world's wealthiest charitable institutions, with tens of billions of dollars involved. In the GCC, family businesses already represent around 90 percent of the private sector economy.[3] They are also significant players in the region's third sector, alongside non-governmental organizations (NGOs), nonprofit organizations (NPOs), cooperatives, social enterprises, and charities. Their philanthropic contributions include at a minimum the religious obligation to give money to charity, that is, paying their *zakat* obligations (*see Zakat in the GCC, page 7*). Most wealthy families in the GCC make additional contributions (*sadaqa*). We have seen founders of some of the largest family businesses specifying in their will that a major portion of their fortune (sometimes up to 25 percent) should be reserved for charity.

Strategy& estimates the annual philanthropic capital of 100 of the largest family businesses by net worth at a bare minimum of around $7 billion (*see Exhibit 1, page 6*). This considerable amount has the potential to diversify the economy and contribute to GDP, create jobs, and address critical issues in key areas such as healthcare, education, and the like.

Exhibit 1

GCC family businesses have substantial untapped philanthropic potential

Publicly available net worth of 53 large GCC family businesses
(Average net worth by quartile, 2015)

$9 bil
Quartile 1 (13 families)
More than $5 billion

$4 bil
Quartile 2 (14 families)
$2.5 – $5 billion

$2 bil
Quartile 3 (13 families)
$1.5 – $2.5 billion

$1 bil
Quartile 4 (13 families)
Less than $1 billion

Estimated net worth of 100 large GCC family businesses

$277 billion
Assumes average net worth of remaining 47 families is equal to quartile 4 average net worth

Minimum annual philanthropic capital

$6.9 billion
Assumes minimum *zakat* contribution of 2.5% of net worth

Source: *Forbes Middle East* (http://www.forbesmiddleeast.com/en/lists/read/2016/the-world-s-richest-arabs-2016/listid/274#); Richest Lifestyle (http://www.richestlifestyle.com/richest-people-in-kuwait); *Gulf Business* (http://gulfbusiness.com/lists/top-100-powerful-arabs-2014/adel-aujan/); *Gulf News* (http://gulfnews.com/guides/life/community/world-s-richest-uae-billionaires-in-2016-1.1715356); Emirates 247 (http://www.emirates247.com/news/richest-arabs-youngest-billionaire-wealthiest-family-2016-04-17-1.627434); *Arabian Business* (http://www.arabianbusiness.com/rich-list-2009/list?view=profile&itemid=150343#.WC2F89V961s); UAE Mega Projects (http://uaemegaprojects.blogspot.co.uk/2008/03/forbes-arabian-billionaires-richest.html); Wealth X (http://www.wealthx.com/articles/2015/abdulla-al-mansoori/); Smart Earning Methods (http://www.smartearningmethods.com/top-ten-richest-people-abu-dhabi-2014/); *International Investment* (http://www.internationalinvestment.net/regions/six-saudis-among-arab-worlds-10-richest-report/); company websites; Strategy& analysis

Zakat in the GCC

Zakat, one of the five pillars of Islam, is an annual religious obligation (*fard*) that requires Muslims who meet certain criteria of wealth to give alms, in accordance with Islamic law (*sharia*). It is voluntary in some Islamic countries and mandatory in others. It is not mandatory for companies, except in Saudi Arabia and, to a lesser extent, Kuwait.

Personal zakat is set at 2.5 percent of any amount or asset of a value above a minimum amount (*nisab*) that has been idle in an individual's accounts for more than 12 months. The definition of *nisab* may vary from one country to another; in Saudi Arabia it is set at $3,000.

There is no government control over personal *zakat* contributions, so donors are free to contribute to the charity or cause of their choice, and they typically exceed their dues. Some individuals also donate the interest from their bank accounts.

Corporate zakat is calculated as a percentage of a company's net worth. *Zakat* is only mandatory for businesses in Saudi Arabia if the company is owned by a Saudi or GCC national. It is set at 2.5 percent. In Kuwait, businesses are required to pay 1 percent of their profits either as *zakat* or as a state budget contribution.

At the end of the fiscal year, companies need to submit their financial statements as well as their *zakat* statement to the regulating authority: for example, the Department of Zakat and Income Tax in Saudi Arabia, or the Zakat House in Kuwait. These authorities then choose how to assign *zakat* amounts for social causes, such as supporting poor families, widows, and orphans. Additional *zakat* donations to approved non-profits can be written off as business expenses and are not subject to income tax.

