In a Good Negotiation
EVERYBODY Wins!

By Shel Horowitz

IF YOU LISTEN to Robert O'Donnell of the Vermont-based Woodstock Institute for Negotiation, conflict is inevitable—but if you establish the right ground rules, even the most difficult conflicts will start to resolve.

O'Donnell addressed the March gathering of the Family Business Center, held at the newly renamed Clarion (formerly the Inn at Northampton).

His method starts with a seven-point “Collaborative Win Agreement,” setting the ground rules. Participants commit to:

1. Open and honest communication, using normal tone and volume, treating each other with respect and courtesy.
2. Listening to each other and trying to fully understand the other point of view.
3. Agreeing not to interrupt.
4. Sensitivity to the other’s “values, history and individuality.”
5. Understanding and expressing their own interests, proposing alternatives that address all interests, and avoiding taking positions.
6. Making a “free and informed decision” on each issue.
7. Reaching a fair and constructive resolution.

While at least in theory these points can all be modified, in practice, O’Donnell has designed them to be accepted. If the other party balks, the conversation would be something like:

“You want me to be honest?”

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HEN BUSINESS GROWS to where you can't go it alone, are you better off hiring clones, or people who complement your strengths, able to repair and build where you fall through the cracks?

Little has been said about the benefit of cloning for business. Henry Ford's descendant, Bill, doesn't need a founder's gumption (and surely benefits from the lack of racist rantings), but any company that could reproduce their founder's confidence, vision, and energy in each generation would never get stale. (But not every founder could handle the debacles that arise for future generations.)

Sometimes the more things change, the more different they are. Many conflicts between generations can be simply explained as "generational;" and though perspectives change as we age (the 20-something rebel is shocked by their 50-something contentment), success often depends on being up on the current management fashion.

You may feel that "command and control" leadership is yesterday's flavor, and "team driven, consensus oriented" leadership is not a flavor at all – it's absolutely better. But twenty years hence, if teams are passe, there's no way you'll get the best from your people unless you can lead a workforce of consultants, or staff with implanted chips, or subcontract to your competition. Consider yourself fortunate if the current executive attire looks flattering on you.

My father was very command and control. It fit him, but I wasn't comfortable emulating it, and there wasn't room in our childrenswear shop for two bulls. He was hard sell. I sold soft. He'd proclaim "you'll straighten the pajamas," while I'd beseech: "Mind sprucing up the sleepwear?" Our partnership was an exercise in restraint, but also mutual respect. Sometimes we rubbed each other wrong, but sometimes some good rubbed off.

But what results when the leader has such a powerful style that the next generation can't discover themselves, can't even breathe? If the adult child tries to be their own person, their voice is drowned out, disregarded. Try to imitate, it will be as effective as a toddler wearing daddy's jacket. Even more pathetic (and astoundingly common) is outright competition, creating chaos and disrespect that would dismay Shakespeare & Son, plus your higher strung employees.

What to do? Should the heir keep a low cover until the strongman eventually heads south? Invariably, by that time, the parent has dug in so deep, there is a rut their kid cannot climb out of. Too late for a personality change, or the child's hiding place has become too comfortable, or the new regime runs out of gas and suffers a no confidence vote. And then, when the business fails, you hear "Shame... the apple fell too far from the tree," when, in fact, the apple rotted right on the branch.

There is truth to the common claim that "our business is all about people." A good thing, if there's good chemistry and good will. It implies that there are situations where there is bad chemistry, especially in family businesses, where bad partnerships can be a life sentence.

Covey's "begin with the end in mind" implies that if you can't get there from here, it makes no sense to begin. Some family relationships are just not fated to work well. With 22 million companies in the U.S., why work with your despicable family? Maybe despicable is too strong: why work where you won't all be at your best?

Separated at birth is not the goal. Speaking chemically, there would be no water if hydrogen and oxygen were exactly alike. But are you making water, or oil and water? Can
F.B.C. Membership Benefits

Participation in the Full Series of Seven Dinner Forums through the year for all family members in the business. At the discretion of members, family nor in the business are invited to the meeting. Other topics might be appropriate for a nonfamily, key employee. The maximum value of membership in the program is reached when all relevant parties participate of our interactive learning environment.

Roundtable Discussion Groups The UMass Family Business Center offers the opportunity for members to participate in peer roundtable discussions. Groups divided loosely along generational lines (Seniors/Founders and Adult Children and Key Non-Family Managers) meet regularly in an informal, facilitated "affinity group" with others in the same position in the family business. The groups, a member benefit at no extra charge, are confidential and intimate forums that you may view as your outside board of advisors on both family and business issues.

Opportunity to Network and Confer with intimacy and confidentiality with business owning family members, with speakers who are leaders in the field of family business consulting, and noncommercial contact with the center's sponsors, representing the fields of law, insurance, banking, and accounting. This interaction will be invaluable in providing a sounding board, a second opinion, an empathic and experienced listener, and honest and direct feedback for the family business member.

