Six Dimensions of Wealth: Leaving the Fullest Value of Your Wealth to Your Heirs

by Dennis T. Jaffe, Ph.D.

Dennis T. Jaffe, Ph.D., is professor and founder of the Organizational Systems doctoral program for mid-career leaders at Saybrook Graduate School in San Francisco, California. His books include two on family wealth: Working with the Ones You Love and Working with Family Businesses.

For a family's wealth to offer its fullest value for the next generation of heirs, it must be accompanied by other family practices, capabilities and understandings. These also can be considered aspects of family wealth, in that each of them helps add value to the next generation. This article explores six forms of wealth that families can pass on to their heirs: spiritual, financial, human, family, structural and societal capital. It defines the practices that add value to each dimension and how financial planners can help family members add to their pool of family capital.

In the broadest sense, estate and financial planning involve helping families pass on their wealth so that the next generation uses it wisely and well. Passing a pile of money to heirs is not a complete solution, as we see from the predominantly sad stories of lottery winners. Heirs must be prepared to receive their wealth and learn to use it according to the values of the family. To help them, they must inherit not only financial wealth, but many other capabilities, connections and resources that prepare them to achieve the highest and best purposes of their inheritances.

Fruitful inheritance is more than a matter of avoiding taxes and drafting an unbreakable will. It involves personal, emotional and even spiritual matters. Families doing financial planning will voice concern over the future of their family, the development of their children and how these lessons will pass to the third generation. They wonder about the effect of inheritance upon their children, and how their family and the things that they care about will fare in the hands of the next generation.

While financial planners are primarily concerned with optimizing the financial value of inheritance, they get asked to help families with personal and relationship aspects of inheritance and wealth transfer. For example, families often ask planners to help them communicate the values and purposes behind their wealth, mediate conflicts, and support the heirs' development of skills and commitment.

This article offers a model to help planners and families understand the multiple sources of value that can be inherited. While the term "wealth" commonly refers to money, there are, in fact, several types of wealth that can be inherited. You can inherit social position, intelligence, qualities of character and a family network of friends, associations and access to resources. My model builds on the work of others, who have defined several potential sources of value, or "capital," that can be transmitted to future generations. For example, recently we have heard about emotional, intellectual, human and social capital.

I focus on six dimensions of wealth that a family can pass on to its heirs: (1) spiritual, (2) financial, (3) human, (4) family, (5) structural and (6) societal. They are all interconnected and, in the end, they all develop in one package. By helping a family explore these six sources of capital, you can optimize the value of a family's financial resources for the future.

Spiritual Capital

Spiritual capital means defining and keeping in touch with the deepest values that express the nature of the family; coming to terms with the deepest and most important questions in life; creating congruence between family wealth and inner values.

Spiritual capital is put in place when a family…

- Understands the deeper meaning and purpose of wealth in their lives
- Has a mission and values statement
- Tells the family story to the next gener-

TABLE 1

The Six Dimensions of Wealth

Capital	Definition	Expressed As…
Spiritual	The mission, values, core purpose and shared meaning that are the foundation of the family, and its approach to wealth and relationships to each other.	• Understanding the deeper meaning and purpose of wealth in their lives • Family mission and values statement • Telling the family story to the next generation • Talking together about values and what is really important
Financial	Resources to re-invest and support a comfortable lifestyle, and ability to manage and sustain investments productively.	• Creating clear and realistic expectations among the heirs • Teaching all heirs values and responsibility about managing wealth • Generating a sense of responsibility and capability to support the long-term strategy
Human	Developing the character, skills and identity of each heir to understand how to manage wealth, to find important work, and to live in a complex, difficult and demanding global environment.	• Initiating age-appropriate discussions about money with heirs • Building self-esteem and identity independent of having money • Helping heirs develop a sense of purpose for their lives • Developing skills and capability to make their way independently
Family	The ability to stay connected within the extended family, to compromise and work together, and create caring, positive and productive relationships.	• Generating respect and trust by regular communication • Healing past misunderstandings and hurts • Ability to listen and learn from each other
Structural	Structures to manage the family wealth, to make decisions, to get competent advice, to manage family businesses or investments, and to steer them in a volatile environment.	• A written Family Constitution • Regular meetings of family councils, assemblies and boards • Accountability and clear communication to beneficiaries
Societal	Commitment and a sense of respect, compassion and connection to the suffering and concerns of others, taking a place of service within one's community, and using resources to support the future of the planet.	• Expressing their values in the community through action • Involving all family members in service and philanthropy

ation

- Talks together about values and what is really important

It seems strange to use the words "spiritual" and "capital" in one phrase. Yet spiritual capital forms the roots of all the other forms of capital. Spiritual capital is about how the family defines and lives its values, core purpose and weaves together all of its activities to create a sense of meaning for individuals and the family. When planners ask a client family about their goals, they inquire about the family's spiritual capital.