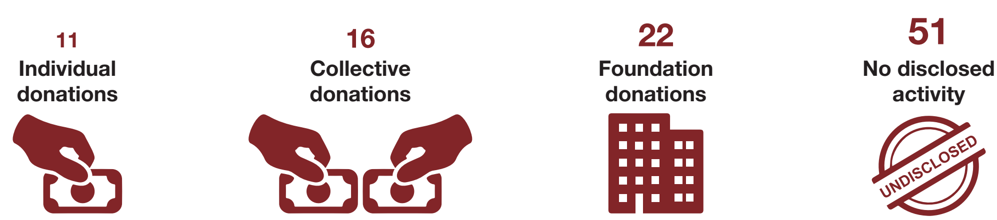
Philanthropic practice in GCC family businesses

GCC family businesses have a tradition of philanthropy rooted in their regional and cultural context. They engage in philanthropy primarily by making charitable donations, which can take the form of regular donations or *zakat*, as well as by volunteering for community service and supporting capacity-building programs. In family businesses, individual family members may also choose to contribute to philanthropic activities personally.

Strategy& collected data on 100 of the largest family businesses in the GCC and found that 49 of these companies are publicly involved in philanthropy. Others in that group may also be engaging in philanthropic efforts, yet choose not to disclose this type of activity, in accordance with Islamic teachings of humility when giving charity (*see Exhibit 2*).

Overall, philanthropic activity in the GCC is marked by four key characteristics: a lack of philanthropic foundations, too many ad hoc donations, excessive grant-making, and a lack of impact measurement.

Exhibit 2
Most of the 100 largest GCC family businesses by net worth conduct philanthropy privately



Source: Company and foundation information; Strategy& analysis

The region lacks philanthropic foundations

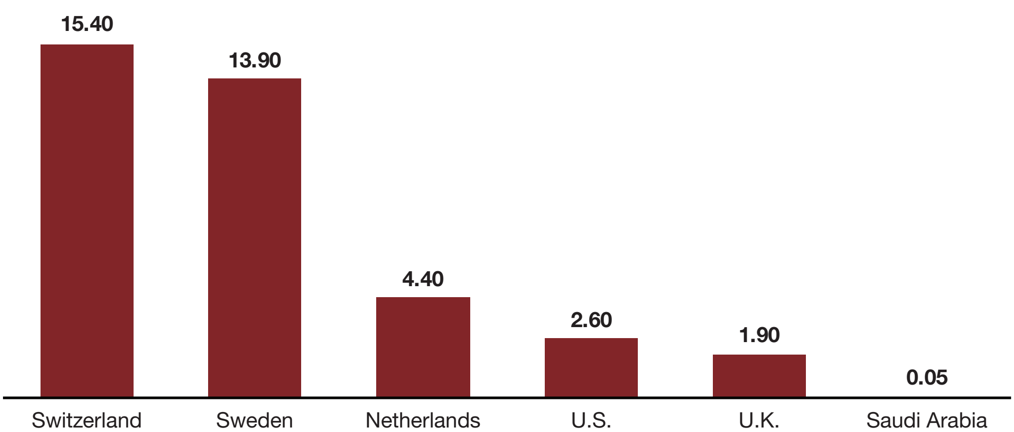
Strategy& identified only 22 family businesses with a philanthropic foundation in its sample of 100 top GCC family firms. This ratio is estimated to be even lower among family businesses with less wealth. In Saudi Arabia, for instance, the number of foundations per capita is much lower than international benchmarks (*see Exhibit 3*).