A Subscription to our Educational Newsletter Related Matters: Treat Your Business Like a Business and Your Family Like a Family, featuring advice on the issues relevant to family business, such as succession planning, ownership and management, and family relationships, as well as coverage of the activities of the Family Business Center and profiles of its members.

Gallup Research Shows Employees Do Best When Their Work Interests and Challenges Them

But Stays Within their Key Abilities

Frequent Presenters (and Family Business Center sponsors) Rick Giombetti and Paul Alves, of Giombetti Associates, came once again to the Center for its April meeting at the Log Cabin. But this time, they shared research results from Marcus Buckingham of Gallup, rather than their own work.

Buckingham, who has presented in person to the FBC in the past, has a new book out: “Now, Discover Your Strengths” (co-authored with Dr. Donald O. Clifton).

Buckingham’s team identified 34 dominant talent themes. By analyzing the traits or themes of your employees, Alves and Giombetti say, you can help ensure they function in jobs that call for their best talents (and don’t depend on the areas where they’re weak). Says Alves, “If you don’t have the strength, pass the ball to someone in your organization who does.”

Giombetti says far too many business owners engage in a losing strategy: trying to pull people up and improve their weak areas. Much better, he says, is concentrating on their strengths to begin with. “You can’t teach an elephant to fly” – but that same elephant is fantastic at pulling heavy loads.

All of us have natural talents; yet only 20% of employees felt that their jobs harnessed their best abilities. As Alves points out, that means 80% of the potential is wasted.

Since Giombetti Associates specializes in helping employers identify peak performers, this ability to sort out strengths and weaknesses works very nicely in tandem with their existing mission; now, they can suggest lateral moves that take an underperforming, unhappy employee and boost productivity by orders of magnitude – just by giving that employee responsibilities nicely in tandem with their existing mission; now, they can suggest lateral moves that take an underperforming, unhappy employee and boost productivity by orders of magnitude – just by giving that employee responsibilities that play to his or her strengths (and enjoyments).

Let’s look at specific examples: a surgeon who hated dealing with “whiny” patients let go of the high-patient-contact surgery specialty and switched to radiology – where other doctors handle nearly all the patient interaction.

A sales person with a score below the 50th percentile for competitiveness should not be in sales, and will produce better in a more collaborative situation.

A business president wanted to feel that he had truly made a difference in the community; he quit the company and founded a network of homeless shelters. ■

By Shel Horowitz
Negotiation

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“Well, we could agree to be dishonest, if you’d rather.”

And once the negotiations start, all you have to do to regain focus is to say, “I thought we’d agreed to speak in a normal tone and volume” (for example). The other party has no viable alternative but to say, “Yeah, you’re right.”

O’Donnell cited one mediation contract where he was brought in only to meet a legal requirement before suing—and in two days, “the CEO had given his adversary his private phone number so he could be told immediately if his people failed to carry out” the agreed-upon ground rules. He also pledged to distribute the ground rules to all his employees.

“If you want to change individual behaviors, change the values and belief systems. And the only way is through education: values are not negotiable. You can’t impose the change...All success is based upon negotiation.” O’Donnell comes from an entrepreneurial family; his father invented Bondo. And he sees every business interaction as a negotiation. “If the fathers of your company were not good negotiators, you wouldn’t be here. You negotiate with customers, employees, suppliers, banks, the insurance company...”

O’Donnell believes that too many negotiations take place using the old, competitive model. “In law, there is a winner. But when they have to factor in the fees, the negative time, document production, the negative energy, the worry—even if you win, what have you won? In negotiations, there are no rules. In a ball game, or in a court, there are rules—and judges to enforce them. In negotiation, it’s a big vacuum. I roll out a couple of rules, and people grab” onto them. It all goes back to those fair and reasonable rules, established at the beginning.

Nine Questions to Identify Your Best Customers

IT’S THE OLD 80/20 RULE: most of your revenues, profits, and sales will come from a relatively small percentage of your customers. Karen Wilson of the Momentum Group (the center’s newest sponsor, a full service marketing and advertising firm with special expertise on market planning for growth) took Family Business Center members through nine questions that will enable you to identify those key customers, drop the least productive customers, and seek out more like the ones who are giving you most of your business.

- What was the average dollar volume of your orders?
- Who was your most profitable customer?
- How do customers rank your service—are you among the top three suppliers?
- How do customers rank your product—is yours among the top three suppliers in the market?
- Amazingly, most CEOs do not have this information, Wilson says. “We’ve never had one CEO know all the answers. These are the most important questions in marketing. The data started going downstairs to the computers. The computers got smaller, but the data never came back. The CEOs never interact with customers, or even with the customer service gal.”

Yet the effort is worth it, big time! Those CEOs who do stay on top of these questions will be able to:

- Identify their most productive, most profitable customers and serve their needs better
- Ensure that the flow in of new customers is larger than the drain of old customers leaving and taking their business elsewhere
- Change the time patterns of sales and support staff, so they don’t get sucked into spending vast amounts of time on the wrong customers
- And thus make their businesses significantly more profitable.

