

Wealth Insights

# Origins and Legacy:

The Changing Order of Wealth Creation



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## About this report

This 17th volume of Barclays *Wealth Insights* investigates how the global landscape of wealth is changing, and how wealthy individuals plan for their legacy and philanthropy. Its conclusions are drawn from two main strands of research.

First, Ledbury Research conducted a survey of more than 2,000 high net worth individuals, all of whom had more than USD\$1.5 million/GBP£1 million\* (or equivalent) in total net worth and 200 with more than USD\$15 million/GBP£10 million. Respondents were drawn from 17 countries around the world, across Europe, North America, South America, the Middle East, Africa and Asia-Pacific. More than 750 of the respondents identified themselves as entrepreneurs. The interviews took place during the first half of 2013. In the analysis, individual countries with less than 50 respondents have only been included in the regional findings.

Secondly, Rob Mitchell and Fergal Byrne of Longitude Research conducted a series of interviews with entrepreneurs, academics, professionals and other experts around the world. Longitude Research then wrote the report in conjunction with the Wealth and Investment Management division of Barclays. Our thanks are due to the interviewees for their time and insight. We would also like to extend our appreciation to Dr. Emily Haisley of Barclays Wealth and Investment Management, and research consultants Tianyi Zheng and Nicholas Millington, who undertook and managed the survey design and data analysis that informed the report.

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\* All currency conversions in this report are based on exchange rates as of June 4, 2013, and in some instances are rounded up or down.

# Foreword

There are significant shifts taking place across the world in terms of how wealth is created, the pace at which it is accumulated and the subsequent impact these dynamics have on when, and even whether, it is shared with future generations and charitable causes.

Globally there exists a cycle of wealth creation, inheritance and legacy. Each stage of the wealth cycle brings its own set of challenges and opportunities for the individuals and their families — whether that includes acting as custodian of an inheritance or planning how future generations should be educated.

While emerging markets are accruing wealth at a faster pace than more developed territories, many emerging-market entrepreneurs are now planning, often for the first time, how to deal with succession and inheritance, to protect that wealth and ensure children are educated to prosper with it.

Meanwhile, in the U.S. and U.K. in particular, long-established models of inheritance are in decline, with entrepreneurial activity now having significantly overtaken inheritance as the preeminent source of wealth.

These more developed economies face a very different challenge when it comes to future generations. Having witnessed examples within society of inherited wealth acting as a disincentive to accruing independent wealth, many high net worth individuals are perhaps reluctant to simply handover wealth to younger family members and are increasingly looking for alternative ways to create their legacy.

The theme that unites many of these individuals, whatever the source of their wealth, is a desire to use it for the good of others in less fortunate circumstances. While more well established in developed markets, an increasing desire to give back is emerging across Asia.

As many wealthy young people in emerging markets are educated abroad, they return to their homes with ideas and models that have the potential to transform the world of philanthropy. This is especially true for entrepreneurs, who we see time and again bringing the same spirit of innovation and boldness to their philanthropic endeavours, just as they do their business ventures.

Our latest volume of *Wealth Insights* underscores the importance of understanding the origins and history of wealth, which is every bit as important as understanding future goals and aspirations when helping an individual to plan in the right way.

We hope that you will find this report a fascinating journey through the cycle of wealth creation, legacy and philanthropy across the world today.



**Peter Horrell**

**Chief Executive, Barclays Wealth and Investment Management**

# Our *Wealth Insights* Panel



**Matthew Bishop** is the U.S. Business Editor of *The Economist*. He is the Author of several books with Michael Green. *Philanthrocapitalism: How Giving Can Save the World* describes the new philanthropy movement that brings together the business and social sectors to solve some of the world's most pressing problems. *The Road From Ruin* is about how to repair capitalism after the financial crisis. Mr. Bishop is also the Author of *Essential Economics* and an e-book titled, *In Gold We Trust? The Future of Money in an Age of Uncertainty*.



**Greg B. Davies** leads a global team of behavioural and quantitative finance specialists at Barclays, and is responsible for the design and global implementation of Barclays Investment Philosophy. Mr. Davies' background is in both academia and financial services. He holds an undergraduate degree in Economics and Philosophy from the University of Cape Town. He also holds an MPhil in Economics and a PhD in Behavioural Decision Theory from Cambridge University. Mr. Davies' first book, *Behavioural Investment Strategy*, was published by McGraw-Hill in January 2012. He remains active in academia and is an Associate Fellow at Oxford University's Saïd Business School.



**Adam Grant** is the youngest tenured professor at the Wharton School of the University of Pennsylvania and the Author of *Give and Take: A Revolutionary Approach to Success*. He has been recognised as Wharton's single-highest-rated teacher, one of *BusinessWeek*'s favourite professors, and one of the world's 40 best business professors under 40. Previously, Mr. Grant was a record-setting advertising director at Let's Go Publications, an All-American springboard diver and a professional magician.



**Catherine Grum** heads up Barclays team of International Wealth Advisers based in London, Dubai, Geneva and Monaco, working with high net worth and ultra-high net worth clients. She trained and qualified as an Associate at Allen & Overy LLP in the firm's Private Client department where she was based from 2003 to 2009. Ms. Grum is a member of the Society of Trust and Estate Practitioners Technical Committee which puts forward representations on behalf of its members to the U.K. Government on matters of trust and taxation.



**Christopher Johnson** is Head of Wealth Advisory, U.S. at Barclays. Mr. Johnson oversees the Americas Wealth Advisory group, which guides high net worth clients on tax and estate planning matters, particularly wealth structuring and the integration of personal planning with investment strategy. Mr. Johnson joined Barclays in 2008 as part of the organisation's acquisition of Lehman Brothers Private Investment Management. Previously, he was an attorney at the law firm of Hodgson Russ, LLP and prior to that spent several years at KPMG. Mr. Johnson received an LLB (JD) from York University in Canada, an MBA from Oxford University in England and a Master of Laws (LLM) from Harvard Law School.



**Stuart Lucas** is the Chairman and Chief Investment Officer of Wealth Strategist Partners LLC, which acts as an outsourced Chief Investment Officer for a select number of individuals and families of exceptional net worth. He is the Author of *Wealth: Grow It and Protect It*, now in its second edition. He designed and teaches Private Wealth Management for the University of Chicago Booth School of Business, a programme for wealth owners. He is a featured speaker to wealth owners, family office executives and investment professionals around the world, and the Author of numerous articles on wealth management.



**Doug Miller** is Founder Chairman of the Asian Venture Philanthropy Network. He is an American citizen, who lived 32 years in the U.K. before relocating to the U.S. in 2009. He has 40 years of experience in investment banking and private equity. He is Founder of International Private Equity Limited, a fund placement boutique. Mr. Miller is also Founding Trustee of Impetus Trust in the U.K. and Founding Chairman and Honorary President of the European Venture Philanthropy Association. He has been active in philanthropy for 32 years — mainly in education, the environment and microcredit.



**Michael I. Norton** is an Associate Professor of Business Administration in the Marketing Unit and Marvin Bower Fellow at the Harvard Business School. He is the co-Author, with Elizabeth Dunn, of *Happy Money: The Science of Smarter Spending*.



**Andrew Oswald** is a Professor of Economics at the University of Warwick. His work lies mainly at the border between economics and behavioural science. He serves on the Board of Reviewing Editors of *Science*. Previously, Mr. Oswald worked at Oxford and the London School of Economics. He has also served as a Lecturer at Princeton University, DeWalt Ankeny Professor of Economics at Dartmouth College, Jacob Wertheim Fellow at Harvard University and Visiting Fellow at Cornell University. He is an ISI Highly-Cited Researcher.



**Jeff Raikes** is Chief Executive Officer of the Bill and Melinda Gates Foundation. He leads the foundation's efforts to promote equity for all people around the world. Mr. Raikes sets strategic priorities, monitors results and facilitates relationships with key partner organisations worldwide. Before joining the foundation, Mr. Raikes was a member of Microsoft's senior leadership team, which sets overall strategy and direction for the company.



**Christian Stewart** formed Family Legacy Asia in July 2008 to provide independent advice to Asian families on best family governance and family business governance practices. As Managing Director of Family Legacy Asia, Mr. Stewart works to help family enterprises in Asia communicate, plan together and resolve differences, through facilitating family meetings and helping the family to prepare their own family council, family constitution and family policies.



**Jamie Traeger-Muney**, PhD, is Founding Principal and Director of the Wealth Legacy Group which specialises in wealth psychology and family systems. Her area of expertise is the emotional impact of wealth on inheritors, women and couples. She earned her undergraduate degree from the University of Michigan and her doctorate in Clinical Psychology from the California School of Professional Psychology.



**Emma Turner** is Head of Client Philanthropy Service at Barclays, which aims to engage, educate and support high net worth and key clients in their philanthropic journey. Ms. Turner joined the Wealth Management team in 2008 after 11 years at Goldman Sachs where she was Executive Director of the Charitable Services Group in EMEA and Asia. She had previously spent 10 years as Fundraiser and Marketing Manager for a major London charity. Ms. Turner sits on the board of two private family foundations in the U.K. and U.S., and one charity, which is operational in Antigua.



**Margaret Wolhuter** is Strategy Director at The Partners. She has substantial experience in corporate brand consulting, helping clients to realise their brand ambitions and bring their business strategies to life. Ms. Wolhuter is currently working on programmes in pharmaceuticals, financial services and luxury.

# Introduction

When the U.K.'s *Sunday Times Rich List* was first published in 1989, only 43 of the country's richest 200 people, or 21%, had made their fortunes themselves. The list was a who's who of inherited wealth and aristocracy, led by figures such as the Duke of Westminster and the Queen, but also encompassing 11 of the U.K.'s 25 dukes, six marquesses, 14 earls and nine viscounts.