Some of the obstacles to setting up a foundation include restrictive government regulations and interference in internal affairs, as well as the number of regulatory entities that a foundation has to deal with. In 2016, Saudi Arabia implemented the new Law on Associations and Foundations (the so-called CSO [Civil Society Organizations] Law"), providing for the first time a comprehensive legal framework to govern the establishment,

Exhibit 3

Saudi Arabia lags behind the rest of the world in number of foundations per capita

Number of foundations per capita (Data from 2014 and 2015)

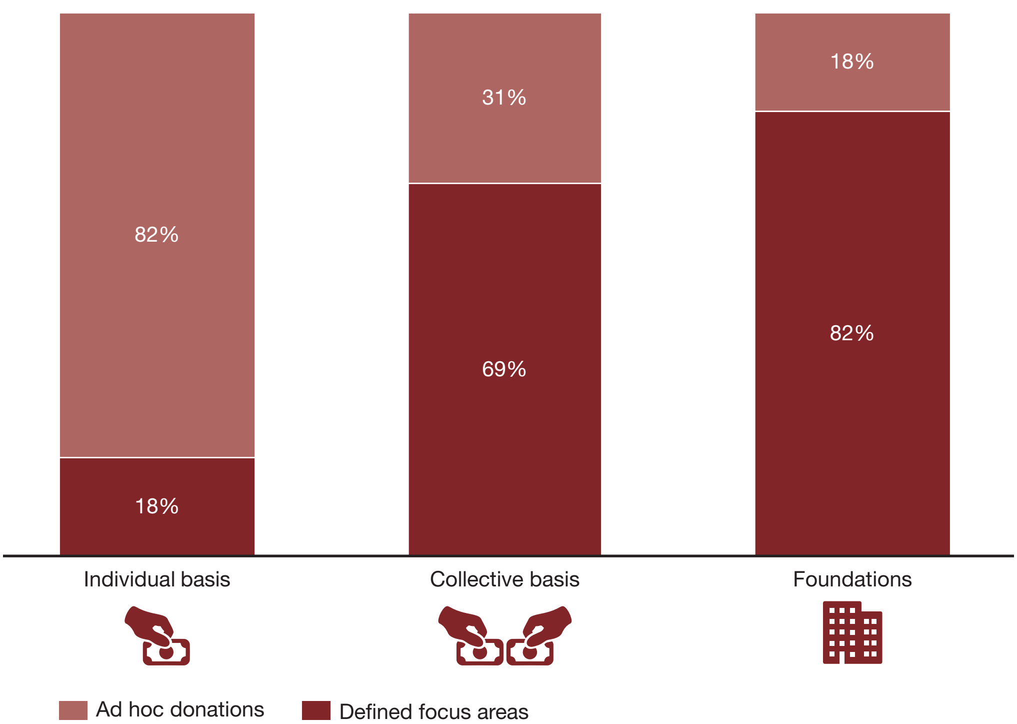


Source: Canadian Foundation Facts (http://pfc.ca/canadian-foundation-facts/); Statista, "Number of foundations in the United States from 1990 to 2014" (https://www.statista.com/statistics/250878/number-of-foundations-in-the-united-states/); Saudi Arabia, Vision 2030 (http://vision2030.gov.sa/sites/default/files/NTP_En.pdf); Strategy& analysis operation, and supervision of associations and foundations. However, some vague wording in this new law can be subject to interpretation and can limit the registration and activities of civil society organizations, according to the International Center for Not-for-Profit Law.[4]

These challenges and restrictions have driven some family businesses to establish foundations overseas. Saudi Arabia's Al Dabbagh Group and MBI International, for example, have both set up their foundations in the U.K. (the Stars Foundation and the MBI Al Jaber Foundation, respectively).

Philanthropy consists mainly of ad hoc donations
Even among businesses that have established a foundation, individual family members still make personal donations on an ad hoc basis. However, Strategy&'s analysis of 100 of the top family businesses shows that having a foundation encourages having more targeted philanthropic activities, which can achieve higher impact (*see Exhibit 4*).

