

Stanford SOCIAL INNOVATION^{Review}

Leping Supplement
Next-Generation Philanthropy
By Brad Glosserman, Fan Li & Yulin Li

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Despite their differences, both firms needed something from the other: Tsumura's goal to expand herbal medicine production locally—most of its medicinal plants are grown in China—was made possible with My Farm's work in running farms and delivering agricultural education programs in Japan. My Farm is responsible for training and educating Tsumura employees in agricultural management and the cultivation of plants. In addition to training programs, My Farm helped Tsumura access farmlands and the network of farmers that the manufacturer needs for production. In return, Tsumura provided My Farm the financial investment it needed to grow.

"Sharing human talents is a great way to reveal new capabilities," a fund manager at Kamakura says. "We don't want to [invest in companies solely with] money. We see our investees and customers as part of our family." Aside from making financial investments and identifying ways for companies it invests in to work together, Kamakura hosts workshops for investor relations professionals. Kazuma Nishitsuji, founder and president of My Farm, said that Kamakura is the kind of gatekeeper that social ventures need to become "a successful company."

Similar to Kamakura, Japan Social Impact Investment Foundation (SIIF), founded in 2017, is a cross-sector ecosystem that uses a variety of approaches to support sustainable developments in Japan. In 2017, SIIF invested in Japan's first health-care social impact bond (SIB) in the cities of Kobe and Hachioji. In Kobe, SIIF invested in a 30 million-yen (\$274,000) project that provides nutritional therapy to a group of 100 diabetic people. Currently 320,000 people in Japan undergo dialysis, which costs 1.5 trillion yen (\$13.7 billion) annually. If the project improves the health of the 100 participants, Kobe's city government will repay investors a maximum internal rate of return of about 5 percent to cover part of the medical costs. SIIF encouraged private investors, such as Sumitomo Mitsui Banking Corporation, to get involved in impact investing. In Hachioji, SIIF invested in a 9 million yen (\$82,000) project that sent a letter prepared by AI technology analyzing 12,000 individual data and clinical data for improving colorectal cancer screening rates.

In March 2018, SIIF invested 30 million yen (\$274,000) in an intermediary called Plus Social Investment (PSI), established in Kyoto in 2016, which connects impact investors with regional impact-driven enterprises. PSI also works with local financial institutions to introduce PSI's investment products that support local impact-driven enterprises to their retail customers. PSI structures investment products for local enterprises. Then, local financial institutions introduce such products to their customers. According to the Bank of Japan, over 50 percent of Japanese households' 1.8 quadrillion yen (\$16.4 trillion) in assets is kept as cash and deposits. Also, regional financial institutions face a structural challenge for their businesses to survive as they face aging communities and declining economies. New investment products developed by PSI provide a way to employ Japan's underutilized household assets for revitalizing regional economies.

As impact investment is still a new practice in Japan, SIIF is looking into ways to measure the social impacts created in order to encourage more investments in impact-driven enterprises and causes. Fumi Sugeno, senior program officer at SIIF, said, "In Japan, utilization of private capital for social issues is attracting government interest. More and more private investors are starting to pursue a double bottom line."

As interest from investors continues to increase, organizations like Kamakura and SIIF aim to help social enterprises capitalize on the opportunities. "Development in social enterprises is lagging behind the increased interest from investors," Sugeno says. "SIIF would like to nurture the demand side to connect social ventures with investors and create a cycle of funds flow throughout the country." ♦

Next-Generation Philanthropy

Asia's second wave of philanthropists are eschewing traditional philanthropic models in favor of more expansive, hands-on approaches.

BY BRAD GLOSSERMAN, FAN LI & YULIN LI

Asian philanthropy is undergoing a profound cultural change triggered by generational differences. These differences have been understudied; one of the few such assessments was conducted by UBS and INSEAD in 2011. It reached several important conclusions, most notably that the older generations tend to be more cognizant of the importance of giving to their communities; younger generations, on the other hand, tend to be more internationalist in their outlook. The study also found that the older generations tend to give more to "traditional" sectors such as education and health, whereas younger generations accord greater value to causes relating to the arts and culture, the environment, and civil rights. And, the older generations are often more comfortable with patriarchal models of governance, while next-generation philanthropists tend to prefer collegial or managerial models of governance, and they are much more open to social enterprise and social value investment models.

An examination of a representative sample of second- and third-generation philanthropists from wealthy families in Northeast Asia analyzes differences between their practices and those of their parents and identifies commonalities across generations. This does not purport to be an exhaustive analysis but is instead a starting point for continued research, iteration, and improvement.

