

CHAPTER 1

Complete Wealth

In the late 20th century, when *Family Wealth* was published, its subtitle was *Keeping It in the Family*.

Many readers assumed that the “it” referred to money. After all, doesn’t the proverb—“shirtsleeves to shirtsleeves in three generations”—refer to a family’s economic condition?

From this assumption, an entire industry has grown, an industry aimed at helping families correct their family dynamics to preserve and grow their financial capital.

Likewise, many readers, family leaders, and advisers have concluded that the most important thing is to seek to beat the proverb and do what it takes to keep their financial capital in the family.

Right Understanding

But this conclusion is wrong.

The “it” is not money. It is the family’s well-being. That is its true wealth. We encompass this well-being by speaking about “qualitative wealth”—the family’s human, legacy, family relationship, structural, and social capital. This wealth as well-being is the goal, which the family’s quantitative wealth, its financial capital, rightly serves.

Beating the proverb is not a matter of simply using various tools and techniques—family meetings, values clarification, communication ground

rules, and so on and so forth—to make family members better stewards of their money. Keeping your money in your family is not necessarily a bad thing. But it is not the main thing. It is only one-fifth of the task. And it is the least important fifth, when it comes to happiness.

The goal of *Complete Family Wealth* is to help you identify, inventory, and grow your true, or complete, wealth as a family. This complete wealth far transcends money. Growing complete wealth also meets the criticisms of those—from Andrew Carnegie to proponents of social justice—who denounce inherited financial capital as bad for families and for society. Complete family wealth improves the lives of family members and benefits the communities of which they are a part.

One family leader captured the distinction for us by quoting her grandmother. This wise woman, she said, would often say, “Our family has always been rich, and we’ve sometimes had money.” There is the distinction between qualitative and quantitative capital in a nutshell.

As with any important undertaking, it is crucial to begin with right understanding. To that end, as you read this book and think about wealth, notice when you automatically identify that term with financial capital. That is the identification we are seeking to challenge and to substitute with wealth as well-being. If you choose to pursue the journey of family wealth, be clear just what kinds of wealth you are trying to keep in the family.

Complete Wealth

We have said that complete family wealth comprises five aspects of qualitative capital—human, legacy, family relationship, structural, and social—and the family’s quantitative assets, its financial capital. The goals of the rest of this chapter are to define these forms of capital, outline ways of growing them, and suggest a method for measuring the growth of qualitative capital.

Rarely do families measure their qualitative capital. That’s because they often do not even recognize that they own this type of capital. But can you imagine any enterprise being successful if it didn’t track most of its capital?

The failure to acknowledge, measure, and grow the qualitative capital of a family is the principal cause for the failure of family flourishing.

In contrast, investing in the family’s qualitative capital—investing time, energy, and financial wealth—is perhaps the greatest “impact investment” a family can make.

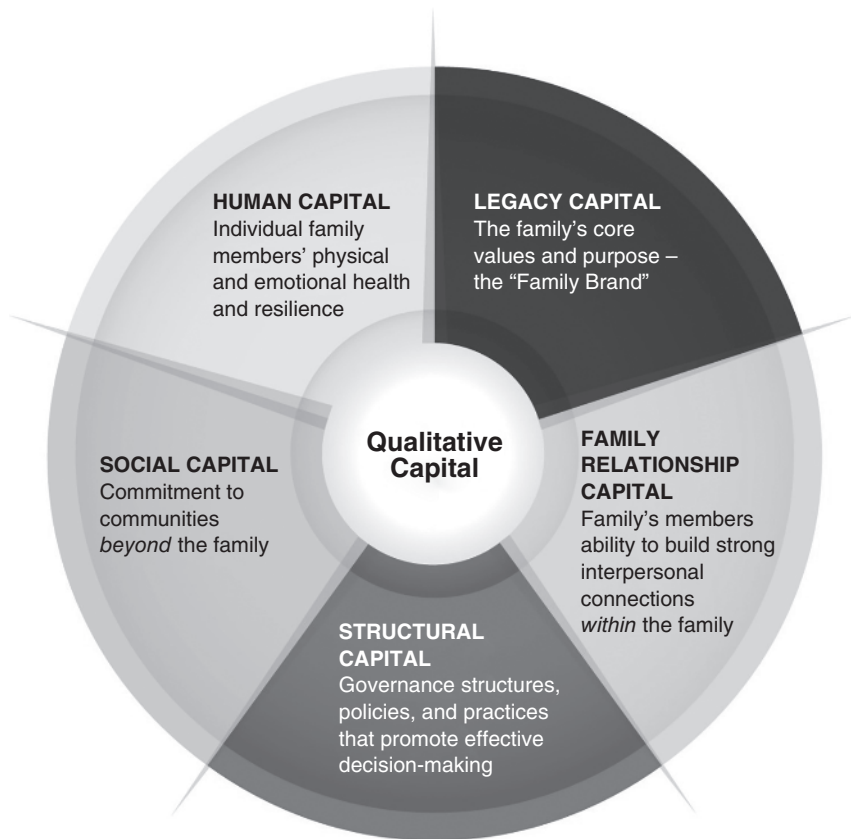
As you read, you will likely notice overlaps among the five aspects of qualitative capital. That is because each one captures an aspect of the same thing: the family’s true flourishing.