Exhibit 4
Foundations encourage more focused giving

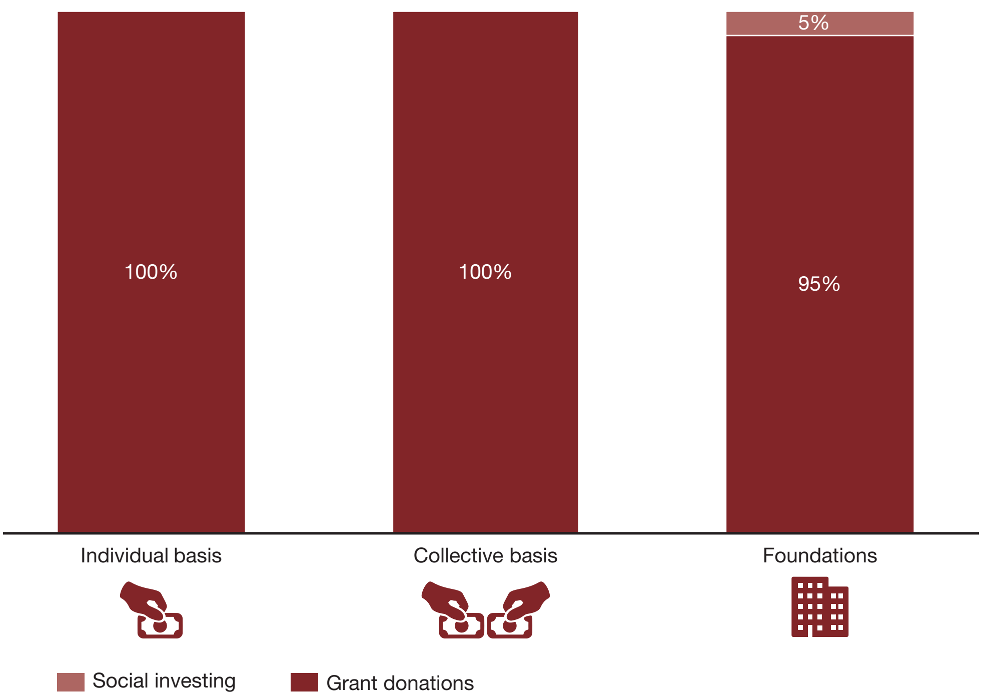


Source: Strategy& analysis

Philanthropy relies on grant-making

Family businesses focus on finding grantees for their donations rather than exploring more innovative financial mechanisms that are increasingly adopted globally, such as impact investing and venture philanthropy. Some families simply set up offices out of which they donate cash to those soliciting it (NGOs and individuals). Among Strategy&'s sample, only Community Jameel (part of the Abdul Latif Jameel group) adopts innovative mechanisms (*see Exhibit 5*).

Exhibit 5
Grants dominate family philanthropy



Source: Strategy& analysis

One of the main reasons behind this low adoption is the question of whether these mechanisms are *sharia*-compliant. In Saudi Arabia, grant-making to approved charities is particularly convenient for companies because they can write off their contribution as a business expense not subject to corporate taxation.

In addition, the GCC's third sector suffers from a talent gap that results in limited innovation when it comes to the way philanthropy is conducted. In Saudi Arabia, for example, less than 50 percent of employees holding key positions in the third sector have the necessary level of skill. Moreover, only 21 percent of institutes and colleges provide accredited social and public policy programs.[5]

The GCC's third sector suffers from a talent gap that results in limited innovation when it comes to the way philanthropy is conducted.

Philanthropic efforts are not assessed for impact
Only a few GCC family businesses evaluate the impact of their efforts. Most firms assess only the output of such activities (e.g., total amount donated, number of partnerships, countries served, media coverage) rather than their outcomes (e.g., number of lives saved, number of women empowered, level of income increased).

In addition, the region lacks data pertaining to the impact of philanthropic efforts on both the national and regional levels. This makes it difficult to track and measure the sustainability of philanthropic programs or assess family businesses' commitment to good governance, leading practices, and transparency in managing their philanthropic operations.

Although philanthropic activities in general have a positive bearing on the lives of direct beneficiaries and the community at large, modernizing this approach would give family businesses' efforts more impact and deliver benefits for their family and their business.

Driving the transition to impact philanthropy

Beyond allowing them to "do good" in their community, philanthropy could also enable GCC family businesses to "do well" within their business, provided it is more focused, has more impact, and is measurable. Leading family businesses globally are shifting to impact philanthropy to maximize the outcomes of their philanthropic efforts. This involves formalizing their philanthropic engagement to be able to pool more money and target specific objectives to make a bigger difference in social causes. It also includes introducing innovative financial tools as well as non-financial support that deliver higher returns, whether by creating a greater social impact or generating financial returns that could fund new initiatives. More importantly, it enables them to closely monitor and measure the impact of their efforts, ensuring transparency and accountability.

Such an approach helps family businesses establish a lasting legacy of philanthropy. It reaffirms core family values such as giving back to the community or fulfilling religious obligations.

Impact philanthropy consists of three key features: institutionalization, a proactive approach to grant-making, and impact measurement (*see Exhibit 6, page 14*).