A quarter of a century later, this picture in the U.K. and many other countries is very different. Wealth is now more international, more diverse and more driven by entrepreneurship rather than inheritance. On the 2013 *Sunday Times Rich List*, almost 80% of the entrants are self-made and a high proportion were born overseas. The absolute figures of wealth are also much higher — compared with 1989, the U.K. is home to ten times as many billionaires.

We see similar patterns elsewhere in the world. In the U.S., for example, numerous studies have shown that inheritance is far less common as a source of wealth than an individual's own endeavours. But perhaps the biggest shift of all is taking place in emerging markets. In the space of a little more than two decades, deregulation, globalisation and technology have, for the first time, created a new generation of wealthy individuals who owe their fortunes to entrepreneurship and business opportunities.

This changing landscape of wealth has significant implications across a wide range of areas. Individuals who have earned their fortunes through entrepreneurship or success in business typically have a different relationship with their wealth than those who have inherited it. Their approach to spending, saving and sharing their money is likely to be quite distinct and driven by factors such as their risk tolerance, confidence in future earnings potential and a desire to fulfil social obligations with their wealth.

In this report, we explore how different origins of wealth can affect the way in which wealthy individuals prepare for the future and consider their legacy through wealth planning and philanthropy. We look at how the world of wealth is changing, and examine the implications of this shift on the relationship between the wealthy and broader society.

# Executive summary

**Entrepreneurship is now the dominant source of wealth among the very wealthy.** Technology, globalisation and the rise of emerging markets have led to an explosion of entrepreneurship that is now a key source of wealth among the world's richest people. In our survey of high net worth individuals, respondents at the upper end of the wealth spectrum are much more likely than those with more modest wealth to have become rich through entrepreneurship. We also find that entrepreneurs and business owners have been better able than other respondents to have increased their wealth during the downturn.

**Technology is the sector in which wealth creation can happen most quickly.** Survey respondents with business interests in technology accumulated their wealth more quickly than those with interests in any other sector. Although the technology sector is as susceptible to booms and busts as any other, its rapid pace of change, high growth prospects and scalability have made it an increasingly dominant source of wealth creation among high net worth individuals around the world.

**A high tolerance for risk is a prerequisite for successful entrepreneurship.** Wealthy entrepreneurs in our sample have a higher risk tolerance than those who have acquired their wealth through inheritance, earnings or bonuses. But this appetite for risk must go hand in hand with an acceptance of volatility. Entrepreneurs and business owners are also more likely to say that their wealth has fluctuated a great deal over time.

**Inheritors feel a stronger duty and responsibility for philanthropy than entrepreneurs.** In general, those who have inherited their money are more likely than entrepreneurs to consider philanthropy as an important current use for their wealth. They also emphasise more strongly a sense of duty and responsibility for philanthropy. For many inheritors, philanthropy forms part of the stewardship of wealth and is a way of ensuring that the family's values and mission are passed down through the generations.

Technology, globalisation and the rise of emerging markets have led to an explosion of entrepreneurship that is now a key source of wealth among the world's richest people.



**Entrepreneurs and business owners are taking an active role in philanthropy.** Those entrepreneurs and business owners that do engage in philanthropy often want to play an active role and apply the skills and expertise they have acquired in their careers to achieve positive outcomes with their donations. There are, however, important differences depending on the stage in life that the entrepreneur has reached. Individuals who are still building their business have intentions to become more philanthropic, but have a tendency to postpone this process to some point in the future, perhaps when they have achieved a successful exit.

**The experience of financial ups and downs creates a strong tendency for philanthropy.** Individuals whose wealth has either increased or decreased significantly are more likely than those with more stable net worth to become involved in philanthropy. This suggests that significant changes in wealth can foster a stronger social conscience, perhaps because the wealthy have experienced more modest times, or because they feel especially fortunate to have seen their wealth increase so significantly.

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## Section 1

# A changing wealth landscape

In his 2008 book *Outliers*, Author Malcolm Gladwell explains how, of the 75 richest people in human history, an astonishing 14 were either born or grew up in the U.S. between 1831 and 1840. As these individuals, who include John D. Rockefeller and Andrew Carnegie, reached adulthood, they found themselves living in a world of profound change and opportunity: Roads and railways were being constructed, industrial manufacturing was becoming established, and Wall Street was finding its feet. For wealth creation on a massive scale, there were few better places to be than the U.S. in the 1850s and 1860s, when society and the economy were being completely transformed.

Today, the extent of change taking place may not quite be on the scale seen in the mid-19th century, but there is no question that recent decades have seen a profound transformation in the global economy. Globalisation has linked countries together through trade, the movement of capital and labour, and the sharing of ideas. The collapse of Communism and the deregulation of state-owned sectors and infrastructure across both developed and emerging markets have created massive opportunities for new wealth to be created. Meanwhile, financial liberalisation and innovation have facilitated the flow of capital around the world, enabling investment and business ventures to find each other with unprecedented efficiency.

Technology has accelerated many of these developments — and has been a significant driver of wealth creation in its own right. Communications technology, including the Internet, mobile and social media, has enabled a dramatic surge in economic growth and allowed ideas, business models and information to flow freely around the world. This has enabled significant changes in efficiency and productivity, and opened up opportunities for entrepreneurs and business owners to generate new ventures and scale them globally at an unprecedented pace.

The outcome of these twin forces of globalisation and technology has been an explosion of entrepreneurship around the world and a decline in inheritance as a determinant of future wealth. Economist Emmanuel Saez points out that the world's wealthiest individuals today tend to be what he calls "the working rich." "The evidence suggests that top income earners today are not 'rentiers' deriving their incomes from past wealth but rather are 'working rich,' highly paid employees or new entrepreneurs<sup>1</sup>."

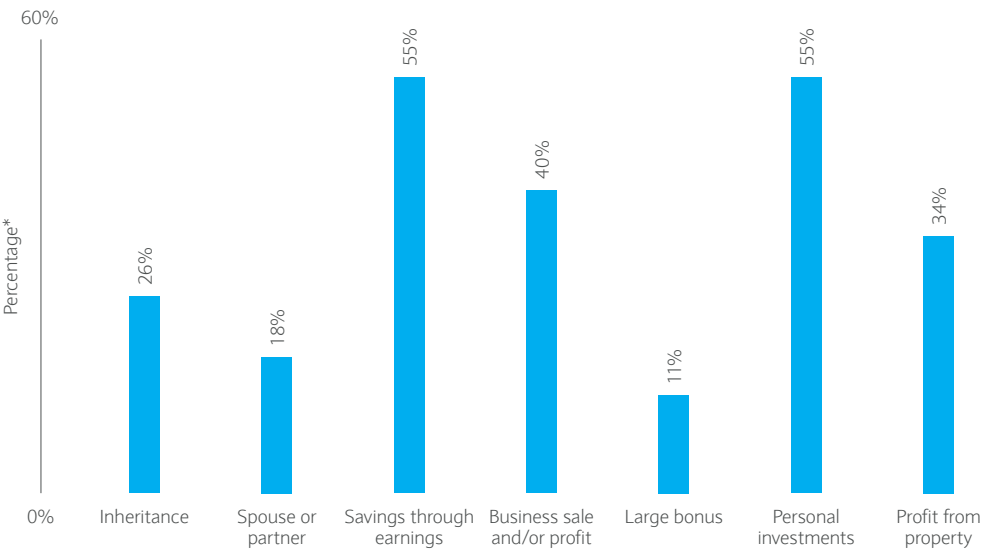
<sup>1</sup> *Striking it rich: the evolution of top incomes in the United States*, Emmanuel Saez (2008)

Increased opportunities for wealth creation around the world means that, proportionally, the percentage of individuals who acquire wealth through inheritance is falling. A research paper by New York University Economist Edward Wolff and Maury Gittleman of the Bureau of Labor Statistics found that, for those at the top 1% of wealth levels in the U.S., the percentage of households receiving wealth transfers fell from 57.3% in 1989 to 45.5% in 2007. The size of those inheritances also fell — for those with wealth of USD\$1 million or more, the mean value of wealth transfers received fell from

USD\$2.1 million in 1989 to USD\$1.8 million in 2007<sup>2</sup>. “If you compare the numbers of truly wealthy who inherited their wealth versus those who have made it in their own lifetime, then certainly the latter is increasing dramatically,” says Margaret Wolhuter, Strategy Director at The Partners.

Our sample of 2,000 high-net worth individuals surveyed for this report is illustrative of this trend, with most having earned their wealth through their own efforts. Just 26% said their primary source of wealth was inheritance and 18% said it came from a spouse or partner (see chart 1).

