

CONFLICT ANYONE?

During a family business board meeting one family member stands up and shouts, "You have pushed us around long enough. I'm tired of you trying to control everything. I'm sick of you always being in charge!" Confused and sporting bewildered looks, the other board and family members stare at each other, smiling in silence as they each mentally "take a side."

Conflict, no matter how hard we try to prevent it, seems to just keep coming back faster and harder. In their treatise, *Family Evaluation* (Norton, 1988) Drs. Murray Bowen and Michael Kerr observe that "People (often) act surprised, as if the eruption came out of nowhere, but unspoken resentments may be building for days, weeks, or months." (We know of families where resentments have been building over decades) Resentments over what "should be done" and how people "should act" may be the root cause of the family conflict in the above example.

Family business consultants frequently discover conflict within client families and organizations. When conflict is misunderstood or poorly managed within a family business it often leads to demoralized employees and diminishing profits. More than one family business has been destroyed as a direct result of conflict. Occasionally, conflict serves a legitimate busi-

ness purpose or goal. Families that educate themselves on understanding how to manage conflict have a far greater chance of passing their family business on to subsequent generations.

While some family business consultants are trained and competent to handle *interpersonal* conflict (conflict between two or more individuals), trained psychologists are best equipped to handle conflicts of the *intra-personal* nature. Resolving *interpersonal* conflict is a step-by-step skill that almost anyone can learn. Consider the conflict continuum below.



Ask yourself, "which of these three methods is most likely to lead to effective conflict resolution?" The answer, depending on the circumstances, is all three.

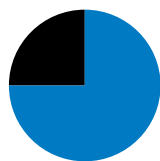
AVOIDANCE Some people believe that they must deal with every little issue and that everything needs debate. The Chinese proverb "Choose your battles carefully" is a helpful strategy when dealing with conflict. If it's not a major issue with significant ramifications, ask yourself if this is one of those times when it is better to keep quiet and move on.

DIFFUSION At one time or another each of us has felt compelled to say something we thought was important, only to realize that our audience wasn't listening. Frequently the time is just not right to resolve a conflict. Diffusing a conflict through distraction, humor, or acknowledgment is often a way to temporarily "let the air out" of a situation. Saying something like "we both feel pretty tense right now, why don't we hold off and deal with this issue later," can often have the needed diffusing effect.

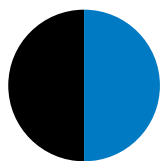
CONFRONTATION The most important and most common method for dealing with conflicts is confrontation. In our experience there are two types of confrontations: power and negotiated. Power confrontation is common to many autocratic organizations and unfortunately becomes a standard practice. Although power confrontations usually lead to long-term negative consequences, in some crisis or emergency situations, power confrontations are not only appropriate but may even be desirable. Most individuals in these types of organizations view power confrontations as win – lose transactions.

(Please see CONFLICT on page 3.)

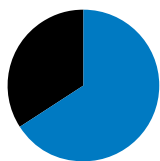
FAST FACTS



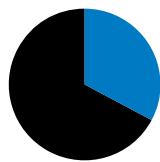
75% of all U.S. companies are family-owned.



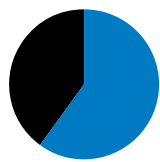
50% of our GDP is generated by family-owned businesses.



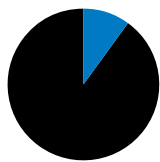
66% of all family-owned businesses fail in the first generation.



33% of all Fortune 500 companies are family-owned or controlled.



60% of the U.S. workforce is employed by family-owned businesses.



10% of all family-owned businesses successfully pass to the 3rd generation.

BOOK ReVIEW

STEINWAY & SONS

by Richard Lieberman (Yale University Press, 1995)

Few American manufacturers have been able to create a product of high quality, lasting value, and with name recognition equal to that of the Steinway piano. (I challenge our readers to write in with the names of three family businesses that have maintained a reputation as the “finest” for over 100 years! Use the Boomerang card)

The Steinway (nee Steinweg) family business saga began in 1835 with the German cabinet and instrument maker, Heinrich Steinweg. Heinrich’s family members sought a more favorable manufacturing environment and, like many other Europeans, headed for the wide open promise land of America. In 1850 the family Americanized their name and began manufacturing pianos in their rented shop, below Canal Street on the west side of Manhattan. During their first year, every Steinway piano was handcrafted entirely by Steinway family members. By the end of their inaugural year, The Steinway family had produced and sold 11 grand pianos.

One hundred and thirty-seven years later in 1972, Henry, the sixth and last of the family business leaders, along with his brother, John, acknowledged Yamaha’s worldwide dominance in the mass production piano market. Without full family support, the brothers decided for the entire family to accept a stock swap offer from CBS and relinquish all ownership rights to the Steinway name.