By Shel Horowitz
Could Ben Franklin Find a Home at Your Company? The Challenge of “Renaissance Souls”

If you’re the sort of person who thrives on challenge, gets bored if you do the same thing too long, and really enjoys being a business owner because everything’s different, you’re not alone.

And if you’re the sort of person who likes things that fall into neat, clear categories, who wants to get really good at something and practice it to perfection, and who isn’t sure how to manage those who have to have a constantly changing environment, listen up.

Margaret Lobenstine, known to many FBCers for her facilitation of the Older/Younger Generation discussion groups, came to the Family Business Center’s April 9 meeting, at the Log Cabin, to talk about “Renaissance Souls”—those are the folks who go crazy without change in their lives—including their work lives.

Too often, says Lobenstine, society is set up only to acknowledge and reward the Mozarts of this world: those who find a passion early and stay with it for their entire lives. And as Mozart proves, that is one path to greatness.

But consider another exemplar: Ben Franklin—a man with vast accomplishments and successes as a statesman, diplomat, Postmaster General, scientist, inventor, among various other careers. “Mozarts come with a resume that makes perfect sense; they move up the career ladder. They do more of the same thing, but with more responsibility. We’re not as familiar with the Franklin side. They are called dilettantes, dabblers.” Yet the world would be a far poorer place without them.

Lobenstine, who is working on a book about Renaissance Souls, got interested in part because she herself fits the pattern. She gave up a very successful life as an innkeeper to become a coach and counselor specializing in career and life transition. And now she’s moving into leading workshops and speaking about Renaissance Souls.

Why should businesses pay attention to Renaissance Souls? Lobenstine identifies three crucial reasons.

First of all, “the 21st Century requires people who thrive on change.” Even

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BUSINESSES AND INVESTORS finally have some long-awaited tax relief. The Job Creation and Worker Assistance Act of 2002, signed by the President on March 9, 2002, provides $120 billion in tax relief over the next four years. In several critical areas, relief is retroactive to 2001. This new tax law was designed to get money back into the hands of business and investors … fast. You can get your share by filing refund claims or applying these incentives to extended returns. You may also want to revise your tax strategy for 2002 and 2003 to help you maximize your tax benefits under this windfall piece of legislation.

**Bonus depreciation:** If you own a business or invest in one, you probably can benefit substantially from the new law’s special depreciation provision. This provision —perhaps the most important one in the new law— saves significant up-front tax dollars. It allows an additional 30 percent depreciation deduction on the purchase of new assets for use in your business, on top of any other “first year” depreciation that you are allowed to take.

This “bonus” depreciation was designed not only to encourage you to buy new equipment for your business but also to reward you for purchases made since September 11, 2001. Retroactive application of the new law means that you already could be due a substantial refund on your 2001 tax return if you apply the new rules on an amended return. This depreciation– and its resulting refund— is not automatic, however. You must file an amended 2001 return in most cases to claim it. In filing such a claim, you must adhere to new rules determining what assets “qualify” for the additional “bonus” depreciation as well as its effect on any Section 179 depreciation you may have claimed. Thorough reading of the legislation is suggested since in addition to tangible personal property, certain leasehold improvements also qualify for this “bonus” depreciation. You may also be pleasantly surprised to learn that there are no dollar valued phase-out limits for this deduction.

**New business vehicles:** The net price of a new passenger vehicle used primarily in your business just got lower. The regular tax rules limit the amount you can deduct as a business expense on the purchase of a vehicle - this cap is $3,060 for 2001 and 2002. Now, the new law allows you an additional maximum $4,600 deduction for a total $7,660 deduction possible in the year in which you purchase and first use your new car or light truck in your business.

The additional deduction is limited. The purchase under the new deduction must involve a new vehicle; used vehicles do not qualify. If your business purchased its new vehicle between September 11, 2001 and January 1, 2002, you’ll need to revise your 2001 tax return to reap the benefits of the change.

**Extended net operating loss carrybacks:** Businesses that have been experiencing difficult times lately have also been given a break. Congress is allowing business losses realized in 2001 and 2002— as a special short-term economic stimulus— to be “carried back” to the tax return up to five years ago. That’s three more years than the usual two-year carryback period.

The new five-year carryback loss period creates opportunities both for immediate tax refunds and for future tax benefits. Business losses from 2001, for example, can now offset profits realized in 1997 and entitle the business to a tax refund. Certain formal elections must be made in certain cases to maximize benefits under this new provision.

**Extensions of credits/deductions:** The Work Opportunity Tax Credit and some energy credits and deductions have been given new life. They had officially expired on December 31, 2001, but now are extended without interruption through 2003.

**New York City Liberty Zone:** Congress has provided special tax relief to help New York City rebuild from the terrorist attacks. The new law gives businesses and individuals in the “Liberty Zone” (southern Manhattan) special, temporary tax breaks, including an enhanced depreciation bonus, increased small business expensing, an expanded Work Opportunity Tax Credit; and more liberal involuntary conversion rules.

