



Sustainability — A Family Goal

By Linda Davis Taylor

Especially now, families are concerned not only with preserving their financial wealth, but with maintaining and enhancing their overall social health and capacity for stewardship by successive generations. As we all come to terms with the reality that financial assets can be less reliable than we thought, family leaders are saying to themselves: “*We may not be as financially secure as we had hoped and planned.*” And with no guarantee of an economic recovery, what can families do to prepare the next generation for the future?

The Challenge of Successful Wealth Transition

Jay Hughes, noted estate planning attorney in the field of family wealth, often recalls the old Chinese proverb, “Shirtsleeves to shirtsleeves in three generations.” This proverb predicts that the wealth that was created by the first generation is likely to disappear by the end of the third generation.

The unfortunate truth of this saying is underscored by a recent study of 3,200 families, which found that wealth transition failed in 70% of these families. Interestingly, this failure was attributed to investment management in only 3% of the cases with the remainder due to other factors within the family’s ability to control, or at least influence. How can families avoid this result?

One approach lies in the wisdom of Gary S. Becker, University of Chicago’s Nobel Prize winning economist who argued, “***People cannot be separated from their knowledge, skills, health, or values in the way they can be separated from their financial and physical assets.***” Dr. Becker’s work on human capital theory provides the framework for defining a family’s wealth in a much broader way by considering the human, intellectual, and social capital as equally, if not more important than financial capital, for long term family success.



How Do Human, Intellectual, and Social Capital Relate to Family Wealth?

First, let's look more closely at some definitions offered by family wealth visionary Lisa Gray:

Human capital: Unique talents, happiness, well being, health, ethics, and morals of each member of the family.

Intellectual capital: Heritage, traditions, faith, life experiences, education, and skills of family members

Social capital: Responsibility, service, charitable activities

Financial capital: Stocks, bonds, cash, real estate, “things”

Most of us would probably acknowledge the importance of human, intellectual and social capital for a “successful life,” but we have traditionally considered our wealth in terms solely of financial capital. The broader view of “family wealth” suggests that by thinking of our financial capital as a tool to grow the other forms of capital— human, intellectual, and social — we can sustain family success across generations by recognizing and investing in each family member’s ability to thrive individually which in turn reenergizes the family as a whole. Think about the collective “assets” of your family as all the talents, knowledge, skills, and unique experiences each family member brings to the family’s culture.

An example of how this works in a family is when parents or grandparents pay for the education of a child or grandchild, who, with the right training and experience, later joins the family business, thereby using the financial capital that the family provided to increase her intellectual capital, ultimately contributing to the family’s well being. The child who directs his or her interest in “giving back” to working with a not-for-profit organization, or who develops his or her artistic talent is equally valuable to building the family by adding to it a whole different dimension of knowledge.



How Can Families Incorporate this Approach in Managing Wealth?

Families can adopt a broader approach to managing their family wealth through incorporating activities designed to build the human, intellectual, and social capital alongside their management of the financial capital. A family’s mission and vision should reflect their shared values, because families that are linked by a commitment to elements of a common purpose or philosophy have a greater likelihood of long term success beyond three generations. Identifying and agreeing on this common purpose and then involving family members through education and joint activities such as philanthropy can be as important as thoughtful estate planning and investment management in sustaining the family over multiple generations. Family members benefit from understanding “why” family wealth exists as well as “how” it is invested.

Governance - Planning - Investment





The Importance of Family Governance

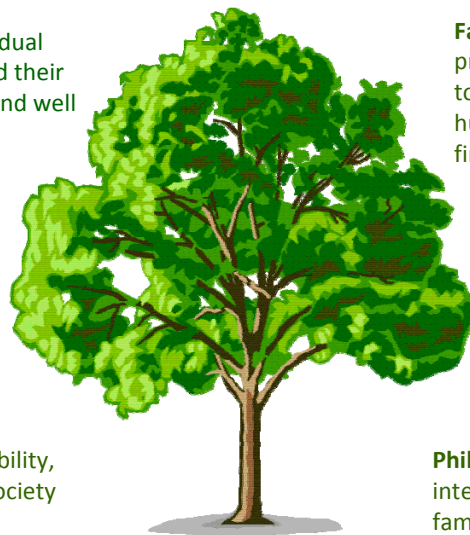
Just as a plan for managing financial capital should not be left to chance, the same is true for managing the other crucial aspects of family wealth. Sound family governance includes a careful approach to defining the family's core values, forming the basis of its mission and overarching purpose. Educational activities designed for the next generation or other family members not well versed in financial matters builds their capacity for stewardship and individual financial independence. Involving the family in charitable activities exposes them to philanthropy, instilling a sense of responsibility for giving back to the community.

Family Wealth: The human, intellectual, social and financial capital of a family.

Human Capital: The individual members of the family and their collective talents, values and well being.

Intellectual Capital: The unique heritage, traditions, experiences, educations and skills of each family member.

Social Capital: Responsibility, service and impact on society



Family Governance: A dynamic process of activities performed to preserve the family's wealth – human, intellectual and financial.

Education: Providing family members with the knowledge and skills to maximize their individual success and as stewards of family wealth.

Philanthropy: The charitable interests and activities of the family.

Financial Capital: Resources to support the growth of human, social and intellectual capital



A Family Sustainability Plan

The summer season brings more opportunity for family gatherings, whether a large scale “family reunion” or a simple picnic or trip to the beach. Even a short family holiday provides opportunities for building family ties through new experiences that create beloved family stories. Time together provides the opportunity for conversations about some aspect of the family history that will build connections and legacy. Simple topics can be used to create a sense of connection to the family, such as describing some colorful family members from the past and what characteristics made them memorable.

Our economic crisis has created even greater need for charitable support to our communities. Consider involving the younger generation in giving back by asking them, “What cause most interests you?” Then encourage a tradition of family philanthropy by involving the children in a family charitable giving project during the year end giving season.

Families that establish a culture of pride across all generations in their legacy and appreciation for the characteristics and accomplishments of their family members that are not always financial will surely have a better chance of avoiding the “shirtsleeves to shirtsleeves” proverb.

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