Chart 1  
Source of wealth

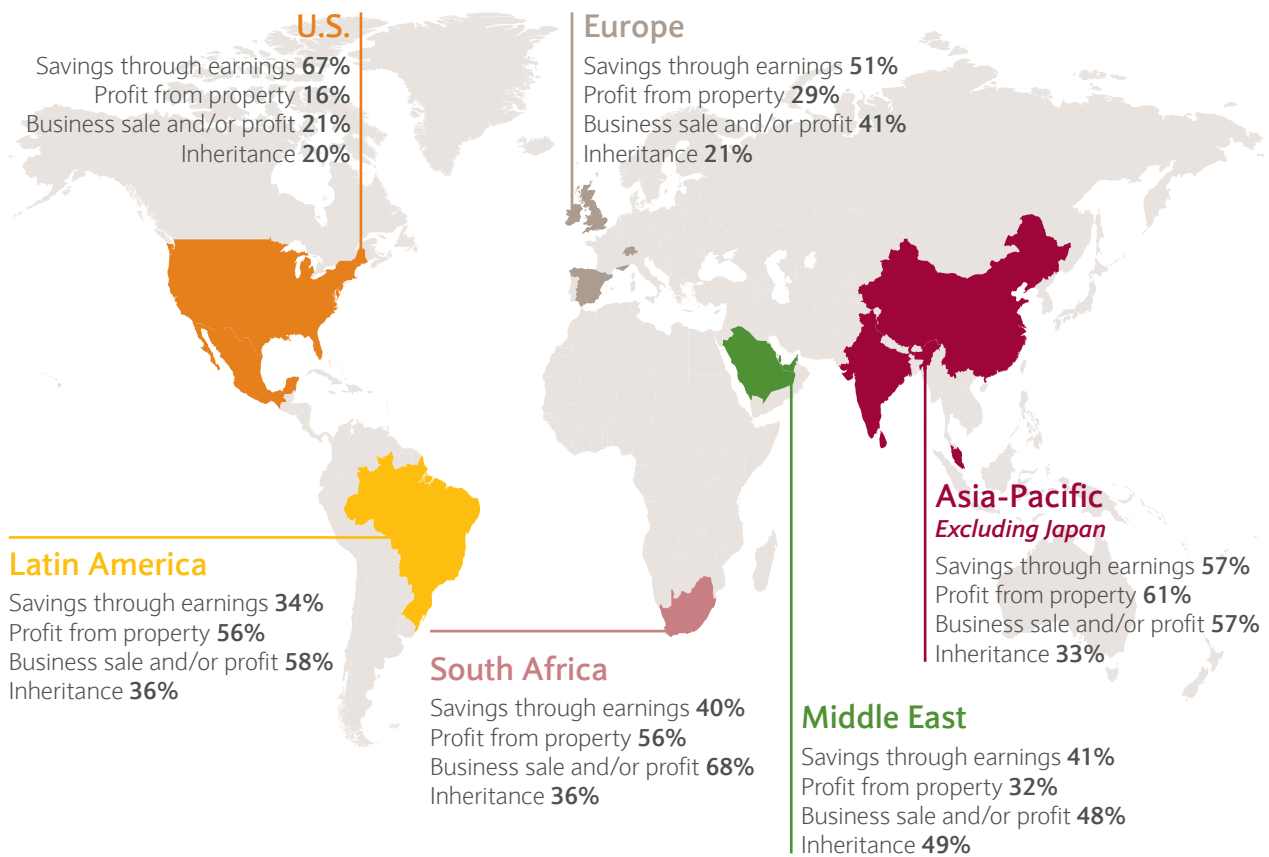


\* Percentage of respondents who chose this option (e.g. 26% of respondents chose inheritance as one of their sources of wealth).  
The values displayed sum to more than 100% because respondents could choose multiple choices.

Source: Ledbury Research

2 *Inheritances and the Distribution of Wealth Or Whatever Happened to the Great Inheritance Boom?* (NBER, 2011)

Chart 2  
Source of wealth by region



The values displayed sum to more than 100% because respondents could choose multiple choices.

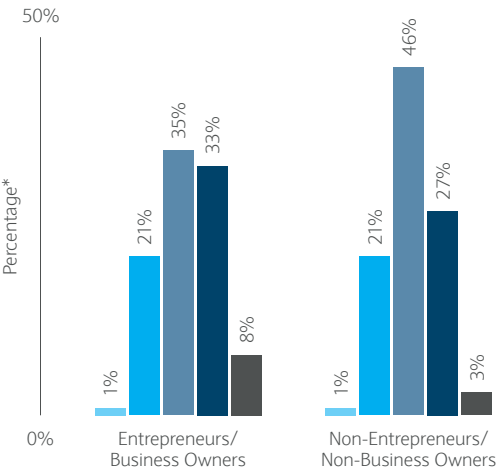
Source: Ledbury Research

Outside of the core developed markets, wealth is especially likely to come from the sale of a business. For example, 57% of respondents from Asia-Pacific (for the purposes of sampling, this group excludes Japan in our survey) and 48% from the Middle East said that the sale of a business was a key source of wealth for them (see chart 2). By contrast, these figures are 21% for the U.S. One important reason for this is that these markets have a much shorter history of widespread wealth creation, and many of the high net worth individuals in these markets are first generation wealthy, and therefore at a different point in the legacy life-cycle.

We also see evidence that entrepreneurs and business owners have managed to increase their wealth during the downturn. In developed markets, 45% of entrepreneurs said their wealth has increased over this period, compared with only 33% of non-entrepreneurs. In emerging markets, the corresponding figures are 41% for entrepreneurs and 30% for non-entrepreneurs (see chart 3).

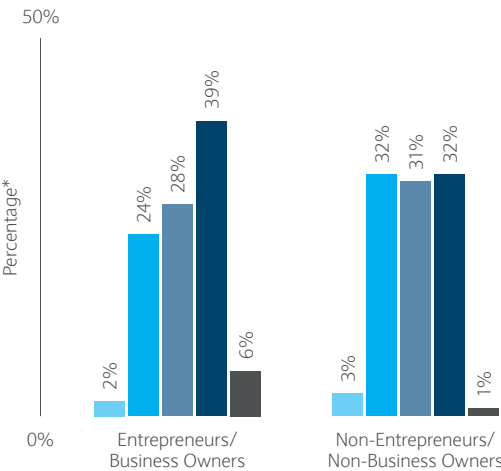
Chart 3  
Wealth changes during the downturn

Developing markets



The wealth of entrepreneurs/business owners increases more than others during the downturn. This trend is consistent across developing and developed markets.

Developed markets



**Key**  
Decreased dramatically   Decreased somewhat   Stayed the same   Increased somewhat   Increased dramatically

\* Percentage of respondents whose wealth has fluctuated to varying degrees during the downturn. For example: 1% of entrepreneurs/business owners in developing countries have experienced wealth that has decreased dramatically as a result of the downturn.

Source: Ledbury Research

# Technology and wealth accumulation

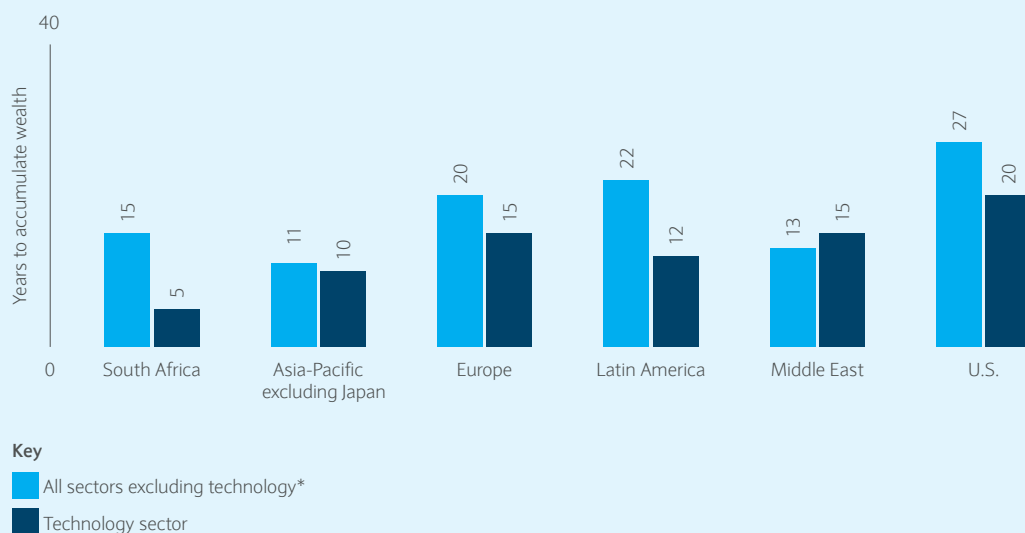
Over the past few decades, technology has become increasingly important as a source of wealth creation. On the 2012 *Forbes' World Billionaires List*, technology is now the second-most common way U.S. billionaires generated their wealth, with 51 out of 425 becoming rich through this industry<sup>3</sup>. It is also a sector where wealth can be generated quickly. Our research found that the average period of wealth accumulation is lower for respondents with business interests in technology than in other sectors across all regions of the world, with the exception of the Middle East (see chart 4).

There are various reasons why technology should enable rapid wealth accumulation. First, it is frequently characterised by rapid growth. One report found that, since 2004, employment growth in the high-tech sector had grown three times more quickly than the private sector as a whole<sup>4</sup>. Another found that, of the top ten

fastest growing industries in the U.S., nine had some link to technology<sup>5</sup>. The fastest growing sectors of all were social network game development, e-book publishing and social networking sites.

Technology entrepreneurs also benefit from low barriers to entry — unlike sectors such as retail, manufacturing or mining, there are few fixed assets required which means that ventures can be started at relatively low cost. In general, technology firms also have high potential for scalability: many are unconstrained by geography, and good ideas can now spread quickly around the world via the Internet, social media and other channels. Finally, technology is a sector in which change is constant and extremely rapid, presenting entrepreneurs with opportunities to develop and introduce revolutionary innovations that take advantage of evolving technologies and customer demand.

Chart 4  
Rate of wealth accumulation in technology versus other sectors



\*"All sectors" include: construction and engineering, consumer goods, financial, healthcare and pharmaceuticals, industrial goods/manufacturing, leisure and hospitality, mining/commodities, property, retail, business services, and utilities.

Source: Ledbury Research

3 *How America's Wealthiest Get Rich*, *Forbes.com*

4 <http://www.guardian.co.uk/business/2012/dec/06/technology-sector-growing-faster-economy>

5 *IBIS World Top Ten Fastest Growing Industries* (April 2013)





## Section 2

# New wealth, new behaviour

No two wealthy individuals are the same, but our research has shown consistently that differences between wealthy individuals can be observed depending on how they have acquired their wealth. Additionally, as the global pattern of wealth creation shifts, these differences have significant implications for how the wealthy spend, save and share their money.

