

A PROCESS FOR THE EVALUATION OF THE NEXT GENERATION OF A FAMILY AND POSSIBLE CRITERIA FOR SUCH AN EVALUATION

HOW DOES A FAMILY OF MEANS "INVENTORY" OR EVALUATE ITS NEXT
GENERATION?

WHAT CRITERIA SHOULD BE USED TO ACCESS THE CAPABILITY OF THE NEXT
GENERATION TO CARRY ON?

By James E. Hughes, Jr.

These two questions seem to ask a family how to evaluate itself, and particularly its next generation, and what rules to apply to such a process. The second question presumes that the family knows why such an inventory should be done at all. In my experience, if we do not know *why* we are doing something it rarely succeeds. I would, therefore, suggest a family determine *why* it should undertake such an evaluation before asking itself these *how* and *what* questions. I suggest that the ancient and universal cultural proverb, "shirt sleeves to shirt sleeves in three generations" provides a starting point to answer why such an inventory is necessary. This proverb tells a family that it is likely cease to exist, in the financial sense, within three generations. It assumes that the first generation creates the financial wealth, the second generation does very little to increase it, and the third generation consumes it. My experience of families is that this is an outcome they would prefer to avoid. I would, therefore, suggest as a beginning answer to the *why* question that *an evaluation of a family to determine where it currently stands in relation to the proverb, "shirt sleeves to shirt sleeves in three generations", offers a clear focus on why it matters to a family to know how the next generation is doing and what it is being evaluated for.*

Further, in answering this paper's two questions it seems to me a family must know whether that which is being evaluated is, in fact, a family at all. I would suggest for the purpose of this paper that there are two types of families. The first is blood family in which a group of people share common ancestry. The second is a family of affinity in which a group of people share common goals, history, and enjoy spending time together. Neither type of family is mutually exclusive. If, for instance, a family (which by definition must be two or more individuals) in its two earlier generations, to the generation being evaluated, did not themselves function as a family is there anyone in an earlier generation who cares? Is there a next generation at all? If the family is one of affinity, and not blood, is there a next generation? I suppose so

since every family starts with the affinity of two names. Again, however, does anyone care? I strongly suggest every family seriously considering doing such an evaluation think through these types questions about itself before it begins such a process.

Okay, let's assume the family is a family, has a "next generation", and wants to evaluate the proverb and thus knows *why* such an evaluation should be undertaken. How should a family begin the process? I suggest the family and its evaluators begin to answer the *how* and *what* questions posed in this paper by looking back at its earlier generations to see where the family's been, to know where it is now, so it can know where it is going. The proverb is helpful here since it suggests the family look at its current generation and the one prior if it is to measure the next generation's position against the proverb's predicted pattern. Let's not forget, in making this review, that at all times each current member of a family is a first generation member of his or her family, a second generation member of two families and third generation member of four families. If we are to make this review complete we need to review all of these families' histories. I suggest such a survey apply the same criteria to its current and just prior generations as for the next generation. Finally, as a family begins an evaluation process, should it share with all of its members the risks the proverb poses. Members should know why the family is compiling this information and, hopefully, all family members to be evaluated will "buy-in" to the evaluation process.

Returning for the moment to the *why* question, I'm going to assume for the balance of this paper that the evaluators representing the first and second family generations are pro-actively attempting in this process to do four things:

First, to express love from the first and second generations of the family to its next generation;

Second, to express the desires of the members of the first and second generations for each of the members of the next generation to live lives in which each individual next generation member pursues his or her personal journey of happiness;

Third, to express to the family's next generation the first and second generation family members desires to work actively with the third generation to *enhance* members' individual pursuits of happiness; and,

Fourth, to express the gratitude of the second generation for their lives of individual happiness to the first generation and, using that expression, to inform the third generation about gratitude in its deepest dimension.

It is my view that these expressions provide to an entire family an in-depth answer to

why a family might undertake a process of evaluation. Why? Because they imply that a family engaging in such a process desires to inform itself on how to enhance the individual lives of its members in pursuit of the dynamic preservation^{1,2} of the family as a whole. Such a goal for such a process seems to me to be a worthy reason to undertake it.