BREAKING OUT OF THE WEALTH BUBBLE IN SOUTH KOREA

Kyung Sun Chung is founder and now the chief imagination officer (CIO) of Root Impact (RI), a Korean nonprofit organization whose mission statement is "Changemakers for Changemakers who endeavor to bring positive changes in the world." Established in 2012, it aims to build an "Impact Ecosystem" that will help social entrepreneurs with their mission, solve pressing issues, and sustain business growth. Like a lab, explains Chung: "Root Impact is doing experiments," not just to assist social enterprises but also to accumulate hard data that can measure the impact of its work and "prove that what we are doing is good for society." Building on its reputation as a pioneer of impact investing in South Korea, RI has launched initiatives like D-Well in 2014, which offers space to young social entrepreneurs and NGO leaders to live together, and Heyground in 2017, a coworking community that provides pro bono legal, financial, technical, and wellness services to more than 500 people and 70 social ventures. Chung insists that it is not an incubator but a collaborative: "We are working together; we are not enriching them."

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Chung comes from one of South Korea's richest families. He is the grandson of Chung Ju-yung, founder of the Hyundai group of companies, which dominates South Korea's business landscape. Although he never had a conversation with his grandfather, who died when Chung was just 9, he learned that his grandfather was seen as a social entrepreneur: "He called himself a worker ... a shepherd of public assets, and he said that Hyundai was not his personal asset. He had a duty to make it better and that good business should be good for society."

Wealth "othered" Chung. He was an introvert when he was young, bullied and marginalized in some cases because of his family. He sees RI and other social enterprises as opportunities to help marginalized people. "For me, helping them is like my own salvation." This view is not typical among wealthy South Koreans. Chung criticizes the wealthy who "live in a bubble," taking their good fortune—and their fortunes—for granted.

Chung believes that Korea needs to change and become more welcoming of diversity: Korea is "a homogenous country in which

our parents were educated that each person has to do a certain thing, follow a certain path. Otherwise, you're a failure. Parents try to stop young people from doing the 'wrong thing,' and this blocks potential to become a change maker." This concern drove him to create D-Well in the old town of Seoul, a co-living community for more than 60 residents that offers living spaces at rates well below market price so that they can focus on their social projects. "I want them to feel confident to talk about social impact, about making the world a better place. A healthy society needs to be more diverse and more inclusive," he says.

His goal to change Korean society is outlined in his five-year plan to "strengthen our brand as a thought leader in Korea," he explains. "Now that the government is pushing the social economy and copying our model, we need to make sure that they are doing it right. We need to provide advice to the government—not what they want to hear, but what they need to hear." A central part of that effort will be creating a new type of conversation in Korea. "The younger generation needs

to feel more secure, and there needs to be equal dialogue between the two generations,” he says. Chung has experienced this firsthand.

Chung’s work is influencing business practices in South Korea. Companies are taking a more expansive view of their responsibilities to all stakeholders—not just shareholders—and recognizing that “when they make all shareholders happy, then business can be more sustainable and resilient,” he says. “Companies that do well for the long term have good relationships with employees, society, and others. This is not about doing charity or philanthropy anymore; it’s about being more effective, efficient, and long-term sustainable.”

Chung hopes to spread the RI experience beyond Korea’s border: A second objective is to establish global partnerships and replicate its model overseas. Nowadays, he is more inclined to introduce himself as the founder and CEO of Holistic Growth Initiative (HGI). A social purpose real estate development and impact investing firm, HGI opened a D-Well location in Las Vegas in 2017 with full support from RI and is now working to start a Heyground in New York City. These are the first steps in a larger international expansion process in which RI can share its hands-on experience and knowledge with those partners.

CHALLENGING TRADITION

They have never met, but Daisuke Kan has a lot in common with Chung. Like the young Korean entrepreneur, this young Japanese entrepreneur feels that “otherness is the core of my identity.” It is a surprising statement from Kan, the executive director at Cheerio Group, a Japanese soft drink company established more than 50 years ago that today sells more than 150 million bottles of drinks a year. Daisuke is the third generation to work in the family business, and his résumé reflects a privileged lineage: a BA from Tokyo University, the apex of Japan’s education system, which he followed with an MBA from Stanford University.

Nevertheless, Kan was always acutely aware of his family’s “outsider” status: His grandfather was from Manchuria. He recounts how he visited a cemetery to “be introduced to his ancestors” and was reminded while there that “we were always a minority.”