The Five Types of Qualitative Capital

Human Capital

The Human Capital of a family consists of the individuals who make up the family. Their human capital includes their physical and emotional well-being as well as each member’s ability to find meaningful work, establish a positive sense of identity, and pursue his or her own happiness.

FIGURE 1.1 The Qualitative Capital Wheel.



Legacy Capital

Legacy capital consists of the family's core values and sense of shared purpose. In many ways, it can be considered the "Family Brand"—what makes the family distinct and gives the family members a sense of shared identity.

Family Relationship Capital

Effective communication is at the heart of every successful family. A family's ability to engage and support communication across generations is particularly important. This ability to build strong interpersonal connections within the family is family relationship capital.

Structural Capital

Families with significant wealth or businesses often operate within a network of trusts, partnerships, contracts, and other legal or business relationships. Structural capital consists of an understanding of this network and the ability to navigate it effectively.

Social Capital

Families shape and are shaped by the communities of which they are a part. Commitment to these communities gives families a strength that comes from serving something greater than themselves. This commitment to communities *beyond* the family is social capital.

Financial Capital

The financial capital of a family is the property it owns. This property may include cash, public securities, privately held company stock, and interests in private partnerships.

The focus of this book is qualitative capital, not financial capital. But that doesn't mean that we think that financial capital is unimportant. Financial capital greatly contributes to families' ability to cultivate their other forms of capital. It makes possible quality health care, education, philanthropy, and the time and opportunities to come together and talk about building and sustaining a shared dream. The opportunity to cultivate these qualitative assets is a great gift, which financial capital makes possible.

Growing Capital

Wealth preservation is a dynamic, not a static, process. To succeed, each generation of the family must adopt a first-generation—a wealth-creating generation—mindset.

Any family whose complete wealth—qualitative and quantitative—is simply maintaining value rather than growing it is either in or in danger of entering into a state of decay or entropy. A family, like every investor, must maximize its return on capital if it is to achieve the growth necessary for preservation over a long period of time. What are some of the things a family can do to grow its various forms of qualitative capital?

Human Capital

With respect to its human capital, a family can consider implementing the following practices:

1. Promote each member's individual flourishing. (For more on the psychological aspects of individual flourishing, see the Conclusion.) This includes providing the best possible medical care to every family member whose pursuit of happiness is blocked by addiction or physical or mental illness.
2. Ensure that every family member's basic requirements for food, shelter, and clothing are met, and for members who experience a life emergency, that those needs are met at a level adequate to allow them to regain the capacity for the pursuit of individual happiness.
3. Emphasize the importance of work to an individual's sense of self-worth and assist each family member in finding the work that most enhances that individual's pursuit of happiness. All such work is of equal value to the growth of the family's human capital, regardless of its financial reward.
4. Encourage all family members, especially rising generation members, to develop a strong sense of personal identity separate from the family's financial success.
5. Promote the family's geographic diversification. The world is becoming smaller every day. Families must participate in all corners of the world if they are to meet today's global challenges.

