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VIII. The purpose of capital: exploring our relationship with money and meaning

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1. Wealth has weight

While those without significant financial resources may have fantasies of wealth as bringing liberation from material concerns, as enabling one to become light as a feather and free to live the good life (and yes, there are real upsides to having wealth!), in truth, significant wealth can also bring with it a significant burden.

Those who create great wealth often find that the mindset, practices and perspectives which enabled them to gather that wealth may not be as useful in moving from material success to deeper, real significance. True, some may understand the values of professional integrity and how to turn challenges into solutions as core business practices that contribute to wealth, and may have value elsewhere in life. Or they may know that in many ways, profit is simply the by-product of creating value for others – customers, investors, even corporate teams; and that an obsession with the financial bottom line alone may leave one with short-term profits, but perhaps having sacrificed long-term value.

Other creators of wealth find that turning from how to make it to the challenge of how to manage, invest, steward and pass on wealth comes with a host of new pressures and considerations that may feel quite burdensome. Late at night (when we are being fully honest with ourselves), we reflect on a new set of questions: "How will wealth distort my life? How will it affect my children's lives – indeed, how has the process of creating wealth already affected their lives? How have my responsibilities and relationships been altered or changed as a result of my success?"

On the other hand, those in the rising next generation who inherit significant wealth must sit with a different set of reflections: "Do I deserve the wealth with which I have been entrusted? Why did I win the genetic lottery and not any number of others that I see in the course of a day? How will I know whether I have been a good steward of that wealth? Can I confide in those who promote themselves as experts and advisers, or must I myself become an expert in wealth management? Can I trust the motivation of any of those I meet who are not also of my level of wealth? Or why do others assume that simply because I do have such wealth, I have anything in common with other high-net-worth individuals? And what happens if this wealth is lost on my watch – what if I become my family's proof of the common observation that families of wealth go from 'shirtsleeves to shirtsleeves in three generations'?"

The world is full of advice on the 'How' of wealth management – how to invest, how to grow, how to deploy capital. And to be clear, great talent and creativity are to be found on the side of those who design and promote the innovative financial structures and tools of wealth management. But before one can effectively execute on the 'How', one must first be clear regarding the 'Why' and with it a single question: what is the purpose of capital?

2. The purpose of capital, redefined[1]

Open the business section of any newspaper, tune into any financial news channel and watch the numbers move endlessly across the 'crawl', or ask any traditional wealth adviser: the purpose of capital is clear. As taught in leading business schools around the globe, the purpose of capital is to seek its 'highest and best use' – by which we mean that the appropriateness of any investment opportunity is assessed based on the degree to which it will optimise the greatest amount of financial return in exchange for any given measure of risk, return and liquidity.

Simply put, the purpose of capital is to make more capital.

For the past four centuries, an understanding of the purpose of capital as being a question of growth has been central to Western society's approach to economics, finance and wealth management. That understanding is the fundamental premise of modern Western financial capitalism, and in turn drives our approach not only to

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commerce and trade, but also to politics, social policy and environmental regulation. While the first question that one might ask upon meeting a new acquaintance may be, "What do you do?", the first thought may then also be, "I wonder how much they make? I wonder how much they are worth?"

In the main, when it comes to money, more is always thought to be better and the purpose of capital is to expand, grow and self-replicate. This understanding has been extremely successful when assessed on the basis of traditional measures of performance such as gross domestic product and when one considers the overall amount of financial wealth created in recent generations. We are witnessing the greatest process of wealth creation than in any decades before – much less centuries! More wealth, more millionaires – more billionaires! – and more money are moving around the world at lightning speed than at any other time in human history. If our measure of the purpose of capital is the creation of ever-greater amounts of wealth, we are most certainly on the right track.

And yet, we also know that something is amiss. When we are completely truthful and consider not only our individual and family wealth, but also our world's wealth, we must acknowledge that we have somehow, in the midst of our success, gone off-kilter. Our focus on making more money, our obsession with capital's purpose as self-replication, has taken our life and world's focus away from greater questions of what that wealth might ultimately be for and whether, in the creation of that wealth, we have run roughshod over those things that we value more than money. This narrow focus is something which the rising next generation continues to question as we then also consider:

- our climate crisis and access to fresh air and water;
- our health, both mental and physical;
- our belief that opportunity for self-improvement and personal advancement should be available to all; and
- our ability to go to sleep at night knowing that our wealth is not destroying the very things that we profess to care most about.