### Living in a high-beta world

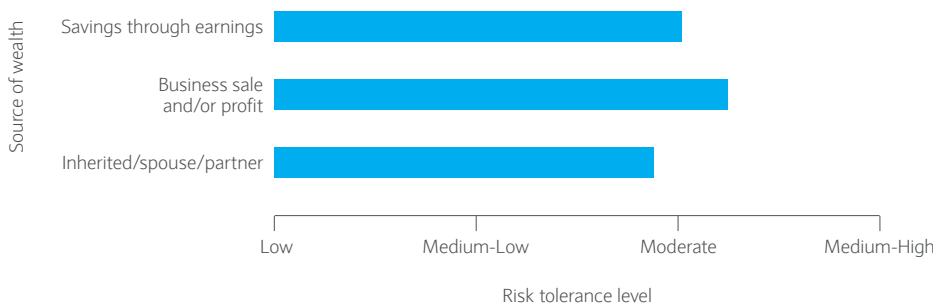
In financial market parlance, a high-beta stock is one that tends to outperform the market on the way up, but falls further when it drops. In his recent book, *High-Beta Rich*, Robert Frank argues that the wealth of high net worth individuals bears similar characteristics, rising faster than the wealth of the overall population during boom times, and falling more quickly in a downturn. “There is no question that many of the rapid wealth creators live in a high-beta world but that is often because you do not get rich quickly without taking risks,” says Stuart Lucas, Chairman of Wealth Strategist Partners.

This is particularly true of entrepreneurs who, by definition, have had to take risks in order to become successful.

Compared with wealthy individuals who have earned their wealth through inheritance or savings over time, those that became wealthy through the sale of a business do indeed have a higher risk tolerance (see chart 5).

As a result, entrepreneurs need to embrace volatility and recognise that fortunes can be lost as quickly as they were made. Among our sample, wealthy entrepreneurs are more likely than those who have inherited or acquired wealth through savings or bonuses to say that their wealth accumulation has been a rapid process. Wealthy entrepreneurs have also, however, experienced greater fluctuation in their wealth over time (see chart 6).

Chart 5  
Risk tolerance by source of wealth



Risk tolerance is based on the response to the question “In order to achieve high returns, I am willing to choose high-risk investments.”

To highlight the distinct traits of each source of wealth, no overlap between groups has been included.

Source: Ledbury Research

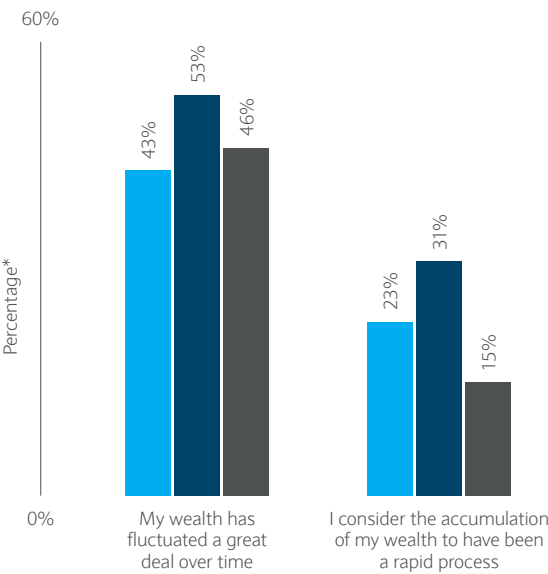
By contrast, inheritors are less likely to have experienced these fluctuations and have, on average, a lower tolerance for risk. Part of this can be explained by the fact that, unlike entrepreneurs, inheritors do not need to possess a built-in tolerance for risk and, indeed, their willingness to accept risk is likely to be similar to that of the population as a whole. Inheritors may also see themselves as temporary custodians of wealth, which leads them to adopt a lower-risk approach to wealth protection and preservation.

According to Mr. Lucas, it is common for risk appetite to decline as individuals make the transition from the concentrated risk of business ownership to the more diversified risk of financial management, particularly across generations. “A first-generation entrepreneur

might not have started out with very much, so in the early stages they view themselves as having not much to lose,” he says. “Whereas if you’re an inheritor of wealth then your attitude toward risk is different because there’s a lot of perceived downside associated with losing what you’ve received or inherited.”

This declining risk appetite can have severe consequences. “If you’re highly risk averse, I would argue that you’re guaranteed to see your wealth decline over time,” he says. “It’s only if you’re willing to maintain a reasonable level of risk, and to try to reinvent yourself and recreate the family’s wealth, that you have a chance of preserving it and growing it, particularly if that wealth needs to be divided among many children in each generation.”

Chart 6  
Wealth fluctuation and pace of accumulation by source of wealth



**Key**  
Inherited/spouse/partner Business sale and/or profit Savings through earnings

\* Percentage of respondents who agree with this statement.  
To highlight the distinct traits of each source of wealth, no overlap between groups has been included.  
Source: Ledbury Research

## A different type of market engagement

Entrepreneurs and business owners are frequently comfortable living in a high-beta world when it relates to their own business, but can find it challenging to shift their focus from building wealth — often through entrepreneurial endeavours — to sustaining it through financial investment. “Wealthy individuals have often become rich through the management and growth of their business,” says Mr. Lucas. “It’s transferring those instincts from the high-beta business world to the high-beta financial world that tends to trip people up a lot.”

In an entrepreneurial context, individuals are rewarded for a very focused approach to their business. “Business owners are typically used to backing their winners,” says Mr. Lucas. “So, if they have a product that is performing well, they continue to support that product. If they have employees that are doing a great job, they tend to give those employees more and more responsibility.”

But this same approach can be disastrous when it comes to financial investment because of the concept of mean reversion, a theory that states that prices always return back to the mean, or average. “In the financial world, mean reversion tends to be a highly prevalent phenomenon, so the natural instinct of backing your winners actually works against you in many cases,” says Mr. Lucas. “If you were to say to a business owner that they should fire all their top-performing employees and give their responsibilities to underperforming ones, they would look at you like you’re mad. But it is exactly that buy-low, sell-high mindset that tends to be successful in the financial world rather than the reverse.”

Entrepreneurs frequently demonstrate hesitancy to jump into the financial markets. “Entrepreneurs tend to value control almost above everything else and, while they might be prepared to jump into risky enterprises where they buy into the story, they will be reluctant to do so if they think it means relinquishing control. They need to be personally engaged and convinced,” says Greg Davies, Head of Behavioural Finance at Barclays.

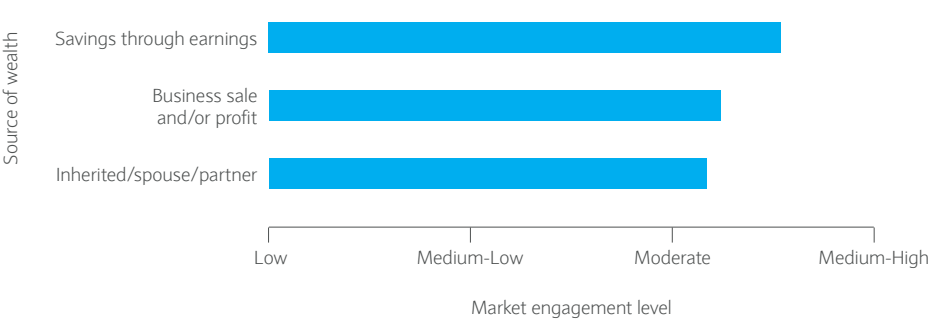
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**Stuart Lucas**, Chairman of Wealth Strategist Partners

From a financial investment perspective, this desire for control means that entrepreneurs will very often take a very concentrated approach to risk-taking. “A combination of high risk tolerance and self-confidence means that entrepreneurs tend to take risks with their investment portfolio in a fairly concentrated way,” says Mr. Davies. “They will pick assets in areas where they feel most comfortable or knowledgeable, and they won’t invest where they don’t have conviction. This doesn’t necessarily mean that their portfolio is high-risk overall, because they may have a high proportion of their wealth in cash, but it does mean that the risk can be concentrated in a small number of positions.”

Compared with entrepreneurs, those who have inherited or come into wealth have lower levels of market engagement (see chart 7). This may reflect a relative lack of knowledge and experience with financial investments, but also perhaps a more passive relationship with wealth because they have not created it themselves. “Individuals who come into wealth through inheritance or other relationship ties can sometimes be reluctant to play an active role in preserving or growing it, whereas those who have earned their wealth are more cognisant of what has been required to earn it,” says Mr. Davies.

Chart 7  
Market engagement by source of wealth



To highlight the distinct traits of each source of wealth, no overlap between groups has been included.  
Source: Ledbury Research

Market engagement is based on the response to the question “Compared to holding cash, buying stocks and shares is too risky.” High market engagement reflects that someone is comfortable investing in the financial markets.

## Leapfrogging to greater affluence

Individuals who acquire wealth during their lifetime can face massive changes in their lives, which some may find difficult to assimilate. In essence, they must cross a socioeconomic divide and become accustomed to a very different set of values, cultural cues and even language. It is no wonder that acquirers of wealth have been described as “immigrants... travelling to a more affluent country from their homeland.”<sup>6</sup> “Leapfrogging from one socioeconomic status to another is like moving to a new country and culture,” agrees Dr. Jamie Traeger-Muney, Founder and Director of the Wealth Legacy Group. “The quicker you make that money, the faster the leapfrogging and the more sudden the transition to a new set of values, rules and often community of friends.”

At its most extreme, the newly wealthy may suffer from “sudden wealth syndrome,” a term coined by Psychologist Stephen Goldbart in the dotcom era to refer to the mixed feelings that can often accompany the experience of becoming rich very quickly. These can include anxiety, guilt, identity confusion, overspending and difficulties making decisions. “The quicker you acquire wealth without really educating yourself and getting a sound team in place, the more likely the chances that you are not going to hold onto it,” says Dr. Traeger-Muney.