In between is a story and lesson for almost everyone. Lieberman’s book touches upon the many issues that would ultimately affect the Steinway business: from manufacturing, labor unions, new product development, marketing, and financial solvency to the family issues of alcoholism, mental collapse, sexual scandal, bribery, and fraternal dissension.

The latest research on family businesses indicates that 66% of all family businesses fail during the first generation and that a mere 10% survive until a third generation. Yet Steinway, under six different family leaders spanned five full generations. *“This longevity was in large part achieved by having a partnership of an artist and a businessman at the helm. That mix of craft and commerce at the tiller was crucial in establishing the standards and style of Steinway & Sons.”* One explanation the author suggests for the family business success was the fact that only once during the history did leadership ever pass from father to son. Leadership at Steinway & Sons had become a tradition of bringing a nephew to the top.

Steinway & Sons is an uplifting chronicle of piano and musical traditions. If ever as a child you were ordered to sit in front of a piano keyboard, hour after tedious hour, practicing, hoping one day your fingers would dance rhythmically along the ivories producing musical sounds that would entertain the relatives, this book will give you much pleasure and insight. If however, your interest is less erudite and you want the nitty-gritty on the family without having to read 300 plus pages, go to your local bookstore, pull *Steinway & Sons* off the shelf, find a comfortable chair, open to page 99, and read chapter eight. Enjoy.

WATCH FOR THOSE SPEEDBUMPS

Dan Pryor, one of our associates, and his wife, Nancy, publish a newsletter known in the Texas Hill Country as *SPEEDBUMPS*. This past November, *The Dallas Morning News*’ columnist, Steve Blow, highlighted Dan and Nancy with an editorial, titled “*SPEEDBUMPS* takes new look at (the) road to work.” Steve Blow wrote “*Speedbumps* combines bits of business wisdom with just plain weirdness. (Apple computer developers code-named a secret project SAGAN. When Carl Sagan’s lawyers threatened a copyright infringement lawsuit, Apple engineers changed the name to *Butthead Astronomer*.)”

This from Dan: Find the next letter in this pattern: **A E F H I K L M** . Send us your answer on the Boomerang card. If you would like more information or a sample copy of *SPEEDBUMPS*, call Dan at 1-800 406-1112 or 214 340-8861. (We may publish some of the more creative answers to this puzzle in our next issue.)

STILL LISTENING TO PROZAC?

Many Americans believe that drugs are the only effective way to treat depression and therefore do not consider alternatives. Unfortunately, the term depression has become misunderstood and still today receives an unfair stigma. Family business consultants occasionally find themselves involved with a family where one or more family members are dealing with clinical depression. In a recent article published by the American Psychological Association, research on depression indicated that two particular forms of psychotherapy work as effectively for many individuals as antidepressant medication. The article suggests *cognitive therapy*, which helps individuals identify and change distorted assumptions about events in their lives, and *interpersonal therapy*, which helps individuals interact with others more effectively, as viable treatment options. In a family business, depression can destroy healthy communication by clouding personal and business judgments. Depression is treatable and is almost always “curable.” In our nanosecond culture many individuals insist on immediate results and instant gratification. The experts now tell us that psychotherapy is often just as quick and possibly more effective than medication.

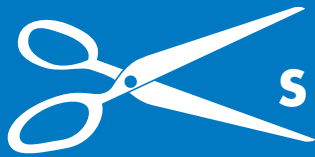


Methods you used to settle differences as a kid are not as effective when you grow up and run the family business.

Times and methods change.

Dealing effectively with differences of opinion in family-owned businesses is crucial.

Conflict can damage relationships and destroy the harmony that makes working together as a family satisfying.



SNIPPETS

TRADITIONS DEFINE FAMILIES. They have been referred to as a glue that holds families together. Author Salman Rushdie recalls a treasured family tradition: "In our house, whenever anyone dropped a book, it was required to be not only picked up but also kissed, by way of apology for the act of clumsy disrespect. I was as careless and but-terfingered as any child, and accordingly kissed a large number of books. Devout households in India still contain persons in the habit of kissing holy books. But we kissed everything. We kissed dictionaries and atlases. We kissed novels and Superman comics. If I'd ever dropped the telephone directory, I'd probably have kissed that too. All this happened before I had ever kissed a girl. In fact, once I started kissing girls, my activities with regard to books lost some of their special excitement. But one never forgets one's first love."

Source: Reader's Digest

HOW ARE WE CHANGING? According to *The Economist*, in 1960, 19% of all married women in America held jobs outside the home. Thirty three years later, 60% of married American women worked outside the home.

"I JUST DO IT because I'm passionate about my work." Yea, but you don't have to give it away. NIKE's famous "swoosh" logo was created by a graduate design student for \$35 dollars. Even counting inflation, founder and CEO, Phil Knight has to regard this purchase as one of his company's best acquisitions.

