The International Family Offices Journal

Growing Your Family's Human Capital: 10 Lessons from the Emergence of the Chief Learning Officer Role

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There is a revolution unfolding on the balance sheets of the world's corporations that holds a lesson for families with wealth. We are looking at an explosion of intangible assets that is best exemplified by companies like Uber, with the largest fleet of cars for hire, or airbnb, with more rooms than the largest hotel chains, and neither the cars or the rooms are owned by the company providing them to end users. In fact, on average, 80 percent of the assets of companies publicly listed in the last 15 years are intangible. This is up dramatically from the prior historic average of about 20 percent[i].

All these intangible assets have some amazing benefits. First, they are wildly scalable. Think of how easily UBER can increase its fleet size around the globe with minimal capital investment. All they would need is a relatively small outlay to advertise for new drivers and a bit of incremental server-capacity to run their automated new driver training and to process the increased volume of trips; no investment in cars, no hiring costs, no increase in overheads like office space.

Intangible assets also seem to thrive together in close quarters, benefiting from synergies with other intangibles. To provide its service, UBER integrates many intangible innovations including GPS, cloud data storage, data analytics, mobile apps and the "gig" economy to source drivers without the associated costs of employment.

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On the other hand, there are also some serious challenges associated with intangible assets:

- In accounting parlance, intangibles are "sunk costs" meaning that when a company winds up its operations or files for bankruptcy, there is rarely any residual value to recover from intangible assets. They tend to simply evaporate… Poof!
- Intangibles are also hard to measure. In fact, some economists are concerned that the world's economic metrics, like Gross Domestic Product, may not effectively capture the value of intangibles. But note, being hard to measure doesn't make them any less important.
- And Intangibles are hard to protect. They can't be locked up or chained down. They can walk out the door or be coopted by others.

Realizing the importance of intangibles, the corporate world has turned its attention to the challenges of managing, protecting and growing these amorphous assets. Companies recognize that a significant portion of their intangible assets either exists in, or is connected to, their employees: their <u>human</u> capital. In response to this trend, the corporate world has taken the fascinating step of introducing the new "C Suite" role of Chief Learning Officer or "CLO." The Chief Learning Officer manages a company's intangible, employee-based assets through the developmental growth its people. This involves coaching, engagement, mentoring and leadership development. All of this is centered with the alignment of individual and corporate purpose. In this CLO role and its function, lie some important lessons for families with wealth.

James E. Hughes, Jr., noted author of *Family Wealth, Keeping it in the Family*,[ii] was the first to call on wealthy families and their advisors to recognize the primacy of their human (intangible) capital over their financial (tangible) capital; to focus on their qualitative wealth (which includes intellectual, social and spiritual capital), over their quantitative capital. It was radical when he introduced this thinking in the early 1990s, but it seems prescient in light of today's intangible revolution.

For advisors working with families to implement this qualitative approach, it has been challenging to put this philosophy into practice. It can be hard to overcome the gravitational pull of the financial wealth and the focus of most advisors on a family's money. The emergence of the CLO role has helped crystallize and demarcate some concrete practices from the corporate world that families can leverage to help them recognize and nurture their own intangible capital.

Family systems are emotional and fundamentally conservative by nature leading them to be overtaken by inertia. Defeating this inertia is critical to imbuing the family with the dynamic energy it needs to thrive. This requires intentional focus and sustained work as a group and warrants someone in a role dedicated to ensuring everyone is making progress: the Family CLO.

10 Lessons for families from the Chief Learning Officer's "playbook" for managing intangible assets

1 Embrace your intangibles

Acknowledge the importance and magnitude of the human capital in your family and the need to nurture it. The scale and speed of change occurring in our world requires family members who can innovate, make agile decisions and rebound in adversity. Failure to develop and equip members in these ways exposes your family to significant risk. Identify someone to take on the role of your family's CLO. This may require a search beyond your current stable of family office staff and professional advisors because the skill set is quite different from the quantitative and technical skills often called on in managing the tangible assets of the family.

2 Fund your intangibles

Investing in your human capital is just that: an investment! This is not an expense. Give this work a capital budget line in your annual planning; set targets and measure progress. As a benchmark, consider what the family pays for custody of its financial assets or management of its portfolio investments. Consider carving-out a portion of your estate to endow this work for future generations. Engage top specialist advisors for the journey ahead. Treat family members like the critically important assets they are!

