



REDEFINING WEALTH: THE FOUR TYPES OF CAPITAL

By Matthew Wesley

Research shows that families that have managed to remain successful across generations have a different definition of wealth.¹ These families see wealth as more than financial capital. While not minimizing the importance of a strong financial base, they recognize that wealth must be replenished to be sustained. Consequently, they tend to see the true wealth of their family as lying in those things that will sustain and replenish the financial assets of the family and help to ensure family stability.

Four Types of Capital

An exclusive focus on financial wealth alone is a prescription for going from shirtsleeves to shirtsleeves in three generations. Most often it is the human breakdowns - not the technical ones - that result in the erosion of wealth over time. Focusing on "value" as a multidimensional issue that includes finances, but also puts finance in a much more nuanced and thoughtful context, allows the family - and the individuals in it - to thrive. Based on what research exists, it appears that there are three types of capital in addition to financial capital that families want to keep in mind. They are: Human Capital, Cultural Capital, and Social Capital.

One of our primary perspectives as we work with our clients is to view family "wealth" as the dynamic interplay between these four types of capital. Helping a family take this perspective as well allows them to ensure that they are focused on the big picture. It also allows the family to be highly intentional in its approach as it creates sustainable ways of preserving and growing their capacities as a family.

Human Capital

Human capital consists largely of the interior resources of individuals within the family and their abilities to be effective in the world. Such things as education, emotional resilience, physical health, self-esteem and other interior states provide a solid base for people to make their way in the world. People who are successful in their chosen field of endeavor and effective in their personal lives would be considered to have high human capital. A family filled with individuals who have high human capital is much more likely to be a well-adjusted and high functioning family. A pattern we often see is that the first generation has created some degree of wealth through the extraordinary application of human capital. The children of

TYPES OF FAMILY CAPITAL



¹ Collier (2004), Hughes (2004)

these folks are often reasonably capable themselves, but by the third generation we see patterns of entitlement that drain human capital. Such things as substance abuse, divorce, failure to reach educational potential, and other maladaptive behaviors emerge. There is nothing so damaging to maintaining familial wealth as the failure of successive generations to attain their potential.

Social Capital

There is the old adage that it's not "what you know but who you know" that is the key to success in life. While this adage is overbroad, there is a kernel of wisdom in its central observation that we all recognize. A significant measure of financial and personal success comes from developing thriving and mutually beneficial networks that allow us to attain our goals and through which we assist others in reaching theirs. Successful families take great care to cultivate the family "ecosystems" that include business, professional and social ties with people and groups that matter to them. Within this realm of social capital are the structures that the family puts into place that institutionalize its ongoing impact in the world. Typical estate and tax planning entities fall within this type of capital. Philanthropy can also be an important contributor to social capital.

Cultural Capital

Cultural capital is perhaps the most intangible of the forms of capital. It primarily has to do with the mindsets, values and ethos that the family carries forward from generation to generation. In modern America, these traditions often only go back one, two or at most three generations. It is rare to find families that have stories that reach further back than that, though they do exist and are quite instructive.

When families do endure, their stories contain within them expressions of family values and there is a type of mentoring that ensures that these values will live on. Likewise, we find perspective and mindsets that create the cognitive understanding of the family and its place and role in the world. The creation of these mindsets, and their evolution over time, do much to shape the success of the individuals in the family and the destiny of the family as a whole.

Our Work

At The Wesley Group we work to enhance not only the individual types of capital but the systemic way in which they operate together. Through family meetings, family retreats, family summits and individual coaching, we work to developmentally improve the ways families work with the various types of capital.

Matthew Wesley is the founder of The Wesley Group. He graduated from Stanford Law School and practiced as an estate planning attorney with successful families for over 20 years. Matt left active practice to help families do what estate documents alone could not - help to ensure successful intergenerational wealth transfer. In addition to his legal background, Matt has extensive consulting experience and a deep background in psychology, personal development and family systems, and organizational communication and development. Matt works closely with his wife, Marcia, who is a licensed psychologist with over 20 years of counseling experience.

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