QUICK...REACH FOR A PEN!

In the 1950s a French businessman decided that the world was about to enter a "throwaway culture." By focusing on inexpensive, reliable and disposable products he was betting on the fact that his anticipation of this consumer trend could build a business empire. Marcel Bich won his bet.

Bich began his career at 18 selling flashlights door-to-door in Paris. A few years later he went to work for a large ink manufacturer until he entered the French Air force in World War II.

Following the war, Bich and a friend spent \$1,000 and bought a leaky shed where they manufactured ink refills for ball-point pens that were just beginning to appear in France.

At the time, the French pen market was dominated by the traditional inkwell models. Bich was convinced that if he improved the quality and made it affordable he could compete against inkwell pens with a ball-point.

Bich began experimenting with different ball-point designs in 1949. Unlike the ball-points then on the market, virtually all of which were refill-

able, the prototypes that Bich developed were intended to be used only until their ink ran out and then thrown away. The farsighted business man believed that this disposable feature would increase his pen's appeal to the convenience oriented consumer of the post World War II era.

After four years of research and development, Bich finally produced a pen that met all his requirements. The simple stick shaped writing instrument was rugged and dependable; and because it consisted only of a thin plastic tube, a tiny metal ball-point, and a rigid plastic outer tube, it could be made and sold inexpensively. Bich christened his new disposable pen by slashing a letter off his name to create the catchy "Bic."

As its inventor had expected, the Bic pen was an immediate hit with the French public. Three years after introducing the pen in 1953, Marcel Bich was selling a quarter of a million ball-points a day in France.

In December 1958, he entered the US market by acquiring the Waterman Pen company.

Disposable ball-points were all but unheard of here at the time, but the handy Bic fit comfortably into the American lifestyle, and within a decade of its introduction the French product accounted for half of all retail pen sales in the nation, more than one and a half pens for every American.

Encouraged by the success of his pen, Bich test marketed a disposable cigarette lighter in Sweden in 1972. A year later, he introduced the lighter to America, where it challenged the already established leader, the Cricket lighter, made by Gillette. Bic's "Flic my Bic" advertising slogan made it another winning product for Bich. In 1976, Bich brought yet another of his throwaways to America – the Bic razor.

Building a successful business based on customer's throwing away your product demonstrates the power of visionary leadership in anticipating the direction both culture and consumers will take.

Now, what type of pen are you holding in your hand?

Source: *Entrepreneur* by Joseph & Suzy Fucini

CONFLICT (continued from cover)

Negotiated confrontations are, on the other hand, typically a win – win situation. Sadly most people, especially subordinates, choose not to deal with confrontation because they either do not want to hurt someone's feelings or are afraid of retaliation. A useful 4-step approach that we have found successful in reducing retaliation is known as the DESC method. DESC is the acronym for D – describe the actions and behavior objectively (no judgment); E – express your concerns using "I" messages (instead of "you" messages); S – specify what you want or think needs to be changed; and C – cite the consequences, both positive and negative.

Because individuals have different opinions, objectives, values, and personalities, it is easy to understand how arguments, clashes, confrontations, and struggles occur. The DESC method is one way to organize your thinking about how to deal with a conflict. One client reported that it made him sit down and really think about the conflict. This more thoughtful approach helped him realize that the current conflict had nothing to do with the business, but was something he had been carrying with him since childhood.

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The CEOs of many family businesses find themselves at a great disadvantage when the younger computer literate generation "comes aboard." Picture this. Alan Goldstein and John Kirkpatrick, technology writers for *The Dallas Morning News* told the story of a woman calling the IBM Help Center. Calling from home, the woman gave the technician the serial number of her PC. He responded, "I see you have an Aptiva." Before he could say another word, the woman shrieked and dropped the phone, returning moments later to say, "Had I realized you could see me, I never would have telephoned in my bathrobe."

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THE FBI

Several readers called our offices after receiving the fall '95 issue of *RELATIVELY Speaking* and asked for more information on The FBI (Family Business Indicator). Businesses that are family-owned confront many unique challenges. The demands of managing a business in the marketplace and the demands inherent to a family's well being are often in direct conflict. The FBI is designed to measure 7 key areas that business families must address and manage. The FBI is a non-threatening, self-administered, self-scoring assessment tool designed to help identify strengths and potential problems in a family business. The FBI was created in 1994 as a collaborative effort between research psychologists, educators, and business consultants and requires about 15 minutes to complete. To purchase copies of the FBI, see the ad in this issue of *RELATIVELY Speaking*.