We know that the over 70% of failures in the generational transition of family wealth are due to the breakdown of communications and trust in the family, and the failure to prepare the rising generation[iii]. These issues do not reside on the quantitative side of the family wealth equation, but rather, they sit squarely in the human capital column. They deserve serious consideration and investment.

3 Measure your intangibles

While intangible assets do not lend themselves to being easily quantified, there are a variety of tools available to help get a picture of your family's human assets. Assessments help in the journey of self-discovery and equip the family group with the vocabulary and concepts to communicate about themselves. There are measures of aptitudes that help identify native talents and potential challenges. The family group can also complete surveys to get a picture of how the whole is functioning or sees itself. It bears special mention that a family's "married in" members provide a rich trove of human capital that can exponentially impact a family's balance sheet when recognized, integrated and grown. As the saying goes, "you get what you measure." So once the family has taken an initial measure of its human capital and created a family dash board, the process of on-going development can begin.

Families are well served to create a family balance sheet reflecting their intangible qualitative capitals and any liabilities that might be associated with their accretion or dissipation, and an annual income statement to reflect how the family's learning system under their CLO is augmenting or depreciating their human capitals.

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4 Grow your intangibles – individually

Providing personal assessments, group surveys and access to coaches & mentors, form a starting point from which life-long learning and development plans can be co-created with each family member based on their own dreams and aspirations. Tailoring development plans honors the diversity of each person and helps the family see the unique gifts and contributions each member makes to the whole. Without doubt, those who think differently and "see" in new ways will be more valuable than ever in today's rapidly changing and uncertain world.

Importantly, a family should focus on more than just on filling minds with knowledge and skills, but also with growing the way family members think, increasing each person's capacity to think in more complex ways, to see opportunities in adversity and to see the interconnectivity of the world. Learning plans must be experiential allowing for informal and integrated growth. Great learning occurs when intense stretch experiences and challenges are undertaken. The family can provide the balance between encouraging members to step into the uncertainty of unknowns and providing the support and development needed to equip each in their respective individual journeys.

It is worth noting that the baseline for undertaking this type of developmental work is the holistic health of the individual family member. Ensuring each family member is well physically, mentally and emotionally, and personally motivated to engage are all critical to success in developmental growth.

5 Grow your intangibles – Collectively

Collaboration and collective decision-making are vital skills in families where lives are tied together by jointly owned assets and a common history. With family wealth tied-up in trusts, holding structures, operating companies and real estate, family members with naturally differing needs and perspectives must find ways to work together toward agreed actions. So, while family members are working on their individual development, the family group should be growing its capacity to function as well. This includes the ability to actively listen to each other in order to foster deep understanding of each other's perspectives and what really matters to each. Growing capabilities in advocacy and compromise help expand capacity for empathy and the ability to see context and connection in the community and world.

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Each voice needs to be heard which means silent voices need to be encouraged; dominant ones need to be moderated.

The greatest catalyst for family decision-making is a shared vision for the future. This shared vision must hold the voluntary commitment of each member. Every individual must see a value in belonging because the choice to belong involves the sacrifice of personal autonomy to be part of the whole. When joint decisions can be evaluated based on how they will help progress the family's shared vision, individual members rise out of their personal view and see the greater good. Compromise can be achieved. Finding this shared vision for the future is challenging and can take time, but it is a mission-critical investment by the family in managing its intangible human capital.

6 Protect your intangibles

A family's most sophisticated estate and tax planning can be undone by breakdowns between family members due to lack of trust and inability to communicate. Protecting a family from these existential risks is critical. Families need to understand the normal occurrence of conflict and learn how to navigate flare ups. It is also important to assess the family's structural framework to identify any unnecessary interdependencies that could inflame conflict. An example would be appointing siblings to be each other's trustees. While this can work, it creates an interdependency that can flare up if conflict arises between these siblings.

Working to foster trust between family members is also possible, and it is important to note that the trust needed for a family to manage its conflict does not require "butterflies and rainbows", but rather, a healthy understanding of what drives the other person's perspective and decisions so that their behavior is seen as more predictable. There are useful reframing exercises that can help family members move past historic impasses, forgive and release blame. Managing naturally occurring conflict is vital to protecting the family's intangible assets from the threat of intergenerational breakdown.

7 Create an empowering environment for your intangibles

To grow its human capital, a family needs to provide space to nurture its members' curiosity and inspire exploration, which means embracing a learning culture that incentivizes and rewards innovation and thinking differently. A learning centric family relies less on what its members know and understand and more on their capacity to quickly assimilate new skills and knowledge and to think in new ways. Learning promotes innovation and agile thinking.