The challenges of new wealth that are experienced by both entrepreneurs and inheritors, emphasises the importance of why both groups need to receive the right preparation to deal with this newly found wealth. “The financial awareness of the next generation is a hot topic for the current generation of entrepreneurs,” says Catherine Grum, Head of U.K.-International and EMEA Wealth Advisers at Barclays. “A good succession plan covers not just who you want to inherit, but also how you wish to educate them about their wealth.”

Equally, individuals or families who acquire wealth must think about how they will spend the rest of their lives and what purpose and values they would like to impart to their immediate and extended family. As Psychologists and Authors Dennis Jaffe and James Grubman observe<sup>7</sup>: “Life’s choices are broader when one is rich, but the criteria for what a person should do, and what will motivate one’s actions, are more elusive.”

<sup>6</sup> *Acquirers’ and inheritors’ dilemma: Discovering life purpose and building personal identity in the presence of wealth*; Dennis T. Jaffe and James Grubman, *Journal of Wealth Management* (2007)

<sup>7</sup> Ibid





## Section 3

# Legacy and planning

The rise of entrepreneurial wealth and the shifting centre of economic power have profound consequences for the way in which wealthy individuals plan for the future and think about a legacy for their wealth. As inherited wealth declines and as fortunes are made at a more rapid rate than ever before, the challenges facing newly wealthy individuals and families around planning for the future become more pressing and acute.

Wealth planning encompasses a variety of areas, including tax-efficient financial planning, the structuring of businesses, insurance strategies and international investment structures. But for many wealthy families, a key consideration is how and when they should share their wealth — either with friends or family, or through charitable donations and philanthropy. “It’s important to think about succession planning at the right point so that families and individuals can plan for what happens to their money in the future, even if the unexpected occurs,” says Ms. Grum. “Unfortunately however, these discussions are frequently put off until tomorrow which in some cases may be too late.”

Allocating the time to think through the purpose of wealth creation can be a real challenge, particularly for entrepreneurs, business owners or those who are in the midst of building a career. “A good wealth plan should describe your values and mission for that wealth, and serves as an anchor that enables you to move on and consider how to spend, invest and give that money in a grounded and structured way,” says Ms. Grum.

A common barrier to a more systematic approach, according to Christian Stewart, Managing Director of Family Legacy Asia, is that wealthy families tend to focus on the quantitative aspects of wealth, rather than the qualitative. “There’s very often an emphasis on preserving the financial wealth and making sure it’s properly invested,” he says. “That’s fine, but legacy is also about the

qualitative issues. How are the family members as individuals doing in life? What’s the nature of your family relationships? What role does each family member play and what is an appropriate governance model for the family?”

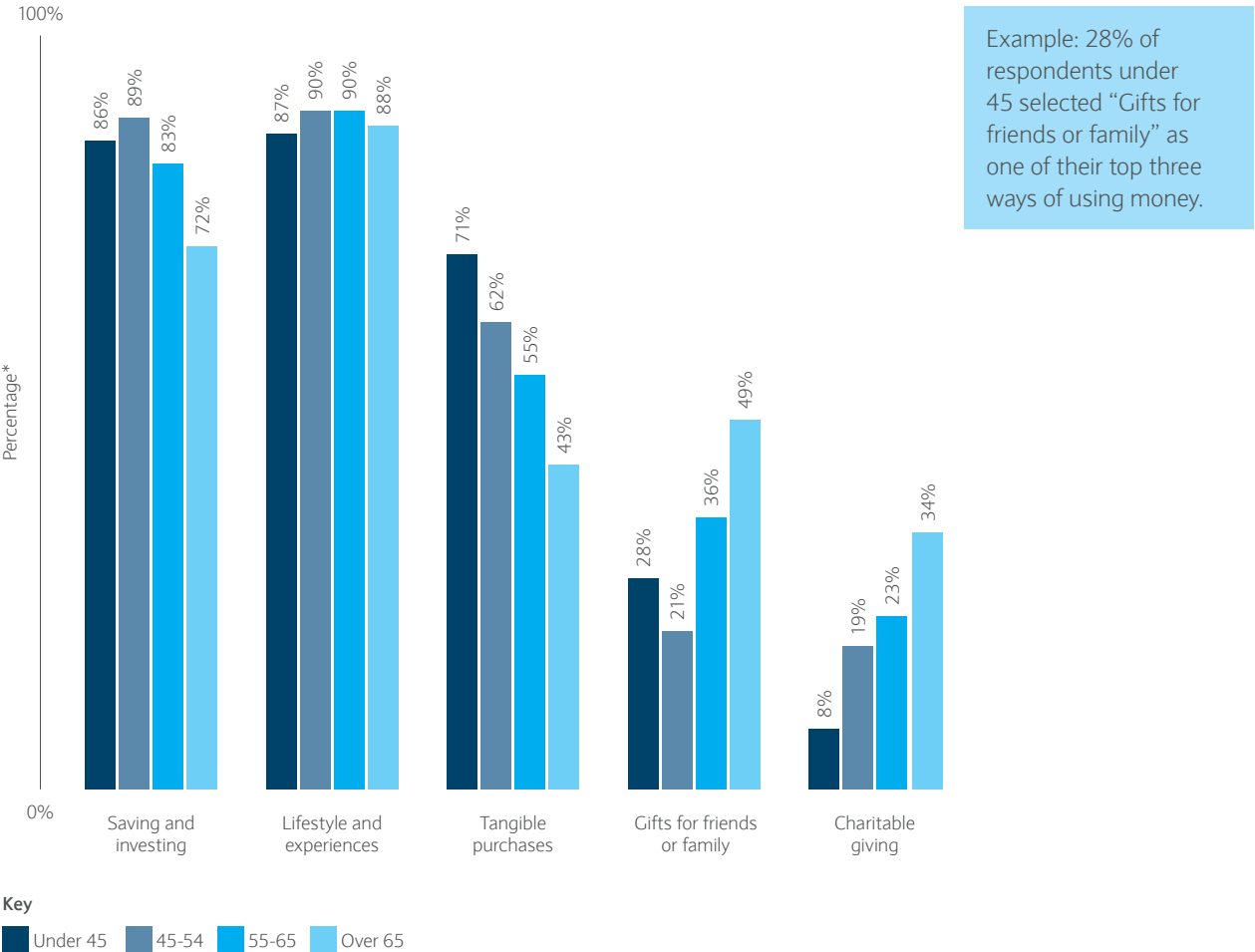
Another challenge can be what Mr. Stewart calls the “communication gap” between generations that can impede effective wealth planning, which he believes can be especially large in Asia. “If the first generation wants to achieve their legacy, they need to overcome the communication gap and educate their children on what the wealth structure is and how it’s going to work,” he says. “One of the best practices that a family can adopt is to hold periodic family meetings. Sustaining wealth across generations comes down to how the family makes joint decisions and works together toward common goals.”

As chart 8 shows, considerations about how to share wealth with friends, family and charitable causes tend to increase with age. Among the under-45 age group, 28% said that gifts to friends and family are one of the three key ways in which they use their money. This proportion rises to 36% among those between 55 and 65, and 49% among the over-65s. Equally, philanthropy is also age-dependent. Just 8% of wealthy individuals under 45 said that philanthropy is one of the three key ways in which they use their money, compared with 23% of those between 55 and 65, and 34% of those over 65 (see chart 8).

In addition to thinking through how to integrate family, friends and charitable causes into their wealth planning, wealthy families also need to consider the timing of these decisions. For example, they may want to consider allowing children flexibility to spend time away from the family business or philanthropy in order to gain broader experience, giving them a chance to develop and explore their own goals and interests. “To be successful as a family, you need

to allow family members to flourish, mature and develop through life-cycle stages in an appropriate way,” says Mr. Stewart. “The best legacy is going to be one where everybody is helped to navigate the developmental stage appropriate for them and where no one is forced into making decisions or taking on roles that are inappropriate for their stage in life.”

Chart 8  
Use of money by age category



\*Percentage of respondents in each age category who selected a particular use of money as one of their top three wealth usage preferences.  
The values displayed sum to more than 100% because respondents could choose multiple choices.  
Source: Ledbury Research

# The three models of legacy planning

In general, there are three main models in which wealthy families approach legacy. In the first scenario, the family is very conservative and fears that wealth will spoil its recipients and will not be protected appropriately. “This leads families to set up restrictive trusts and then drip-feed it to the beneficiaries without ever giving them full control of it,” says Mr. Stewart, observing that this model remains common in Asia, where many families are conservative and traditional. “When you consider the impact of this model from a qualitative perspective, it is not a very healthy model.”

In the second model, the family takes a view that inherited wealth is bad for the recipients, so they decide that the bulk of it should go to philanthropy, leaving the children to earn and make their own wealth. “The best advice in this scenario is to communicate your decision to your family as early as possible so they can understand it and plan their own lives appropriately,” says Mr. Stewart.

In the third model, the family takes the view that descendants should receive the wealth, but only in the context of a robust education and governance framework. “This is the idea that, through thoughtful and wise giving of wealth, families can educate their children to use wealth wisely and take full control of it once they are mature enough, without being afraid that they will somehow waste it all,” says Mr. Stewart. “The best advice in this scenario is to find a way to institutionalise the provision of qualitative advice to help your family members should they need it.”

Christopher Johnson, Head of Wealth Advisory, U.S. at Barclays, notes that a growing number of wealthy families are establishing incentive trusts as a way of adding conditions around trusts. Under this approach, families provide money for descendants but in a way that ensures they meet certain goals in life that the family considers important. The trust may stipulate, for example, that the recipients must complete college, attain certain grades, get a job or spend some time working in philanthropy before receiving their inheritance. “Incentive trusts can be a useful way of ensuring that wealthy children live up to the values of the family and do not expect unconditional access to wealth,” he says.