Before moving to the process of evaluation itself and the criteria on which it will be based, on what criteria will the process *not* be based? First, it will not evaluate the success of the third generation based upon whether the third generation family members are dreaming the dreams of their second generation parents. Second, it will not offer stories of how the second generations members dreamed the dreams of their first generation parents. Why not? Because cognitively no member of our species has ever been able to dream another's dreams. It is my observation that families who base their criteria for success on this principal fall to the proverb every time.

Assuming agreement with (a) the four expressions set out above as reasons for a next generation evaluation process (b) with the goals ascribed for such a process, (c) and with which questions not to ask, I believe we now have a starting point to move to questions of *what* and *how*.

¹In this paper, the term *dynamic preservation*, as applied to a family, is defined as a process in which energy flows into a family which that family uses to overcome the proverb "shirt sleeves to shirt sleeves in three generations" as opposed to the process of energy flowing out of the family in the form of entropy which will cause the proverb to overcome that family and lead to its dispersal.

²Entropy, for the purposes of this article, is defined as the process of decay of human, intellectual and financial capitals of a family over multiple generations in the same process of decay that occurs in physics when energy materializes and then through friction gradually dematerializes back into energy.

What might be a question to base such an evaluation process on? I suggest it might be the second generation, through the evaluators, asking each member of the third, “What is your dream? And how can I invest in it?” Let me hasten here to make it clear that I’m not talking about a financial investment, I’m talking about the second (and the first if its living) generation investing its human and intellectual capitals in the dreams of the third³. Such investment may at a later stage call for financial capital, but, in my experience, it’s the second and first generations’ willingness to put their human and intellectual skins in the third generations’ game that matters in whether a family’s third generation successfully evolves to become its second and first. What further intuition to a successful family future lies below this question of the third generation’s dreams? I suggest that it is found in two ideas that lie at the root of Western philosophy. It is Socrates’ suggestion that our individual work in this life is to “know thyself” and Aristotle’s suggestion that “our lives’ journeys lie in pursuing our individual happinesses”. In seeking to know ourselves I believe we begin the critical journey of each of our lives to self-awareness, and, hopefully, eventually to happiness in its deepest sense, and, perhaps, if we are very successful, to becoming elders and mentors to the next generations of our families.

What questions should the evaluators ask to determine whether a particular family member is seeking to know himself or herself and whether he or she is pursuing happiness in his or her life’s journey?

I suggest among them might be:

- (1) Is the person I am evaluating free or is he or she dependent?
- (2) Is this person self-aware?
- (3) Has this person sought to know his or her Calling⁴? If yes, is he or she pursuing it? If not, why not?
- (4) Does this person perceive the difference in “Work=Calling” and “work=wages”?
- (5) Has this person had a mentor in pursuing this Calling? Does he or she have a

³ In this paper, human capital is defined as the human beings who are individually members of the family being surveyed and intellectual capital as what these persons individually know intuitively and cognitively.

⁴ In this case I am using the word *Calling* to define that single thing in this lifetime to which we are most deeply drawn, as in our Work, with a capital “W”.

mentor now in pursuing his or her Calling or in any other area of his or her life, or if not, does he or she have the skills to find one?

- (6) Has this person the humility to be an apprentice in order not only to learn the body of knowledge to pursue his or her Calling but to undertake the process of learning itself? Has this person been an apprentice? Has this person mastered something so he or she understands and has lived out the process of learning that comes through passing through the stages of apprenticeship to journeyman to master?
- (7) Does this person understand the difference between hubris and humility and the consequences to his or her pursuit of happiness of each of them?
- (8) Has this person friends? Who is he or she to such friends?
- (9) Can this person express love?
- (10) Can this person express compassion for himself or herself and for others?
- (11) Can this person express gratitude?
- (12) Can this person express joy and humor?
- (13) Does this person have a view of what is true, what is good, what is beautiful and what is just or right?
- (14) Can this person balance justice with mercy?
- (15) Does this person perceive the difference between courage and bullying?
- (16) Does this person actively participate and take roles in the larger civil society and/or in stewarding and giving to others?
- (17) In which of all these areas previously mentioned is this person competent and in which areas is growth required?
- (18) and such other similar questions as are pertinent to determining how well this person knows himself or herself and how far they have yet gone in pursuing their individual happiness.