**A bit of bad news:** Although the new law is valuable to most taxpayers, its provisions are not positive for everyone. Certain businesses are negatively affected, including:
• some shareholders of S corporations that receive debt discharge income from creditors that is not taxed as income; and
• professionals in a service business who account for income from clients or patients using the “nonaccrual experience” method.

If you are an S corporation shareholder or operate a service business, the new law limits your ability to deduct losses. Of course, the losses could be valuable under other provisions of the Tax Code.

Now is the time to learn more about the new tax law or to seek assistance on claiming some of the new benefits. ■

Kris Houghton, Tax Partner, Meyers Bros. PC, can be reached at Khoughton@meyersbros.com

Seven Habits of Highly Effective Companies

By François M. de Visscher

WHY DO SOME FAMILY FIRMS thrive while others merely survive or even wither away and die? Successful family firms are distinguished by their attention to sound financial strategies and practices. To borrow a phrase there are seven financial habits in particular that separate the best from the rest.

1. Successful family firms establish effective financial and governance structures that separate family issues from business issues.

   Whether it is by ways of family councils, family holding companies, or even shareholders’ assemblies where such forums exist, family members know there is a time and a place to discuss family matters related to the business. The board of directors can then focus on strategic issues and the pursuit of long-term shareholder value. Its time is no longer consumed by family issues (and sometimes quarrels) that should be resolved elsewhere. Likewise, when such structures are in place outside board members can be more easily selected on the basis of “functional fit” – that is, on experience and vision that complements that of the family board members, rather than on just a friendship or social obligation. Outside board members often add value because they come from backgrounds in public companies, where maximizing shareholder value is a primary mission.

2. Successful family firms strive for “free cash flow” growth not just business growth.

   To Warren Buffet, the single most important criteria in selecting and valuing his investments is cash flow, not sales growth. While sales growth can lead to long-term business appreciation, it is growth in cash that pays off for shareholders. Cash flow allows dividends to be paid and the value of the shareholders’ equity to increase. To measure cash flow, successful family businesses use “free cash flow,” which is net cash flow of the business minus investments and dividends. What’s left – free cash flow – is the financial bucket from which growth opportunities, diversification or even stock redemptions can be financed.

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Asked how to apply this both with enemies and with family members, O'Donnell reiterated that it can work—and in the case of family members, it’s even more important to negotiate fairly, because these are the people we love and care about; the consequences of failure are substantial. And if you can’t negotiate with your enemies, you will do battle instead, with no true victor. “One of the toughest things for mediators is to get people to agree to go to a meeting. People are constantly in negotiations that they don’t want to be in. If your attorney says this is what you have to do, that’s only one possibility. The choice is yours. There’s so much to consider; it’s not just money.”

Renaissance Souls  
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in the ordered career of engineering, she cites Phil Weilerstein, director of the National Collegiate Inventors and Innovators Alliance, who says that future engineers will not be sitting at a cubicle all day, designing one airplane part. They’ll be working in teams, learning to develop and sell their ideas, and to adapt to a job description that changes every few years.

Second, “round pegs in round holes lead to much-needed productivity.” Give the Renaissance Souls in your company the opportunity to stay productive; make sure they feel they can spend every day doing what they feel they do best. Your employees will intuitively know where they excel and what they enjoy.

And third, let Renaissance Souls “do their thing.” Lobenstine noted that Daniel Goleman, author of a series of books on Emotional Intelligence, found that job-related stress, as expressed in medical problems, increases when challenges disappear. “People who feel...their work is repetitive and boring, have a higher risk of heart disease.”

Goleman cited a specific example of an employee with heart problems. He wore a portable heart monitor. While he was attending a boring meeting, his heart rate started climbing into the danger zone.

Other research, meanwhile—for instance, Maddi and Kobnasa’s “The Hardy Executive: Health Under Stress”—found health benefits and lower stress levels among those who found work “strenuous but exciting” and saw change as a chance to develop.

To close, one more look at our 18th-century genius pair: “When a Mozart type has a successful business, they want more of the same.” For instance, a restaurant owner may start franchising. “The one more like Franklin says, ‘I figured it out, I understand it, I’m bored—and I’m out of here if you can’t challenge me.’ What intrigues them is the design, the problem solving.”

By Shel Horowitz

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Free Cash Flow is also different from Earnings Before Interest, Taxes, Depreciation and Amortization or “EBITDA.” EBITDA, which is being used by many investment professionals as a cash-flow definition it is in our opinion dangerous to use as a valuation or performance measuring tool because it does not include true cash outlays such as debt services maintenance capital expenditures.

3. Successful family businesses have in place adequately funded liquidity programs for shareholders.

While the value of the stock in a privately held company may significantly increase over time, shareholders usually have no means of realizing this value. The stock is illiquid—they cannot readily find a buyer at close to a price that reflects true value. Hence value appreciation becomes either academic or a source of conflict between shareholders who are active in the business and those who aren’t. Without a liquidity program, shareholders feel trapped in their family investment. This will ultimately drive them to demand higher dividends; and higher dividends, in turn, soak up cash available for growth thereby reducing the long-term value of the stock.