The meaning of family wealth. Wealth can't be inherited without some message attached to it. Families need to be clear not just about what is being given to their heirs, but why and what is expected in return. Yet too often, expectations are unclear, or far from explicit, leading to greatly different interpretations. Wealth is accompanied by a set of values toward which the whole family is expected to aspire, by the meaning and purposes to which the family's assets and wealth are to be put, and by the expectations of family members and their responsibility, and their role in the community and their relationships.

The overriding "spiritual" question for a family is, "Why are we passing on our wealth to our heirs?" What do they want their resources to do for their children and heirs? A core concern is the balance between resources for consumption and stewardship of the wealth so that it can continue to grow and pass. Some heirs regard their inheritance as a legacy that they must pass on to the next generation, others as a gift of fortune and others as what they are entitled to. These are value questions that the family should guide an heir in answering, not leave to chance.

Defining the family mission. Keeping a family together through generations is quite a feat. If a family has a statement of principles that can be referred to, or its *family mission*, then succeeding generations have a core of basic principles to which they can adhere. One of the options of a wealth creator is to set guidelines and principles for the future of the wealth. These can be binding, or a matter of aspiration and honor. A second- or third-generation family may have a set of informal or unarticulated values and ways of doing things; it may be helpful to define these clearly and write them down.

A planner begins to look at inheritance by guiding a family to create a mission and values statement, which tells what their wealth and business are "for" in a deep sense. It may include the reasons behind that purpose and perhaps parts of the founder's story. It is a living document that can be amended and added to by each generation. It should be a source of pride and direction to each heir as they grow up—not just an empty statement on the wall.

Tell the story of the family spirit. One of the most powerful activities that a planner can lead a family to do is sharing the family story across generations. The founders of a family often have a dream and a set of guiding principles. If they carefully set them down, they can form the foundation for the sharing of wealth through generations. Using a video, for example, the family founders can present their dreams, values, and ideals, and preserve them for future generations.

The story may be influenced heavily by a founder, but it is not one person's story; it is a tapestry woven by everyone. The family history gives life to their values and aspirations. If a family has overcome adversity, or struggled, its current fortune can be accompanied by memory of dedication to something more. By telling the story to each generation in turn and adding to it, the memory can be sustained and the commitments of the past can be honored.

Financial Capital

Financial capital involves sustaining and watching over resources to invest and support a comfortable lifestyle, and the ability to manage and sustain investments productively.

What the family must do to sustain its financial capital:

- Create clear and realistic expectations among the heirs
- Teach all heirs values and responsibility about managing wealth
- Generate a sense of responsibility and capability to support the long-term strategy

An heir does not just get a pile of money. He or she gets also gains a mechanism for investing, values and expectations about what to do with it, and resources and support structures to manage it. Along with the financial resources comes a responsibility to manage them capably, sustain them for the future, and develop or support a financial strategy and structure for investments.

Clear and realistic expectations. Families have begun to ask the question of how much they want to pass down to their heirs. Some very wealthy people have decided that they want to pass only enough to their children to make them comfortable and able to do what they want in their lives, but want the bulk of their fortunes to serve some other purpose. Others pass wealth with no strings, or with expectations that are far from clear.

One frequent aspect of financial inheritance is secrecy. Many families feel that they should not let their heirs know how much they will inherit. Growing up, there are reasons for limiting information, but if they expect their heirs to do well with their wealth, they must be prepared. Preparation begins by piercing the veil of secrecy and schooling heirs in what they will receive. Heirs, in turn, want to respect their parents by never bringing the subject up. Their avoidance of the subject means that their expectations and those of their parents remain implicit and unspoken. A planner must help the family open up and share information and prepare their heirs for financial literacy.