# The legacy lifecycle

In our research, we can categorise respondents into one of four “personality types” that reflect the general approaches that wealthy individuals adopt when building a legacy for their wealth.

## Today's spenders

Average age: 56

Average net worth: USD\$5,800,000/  
GBP£3,800,000

This group of wealthy individuals prioritises their life today and thinks less about planning for the future. Highly sociable, they prefer to spend their money on lifestyle and experiences, rather than tangible goods, and enjoy travel and entertaining. They are also more likely to spend money on gifts for family and friends than other groups. They are very likely to have children and, if they had more money, they would continue to spend it on gifts for their friends and family, and they would also purchase personal property.

Family/friends

Now

## Today's philanthropists

Average age: 49

Average net worth: USD\$7,000,000/  
GBP£4,600,000

This is the wealthiest of all four “personality type” groups in terms of both income and net worth. They are also the youngest, with an average age of 49. Many are entrepreneurs and business owners and a high proportion have made their fortunes in emerging markets. Compared with other groups, they prefer to spend their money on tangible assets, such as luxury goods, rather than experiences.

When this group engages with philanthropy they typically want to play an active role in giving today, rather than leaving it until later in life. They have a high tolerance for risk, and so they feel comfortable giving away their wealth now on the grounds that they are confident in their abilities to generate enough income to meet their own needs. Their motivations for giving to charity encompass the recognition it brings, leaving a legacy and family interaction.



### Tomorrow's spenders

Average age: 60

Average net worth: USD\$5,300,000/  
GBPE3,500,000

This group, with an average age of 60, chooses to think more about the future than the here and now. They have the lowest risk tolerance of the four groups, which probably explains why they have chosen to bequeath assets in the future, rather than share or donate them now. Although, if they were to come into additional wealth, these wealthy individuals said they would purchase property for future generations of their family.

This group is also mindful of the fact that average longevity is increasing, and wants to make sure that they have enough to enjoy their lives before providing for others. Many of these individuals have earned their wealth over a long period of time, often through savings and prudent investment. Yet despite this prudence, they enjoy life to the fullest and prioritise lifestyle and experiences, such as travel and social life, as their favourite way to spend money.

Upon bequest



Charity

### Tomorrow's philanthropists

Average age: 58

Average net worth: USD\$5,600,000/  
GBPE3,700,000

This is the second oldest group, with an average age of 58, and the third wealthiest overall. They are likely to come from developed markets, and less likely to have children. As a result, their emphasis is on philanthropy and bequeathing their wealth to charities rather than gifting it to family and friends. They are less concerned than other groups with using their income for tangible assets. If they had an increase in their wealth, it would go toward charitable causes. Their motivations for philanthropy include a sense of responsibility, but also a desire to make an impact.



## Section 4

# Philanthropy

Philanthropy is near-universal among the wealthy. A 2010 report from Barclays, entitled *Barriers to Giving*, found that 97% of high net worth individuals made at least some contribution to charity, although it also found that only one-third will donate more than USD\$15,000/GBP£10,000 a year — or less than 1% of their net worth. Numerous pieces of research have shown that wealthy individuals are in fact less generous than those with lower incomes and wealth. One study from the U.S. found that those with earnings in the top 20% donated on average 1.3% of their income, whereas those in the bottom 20% donated 3.2%.

Of course, many of the world's wealthiest people are very actively engaged in philanthropy and, for Ms. Wolhuter, this is in fact one of the defining features of real wealth. "There are so many wealthy people today and the numbers are increasing so rapidly that monetary value is almost no longer a determinant of wealth," she says. "Particularly in the U.S., what defines the really wealthy is less about how much they have and more about how much they can afford to give away."

Regardless of the source of their wealth, high net worth individuals largely approach philanthropy for a number of key reasons. The most important, say respondents, are that they consider it their duty and responsibility and that it also brings them personal fulfilment. This is consistent with findings from *Barriers to Giving*, which found that familial duty, religious beliefs and societal duty are the key factors that motivate donors to give large sums of money to charity.

There are however, significant differences depending on the source of wealth. Entrepreneurs are less likely to give to charity out of a sense of duty and responsibility than those who have inherited their wealth or acquired it over time through earnings and savings (see chart 9). This may in part stem from the fact that inheritors feel a greater obligation to share their wealth on the grounds that they have not earned it. They may also worry more about antipathy toward the wealthy, particularly in the wake of debates around wealth inequality, than those who have earned money themselves.



“Inheritors often find themselves in a precarious position where they didn’t make the money themselves and they worry about ambivalence toward them,” says Dr. Traeger-Muney. “At the same time, many of them are genuinely worried about growing disparity and really want to use their wealth to help make the world a better place.”

This also extends into the broader family, with many inheritors, in particular, considering philanthropy to be a powerful tool for embedding a set of values in their

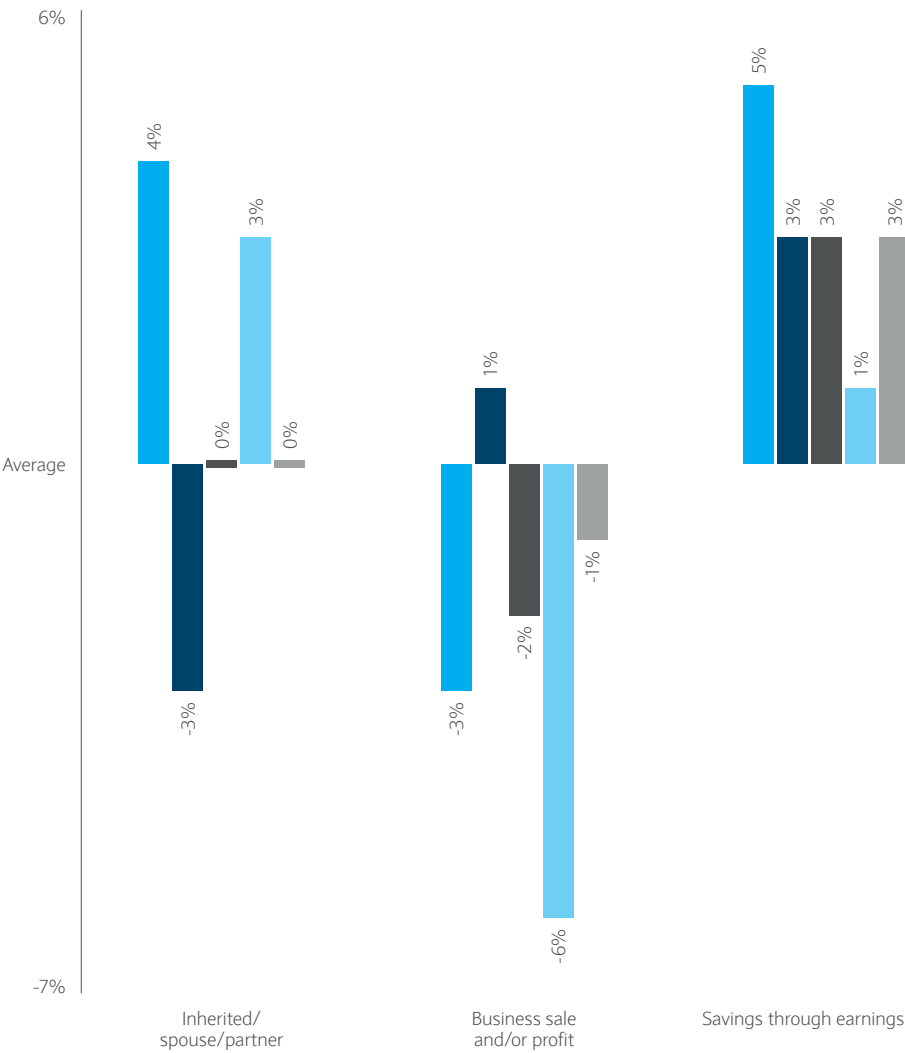
children and giving a broader purpose that may otherwise be lacking in the presence of substantial wealth. “A growing number of wealthy individuals want to involve their children in philanthropy because they want them to grow up with a conscience, values and an understanding of how the majority of people live,” says Ms. Wolhuter. “Inheritors tend to get involved at a young age in philanthropy because it forms part of how they see their role in the family as the custodians and stewards of wealth.”

Inheritors tend to get involved at a young age in philanthropy because it forms part of how they see their role in the family as the custodians and stewards of wealth.

**Dr. Jamie Traeger-Muney**, Founder and Director of the Wealth Legacy Group



Chart 9  
 Why wealthy individuals are giving to charity (by source of wealth)



Example: When their source of wealth is from a business sale and/or profit, 6% less people than the sample average give to charity due to their religious beliefs.

- Key
- I feel a sense of duty
  - It brings me personal fulfilment
  - It gives my life meaning
  - It is in line with my religious beliefs
  - I want to make an impact on others

To highlight the distinct traits of each source of wealth, no overlap between groups has been included.  
 Source: Ledbury Research

## Entrepreneurs and philanthropy

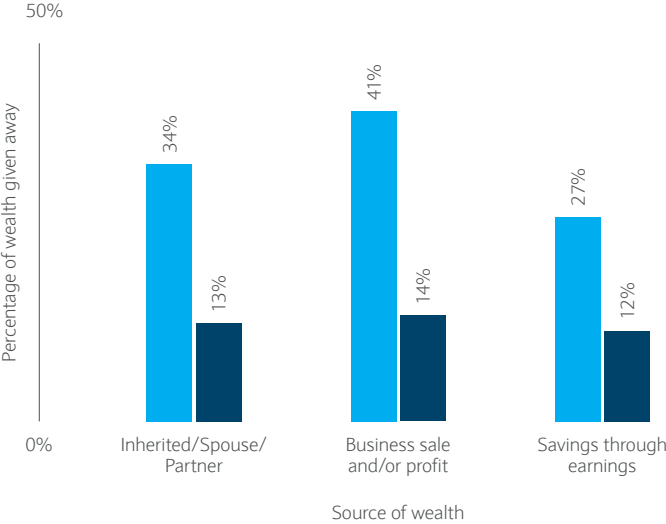
The rise of entrepreneurship as a source of wealth is having a profound effect on philanthropy around the world. Although those who have inherited wealth very often have a strong association with philanthropic endeavours, many will be managing legacies that were determined as a result of the previous generation's bequests.