“Not everything that counts can be counted, and not everything that can be counted counts.”

(Sign hanging in Einstein’s office at Princeton)
What is a Family Limited Partnership and When Should You Use One?
By Charles Epstein, CLU, ChFC

THE FAMILY LIMITED PARTNERSHIP (FLP) has become a popular estate planning tool. Because FLPs provide both tax and nontax benefits, all wealthy individuals and couples should consider using an FLP as part of their overall estate and financial planning strategies.

What Is an FLP?

An FLP is a partnership usually set up by a parent or parents with assets they own. In most states, FLPs must have at least two partners, so a married couple will often be the sole initial partners. In other cases, parents set up a corporation to be the general partner and, as limited partners, may own the corporate general partner.

The partnership becomes a viable entity when it files its certificate of limited partnership with the secretary of state or other similar agency. Initial partners typically sign a limited partnership agreement and any additional partners must agree to it. Assignees of partnership interests also become subject to the provisions of the limited partnership agreement.

After forming the partnership, one or more of the partners transfer assets to it. These may consist of real estate, a portfolio of marketable securities or some other business asset. The contributor takes back additional limited partnership units. These units generally have no voting power but represent much of the partnership’s equity.

The partnership is a separate entity from its owners. The owners have no interest in the underlying property held in the partnership. They have only ownership interests in the limited partner units that they own or are assignees of. They typically cannot control distributions, do not have a say in management, and cannot force the partnership to liquidate or pay funds out for their share, except as provided in the partnership agreement.
**Family Limited**

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**FLP Benefits**

Let’s take a closer look at some of the ways an FLP can benefit your estate plan.

**Asset control.** When used as a family wealth transfer tool, an entire family usually owns the FLP through gifts from the parent to the family members. Sometimes parents sell these units either directly to the family member or to a trust for the benefit of the family member. Once family members own the units, wealth has been transferred into their hands. But parents still retain control over the disposition of the partnership assets. In addition, FLPs provide a great measure of creditor protection. And, FLPs offer centralized management of business and investment assets and orderly transfer of assets either during the general partner’s lifetime or at death.

**Flexibility.** Family members can own FLPs relatively pro rata, but can also control and direct distributions on a non-pro rata basis. The units are not subject to creditor claims, and creditors are usually required to obtain a charging order over the units. This means that if and when the partnership makes a distribution, a creditor is entitled to it to the extent of the liability. Creditors can attempt to levy on the partnership interest, but usually the agreement does not allow creditors to become partners— they only become assignees.

Being an assignee can be risky for a creditor. The IRS has ruled that a creditor who becomes an assignee of a partnership interest is liable for the tax on income allocable to that partnership interest, even though he or she cannot control the distributions and may not receive a distribution. No properly advised creditor will likely attempt to become an assignee of the interest. But an FLP generally doesn’t protect a transferor of assets to the partnership from creditor claims against him or her. So the technique does have limitations.

**Discounts.** Because a partnership agreement generally restricts who may become a partner and what his or her rights are, the units are not freely transferable. This makes them less valuable than the percentage they represent in the partnership multiplied by the value of the underlying assets. As a result, the value of the partnership interests may be discounted from the pro rata value of the underlying assets. Assets can be transferred to family members at a lower value than if they were transferred outright, thus providing an added tax benefit.

FLPs are clearly not for everyone. They can be relatively costly to implement and require annual maintenance, including filing separate tax returns. Therefore, don’t use them to transfer small amounts of assets. Generally, consider using an FLP if you:

- Want to transfer assets to your children but worry they may divorce,
- Have heirs with possible creditor problems,
- Have a great deal of wealth,
- Have special-needs children, taking into account considerations of state and federal aid availability, or
- Have assets that are unusual or difficult to organize.

**What Are Some of the Pitfalls?**

FLPs can be complex, so you should consider the pitfalls. For instance, if you plan to fund an FLP with marketable securities, be careful not to inadvertently trigger the gains in the portfolio by violating the investment company rules. Generally, this means that if you transfer a portfolio into the FLP and your holdings become diversified as a result, you may be required to include the gain on the investments in your income even though the partnership has not sold any of them. You can avoid this problem with careful planning.

Also, the partnership unit gifts are usually meant to qualify as present interests, enabling you to make $10,000 per donee gifts each year without filing a gift tax return. The only gifts that qualify for the exclusion are present interests in property. Because a typical FLP restricts access to the underlying assets of the partnership, the IRS has sometimes taken the position that the partnership units do not qualify as present interests and therefore don’t qualify for the exclusion. Until we have further guidance, we will not know how this will play out in court. But you need to be aware of the potential pitfall and plan around it.

Another potential pitfall is that the tax code has provisions that stop income shifting when a family member has provided either services or property to the partnership. The rules require the family member providing either services or capital to receive fair compensation for these items before income is otherwise allocated to other family members. This may thwart your plan to shift income to other family members, especially in service partnerships. But if you are aware of the issue, you can often plan to avoid this pitfall.