Exhibit 6
Impact philanthropy requires three key changes to the old way of "doing good"

Source: Strategy& analysis

Institutionalized philanthropic efforts
Institutionalization involves three components: a clearly defined strategy, a structured operating model, and a reliable source of funding.

A clear philanthropic strategy creates a coherent mission that concentrates on specific areas, for example increasing literacy, preventing disease, or improving financial conditions. This makes family businesses' efforts more focused while also helping them acquire specialized organizational capabilities in these areas to create a greater impact. The philanthropic strategy should be aligned with the corporate strategy and should emphasize family values.

Once a strategy is formulated, it needs the correct organizational framework to support it. An operating model defines the governance, organizational structure, and roles and responsibilities of each family member when it comes to philanthropy. This reinforces cohesion among family members — especially younger individuals — by encouraging them to become more engaged in the business's philanthropic activity. It could also create leadership opportunities for family members who do not work with the company, particularly women. In addition, it would help channel funds more transparently and efficiently.

Depending on the size of philanthropic activities, the operating model could be as simple as a lean organization able to effectively manage costs. As the size and complexity of philanthropic activities increase, family businesses could set up a foundation to oversee them. In some cases, foundations are responsible for managing different programs operating as self-standing entities. The foundations could execute these programs either directly or through partners such as non-governmental and nonprofit organizations.

Of course, funding is crucial to ensure the continuity of philanthropic activities, allowing family businesses to broaden the reach of their programs or ensure the self-sustainability of their efforts. The source and method of funding depends on whether donations are made individually, collectively, or through a foundation (*see Exhibit 7*).

Exhibit 7
Family businesses have three ways to channel their philanthropic efforts

	Individually	Collectively	Foundation
Description	Individual family members make donations independently	A family assembly or council pools contributions from different family members to fund initiatives collectively	A stand-alone, independently managed entity funded through endowments targets strategic initiatives
Benefits	**Allows greater flexibility** Individual donors can donate to a variety of causes, in line with their unique personal interests	**Has a greater impact** Family members can raise larger pools of capital and donate to causes in the family's name	**Creates a family legacy** Strong organizational capabilities and access to a secure source of capital consecrate a family business's philanthropic activity
Limitations	**Has minimal impact** Limits impact on a particular cause and does not create a family legacy	**Few causes are funded** Requires coordination through the family council and consensus on targeted causes	**Has a high initial cost** Requires a significant initial investment and the establishment of a full-fledged organization (infrastructure, staff, capabilities) to run programs

Greater institutionalization →

Source: Strategy& analysis

In the collective model, the family would establish a minimum contribution to be financed from family members' business proceeds. In the foundation model, a one-time endowment would need to be established to ensure financial continuity. The endowment could be financed through one-time contributions from family members or proceeds from the sale of common family assets (e.g., land). Alternatively, the endowment could be opened to external contributors (governments, other foundations, businesses, or individuals).

By taking a highly institutionalized approach to philanthropy, the Bill & Melinda Gates Foundation has selected a well-defined set of causes it wishes to pursue and the pertinent strategies. As the world's largest philanthropic organization, the foundation operates with a $40 billion endowment. Each year, it develops detailed budgets that make provisions for grant targets as well as operating departments' expenses. It then drafts a comprehensive execution plan for each grant and reviews it periodically.

Examples of institutionalized philanthropic foundations by GCC family businesses include the Abdulrahman Kanoo Charity Company (part of the UAE-based Kanoo Group), the Khalaf Ahmad Al Habtoor Foundation (Al Habtoor Group), and Community Jameel (Abdul Latif Jameel group). These foundations clearly define the philanthropic engagement of the family businesses behind them, and ensure sustainable funding through a percentage of the companies' shares or revenues. One of the key focus areas for Community Jameel, for example, is job creation. Launched in 2003, the foundation's Bab Rizq Jameel initiative has created more than 490,000 jobs across industries in Saudi Arabia (70 percent of which for female nationals), and an additional 220,000 jobs in Egypt, Morocco, and Turkey. From a two-person operation, it grew into a team of 500 job-creating officers with specialized capabilities. Today, it offers entrepreneurs and small businesses interest-free loans, training, and support, as well as remote work and home-based job programs. It also offers taxi and truck ownership programs, as well as job-matching and direct recruitment.