Responsibility, financial literacy and stewardship. Financial capital is sustained by those who inherit it through training about responsibility for the gift. Fortunes can be lost much more quickly than they can be amassed, as many sad stories demonstrate. Heirs today must be prepared to manage wealth not by having parental figures and unbreakable trusts to manage it for them, but by proper teaching of how to handle investments and make decisions and by schooling in responsible use of it. They must learn basic financial oversight and management, so that they can exercise knowledgeable and prudent oversight of their investments.

A generation ago, there was a paternalistic approach to inheritance. Trustees and advisors were expected to "take care" of the next generation (especially women) and their wealth. This created a sense of dependency in the heirs. Today, inheritors want to administer their wealth actively, even if it lies in trusts and funds with clear limitations on what can be done. They need to be prepared for this responsibility by increasing education, involvement and participation. Some large family dynasties have a financial education course that they offer to family heirs when they reach a certain age.

Human Capital

Human capital is the heir's development of skills, capability and character to understand how to manage wealth, to find important work and to live in a complex, difficult and demanding global environment.

A family develops human capital when it…

- Initiates age-appropriate discussions about money with heirs
- Builds self-esteem and identity independent of having money
- Helps heirs develop a sense of purpose for their lives
- Develops skills and capability to make their way independently

Human capital is the development of responsible people whose values, skills and motivation enable them to use inheritance wisely and productively. This form of capital cannot arrive in a lump sum, but is developed over many years, starting early. It takes personal investment, time and more than good intentions. An advisor often observes patterns and ways that families relate to their children and is in a position, if not to act as a therapist, then to make suggestions or ask questions that will cause the children to reflect on the outcome of their behavior.

Age-appropriate conversations about money. Developing human capital begins around the house, in the early years. Children learn about money and about the family's status through messages not only from family, but from friends, school and acquaintances.

A planner might ask the family focus questions like, ìHow is money viewed around the house?î

- Is it a source of nurturing, a substitute for being together?
- Is it given out of guilt when parents are not fulfilling their roles?
- Is it a sign of how important a person is?
- Is it connected with service to the family, as in doing chores and fulfilling one's responsibility to the family?

To develop human capital, a family must deal with money and its meaning at every stage in raising children. A parent will be asked several times as their children are growing up, "Are we wealthy?" This is not a yes or no question, but a request for parents to talk to their children about what it means to have money, what opportunities it presents and how the family uses its gift. At this point, planners can suggest that the parents begin to share their core family values about money—spending, saving, sharing.

For example, a lesson for a person growing up amid wealth might be to develop compassion for those who have less and an understanding that privilege is a gift rather than something that makes them better than others. This simple lesson is endlessly complex to teach because it is not taught by declaration, but by thousands of small actions that either reinforce or undermine the basic message.

Wealth and identity. Inheriting money can have a "curse," a dark side—it can disable people, isolating them, causing shame about what they have, arrogance, or a sense of unworthiness. The discovery of personal identity in heirs has been likened to a journey, where they must go out in the world and find out who they are on their own, away from family and their names.

The major challenge in development of heirs is to balance a sense of responsibility for their wealth with their sense of entitlement. If an heir feels that they deserve what they get and that there are no corresponding values or responsibilities placed upon their inheritance, they eventually experience a deep sense of emptiness, even resentment, inside.

Personal development. You can help the family explore and define clearly what levels of achievement are expected and skills and knowledge should be developed. Young people need to know and to receive guidance and sometimes "tough love" to direct them. As a young person grows, offering unconditional love and support is no longer a way to develop self-esteem. A person has to demonstrate their capability and meet standards.

Money and work. Human capital is expressed when heirs become mature, responsible, satisfied and productive adults. Young people of wealth may have difficulty developing a firm sense of who they are:

- Are they more than their money?
- What can they do to be productive if they do not have to work?

Helping a family develop its human capital has to do with helping each heir learn to do something worthwhile, develop skills and capability, and use them to make a difference somewhere. Getting a paycheck on one's own, starting a small business or a community project, or just graduating with honors, are achievements that build personal identity. The young heir has to find some way to do something important. The financial planner can help an heir find resources to develop his or her personal career plan.

Family Capital

Family capital is the ability to stay connected within the extended family, compromise and work together with family and others and create positive and productive relationships with others.