Charles Epstein can be reached at cdepstein@fiusvcs.com

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"I WILL MAKE ALL THE WAGONS MY BROTHER CAN SELL AND I WILL SELL ALL THE WAGONS MY BROTHER CAN MAKE."

-Studebaker Brothers
Manage Work Expectations by Knowing What’s Most Important to You

EVERYONE HAS EXPECTATIONS: the people who do best in a work environment are those who are able to understand and articulate what expectations are most important, and to put themselves in situations where those expectations can be satisfied.

Using a diagnostic booklet called “Managing Work Expectations, Transforming Attitudes: A Personal Learning Guide for Increasing Commitment and Job Satisfaction,” Ingrid Bredenberg, of Human Resource Innovations in Montague, helped FBC members plot high, medium, or low expectations across ten categories: structure, diversity, recognition, autonomy, environment, expression, teamwork, stability, balance, and career growth.

Not surprisingly, in this driven group of entrepreneurs, the majority scored high in numerous categories. But the real issue, says Bredenberg, is not your own expectations, but making sure the people under you communicate what they need and feel that their concerns are heard.

“Seventy percent of people who leave a company never tell why they’re leaving. They go off angry, upset, and the company remains uninformed about what they might have done differently. When you think about the cost of replacing” an employee, which Bredenberg estimated at 29-46% of annual salary for low-to-mid-level employees and 2-3 times salary for senior executives, that translates into a concrete dollar consequence of not understanding expectations.

Why do people leave? Attenders had several ideas:

- A better offer
- They didn’t feel appreciated
- The work wasn’t challenging
- No possibility of advancement
- Personality conflicts

Bredenberg summed it up: “The job was not living up to their expectations—but maybe they never even asked. Or their supervisor said no, we’ve always done it this way, if I do it for you I’ll have to do it for everybody.”

Why don’t people express their expectations? Attenders suggested fear of conflict, fear of disappointment, lack of feeling entitled, or simply an inability to identify or articulate them. And those unexpressed or unmet expectations...
Dear Ira,

Thanks in advance for any help you’re able to provide. Here is my situation. About 7 years ago, my brother opened a restaurant. My father, brother and myself each put up 1/3 of the money and organized a corporation, each of us owning 1/3 of the stock. My brother, Sean, ran the restaurant. We held annual meetings where we were updated. My father and I would sometimes offer ideas (none of which were taken), and we were generally dismissed as “not knowing the restaurant biz” and that we were “silent partners.” It was not an ideal situation but the restaurant was making money, which we were banking. A few years ago, we sold 10% of the biz to Bill, a guy who had been with us from the start, co-running the restaurant. He bought 3 1/3% from each of us.

Last year, we took the money we had saved and opened a second restaurant, about 15 miles from the first. My brother had been in charge of this, and Bill in charge of the first. The second restaurant is its own corporation, with the same 30/30/30/10 ownership.

The situation with my brother has deteriorated. He has financial control of both restaurants; and virtually refuses to disclose any information. He has to at year’s end for our taxes, but basically not otherwise. And he still refuses to listen to any suggestions from any of us— even screaming at my mother for suggesting that a dried out plant might need watering. (None of these suggestions are particularly material to the running of the restaurant, maybe something like, “why don’t you take an ad out in a particular paper at a cost of $300.)

Basically he says, “it’s my business, my baby. I built it from the ground up, so leave me alone. Bill, my father and I want to build the business. Since my brother left the first place, Bill has added a full liquor license (we only had beer and wine previously), and happy hour specials. Sean says the business is good enough and wants to be left alone.

Also, my brother and Bill earn nice salaries from the restaurant. My dad and I do not. We would like to start receiving dividends, but my brother says there’s never any money to pay out, and says we are not entitled to anything.

Our latest issue involves the bookkeeping. Restaurant #1 has made about $50m/year for the last few years. Sean has not told us how Restaurant #2 is doing, but we all think it is losing money. The accountant just told us that for 2001, #1 made $5m and #2 made $5m. Bill knows that’s not accurate and we now have no idea how either place is doing.

The situation is rapidly deteriorating on a personal level. My brother spends most of his time trashing Bill, who it seems he’s threatened by. He’s barely speaking to me or my parents, and wants us to “stop interfering, and butt out of his business.” It is taking a huge emotional toll on Bill, my parents, my brother, and me.

I have proposed that Sean buy us out of one place, and we buy him out of the other. My father is somewhat interested to be in business with Bill, without my brother’s involvement. I am in the Northeast, and the restaurants and my parents are in the South. I am reaching a stage in life where I would soon like to be spending more time there. Frankly, I could easily envision working with Bill...certainly not with my brother.

Thanks again for any advice. Looking forward to hearing back from you.

Sincerely,

P.S. Today my brother’s wife, a new mother, called my mom and said that she would be leaving him, because he is so stressed over his father’s and my involvement in “his business” and is causing an unhappy home life for him. The message was, get them off his back or I’m out of here. Obviously, his wife has only been hearing his version of events. I do not know if she is aware that Sean owns 30% and the rest of us own 70%. This obviously creates even more family pressure.