What is different about many entrepreneurs today is that, when they do want to engage in philanthropy, they often want to give away their wealth while they are still living. Among our respondents, entrepreneurs and business owners said that they intend to give 41% of their wealth away during their lifetime, compared with those who acquired their wealth through earnings or savings, who plan to give away 27% (see chart 10). These entrepreneurs and business owners often want to apply their knowledge and experience in a useful way, and that means getting involved while they have relevant skills to impart. "People with a business background understand why it's important to ask some of the questions and to get involved if they want to, because they can bring a lot to the table," says Emma Turner, Head of Client Philanthropy Service at Barclays.

Jeff Raikes, CEO of the Bill and Melinda Gates Foundation, is a case in point. He joined Microsoft in 1981 and was one of the key architects behind the product strategy and design of Microsoft Office. His career in the software industry made him very wealthy but, in 2008, he resigned and, after a short break, took on his current role at the Bill and Melinda Gates Foundation. "My wealth came from my hard work and, because I believe in that kind of meritocracy, I want to create that opportunity for others in society," he explains. "My wife and I think that whatever wealth our children create is their responsibility and it's my sense in general that people who acquired their wealth through entrepreneurship are less oriented toward intergenerational equity."

Those who generated their wealth through business may be more focused on philanthropy during their lifetime, but our research shows that many will tend to postpone this process until some point in the future. This is likely to be because they are primarily concentrating on building their business but have an intention to become more heavily involved in philanthropy once they have completed an exit or achieved what they set out to do.

Chart 10  
Planned use of wealth by source of wealth



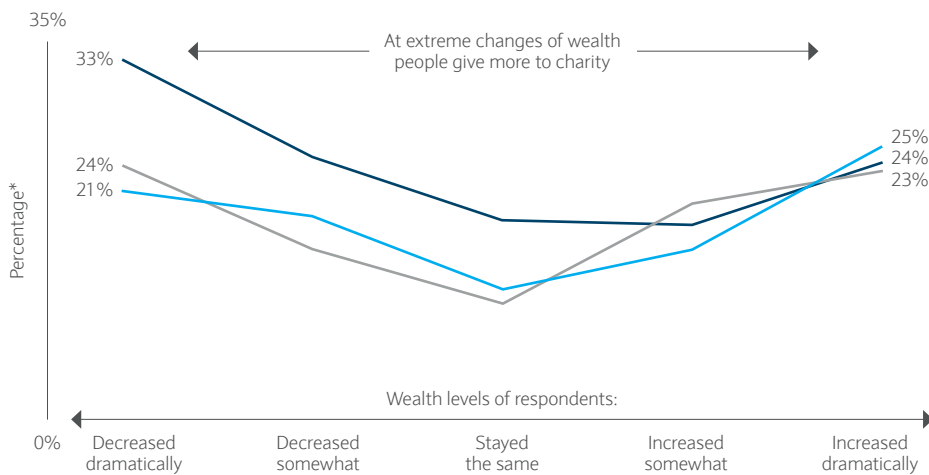
Key

- During lifetime rather than upon inheritance
- To charity rather than giving to family and friends

Source: Ledbury Research

Example: On average, those that have a source of wealth that is from inheritance, spouse or partner will give away 34% of their wealth during their lifetime.

Chart 11  
How wealth changes impact charitable giving



Example: The light blue line shows that 25% of those people with a dramatic increase in wealth during their lifetime give to charity, whereas that number is cut in half for charitable giving by those whose wealth stayed the same.

#### Key

- Wealth change in recent downturn
- Wealth change during lifetime
- Wealth change compared with parents

\*Percentage of respondents who selected charitable giving as one of the top three ways of using money.

Source: Ledbury Research

Mr. Raikes argues that, even if entrepreneurs do postpone philanthropy until later in life, they should take steps to prepare themselves for this future involvement. “If you are in the wealth creation phase and don’t have much time to commit, you can begin learning about philanthropy so that you can gear up and have the pleasure and fulfilment that comes from being effective in philanthropy as you continue to grow,” he says. “Learning helps you to identify what your passions are, which other individuals you would like to emulate and the approaches you could use.”

There is also a link between the extent to which an individual’s wealth has fluctuated over time and their propensity to be philanthropic. Overall, it seems that people who have experienced the most change in their wealth situation — both positive and negative — are more likely than those who have experienced a more steady financial position to be philanthropic (see chart 11).

## Philanthropy in emerging markets

Private philanthropy in emerging markets remains at a relatively early stage of development. Although there is frequently a strong culture of individual giving in these markets, often driven by religious obligations, the infrastructure to support philanthropic endeavours can be fairly limited. Local non-profit organisations or foundations may be thin on the ground, and a large proportion of charitable work typically takes place locally, or through state-run organisations.

As a result, charitable giving can be just a fraction of that seen in developed markets. One report estimated that total philanthropy in China amounts to just 0.01% of GDP, compared with 2.2% in the United States<sup>8</sup>. Among our respondents, entrepreneurs and business owners in developed markets are more likely to give to charity than those in emerging markets.

Institutional barriers can hamper the spread of philanthropy in emerging markets. Tax deductions for charitable giving are rare, and non-profits can sometimes be heavily regulated and kept under strict government control. In China, for example, all non-profit organisations fall under government regulation and are run by public sector staff<sup>9</sup>. There may also be a perception that foundations are opaque or even corrupt, and that can deter would-be donors.

The situation is changing, however, as wealthy individuals seek to become more involved in philanthropy and make productive use of their wealth. The number of charitable foundations in Russia and China has increased in recent years — one estimate puts the number in China at 2,700 with a quarter of these established in the past five years<sup>10</sup> (although this is well behind the estimated 1 million charitable foundations in the U.S.<sup>11</sup>). A growing number of foundations reflects greater awareness and interest in philanthropy, but this does not mean that better outcomes are always achieved. Indeed, it could be argued that a proliferation of foundations leads to more inefficient giving, whereas greater pooling of resources would make better use of economies of scale.

Nevertheless, this increased involvement in philanthropy in countries like China clearly reflects growing wealth in the region more generally. More robust infrastructure is also leading to an increase in donations. A recent report from Bain & Company, for example, found that the wealthy in India have increased their donations, from an average of 2.3% of household income in 2010 to 3.1% in 2011<sup>12</sup>.

Globalisation is again a factor here. As more and more wealthy individuals travel and spend time in well-established philanthropy centres like the U.S., they are increasingly seeking to import best practices back to their country of origin. “There is a new generation that is being educated or working in the U.S. or Europe and returning with very different views of how they should approach philanthropy as part of their wealth planning,” says Ms. Turner.

<sup>8</sup> 2010 Blue Book of Charitable Donation Development in China

<sup>9</sup> *Ibid*

<sup>10</sup> 2010 Blue Book of Charitable Donation Development in China

<sup>11</sup> Chen Guangbiao, *China's Charity Champion*, Fast Company (March 2011)

<sup>12</sup> *India Philanthropy Report*, Bain & Company (2013)

## A new model of philanthropy

The rise of entrepreneurial wealth is triggering change in the world of philanthropy. Increasingly, wealthy individuals want to play a more active role in their giving — either by donating their time and experience, as well as their money, or by applying closer scrutiny to the objectives and outcomes of the charitable organisations with which they work.

The financial crisis has been an important driver of this change. Research by The Million Dollar List (MDL), a searchable database created by the Center on Philanthropy at Indiana University, found that, between 2008 and 2009, the value of million-dollar-plus gifts by individuals plunged 61% and the number of gifts fell by 39%<sup>13</sup>. The more positive news, however, is that the downturn has engendered a greater focus on the effectiveness of giving.

“The crisis had provided an opportunity to think more deliberately about the impact of each dollar,” says Mr. Raikes. “I am a real advocate for thinking strategically about ways to increase the efficiency and effectiveness of giving in the same way that business leaders use a crisis to think about doing things in new ways.”

Doug Miller, Chairman of the Asian Venture Philanthropy Network, agrees, pointing out that during good economic times there is a danger that not enough attention is paid to the outcomes of philanthropy. “In lean times, it’s important to ensure that you get more bang for your buck,” he says. “A more engaged approach to philanthropy essentially tries to produce more social impact per dollar or pound spent, so that makes it appealing at a time when some people may be cutting back on donations and when social needs have increased because of budget deficits and austerity plans.”

Bill Gates and Warren Buffet are the poster children of this new approach to philanthropy, which *The Economist* Journalist Matthew Bishop has called “philanthrocapitalism.” He notes that there are several common themes that unite this new breed of philanthropist. One is that they take a long-term focus. Rather than giving money on an ad hoc basis, they seek to use their skills and money to solve very long-term and complex challenges. At the same time, they are willing to take risks and be experimental in their approach. “By trying different approaches, they are seeking evidence so that they can apply what has been learned on a greater scale,” he says.

As a result, the new breed of philanthropist tends to be more flexible in the models that they are willing to apply to solve problems. “There is not an assumption that the only approach to philanthropy is to give money away,” says Mr. Bishop. “Instead, the approach is to determine what problem needs to be solved and then figure out the most effective way to do that. If that means a combination of profit and non-profit, they are open to that so long as it creates the desired outcome.”

Ms. Grum points out that, in some countries, insurance policies can be used to separate funds for philanthropic goals later in life. “More and more wealthy individuals are looking at life insurance to fund a philanthropic aim,” she explains. “By establishing policies now, they can have confidence that a sufficient amount of money will go to the cause of their choice without impacting what they leave for their heirs.”