A family develops family capital when…

- It generates respect and trust through regular communication
- It heals past misunderstandings and hurts
- People are able to listen and learn from each other

Wealth is deeply connected with one's family. The family has a web of relationships with each other and a place in society. If the parents went to a prestigious school, their children will have less trouble getting admitted. They inherit the family name, reputation, connections and status. These connections create an incentive for wealthy families to remain connected, but they also add challenges such as past feelings, continued dependency and difficulties in personal development, which the family must work actively to overcome.

The family has engaged the financial planner with the expectation of a focused and limited conversation. Building family capital occurs when the planner helps the family cast its net more broadly and talk deeply to each other about all the issues that wealth holds for them. This often means that the planner, or someone trained as a facilitator, helps the family talk about difficult issues. Painful, angry or upset feelings often need to be aired.

Holding a family discussion means that the family steps aside for a time from making decisions. It is important to make clear that talking together as a family does not mean that the heirs are asked for their vote on the estate plan. Rather, a family dialogue is a form of healing and a forum for exchange of feelings and issues that the elders can then use to help them be more informed in their planning.

The keys to family capital are quite simple: (1) families must learn to express respect and affection for individuals and (2) they must have mechanisms for resolving conflicts so they do not fester or poison the family's shared interests. If necessary, a family may not be able to stay connected and they may have to create a mechanism to disentangle the affairs of people who cannot work together. These capabilities are the essence of successful families, whether poor or affluent. The advisor can find them adequate help for their learning.

The ability to communicate is a critical step. Family capital swells with the ability to talk directly when there is a problem, rather than avoid and carry the feeling.[5] A family must create a safe place and time to talk things through. When children are at home, the dinner table or some other time during the evening can be a time to talk about what is on people's minds. As families grow up, they must create conscious opportunities to meet, especially if they share a business or investments.

Healing past hurts and current differences. The family also must master the ability to resolve conflicts without escalating them. Disputes about money, gifts, salary, ownership and investments often are connected to past family history. To move ahead and sustain wealth, a family must master the ability to compromise, to see that win/lose dynamics are not really appropriate in a family. If one person loses, everyone does.

As a planner, you can help a family to focus on, rather than avoid, significant conflicts. This begins with a commitment by the family for coming together and sharing differences. Various practices and mediators help build this capability. If you are comfortable with sharing deep feelings, you can be a guide to families to deal with such conflicts. Or you can find a partner to work with you and the family to do this.

Structural Capital

Structural capital consists of governance structures to manage the family wealth, make decisions, get competent advice, manage family businesses or investments, and to steer them in a volatile environment.

A family develops structural capital when it has…

- A written *family constitution*
- Regular meetings of family councils, assemblies and boards
- Accountability and clear communication to beneficiaries

The growing family must make clear how relationships are regulated among family members, in relation to their shared assets.

- Who can make decisions?
- How are they made?
- How can each individual's input be made?

Governance structures offer a sustainable resolution of these issues. They create clarity of purposes, boundaries, agreements, participation, policies and roles to help the whole family work together effectively across generations to transfer its business and wealth, while maintaining family harmony, good returns on investments and the desired social impact.

A wealthy intergenerational family can own a large set of business interests. There are financial documents, trusts and agreements, but these must be joined by formal structures that mandate activities, roles, responsibilities, and boundaries between people and financial activities. While our financial system generates many written agreements, good family governance adds a set of clearly written, amendable and living agreements among family members.

Family constitutions. A family gains structural capital by generating a formal family constitution that defines agreed-upon procedures that govern how family members participate in managing their wealth. A family member can receive the benefit of wealth and participates to varying degrees in making decisions and managing the wealth. Many families give the benefits of wealth, without allowing beneficiaries to participate, through the use of trusts and trustees.

Written agreements about governance can help family members know where they stand and how to take action. They answer the following questions for heirs:

- How to use and allocate resources
- Family priorities, resources and strengths
- Expectations and responsibilities of family members
- Basic ground rules for family participation and income
- How to get into the management of assets/family business
- How to advance in the business or family office
- How family members are paid in the business
- Guidelines for ownership, succession and inheritance

A professional advisor can help the family get together and work for a year or so to create clear and acceptable responses to each of these questions. The advisor does not write the constitution, but rather helps the family do it together, acting as a facilitator and sometimes offering expert advice about specific issues.