The purpose of capital as wealth growth is, in truth, a means to an end. It is the pursuit of money as a tool, but it is a vision of our task – our deeper meaning and purpose – that we must maintain as our North Star. We must understand capital's purpose as to support our life quest and not the success of wealth management as assessed on the basis of financial growth alone. As the author Edward Abbey observed: "Growth for growth's sake is the ideology of a cancer cell."[2]

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How did we come to this place where we thought we might consider wealth and capital as economics and finance, in the absence of considering the social and environmental aspects of capital? We have arrived here as a function of our understanding of the nature of value as grounded in the idea that value may be bifurcated: you either make money or you give it away. You must seek to do well or do good. You invest or you make a grant. You must choose between a career spent in 'do-gooding' non-profits (always said nicely, but with a faint tone of disparagement) or in the company of mercenary capitalists (ditto). And so on.

This understanding of capital, organisations and lives sets us in a place of separation where we believe we may operate with reference to financial and economic factors in the absence of considering social or environmental components of value. Those are something else, viewed as 'other' and removed from our consideration of investing. Too often, in too many realms of our lives, we take as reality the economic assumption of 'externalities' – namely, that those things that cannot be easily assessed on financial or quantitative terms should not enter into our calculation of what something is worth, of what its value is.

When considering an investment, we include the market value of a forest that is clear-cut and processed, but not the deeper value of the watershed that is then destroyed. As individuals, we believe (and we as a society then come to believe) that value can be disaggregated, divided and allocated in parts, as opposed to understanding value as fundamentally whole and non-divisible. Yes, we can consider the economics of a given thing, but we must also assess the extra-financial components of value; and the process of creation for value is itself a blend of elements with diverse components interacting and weaving along the trajectory of a strand of DNA – social, environmental and financial components inextricably one. This is the foundation of our understanding of 'blended value',[3] and is in turn the foundation of our understanding of the elements of value and purpose of our wealth that go well beyond money as simply capital and cash to be spent or invested in pursuit of ever-greater financial returns.

As we come to operate within a more holistic, blended understanding of the nature of value, we then also see that the lines which separate doing well and doing good, making money and creating value, are in fact false divides and artificial limits that we place on ourselves and our wealth. We recognise the purpose of capital as simply a social construct lodged within a set of interlocking assumptions that we have inherited from prior generations who were not themselves exactly wrong (as they were operating within the assumptions and constructs of their own day), but whose understandings of value and the purpose

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of capital – when viewed from the perspective of today's lives – are inadequate, limiting and in some ways antithetical to the understanding of present generations. Past thinking with regard to how we should define the role and place of money in our lives and world is in many ways not relevant to the challenges of today, as many members of the rising next generation widely recognise. Yes, we must certainly understand how we got here and how capital moves within the existing systems that our elders have created. But we are ourselves called to promote a new set of assumptions and social constructs that succeeding generations will find most useful in their pursuit of the sustained, deeper value that we must now create.

It is up to each generation to reflect upon and define the purpose of capital anew, shaping a renewed understanding of that purpose and promoting a refreshed vision of capital's place in our world. And it is up to each of us – first as individuals, then as members of families and communities acting as global citizens – to evolve a dynamic understanding of capital's purpose because, in the words of historian Arnold Toynbee, "Civilizations die by suicide, not by murder."[4] Our decisions regarding wealth management and the purpose of capital are made not by others, but by our own good selves. And it is up to each of us to deepen our personal understanding of capital's place and purpose in our life so that we might not simply save ourselves, but prevent the death of our planet, humanity and those we claim to care most about.

3. The definition and role of impact

So then, value is a blend, consisting of economic, social and environmental components. And by extension, capital's purpose is less about an either/or approach to wealth management (make more or give more away) than it is a question of optimising its total performance. But what is the nature of total performance? What does a holistic approach to wealth and its management look like? How does the rising next generation understand the impact of our capital if its performance is assessed as more than financial, but social and environmental as well?

In recent years, increasing numbers of wealth holders have begun to deploy their wealth with an eye towards consideration of extra-financial performance, personal values and beliefs, and a commitment to having a net positive impact on the planet and its communities and ecosystems. While many believe these ideas and practices to be new, they have a long history. One may start the clock at any of a number of points. For our discussion, we will begin in 1604 at the dawn of modern financial capitalism, with the creation of the first publicly traded stock company, the Dutch East India Group. Having successfully raised capital from a diverse set of investors committed to its proposed venture of trade, the company financed an expedition. Upon its return, it was discovered that the firm had engaged in war and piracy instead of commerce. Several investors objected, selling their shares and initiating a campaign challenging the board of governors in the belief that the terms on which their investments had been received had been violated – and that the practices of the expedition conflicted with their religious beliefs. Thus, the debate regarding the purpose of capital and corporation began.