A learning family is not chained to a classroom, but rather, seeks growth from multiple inputs and fosters an entrepreneurial spirit. Entrepreneurs are natural experimenters and, in a world where the future is unknowable, an entrepreneurial trial-and-error approach provides a powerful tool for problem solving. Families are well served to embrace the reality of failures that are the natural by-product of this trial-and-error approach, and plan for them. Find ways to make "right size" bets that won't break the bank and combine them into a diversified portfolio of intelligent experiments. To foster creativity and curiosity, families do well to actually celebrate failures and help members bounce back after them; provide a space to try out new ways of thinking, ignite curiosity, mentor experiments and support growth.

8 Foster synergies between your Intangibles

Intangible assets are catalyzed by synergies, so families should seek to create communities where ideas and people can interact, network with curious, like-minded families and share learning, mentoring and support. Encourage inclusivity and diversity. It is predicted that social networks will be more valuable in the new economy than specialist knowledge. Family members should join (or even create their own) developmental networks with people from diverse disciplines and backgrounds, extending networks to challenge existing perspectives. Break down silos and remove barriers to your collaboration. Organizations are becoming flatter, non-hierarchical, and flexible; families can, too.

9 Practice, practice, practice

Over time, families encounter a predictable series of challenges to their dynamic including the natural expansion of the family as generations grow-up and get married, the transition of leadership in a business, the break-up of marriages or other relational breaks.

Major transitions include the sale of a family business or death of a wealth creator. Each of these periods of change requires a family to call on its capacity to navigate and decision-make. Families are well served to build their capacity to handle change and make decisions and then practice these in controlled, and safe environments before they are confronted with these bigger and more complex transitions. The use philanthropy or entrepreneurial projects as living laboratories for family growth is a long-standing practice. Supplement these with intense personal challenges for family members, individually and in groups.

10 Grow the advisors serving your family

With significant wealth comes complexity, and managing this complexity calls for a community of professionals and advisors with a variety of specialist skills and expertise. To navigate the uncertainty and change ahead, you will want advisors who can extract ideas from the widest possible fields of study including, ancient and modern philosophers, history, anthropology, the many disciplines of psychology, organizational and management sciences, education, and emerging fields.

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How many of the advisors to your family are skilled at addressing qualitative developmental goals? It is important that a family is served by advisors who also embrace the primacy of qualitative (intangible) capital and embed that perspective in their work. Consider how well your advisors are stretching themselves. It is much easier to grow the family's human capital if it is surrounded by advisors with the same commitment to personal growth and who are pursuing their own life-long learning journey. Give your advisors the gift and the experience of going through the same assessments and learning the same skills as the family. In fact, growing the human capital of your advisors is an investment in making more of those resources available to your family.

In Closing

Companies around the world have recognized the importance of managing their human capital and have elevated the role of learning and development to the CLO role in order to build the agility and resilience required for their employees to face the rapid changes occurring in the economy. Automation, artificial intelligence and the predicted end of the fossil fuel era are just a few indicators of the upheaval to come.

The ten practices explored in this paper are not typically associated with family offices or the matrix of advisors traditionally arrayed around families with significant wealth. Families will need to be intentional as they focus their attention beyond the gravitational pull of the tangible, financial wealth and toward the family's intangible, human wealth.

Families and their advisors will do well to adopt this new focus on intangibles in order to bolster their human capital and build readiness to tackle this challenging future. Families themselves are evolving and creating new social and economic realities for which there is no precedent. A family CLO can help a family to first see, and then address, these new realities as they emerge. Doing so will require an investment in resources and talent to provide the kind of learning environment and development work this involves.

Which begs the question: what is your family doing to grow its human capital? And who is serving as your family's chief learning officer?

Mary Duke is an internationally recognized adviser to families navigating the complexities of substantial wealth. She is known for her deep understanding of the impact of trusts on families and generational dynamics in family enterprises*. She has an excellent track record for* helping families leverage learning and governance for more effective collaboration and decision-making in their families and the businesses they own.

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[i] Jonathan Haskel and Stian Westlake, *Capitalism without Capital - The Rise of the Intangible Econ*omy (Princeton University Press, 2018)

[ii] Bloomberg Press.

[iii] R. William & V. Preisser, *Preparing Heirs*; Five Steps to a Successful Transition of Family Wealth and Values (Robert D. Reed Publishers, 2003)