Social investing and philanthropy in the core business
Moving away from traditional grant-making, GCC family businesses should adopt a more proactive role in the way they engage in philanthropy to achieve a higher impact. Although traditional grant-making provides much-needed funding for causes, it distances donors from the way their donations are invested, making it hard for them to gauge the real impact of their contribution. Globally, family-owned philanthropic associations take a more proactive role in philanthropy by adopting innovative approaches like social investing tools or core business products and services with a philanthropic goal.

Social investing is about funding social initiatives with a larger emphasis on measuring results, holding grantees accountable for achieving agreed-upon outcomes.

Venture philanthropy is one form of social investing that applies concepts and techniques from venture capital finance to support the growth and core operations of social enterprises through seed grants, long-term investments, or skill-building.

Venture philanthropy is one form of social investing that applies concepts and techniques from venture capital.

Another tool is impact investing, which treats philanthropic contributions like regular investments, providing financial support to projects through private equity, debt, or fixed income securities. This is usually facilitated by innovative financing mechanisms such as new debt instruments or micro-levies, and social impact bonds (SIBs).

For example, the Rockefeller Foundation has been a pioneer in the social investing field. Since 2007, it has collaborated and experimented with private, public, and third sector partners to develop a suite of financial products for its social investing portfolio, starting with SIBs. When governments face budget cuts, SIBs allow investors to fund nonprofit sectors by initiating or enlarging programs with a measurable social benefit. In India, the foundation's Smart Power for Rural Development initiative is experimenting with a new social investing model that aligns disparate interests and actors to collaborate and share risk.[6] It has provided grants and concessionary debt financing to small-scale energy-services companies to bring electricity to remote areas. The Rockefeller Foundation also made the venture profitable for energy-services companies by developing an MOU with a telecom operator, securing it as a contractually guaranteed customer. In turn, startups and households have benefited from a reliable and clean source of electricity.

In the GCC, Community Jameel is one of the few foundations that engage in social investing by funding micro-finance institutions to encourage youth and women to start their own small businesses. The closest other example is Alfanar, the Arab region's first venture philanthropy organization. Alfanar focuses on improving children's education and empowering women in the Arab world. It provides social enterprises with tailored financing and hands-on technical assistance, with a core mandate of increasing their financial sustainability. Since its establishment, the impact of its social ventures portfolio on the lives of individuals has grown at a yearly rate of 39 percent, and these ventures have generated 32 percent more revenue year-on-year.

Philanthropy in the core business involves businesses developing products and services that target individuals facing economic, development, or health challenges, or giving their employees incentives to volunteer their business skills for a social purpose.

In 2013, for example, SC Johnson, the family-owned manufacturer of household products, launched a pilot project in rural Ghana to promote the use of its insect-control products and help prevent malaria. To increase conversion and guarantee a returning clientele, it sold its products as bundles or in refillable format, and introduced loyalty programs. Also, it created a direct-sales model and dispatched coaches to provide hands-on product demonstrations in homes and gathering places. In the process of developing this high-touch channel and tailoring its products to the local market, SC Johnson created a social impact and also acquired valuable new capabilities for its core business.[7]

By applying their differentiated capabilities, businesses can create products and services with social and environmental outcomes. In addition to making an impact, philanthropy in the core business would bring family businesses a different return on their investment, usually in the form of an expanded knowledge and skill base that contributes to improving their core business capabilities.

These proactive approaches to philanthropy allow family businesses to generate revenue from their social investments or from products and services they offer. They can reinvest these returns in new projects, contributing to the sustainable funding and continuation of their philanthropic activity.

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Impact assessment

A robust assessment methodology would allow family businesses to regularly measure the progress and impact of their philanthropic efforts. Family businesses need to look at the outcomes of their philanthropic activity, and not the outputs. They should implement a comprehensive evaluation framework for their philanthropic initiatives from planning to review. They could, for example, follow the widely accepted guidelines for measuring impact through the “Plan, Do, Assess, Review” framework.[8] This would allow them to determine which of their initiatives are worth scaling and replicating, and which ones need to be improved — or abandoned — to ensure their efforts continue in the right direction.