It is in these questions that the evaluator will discover the essence of each member of the third generation. As the evaluator comes to an appreciation of each third generation member, he or she will begin to perceive the state of the family's third generation wealth in its human and intellectual capital domains. The evaluator will also be enabled to develop a plan of action for the life-long learning of each third generation member toward each one being enabled to answer positively that "yes" he or she is attempting to know himself or herself and "yes" he or she is on the journey in pursuit of his or her personal happiness. With appropriate annual assessments, I

believe that a family using such an evaluation process will have an enhanced possibility of dynamic preservation of the family as a whole as it enhances the growth of its individual members human and intellectual capitals.

The reader will note, by now, that other than as a passing reference I have not mentioned the development and measurement, in an evaluation process, of third generation family members' ability to deal with financial capital. I have done this purposefully because I believe that financial capital is the least important of the three capitals to an individual's successful pursuit of happiness. Why? First, because I believe that successful management of financial capital, in and of itself, cannot protect a family from the proverb. Financial capital is simply a material representation of goods and services and, it, unlike human and intellectual capital, has no intrinsic worth. Financial capital at best can only be a tool to grow a human beings' human and intellectual capitals, but, alone, it can't grow a human being or preserve a family. Second, all too often, families, especially those members of families who are called to financial careers, have told me that they perceived that dealing with the "human" questions was "too difficult" and, like ostriches with their heads in the sand, saw teaching financial competency as their only task. Again the proverb wins.

Assuming a family properly perceives the relative impact of its own success of financial competence vis a vis human and intellectual competence, what then is an appropriate process for a family to use in understanding and evaluating its third generation members' financial competence? Certainly if a third generation family member chooses parents with wealth, he or she must achieve a level of financial competence or he or she risks becoming dependent and losing his or her freedom. Perhaps, this reality is at the root of the question now being asked by the newly wealthy parents of the New Economy, when considering how they parent their children, and their estate planning: "How much is enough?" A question which on its face appears quantitative, but which I believe is actually the qualitative question "how do I, as a parent, avoid having "trust funder" or remittance addicted children?" Certainly by choosing parents with financial capital a third generation child has a duty to himself or herself to achieve a reasonable level of financial competence. What level of competence? I suggest a level commensurate with the statistical reality that in the "DNA Shuffle" of our parents' genes which brings us into being, the likelihood that we are called to financial careers is minute. Therefore, I suggest it ought to be a level of competence equivalent to Princeton's course *Physics 101 for Poets* which required poets to become competent in the principles of physics sufficient to understand its principles but not to be a stepping stone to a career in physics.

Given these realities, how can an evaluator assess the state of the financial competence of the third generation members of a family and what criteria should be used? First, I suggest the evaluator (using the questions suggested above for the evaluation of an individual's Calling) recognize the individual Callings of each third generation family member and assess in what dimension financial capital can be seen to be integral to each such individual's Calling. For instance, if an individual member of the third generation becomes a priest and takes a vow of poverty where does financial competence fit? Suppose another family member is a master sculptor for whom \$20,000 per year income provides her with \$5,000 to give away? Of course these are extreme examples used to pry open our minds to the reality that many of the persons the evaluator will review are deeply engaged with human and intellectual, even spiritual, pursuits where financial capital plays a very small part. How might an evaluator assess the financial competency of third generation members and what criteria might he or she apply?

First, does the individual third generation family member have an excellent process for evaluating possible advisors in all fields, not just financial? How well is he or she choosing mentors and using them?

Second, does he or she understand the double helix of the inter-weaving of risk and reward within the scope of his or her financial capital?

Third, does he or she understand the twin concepts of stewardship of generational financial wealth and the idea of dynamic preservation of financial capital.

Fourth, does he or she feel and accept the reciprocal obligation to the family and its financial capital that grows out of the first, second and other third generation family members investments of their human and intellectual capitals in his or her individual pursuit of happiness?

Fifth, does he or she participate in family governance by undertaking the life-long learning which a family engaged in dynamic preservation offers as it seeks to promote both his or her and the family's growth in all its capital dimensions?

Sixth, does he or she actively seek competence, and eventually excellence, in managing financial relationships as a beneficiary, as a limited partner, as a shareholder, as an owner, as a member of various family boards both for profit and not for profit or in any other financial relationships within his or her family?