Legacy Capital

With regard to legacy capital:

1. Help each member of the family clarify his or her values. Discuss what matters most to each of you. Identify areas of overlap, of shared family values, and respect areas of difference.
2. Share stories of the family's history, and of the history of the various families that preceded yours. Tell stories of failure and disappointment as well as of success. Sometimes the stories of failure followed by striving and achievement are the most powerful ones.
3. Honor family traditions, whether around holidays, birthdays, anniversaries, or other important milestones in the lives of family members and of the family as a whole. Discuss which traditions family members are eager to preserve and celebrate, and which some or all family members might be ready to let go of.

Family Relationship Capital

Here are some ways for a family to grow its family relationship capital:

1. Consider beginning or continuing the practice of holding regular, well-designed and facilitated family meetings to discuss topics of importance to the family as a whole.
2. Set aside time during a family meeting to work on enhancing effective communication among family members. That may take the form of learning about individuals' particular communication styles, understanding how different styles complement or clash, and developing strategies for navigating points of friction.
3. Talk about the reasons for including family members' spouses in important family discussions. What are the fears of or challenges to doing so? What do family members see as the benefits? Spouses often bring valuable perspectives to family discussions, in addition to being the parents of the future rising generation.
4. If the family suffers from breakdowns of trust, respect, or fairness among family members, use resources to secure consultation for members to surface, manage, and possibly resolve these conflicts.

Structural Capital

When it comes to growing structural capital, families can:

1. Rapidly provide clear information on all family governance matters to all family members at the highest level of each person's ability to understand and seek feedback.
2. Invite trust counsel or other advisers to design engaging educational sessions to inform family members about their wealth structures, their functions and goals, and the roles and responsibilities attendant on these structures.
3. Develop a leadership development plan that takes into account the future needs of the family, the evolution of its wealth or business structures, the true interest of family members in serving in leadership positions, and the needs they have to develop the skills and knowledge to serve effectively.

Social Capital

Many of the practices in the rest of this book describe how families can grow their social capital. Some steps families may particularly wish to consider include:

1. Talk about ways that all family members, regardless of age or stage of development, give back to others and find joy in giving.
2. Consider building or amending philanthropic structures to give individual family members' choices in how they deploy charitable resources.
3. Provide rising generation family members with opportunities to connect with the larger community through service in the family's business efforts or in its philanthropies.
4. Consider ending every family gathering with a brief gratitude exercise, in which members envision someone in the family they wish to thank and identify ways to offer those thanks.

Financial Capital

We will leave the growth of a family's financial capital to the many other authors who have made this capital their focus.¹

¹We share additional thoughts on the relation between financial capital and the qualitative capitals in Chapter 21, "Financial Capital." There we also summarize two practices related to the intersection of the qualitative and quantitative capitals, Investor Allocation and the Family Bank.

We add only these two considerations, reflective of the often-difficult relationship that families have with their financial capital.

First, many family members who have inherited financial capital do not know how difficult it is to create it. They may feel awed by the presence of the wealth creator and define success as the creation of great financial capital. Defining success in financial terms can create a sense of not being good enough. In addition, their experience of the wealth creator may have some negative associations. As a result, later-generation family members often do not feel the same motivations that fueled the creativity of the originator of the family's financial capital. This is a problem for the family's financial sustainability. The problem is compounded if the family imagines or, worse, assumes that every member will turn out to be an entrepreneur. Such assumptions can become counterproductive. Only through undertaking the hard work of identifying and supporting each family member's own talents and dreams can the family hope to see—perhaps—the blossoming of the entrepreneurial spirit that will, in turn, contribute to the larger family's financial capital.

Second, most families have a hard time talking about financial capital. Money is perhaps the last and most pervasive taboo. Many times, this is for bad reasons: family members feel uneducated, disempowered, and embarrassed. This silence comes with a real opportunity cost. As we will discuss more fully in Chapters 14 and 17, long-term success depends on helping family members talk productively about money with each other.