Moving ahead a few centuries, in the 1960s, we saw a new generation of wealth holders and fiduciaries seek to screen out companies thought to be operating in ways that conflicted with the beliefs of investors. These investors removed the 'sin stocks' of tobacco, alcohol and firearms from their portfolios – later adding defence industry companies supplying weapons of war used against the people of Vietnam. And later still, these strategies were used to apply pressure on the government of South Africa by those who sought to bring down that country's system of apartheid.

In the 1970s, with the creation of the Environmental Protection Agency in the United States and related agencies in countries around the world, companies were required to report on their levels of pollution. Investors began using that data to separate environmental wheat from chaff and identify environmental 'best in class' firms to invest in. Based on this work, in the early 2000s, we then saw the rise of environmental, social and governance (ESG) integration – the idea that ESG factors are material to the performance of firms and their ability to manage that off-balance-sheet risk material to their generating financial return. Investment firms began managing capital with consideration of ESG as a risk mitigation strategy to protect investor interests and be used as a competitive advantage, creating financial returns that could beat the benchmark and reward investors and diverse stakeholders. 'People, planet and profits' became the slogan of the day.

In the mid-1990s, a new type of asset owner – many coming out of the dot.com, tech and finance communities – began to reject the notion that, having created their wealth through business, they should then deploy that wealth through foundations and charitable organisations. These asset owners sought to draw as direct a line as possible between their investment of capital and their generation of positive value in the world – what came to be called 'impact'. As these practices evolved, groups of investors and visionaries began formalising the language and practices of investing in this way; and by the mid-2000s, what is now called 'impact investing' was born.

What is interesting to note is that while new to that generation of asset owner, the idea of investing for impact was not truly a new concept in and of itself. It was perhaps new to younger entrepreneurs bred in the boardrooms and incubators of the world's Silicon Valleys and Wall Streets; but in many cultures around the world, the idea of managing wealth to do more than make more money is a longstanding tradition. I recall giving a talk on blended value and what would become impact investing at the World Economic Forum in Davos, Switzerland, 20 years ago and having the first questioner – a successful European businessperson – stand to make the point that while these were great ideas and practices, this was how his family had sought to manage its business for over 150 years! And indeed, beyond examples within US and Western European society, First Nation, African, many Asian and other cultures around the world have long viewed capital as a tool to advance the more complex task of providing for individuals, communities and ecosystems.

In the end, the truth is that all capital (from philanthropic to concessionary to market rate) and all organisations (whether non-profit, for-profit, cooperative or hybrid) create impact. The challenge for us is to understand what type of net positive impact we are creating and then to manage that impact in an intentional, strategic and transparent manner. How do we define this impact?

Many investors deploy capital that creates what may be thought of as 'ignorant impact'.[5] These investors simply do not know what they are invested in or how that capital translates to impacts (whether positive or negative) within companies, communities or ecosystems. Others may invest in 'cheap impact' – claiming that since they create a job or pay a tax, they are generating impacts of value to society. And yes, that is impact; but it is incidental and something created through the execution of their traditional business strategy. Such impact is not managed with intentionality. Workers come and go; and while we may claim that "Our people are our greatest asset", when the next downturn comes, they transform from asset to cost centre and are relieved of their duties.

This brings us to a key consideration, in that asset owners exploring the possibilities of impact investing must manage their wealth with awareness concerning where their capital is invested and the nature and types of impacts it is generating. As the saying goes, "Know what you own!" That said, we must never confuse intent with impact. It is fine to invest in a fund that is branded as socially responsible or of positive impact; but as responsible fiduciaries of capital, we have to dig beneath the marketing if we are to understand the true nature of the impact that we are creating and the degree to which it is advancing net positive impact.

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We may also reflect on the degree to which our capital creates broad impact or deep impact. 'Broad impact' may be thought of as the impact of an education or health initiative or medical research that potentially touches thousands of lives; versus the 'deep impact' of a regional-level education or health and wellness strategy that may touch the lives of only hundreds of people within a defined area, but that does so in a holistic manner through which individuals, families and the wider neighbourhood participate in and benefit from a set of investments.

As we will explore below, when discussing how investors might manage all their assets on an impact basis, there is no single response to the question of what the best way is to deploy capital for impact. The correct strategy (or more likely, set of strategies) is a question of one's understanding of legal fiduciary duty and our personal understanding of effective stewardship. The correct strategy is a function of our definition of the purpose of our wealth combined with our individual vision and goals. However, what is required of us as stewards of wealth is that we not accept the thinking and practices of traditional finance, which seek to convince us that our only measure of value is financial return, or that the size of our asset base is the value and legacy of our having lived a life.

*This is an extract from the chapter 'The purpose of capital: exploring our relationship with money and meaning' by Jed Emerson in the Special Report '*Family Business and Responsible Wealth Ownership, Preparing the Next Generation*', published by Globe Law and Business.*