No Rest for the Weary Restaurateurs
Dear Restless & Weary,

If you read the other questions and answers on this advice site, you will notice some commonality in the problems faced by family members in business. Your family’s disputes, concerning the rights of owners versus managers, whether family or not, are sticking points for many, due to the difficulty in seeing others’ points of view.

As a consultant to family businesses, it is impressive how one “situation” can have multiple interpretations. It makes me hesitant to draw any conclusions, at least until I’ve heard from all the parties, something an advice column doesn’t afford me.

From your perspective, your brother is unappreciative of the investment his partners have made, which has enabled him to own a business. Assuming this is not something he could do without your involvement, he is, at the very least, acting unstrategically in alienating you. While it isn’t clear from your letter if there was any agreement on return on investment, your right to sell your share of the business, your right to fire the management (the same person as one of the owners, but 2 distinct roles), your right to see financial information and have it studied by your own advisors, it should be obvious that you didn’t contract for your current relationship, which is threatening your sibling and parental relationships, your brother’s marriage, quite possibly the operation of the restaurants.

There is some evidence from your telling of the story (again, only one perspective) that your brother tends towards manipulative behavior: ranging from screaming, to non-reporting, to instigating his wife to the point that the marriage is over if she can’t make you go away. Though I’d like to recommend a pleasant sit down meeting where everyone could state their goals and visions, it sounds like too little, too late; and not something that your brother would ever cooperate with.

I would do some research into your legal and viable options, and present them in a carefully worded letter. If I was you, I’d state regret that the relationships have deteriorated this much; that you are disappointed in the disrespect he shows to partners and family members; how he has acted badly in his non-communication with majority partners. State unequivocally that the status quo is unacceptable, and for financial and family reasons, major changes are inevitable.

Examine what you are willing to do, and to what end. If you offered him realistic and fair terms to purchase your stock, and he doesn’t accept it, would you be willing to sell to an outsider who would force his hand more than you? Would you consider buying his 30% and then selling the whole thing?: and with your brother cashed out, he could search for partners who will accept him as he is.

You might also consider getting both restaurants appraised by an arm’s length expert, and work some sort of swap so that he becomes sole owner of #1 and you, Bill, and your father are free to enjoy and prosper in #2. If you cashed him out of his share of #2, he would have some money to get you out of #1, owe you the difference, and so on.

But some healing of the family is also in order. You don’t say if you all have children, but if this is the case, how many cousins suffer at the hands of the disputes of their parents? Even if you manage to get a business divorce, it would still be healthy to gather family members in a mediation/counseling session, for some good old fashioned acceptance of a fair share of blame, apologizing and forgiving, stating some goals for the future of the family (and maybe a code of conduct). It would help your larger family to state plainly that adults sometimes act childishly, and that it shouldn’t hinder the relationships of children. There are people who specialize in this sort of family business counseling, and I’d be open to discussing how to find them in your area.

I wish you luck and persistence in a hard job ahead.

Ira Bryck
Seven Habits

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ment are drawing excessive compensation or benefits at the expense of the inactive shareholders. The ire of inactive shareholders is aroused when family managers enjoy company automobiles, country club memberships and low-interest loans, even if these perks may be typical of what comparable non-family firms give their senior managers.

In today’s business climate of corporate scandals, and shareholders’ outcries to eliminate excessive executive compensations and perks, it is ever more important for active family members to adhere to fair compensation schemes which reward executives, family and non-family, for true performance.

By staying within industry parameters on compensation, family businesses alleviate many of the jealousies of inactive shareholders as well as the concerns of banks, creditors, and employees. Many accounting firms and some compensation specialists will provide you with data from annual surveys on executive compensation and benefits of senior executives at various sized companies in different industries. Follow those guidelines as closely as possible and use them to document and defend your own policies.


A private firm that decides to go public is often surprised to discover it has to upgrade and make many adjustments in its accounting practices to conform to public company standards. Are there two sets of accounting norms, one for private companies and one for public companies? There shouldn’t be.

The recent case of Enron, Adelphia, and other corporate examples, remind us once again of the need for full disclosure and accounting transparency in closely-held businesses.

Annual audits and internal accounting controls foster shareholder trust and are useful tools in management decision-making. Hire a public accounting firm to prepare your annual audit and make sure it follows Generally Accepted Accounting Principles.

7. Successful family firms avail themselves of global financial resources.

The global economy is more than a cliche: it’s a reality. More than ever, family firms need to think globally to succeed. Even if you aren’t yet doing business overseas you need to understand global forces in your strategic planning because foreign competitors may be targeting your once secure domestic market.

Globalization also means the globalization of capital markets. With the current strong dollar and the low cost of capital in some countries, expanding your company through overseas investments or acquisitions may not be as costly as you think. In venturing abroad, you can match the currency of the financing with the currency of the investment, thereby hedging your currency risk while taking advantage of low-cost capital.