A special need for large families are mechanisms for family members to escape from each other. If they share a family office, investment in a company or other vehicles, there must be provision for family members to cash out and step out on their own. Otherwise, with no mechanism for stepping aside, family members feel like captives of each other rather than free associates.

Family councils and boards. A structure is more than a written agreement. A family can have trusts, wills and other documents, yet not function as an organization. There need to be explicit mechanisms and gatherings where family members can talk about issues and concerns, resolve conflicts, which always arise, and make decisions. As the amount of wealth at stake grows and the number of people and individual nuclear families increases, the need for clearly defined structures rises as well.

Structural capital arises when a family has some version of these two structures:

- A **family council** is an informal gathering of family members, with all family members (however defined) as members. It makes decisions either by consensus or in an advisory fashion. The council is a place to talk about concerns, to be heard and to air issues. Sometimes the council makes decisions; other times, particular people (the parents, the business owner) have the decision power. It is not a democratic assembly, but a group joined by blood and wealth, which can have great harmony or be highly contentious.
- The more formal structure is the **investment board** that governs the family's investment or investments. It can be the board that governs the family office or investment trust. The board has a specific set of constituents, who act for the family they represent. Most boards have some family members and outside trustees or directors. The board must listen to the family, but has responsibility to make independent decisions.

The relations between board and family council are delicate as people are always part of both groups and their voice may be confused by multiple allegiances.

These structures exist in name in many

families, but do not really function. For example, boards may not exercise oversight, or communicate with or be accountable to the family shareholders. Beneficiaries and owners may not understand or know what is being done in their name, or with their money. To really work, there must be continual communication within the family and each family owner should have access to complete information. While family owners receive clear communication, they have responsibilities as well. They must keep the information confidential and they must understand that their participation has limits. They can question an investment policy in the family council, but they cannot fire a family office manager. The advisor can be the recording secretary, keeping track of agreements, helping the family develop its council and board, and putting them into action. After a while, the family itself can take over these functions.

Societal Capital

Societal capital involves maintaining one's wealth with a sense of respect, compassion and connection to the suffering and concerns of others, taking a place of service within one's community and using resources to support the future of the planet.

Families create societal capital when they…

- Express their values in the community through action
- Involve all family members in service and philanthropy

While individual members of a family may make their own decisions about giving, wealthy families often organize a family foundation. The various forms of a family foundation are not just vehicles to give money, but offer paths for heirs to be involved in how the money is used and to help the groups and services they care about. The board of the foundation can be a rubber stamp, or an opportunity for study and involvement. It is also a way to express the family's leadership in the community.

The mission and purpose of the foundation and the family's philanthropy can be an area of disagreement. A pattern of giving or a charter for a foundation can limit the degree of choice of the next generation. A family can have some ways that large amounts can be given to the community, but there is also a need for individual family members to express their own values. Effective social capital is expressed both in individual choices and collective family choices. The family must create its own mission, purpose and governance structures for their philanthropy, just as they do in their investment and business activities. The advisor has a role in each of these domains.

How Advisors Can Help Develop Family Capital

Developing the six types of capital in a family and heirs is not an overnight process. It takes careful intention and many years of work. It begins with awareness—noticing how many elements there are and then holding conversations about how they apply to your family.

Financial advisors, money managers and estate planners work with families on these issues. They usually focus on the financial elements of the legacy, but soon discover that paying attention to other aspects of wealth is necessary to creating an effective plan for the future.

Planners can help their client families develop more types of capital in several ways. Put this model in front of families and urge them to create shared conversations about each form of capital. They may assess themselves in each area and note where they need further development.

The most effective use of this model is to help the family take a broader view of their wealth. The six forms of capital defines these issues for a family as they plan the process of inheritance, as a preventive measure to help them engage the family when the older generation is able to make their views known and the younger generation has not become confused, hurt, angry or distanced from the family. It offers a vehicle to expand your role as a financial planner and the family a way to see their wealth and estate planning in a broader and deeper context.

Recommended Web Sites

- Money, Meaning and Choices Institute: www.mmcinstitute.com
- The Aspen Family Business Group: www.aspenfamilybusiness.com
- The Family Firm Institute: www.ffi.org
- More than Money: www.morethanmoney.org
- The Inheritance Project: www.inheritance-project.com