That sense of distance has had a profound impact on Kan, who is not alone in believing that Japan is “a country with conformity at its core.” His stay in the United States was eye-opening on several levels. He slowly began to understand the great diversity of the country and learned that “people have their own identity.” He also began to venture out of the bubble of privilege to appreciate how in some cases diversity reflected disparity and inequality. Like Chung, he credits his US experience for shifting his perspective. He visited New Orleans with a group of Stanford students in the aftermath of Hurricane Katrina to assist in the cleanup of the Ninth Ward, which was devastated by the storm. “It was shocking that 10 months after the disaster, some children were still looking for their parents,” he says, shaking his head.

He put that experience to good use after he returned home and Japan was rocked by the March 11, 2011, “triple disaster”—earthquake, tsunami, and nuclear accident in Fukushima—that hammered its northeast coast. He quickly sent 200,000 bottles of drinks to the disaster area from company warehouses and distributed 170,000 of them to victims during the next six weeks.

The disaster in Japan was another awakening for Kan. He had been “reflecting on core values” since his return from the United States and was looking for ways to address social issues that weren’t created by disasters. A business background shaped his thinking in two critical ways: First, he had a full job as the executive director of Cheerio, which meant that he had to make time to work on social issues. Second,

that background impressed upon him the value of entrepreneurial approaches to problem solving. That is, Kan concedes, a challenge for many Japanese, who are not accustomed to such individualized effort and for whom there is still a stigma attached to failure.

This thinking animates his participation in the Tofu Project, which takes young Japanese entrepreneurs to the San Francisco Bay Area for a one-week boot camp to study innovation and design thinking. It grew out of the Fukushima disaster, but it now seeks to tap the dynamism of the next generation of Japanese to create a new culture of innovation.

Kan’s desire for diversity, along with his friendship with Fumino Sugiyama, prompted his involvement in Tokyo Rainbow Pride, Japan’s premier LGBTQ event, which Sugiyama organizes. When he became involved, the project had only attracted the support of foreign embassies and a few international companies. “I wanted to support my friend and to educate my staff. We needed to humanize LGBTQ issues,” he explains. At first, he offered only financial support, but he has become more involved and has worked to find others to support the project. Cheerio has been the top sponsor of Tokyo Rainbow Pride for the past four years.

FINDING EFFECTIVE MODELS

On paper, Allen Liang looks a lot like Chung and Kan. Born in 1984, he was educated overseas at the University of Warwick in England and earned a master’s degree at the John F. Kennedy School of Government at Harvard University. He also comes from a life of privilege: He is the only son of Liang Wengen, chairman of the Sany Group, a multinational heavy machinery manufacturing group and one of China’s richest men.

Despite this shared background, Liang has a different perspective from that of Chung and Kan. He believes China’s “second generation rich” are more willing to take up social responsibilities. “Because most second generation don’t grow up poor, they don’t have a strong urge to own money like their parents. They’re more willing to donate,” he says. Speaking for himself, Liang confesses that “whatever choice I make has

little to do with my family background. It’s about my values and my pursuit of happiness. I don’t think spending money makes me happy; nor does earning money. So I choose philanthropy.”

Liang has created two nonprofit entities: the Sany Foundation and the Relay China Foundation. Established in December 2013, the Sany Foundation is different from other grantmaking foundations in two ways: First, it is evidenced-based grantmaking. Between 2013 and 2016, Sany’s scholarship project spent nearly 6 million yuan (nearly \$1 million) to support high school freshmen from poor

families in midwest China. The scholarship covers the tuition fees and subsidies for high school, college, master’s degree programs, and studies overseas. This focus reflects Liang’s belief that China’s philanthropy is still evolving, and the most effective approaches remain unproven. “We’re still in the early stage, not just in terms of diversity of this ecosystem, but also in our way of thinking. Our observation is that in the past three decades, some money was wasted and some acts have generated more

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damage than benefit.” Second, it has a global vision. Most of his staff members have been educated overseas. One particularly successful project has been 3ESPACE. (The “3E” stands for easy, enjoyable, and effective.) The project is aimed at building an innovative and effective ecosystem of philanthropic activities by building communities, giving workshops, and supporting projects. It has supported nonprofits in the education field, such as Serve for China and Art Dream, as well as new media companies working on social innovation, such as BottleDream, and a consulting firm for nonprofits called A Better Community.