13 Strong Correlation between Market movements and large \$ philanthropy, *Journal of Financial Planning* (January 2012)

Of course, not all philanthropists will want to become that engaged in their giving. As Ms. Turner points out, many donors prefer a “hands-off” approach. “Although many business people will have a desire to examine closely the organisations they are going to support, there are a lot of people at the other end of the scale who just want to give their money to a good organisation and are not interested in getting over-involved,” she says.

Another factor that philanthropists need to consider is the extent to which they are comfortable with their work putting them in the public eye. This may be an important objective for some, whereas others will want to remain firmly in the background. “Profile is an important consideration and, while some wealthy individuals will be happy to be in the public eye, others will want their work to be more private,” says Ms. Turner. “But it’s important to make that decision early on, because once that door is opened, it’s much harder to close it.”

### A strategic approach to giving

Rather than simply donating money on an ad hoc or regular basis, the new breed of philanthropist takes a much more strategic approach to giving that is centred around measurement and a focus on outcomes. At the Bill and Melinda Gates Foundation, for example, there is a rigorous cycle in place of strategy development, execution against that strategy and performance measurement.

A set of scorecards track progress toward achieving goals over the short term, medium term and long term. “The scorecard sets priorities for the relevant organisations, aligns behind the delivery of those goals, provides accountability for progress toward goals, and embeds a mechanism for learning and making adjustments,” says

Mr. Raikes. “Those four principles all fit in with the broader theme of measurement as a way for us to drive continuous improvement. Ultimately, that increases our capacity to deliver the most impact for the people we wish to serve.”

The measurement of outcomes may sound straightforward but, in many cases, selecting the right metrics can be challenging. For example, what would be the best metric for measuring the impact of philanthropy on the eradication of polio? At first glance, this might seem like a simple question. Surely the best measure of all would be the number of cases of polio and, if they were being reduced to zero, then that would represent a good return on investment for a philanthropic endeavour.

But as Mr. Raikes explains, the reality is more complex. “Cases of polio paralysis are not a good leading indicator of whether you are achieving the goals of the campaign,” he says. “You really have to look at the number of vaccinations, see how many children are being missed, and understand the level of population immunity within a given geography. Measuring the impact of philanthropy might seem simple but, in fact, you have to be very dedicated to finding out the right metrics.”

Equally, not every philanthropic goal is easily quantifiable. “There are a lot of things you do in philanthropy that are very difficult to measure,” says Mr. Raikes. “For example, if you’re donating to the arts, how do you measure the impact of that? The danger is that, if we become so oriented toward trying to measure everything, we end up excluding certain worthwhile philanthropic investments because we can’t decide on the right metrics to determine impact. Measurement of impact should not be an end in itself.”

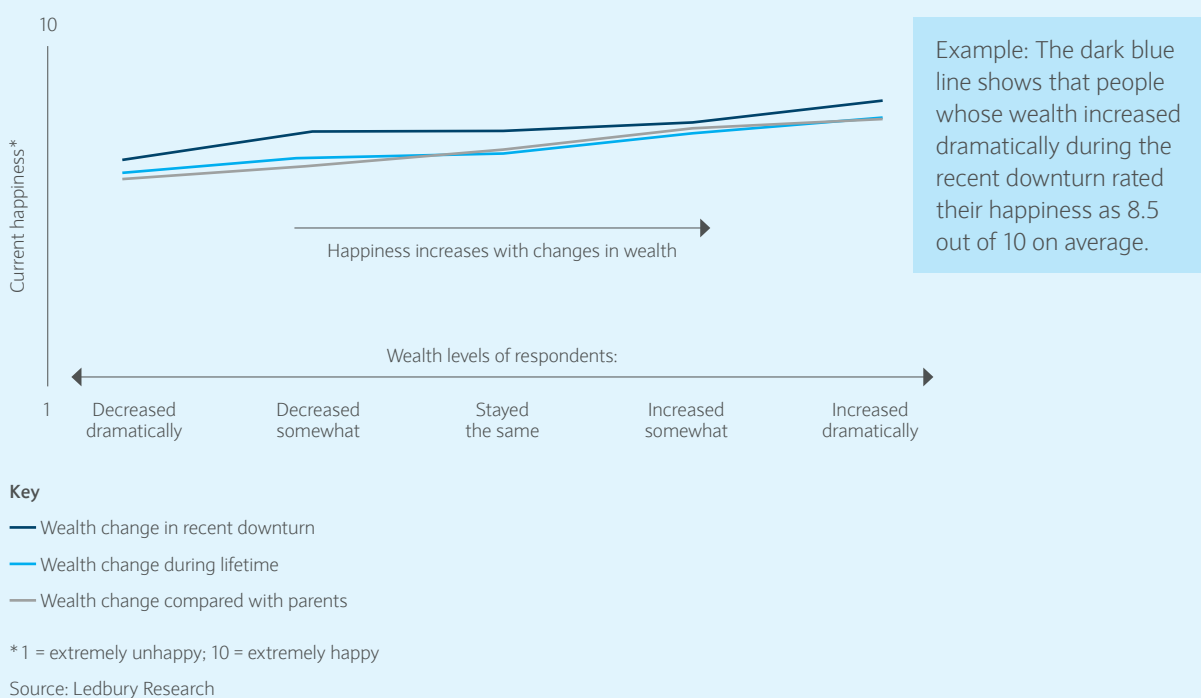
# Philanthropy, wealth and happiness

There is a longstanding debate in social sciences about whether increases in wealth lead to greater happiness. The Economist Richard Easterlin argued that, while people with higher incomes generally reported greater happiness, their level of happiness did not vary much once basic needs were met<sup>14</sup>. More recently, Economist Angus Deaton and Psychologist Daniel Kahneman found in their research that, while emotional well-being rises in line with annual income, there is no further progress once an annual income of around USD\$75,000/GBP£50,000 is reached<sup>15</sup>. Crucially,

however, they also found that life evaluation, or broader satisfaction with life, continues to rise well beyond the USD\$75,000/GBP£50,000 threshold.

“There is a very strong link between income and broader happiness,” agrees Andrew Oswald, Professor of Economics at the University of Warwick. “There is also a link between happiness and productivity, which means that people who are happier in their early 20s go on to earn considerably more than those who are less happy once you have adjusted for other factors.”

Chart 12  
How does wealth affect happiness?



14 Does Economic Growth Improve the Human Lot? Some Empirical Evidence. Easterlin (1974)

15 High income improves evaluation of life but not emotional well-being, Daniel Kahneman and Angus Deaton (2010)



Our survey also finds a strong link between wealth and happiness. People whose wealth has increased — during their lifetime, or relative to their parents, or during the recent downturn — all report increased levels of happiness compared with those who report a decrease in wealth (see chart 12). In terms of use of wealth, our research also finds that people who spend more on lifestyle and experiences, rather than tangible objects, report greater levels of happiness.

There is also a link between happiness and philanthropy. Harvard Business School Professor Michael Norton and his colleagues have argued both that happy people tend to be more philanthropic, and that philanthropy can in fact increase happiness, creating a circular, self-reinforcing relationship between the two<sup>16</sup>. “What we do with our money is as important as how much we have when it comes to happiness,” says Professor Norton. “Our research has shown both that happy people give more money, and that people are happier and more productive when they spend on other people than when they spend on themselves. We also see a similar link between volunteering and happiness.”

Some researchers have even found a link between philanthropy and increased wealth. Adam Grant is a Professor at the Wharton School of the University of Pennsylvania and the Author of *Give and Take: A Revolutionary Approach to Success*. He points to research by Economist Arthur Brooks that shows a correlation between wealth and charitable giving: The more money people earn in one year, the more they will give away the following year. Even more interestingly, Brooks finds that the reverse holds true as well: The more money an individual gives away in one year, the more they earn the next year. He believes giving makes people happier, motivating them to work harder and bring in more income.

Professor Grant believes these ideas have the potential to impact the way people think about their life and their willingness to contribute to society over their life. “This research may help more people integrate what Bill Gates called the two great forces of human nature: self-interest and caring for others,” he says. “I think often people focus their self-interest into their work domain and they may preserve caring for others for their family, friends, and community. I would like to see people looking at how they can further their own goals while contributing as much as possible to other people in all domains of their life. It might lead to a life-long approach to philanthropy, whereby people give throughout their lives rather than mostly toward the end.”

16 *Happy Money: The Science of Smarter Spending*, Elizabeth Dunn and Michael Norton (2013)

# Conclusion

Recent years have seen a transformation of the global wealth landscape. A quarter of a century ago, a large proportion of the world's wealthiest individuals owed their riches to inheritance. Today, entrepreneurship and business ownership have exploded as sources of wealth. Wealth has also become more globally distributed, and mobile. Technology and globalisation have enabled business ideas to be scaled and replicated at unprecedented speed, presenting ambitious business owners with the opportunity to grow their business — and wealth — extremely quickly.

Such a changing landscape is prompting a growing number of wealthy individuals to think more carefully about the purpose of their wealth. This is taking wealth management away from a narrow focus on optimising risk and return on investments toward a more holistic perspective on how to apply it across the full spectrum of the individual or family's long-term goals and objectives.

This means thinking not only about investment but also about legacy, intergenerational wealth transfer and philanthropy. These concepts are increasingly becoming engrained in the way in which many wealthy families think about planning, in both developed and emerging markets. In particular, there is a clear link between the rise of entrepreneurship and a growing focus on more active, engaged philanthropy that draws on business skills and time commitment, as well as financial donations. Sharing wealth with family, friends and charitable organisations is only one part of the wealth journey. But as both research and experience are increasingly showing, it can be among the most fulfilling. For this reason, wealth should be considered as much about the qualitative aspects as it is about the quantitative.

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