While many of the financial habits above emphasize shareholder value we all know that this is not necessarily the only value for many family firms. Nevertheless, paying attention to shareholder value is the best way to maintain the family’s patient capital (which is, let’s face it, cheap capital!). Ultimately that is what all family companies depend on for long-term survival.

Work Expectations

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ations almost guarantee lack of motivation.

“People with clearly defined, well communicated expectations find more satisfaction and success in their work. It’s not always that the expectations are met. If they can feel safe about communicating them and then perhaps meet their own expectations or other ways to meet their needs,” they’ll do just fine.

While many of the booklet questions were relatively hard to apply to an entrepreneur, attendees clearly saw how they could use this tool with workers a bit farther down the corporate ladder. In fact, several people requested extra copies of the booklet, to take back to employees.

Unforgettable

continued from page 11

about verbs like ‘sell’ and ‘own’ -you’re creating pictures that are about you, and not about what you can do for people. The objective isn’t to sell on the first impression, it’s to create ‘how do you do that? Tell me more!’ Be aware of preaching, teaching, and selling. In those seven seconds, we can help people understand what we do. And the quicker we do it, the fewer words we use, the more they’ll remember it.”

So how does Sasha introduce herself? By using one of several benefit-driven seminar titles -for example, “I help people move through the fear of being in front of an audience…I’m in the purpose, passion and power business.”

And if you come up to me at the next Family Business Center gathering and ask me what I do, I won’t tell you “I’m a copywriter.” Instead, you might hear, “I make the world INSIST on learning why YOU‘RE special.”

VISIT OUR WEBSITE:
www.umass.edu/fambiz
Tuesday, September 10, 2002  
5:00-9:00 pm,  
The Delaney House,  
Holyoke, Mass.

**RIGHTS OF PASSAGE: A GUIDE FOR LEADERSHIP ASSESSMENT AND SUCCESSION**

“As tough as it is, as hard as it seems, implementing a successful succession/transition plan is the ultimate reward for any chief executive in a family business. The successful perpetuation of your family business may just be the closest you will ever come to immortality.”

Only about 10% of family owned businesses make it beyond the second generation. This shockingly low success rate persists, due to a lack of planning, followed by the owner/ founder’s inability to let go, reluctance by the parent(s) to choose a successor from among siblings/cousins, and owners for whom there is no life beyond the business.

This session will assist family business members by describing and prescribing seven easy steps to pass the baton. Business owners and key managers not in the throes of generational transition will also profit from this session, learning methods for more effective leadership and professionalism.

Wednesday, October 23, 2002  
5:00-9:00 pm,  
Chez Josef,  
Agawam, Mass.

**“A TOUGH NUT TO CRACK”**

We are proud to present, as ‘edu-tainment,’ a new one act play, “A Tough Nut to Crack,” based on a true story about a father and son and the company they keep. The play’s author is Ira Bryck, director of the UMass Family Business Center. Ira spent 17 adult years (and started taking cash at five years old) for his family’s 90 year old, 4th generation childrenswear retail business on Long Island, NY.

The evening will benefit you by giving you a “fly on the wall” view of a business family facing many classic issues; help you examine your thoughts and feelings about your family’s reactions to this real life drama; help break the ice on important discussion you may have about your own situation.

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**Please send me more information on the UMass Family Business Center and its benefits**

Name: ___________________________  
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☐ Yes, I want to take advantage of your $80.00 trial session. (Three from the same firm for $200)  
Deducted from membership fee if company joins the Center within one month.

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In business for 16 years with over 300 clients in 25 states, Giombetti Associates is a management consulting firm known for increasing productivity and profitability through people. Specialties include Pre-employment Assessment, Team Building, Management Training, Conflict Resolution, and Leadership Development. Hiring the “right” person is assured with the Giombetti’s trademarked assessment process, Performance Dynamics. Giombetti is resolute about its highest credo: “Within each individual lies untapped potential. Our job is to identify and develop this hidden talent. Once leaders emerge, effective teams evolve. Challenges become accomplishments and profitability grows.” Paul Alves, Rick Giombetti, and Rich Frigon are available at (413) 566-3863.

Meyers Brothers, P.C. known for its “Creative Solutions....Trusted Advice”, is a regional accounting and consulting firm with its office in Longmeadow, Massachusetts. Founded in 1948, Meyers Brothers has grown to be the largest independently owned and operated CPA firm in Western Massachusetts. As a member of the private Companies Practice Section of the American Institute of Certified Public Accountants, the firm specializes in serving closely-held family owned businesses. Stuart Meyers, Kris Houghton and Rudy D’Agostino are available at (413) 567-6101.

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With a strong commitment to lifelong learning and the belief that education is the key to keeping the local economy healthy, the Division of Continuing Education supports the University on both in theory and in practice, continuing its tradition of bringing the University to the community. For information on Continuing Education programs and courses, please call: (413) 545-0187, fax: (413) 545-3351, e-mail: continuing@umass.edu • www.umass.edu/contined

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