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SEEDS OF CHANGE

From the time he was 14 years old W. Atlee Burpee knew what he wanted to do. And what he wanted to do was raise, breed, and sell poultry. At age 17, he had launched a home-based mail order business selling purebred fowl. These he sold, together with two instructional manuals he had written, to fanciers throughout the Northeast. By the time he was 20, he had formed the W. Atlee Burpee & Co., a catalog mail order house selling purebred fowl and livestock.

To provide his customers with the proper feed for their pedigreed animals, Burpee also included several varieties of farm seeds in his catalog. To his great surprise, his customers were more interested in buying seeds than livestock. It was then that Burpee made a critical business decision – one which changed the nature and the future of W. Atlee Burpee & Co. He decided to pursue the seed business aggressively.

Burpee searched both in the United States and in Europe for better specialized varieties of seed, which he introduced in his catalog with great fanfare. Written by Burpee, himself, in a highly entertaining style, the catalog was a source of entertainment (along with the Sears Catalog) among farming families. Not only were the unusual seeds farm tested and described in detail, the catalogue also contained anecdotes about the author's adventures in his search for new plant varieties. Subscribers were invited to enter their produce in company sponsored contests. In every way he could think of, Burpee encouraged his subscribers to participate in the process, and they responded enthusiastically.

One of the critical ingredients of success is the ability to constantly gauge the marketplace and to react accordingly. That means being flexible enough to switch gears – to change the way you do business. The truth to this maxim is illustrated today by the phenomenal success of the W. Atlee Burpee Seed Company.

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FAMILY LIMITED PARTNERSHIP

By Michael Martin, CPA with Belew, Averitt LLP

“The best way to reduce paying estate taxes is to give your assets away before they appreciate.” – Sam Walton

There exists a variety of tax and non-tax reasons for the gloomy family business survival rate highlighted in “Fast Facts.” One significant obstacle to successful family business succession is the repressive federal estate tax structure. Current estate tax laws can reduce a large estate by as much as 60%. An effective yet highly misunderstood technique to transfer a business or wealth within a family and legally avoid some taxes, is through a Family Limited Partnership (FLP).

The name may sound the same but the FLP is not a throwback to the old tax shelter days of the 1970s and early 1980s. For one, your partners are not unnamed investors from throughout the nation. In an FLP, your partners are your own family members. The investments are not New York skyscrapers or Texas cattle herds but may be your own family business or family interests. The potential tax benefits are not multiple tax savings based on deferrals and depreciation. Rather, the tax benefits that are available include estate tax savings and an ability to spread income tax burden among family members. Instead of no authority in partnership dealings, an FLP offers what matriarchs and patriarchs often seek in financial matters: CONTROL.

FLPs are generally established by parents who serve as general partners. Children usually obtain ownership in the FLP as limited partners. This structure allows for continued control by the parents since, as general partners, they establish the operating guidelines for the partnership.

The children become limited partners either through gifting or purchasing a partnership interest. In either case, parents are able to transfer partnership interests to younger generations at a substantial discount to face value. The discounts arise because it is usually difficult to sell a minority stake in a family business (AKA “lack of marketability”) and because a child may have little say over partnership operations (AKA “minority discounts”). With both minority and marketability discounts considered, it is not unusu-

al to enjoy a legal 25% to 35% discount on intra-family transfers.

One well known and highly publicized user of the FLP opportunity was the Walton family, Sam and Helen, of Wal-Mart Stores. Wal-Mart grew out of

a family partnership that was established early in the Walton’s business career. At the time of his death in April 1992, Sam Walton owned just 10% of the family Wal-Mart stock. Mr. Walton was quoted as saying, “The best way to reduce paying estate taxes is to give your assets away before they appreciate.” Although the numbers are not the same as those of Sam and Helen Walton, follow this simple example:

Joe and Sue were each 50% general partners of ACME, a partnership valued at \$3 million. They have five children and have established a Family Limited Partnership in order to pass the business ownership to their children. In this FLP Joe and Sue remain as the general partners, each retaining 20% ownership interests. They gift the remaining 60% of the business equally to the children in the form of five family limited partnership interests of 12% each. The face value of the gifts is \$1.8 million (60% of the original \$3 million). However, due to minority and marketability discounts, a discount rate of 35% is proposed, thereby reducing the total gift to \$1.17 million. Using their available unified credit amounts of \$600,000 each, Joe and Sue can transfer 60% interest in the business with no transfer tax costs. Meanwhile, Joe and Sue remain as the general partners and retain control of ACME.

If, as either a business owner or an individual of wealth, you wish to reduce your estate and transfer taxes yet want to retain control and, as an added benefit, receive some asset protection from creditors, an FLP may be an important tool in creating your family’s wealth transfer plan.

If you would like more written information on Family Limited Partnerships, put FLP on the Boomerang Card and return to REGENERATION Partners.

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