The Relay China Foundation, Liang’s second initiative, is an offshoot of Relay China (officially, the Relay China Elite Youth Association). The foundation is a nonprofit composed of the second generation of entrepreneurs. Families have to be quite rich to qualify, and membership is only open to those members with working experience in the family business. In 2016, the total assets of Relay China members were roughly 2.3 trillion yuan (a little less than \$400 billion), or 12.8 percent of the total assets of China’s private enterprises. Liang is vice chair in charge of philanthropic affairs, and his role is to maintain the nonprofit feature of the organization: “The key thing I do here is push the second generation to think about how to handle their fortune, how to resist temptation and make good use of their fortune. We invite a lot of seniors and teachers to talk to us.”

IMPROVING A GENERATION’S REPUTATION

Liang and members of Relay China are working hard to erase the negative image of the *fu er dai*, China’s second-generation rich kids, who are often loathed throughout society because of their boorish behavior. Another group of *fu er dai* is trying to rebrand themselves as the *shan er dai*, or second-generation philanthropists. Niu Ben can be considered a representative of the *shan er dai*. He is the first son of Niu Gensheng, founder of Mengniu Group, China’s largest dairy company. In 2004, Gensheng founded Lao Niu Foundation, and shortly thereafter he declared that he would donate all his Mengniu shares. Ben also agreed to donate the 1 billion yuan (\$150 million) worth of shares that would have been his as an inheritor of his father’s fortune.

After four years of study in England, Ben returned home in 2012 to run the environmental programs of his father’s foundation. Yet, Ben had bigger and brighter ambitions, telling his father that his generation’s innovative thinking meant, “Only by having my own foundation can I wholeheartedly devote myself to philanthropy.” Unlike other second-generation philanthropists discussed here, Ben is not involved in the family business; instead he became a philanthropic professional immediately after graduation. In contrast to his father, Ben is quiet and keeps a low profile, but he has won recognition for being sincere, honest, and hard-working.

Thus in 2015, Ben, with his sister Niu Qiong, established the Lao Niu Brother & Sister Foundation, a family foundation committed to

child care, youth entrepreneurship, and family philanthropy research and advocacy. Working closely with the Rockefeller Brothers Fund, the Richard Rockefeller Fellowship program supports emerging Chinese professionals who are committed to the development of strategic philanthropy in China. The Lao Niu Brother & Sister Foundation also provides financial support for the China Social Enterprise and Social Investment Forum. It has joined hands with the Sun Future Foundation, founded by Yang Lan, a celebrity journalist, to help the children of migrant workers through arts education.

BLURRING THE LINE

The snapshots offered here provide important insight into the thinking of second- and third-generation philanthropists in Asia. First, those wealthy families seek to avoid the phenomenon, well known in both East and West, of “the three-generation rich.” Chinese warn that “*fu bu guo san dai*” (“wealth never survives three generations”); in Japan, the expression is “rice paddies to rice paddies in three generations.” The newly wealthy in Asia send their children to Western countries to acquire modern business skills that can increase their wealth. While there, they are exposed to new concepts of social responsibility and philanthropy. Even without intending to, second- and third-generation Asian business managers return with a new framework to envision responsibility to the family and the community of stakeholders that the family business engages.

A second common feature is a tendency to see the prevailing culture as hostile or an obstacle to be overcome, and frequently the battle starts at home. Several interviewees were troubled that it was customary that family elders imposed choices on children, insisting on conformity to traditional career paths and thinking. (The people we talked to said they were generally free from such constraints, however.) This is part of a “homogenized” society that discourages and often punishes difference. The next-generation Asian philanthropists we talked to see themselves as different from most of their peers, as “outsiders” and sensitive to the needs of others less fortunate than themselves.

A third important commonality is a tendency among these philanthropists to look at their work in ways that are fundamentally different from those of their parents. They seek real and measurable results. Frequently, the first generation were ruthless capitalists and business people when they made their money, but they transformed themselves when they become philanthropists. Whether out of a sense of guilt or a feeling that they are responsible for helping the less fortunate in society, they often write big checks with little regard for how the money is spent. Their children and grandchildren are working to solve problems rather than merely giving money out of a sense of obligation or historical and cultural ties. They are hands-on engagers who focus on key objectives. These philanthropists can be high-maintenance supporters, but they also tend to establish a personal relationship with groups they support, and that can be good in the long run.

This young generation is also happy to blur the line between business and philanthropy. For them, business is a tool, a means to do philanthropy better. That is part of a practical, empirically oriented approach that takes nothing for granted and is constantly testing models and projects to see what works—and, just as important, what does not. At the core of their work is the recognition that giving money is not enough: Successful philanthropy demands an entire ecosystem that will bridge and one day hopefully eliminate this gap between giving money and giving money successfully. ♦