The W.K. Kellogg Foundation is an example of leading practices when it comes to impact measurement. It assesses its philanthropic efforts on three levels. At the project level, project directors collect and analyze information on program management and service delivery for the purposes of evaluation and improving decision-making. Similar projects within a “cluster” are periodically brought together for evaluation at networking conferences to help clarify the strategies of major programming initiatives and inform public policy debates. At the macro level, programming staff utilize information from both project-level and cluster-level evaluations to make effective decisions about funding and policy.

Enabling the philanthropic ecosystem

As GCC family businesses engage in the transition to impact philanthropy, governments can play a role in improving the third sector's ecosystem. Governments need to intervene in four different areas to help this sector overcome challenges and unlock the full potential of family business philanthropy.

Governance
A single government entity should be in charge of the management of the third sector, its licensing, and the evaluation and control of its operations. At present, multiple entities are involved. The single entity must have a clear and defined mandate, as well as the authority to set national priorities in the sector, deploy *zakat* money to more effect, and provide direct support to the programs with the highest social impact.

Laws and regulations
Governments can encourage family businesses to establish philanthropic foundations by simplifying or reducing the amount of regulations for setting up and operating a foundation. For example, governments could require them to have a smaller number of founders, or impose fewer restrictions on founders' nationality or the foundation's geographical coverage, and sources of funding. They could also offer tax or *zakat* exemptions to privately owned companies or social enterprises (not just NGOs and NPOs) that carry out activities with a social impact.

Local talent pool
Governments can help the third sector to hire skilled managers and employees by deepening the local talent pool. This will enable the sector to run its social and philanthropic activities and drive the transformation to impact philanthropy. Governments and educational institutions should introduce additional courses and programs that develop skills such as fundraising, effective leadership, and financial management in the third sector. They could also initiate training programs, in partnership with international NGOs and experts. Academic institutions involved in this field should also get the right accreditation.

Awareness and promotion
Governments can promote the third sector by raising awareness and providing data about the sector and its players. Giving the public access to this information would highlight the foundations that are creating the most impact, and would help donors choose the right recipients for their contributions, which would do away with ad hoc donations. In the U.S., for instance, an independent charity watchdog organization called Charity Navigator ranks charitable associations on its website. Donors can track how efficiently an association uses its support, how well it sustains its programs and services over time, and how committed it is to good governance, leading practices, and open information.

By setting these enablers, GCC governments can grow the third sector's contribution to their economy and society. For instance, Saudi Arabia's National Transformation Plan 2020 aims to raise the third sector's contribution to the GDP to 5 percent, up from less than 1 percent currently. It also aims for more than one-third of the projects in that sector to have a measurable and social impact.

Governments promote the third sector by raising awareness and providing data about the sector and its players.

Conclusion

The transition to impact philanthropy can help GCC family businesses make a greater mark in their communities. Taking their cue from global leaders, GCC family businesses must transform the way they “do good,” by taking a formal, proactive, and sustainable approach to philanthropy, capable of achieving social change with higher impact and visibility.

Endnotes

[1] The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

[2] The third sector encompasses social activity undertaken by organizations that are not-for-profit and non-governmental or non-commercial.

[3] "Markaz Sector Report 2014 – GCC Family Business," Marmore MENA Intelligence, June 2014 (https://www.e-marmore.com/Reports/Industry-Research/Other-Industries/GCC-Family-Business).

[4] "Civic Freedom Monitor: Saudi Arabia," The International Center for Not-for-Profit Law, August 2016 (http://www.icnl.org/research/monitor/saudiarabia.html).

[5] "National Transformation Program 2020," Saudi Arabia Council of Economic and Development Affairs, 2015 (http://vision2030.gov.sa/sites/default/files/NTP_En.pdf).

[6] Rockefeller Foundation, Smart power for rural development, 2015 (https://www.rockefellerfoundation.org/our-work/initiatives/smart-power-for-rural-development/).

[7] Erik Simanis and Duncan Duke, "Profits at the Bottom of the Pyramid," *Harvard Business Review,* October 2014 (https://hbr.org/2014/10/profits-at-the-bottom-of-the-pyramid).

[8] "Measuring Impact - Subject paper of the Impact Measurement Working Group," Social Impact Investment Taskforce, September 2014 (http://www.socialimpactinvestment.org/reports/Measuring%20Impact%20WG%20paper%20FINAL.pdf).

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