That said, as with any taboo, there are also some good reasons that people are hesitant to talk about money. No one knows better than people with significant financial capital that many others (including even family members at times) can end up seeing you only for your money. Not talking about money can be a sound defensive measure. The chapters that follow aim to help readers develop safe ways to talk about financial capital, ways that preserve and promote the family's four qualitative capitals.

A Provocative Comparison

Before turning to the question of measuring the various types of qualitative capital, consider briefly a quantitative comparison. Tally up a rough estimate of how much your family spends each year to account for, preserve, and manage its financial capital. That spending may include asset management fees, advisory fees, legal fees, accounting fees, custody fees, and many others.

Next, think about the types of qualitative capital and the activities we described to grow them. How much does your family invest in them? Probably quite a bit when it comes to sending young adults to college or paying for major medical care. But what about on an ongoing basis? What about investing in the proactive growth of qualitative capital?

(Notice the difference here, familiar to any business owner, between operating expenses—such as those related to managing assets—and investment, which is an expenditure meant to grow your assets.)

You likely have a budget that covers the costs of managing your financial capital. Have you ever considered an investment plan for growing your qualitative capital? If you had such an investment plan, how would it compare to the budget for your financial capital? What would that comparison say about the relative importance of the different forms of capital in your family's life?

Measuring Qualitative Capital

Many families keep track of their financial capital on an annual or even quarterly or monthly basis. Careful stewarding of balance sheets and income statements is critical to the management of the family's financial capital.

Unfortunately, these efforts often don't extend to the family's qualitative capital. Without an assessment of qualitative capital, the family and individual balance sheets are incomplete and will not measure the extent to which a family is growing its complete wealth.

One way to measure, manage, and grow qualitative capital is Family Qualitative Capital Management, a program we developed at Wise Counsel Research. In this section we share a brief description of this process.

First, every twelve months, we measure our client families' qualitative capital. To do so, we designed a tool we call the Family Balance Sheet. It takes each family member about 20–30 minutes to fill it out online. The Family Balance Sheet produces topline results for the family that show its scores in human, legacy, family relationship, structural, and social capital.

Second, we aggregate all family members' responses to create a Family Qualitative Capital Report. This Report identifies the family's areas of strength and weakness in the five forms of qualitative capital. Based on the family's results, we include in the Report relevant and actionable recommendations for each family member and for the family as a whole.

Third, we meet with the family to review the Family Qualitative Capital Report. (Each individual family member's report is confidential to him or her, but everyone sees the Family Report.) The most important part of this annual meeting is to help the family discuss and decide on a Qualitative Action Plan. This Plan may include specific objectives such as enhancing cross-generational communication, engaging and educating rising generation family members, and creating effective governance structures. The Family Qualitative Capital Action Plan ensures that the family always proceeds forward in a thoughtful, deliberate manner, that responds to its true needs, and makes the most of family members' engagement and the resources committed to these efforts.

Fourth, family members pursue their agreed-upon Qualitative Action Plan in concert with appropriate specialists. These may include family office staff, attorneys, individual or family counselors, or governance specialists. This is the same as what is called "manager selection" in the world of quantitative capital. You don't expect one person to manage all your different financial assets. So why expect one consultant or adviser to help you with your different forms of qualitative capital?

Fifth, after six months, we reconvene a family meeting to evaluate progress toward the agreed-upon objectives and make any needed adjustments to the Qualitative Capital Action Plan.

Sixth, in the final month of each annual engagement, we meet once more with family leadership to summarize progress, identify changes in the family system, update the Family Qualitative Action Plan, and discuss overarching goals for the next year of the family's work together.

No doubt you've noticed the parallel between the process of Family Qualitative Capital Management and the process of financial wealth management.

There's one crucial way in which the two differ. As fascinating and as important as it is, financial wealth management is not an end in itself. Financial capital is a means to pursue other ends, such as security, comfort, health, meaningful experiences, etc.

In contrast, qualitative capital is both a means and an end. Having strong qualitative capital allows your family members to do more—to work together effectively, to make good decisions, to sustain their family business or family finances over generations. But it also allows them to be more—to be healthier and happier in their individual lives and with each other. It promotes true "wealth as well-being."