While this list is not exhaustive and each evaluator will add or subtract as the individual circumstances of the evaluatee dictate, it's a start, I hope, in developing questions that will answer the desires of earlier family generation members for financial competence while

recognizing what appropriate levels of competence are for family members who are not called to financial careers.

Before closing I'm sure some readers will ask why I have not mentioned the evaluation of third generation members' social capital nor have I offered specific evaluation criteria for the measurement of the role of social capital in their lives. To those of you asking these questions, please understand that I have done this purposefully. You will note, however, that in my earlier suggestions for the questions for an evaluation of an individual's human and intellectual capitals, there are questions relating to stewardship and to an individual's role in civil society. Why am I not going to offer specific suggestions regarding the evaluation of social capital? Simply because, in my opinion, the amount of social capital a family has is a function of how well each family members knows himself or herself and then how he or she expresses that knowledge in all of his or her dealings with the larger world. Philanthropy, the means by which we express our love for our fellow human persons, is an expression of who we are, through how we are seen by the world around us as we interact with it. To give well is to give from our hearts as an expression of our individual spiritual selves; or as an expression of our individual human and intellectual capital evolutions. Thus, I believe, giving and stewardship are expressions to others of how we have come to know ourselves. Social capital, therefore, is, in my opinion, the result of an enhancement process by a family as a whole of the human and intellectual capitals of its individual members. Measurement and evaluation of a family's social capital are clearly important to a complete understanding of how a family is doing. However, I would suggest that since social capital is, in my opinion, a result which naturally falls out of the measurement of the next generation's human and intellectual capitals it, therefore, need not be separately measured as an individual family capital.

Where then are we on these important questions of how a family evaluates its third generation and what criteria it should use in determining the capability of the third generation to carry on? I hope I have convinced you that the state of an individual's human and intellectual capitals are the critical issues to evaluate in determining how well he or she or the family of which he or she is a part will do in staving off the proverb "shirt sleeves to shirt sleeves in three generations". I also hope that I have offered questions for an evaluator to pose that will assess these two critical components of a family's wealth, both to aid in the growth of these capitals, and even more importantly, to assist the earlier generations of a family to help in each third generation family member's individual pursuit of happiness.

I hope too that in suggesting financial capital's appropriate place in the evaluation of

family's wealth and in giving criteria for the assessment of individual competencies in the area, that I have offered some small light in an area which has too often been opaque given the many dreams that individual family members dream.

I hope I have offered a sense of the questions that may help individual family members pursue their journeys as pilgrims in pursuit of their individual happiness.

In closing, in my work with families, I have learned that assessment, measurement, and evaluation are words that frequently bring fear to those family members whose learning styles did not make school a happy place⁵ or where earlier generations of their families asked them to dream their dreams. I have also learned that these three words risk, when employed by a family unconsciously or without comprehending the true diversity of the multiple Callings of its members, the depreciation of a family's human and intellectual capitals; a family's most precious resources. They are especially frightening words when the results determine whether one will or will not receive that portion of a family's financial capital necessary to pursue one's dreams. In my opinion, every family attempting to grow and dynamically preserve itself needs family members whose dreams are creative and filled with curiosity, and who, through the living out of those dreams, become free and independent persons. In my experience, families of this type welcome mistakes for the learning they encourage, while always assuring that their most valuable assets, their young, do not come to harm. Families do not need family members who are fearful or dependent, either because they are asked to dream others' dreams, or, to be perfect, making no mistakes from which to learn.

I hope that this paper will offer families, their individual members, and their evaluators, a way to use words like assessment, measurement, and evaluation in combination with the kinds of questions posed by the first section of this paper dealing with human and intellectual capital and in the second with financial capital to make a family's evaluative process one of joy, one for which family members will be grateful rather than anxious. If a family wishes to retard the effect of the proverb, "shirt sleeves to shirt sleeves in three generations", for another three generations I believe it will be through such a process. This process is one which seeks to grow each family member to his or her highest self-awareness toward the end that each family member will be able to know himself or herself. I believe it is through such a process that we can hope to achieve "A's" on our own individual journeys of life and ultimately preserve the families we

⁵ For a discussion of learning styles, please see *Frames of Mind: the Theory of Multiple Intelligences* by Howard Gardner (Basic Books, 1993) and *Emotional Intelligence* by Daniel P. Goleman (Bantam Books, 1997).

love as they share our journeys and we share theirs.

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