RELATIVELY SPEAKING

A Publication of ReGENERATION Partners
May 1996
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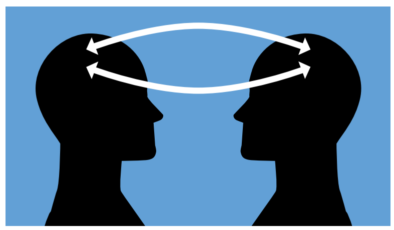
INSIDERS' VIEWS OF FAMILY BUSINESS

THE GOLDEN RULE BROKEN



At a very early age we are taught the virtue of the Golden Rule. "Do unto others as you would have others do unto you." Sound advice. And if everyone guided their daily life with this rule, we would all live in a better, more peaceful world. Does this rule, however, apply to a family business?

Since ancient times philosophers have tried to understand human behavior and categorize personalities. Categorizing or "typewatching"as Carl Jung, the Swiss-born psychiatrist preferred, dates back to the 1920s when he boldly suggested that "human behavior was not random but was in fact predictable and therefore classifiable." Jung believed that differences in behavior are a result of preferences, which form the foundation of one's personality.

In case you think this column is headed in the direction of a theoretical treatise on Jungian psychology – relax. The thrust of this article can be stated simply: In a family business different personality types are an inevitable fact. Understanding how these various types interact will enhance communication and strengthen the business.

Have you ever encountered someone that is highly perceptive, that "tunes-in" and "reads" other people's sensitivities and vulnerabilities? Salespeople sometimes describe this skill as "picking up on other people's hot points." Undoubtedly, you have also known individuals that are blind to how they come across and present themselves. These people often lack the sensitivity to read even their own human environment.

This first personality type knows and understands themselves better than others. Because of this, they are usually in a position to control, lead, or even manipulate others. The second type of individual, however, is in a more precarious position, says Dr. Michael Cofield, (*Integrated Cognitive Restructuring*, 1996). "If others understand you better than you understand yourself, you may become enslaved by them."

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The purpose of understanding these and other personality styles is to reduce or eliminate communication hazards. Categorizing is a judgment free way of explaining normal behavior. In this context, it is very important to understand that no categories or types of personalities are better or worse, good or bad, or right or wrong – only different.

Otto Kroeger with Janet Thuesen, in their useful (and mandatory for OD and HR professionals) book, *Type Talk at Work* (Tilden Press, 1992) demonstrate that typewatching celebrates these differences and that doing so is constructive, and not a means to create strife.

Effective organizations have learned to appreciate different "types." Organizations with the good fortune of having several types view differences as a strength and as an opportunity to cultivate a strong team with synergy. A number of very effective tools are available to objectively classify and type personalities. The Hartman Values Profile, The Myers-Brigg Type Indicator, as well as several DISC scaled instruments (Cleaver, Performax, HumanSide) are the most common and are available through many professional psychology practices and full service consulting groups.

Although each of these indicators use their own terminology for classifying personality types, the DISC instruments are readily available, simple to administer, quick to score, and have time-tested interpretations. DISC is the acronym for:

D	DOMINANCE
I	INFLUENCE
S	STEADFASTNESS
C	COMPLIANCE

Let's say, for example, that through the use of a DISC instrument your profile indicates that you are "High Dominance." This is not uncommon in a family business. After all, someone has to have the ideas, get the ball rolling, push for change, and when necessary, blast through the bureaucracy.

But can you do it alone? Probably not. (If you are truly high dominance, you're probably upset now.) High dominance people tend to be less concerned with how others feel and are less apt to follow through with details. To enhance your personal strengths, you will probably need help from several people. You will want a "High Influencer," someone to sell your ideas and make people feel good about new ideas and changes (very important during restructuring and downsizing). You may also need someone that is very steady and "High Steadfast" to perform the work and follow through with projects to completion. And as a part of your team, you may also benefit by having an individual with "High Compliance," someone to ensure that the work is done right, according to specifications.

(See GOLDEN RULE on inside flap.)

READERS' REPORT: CONSULTANTS

By James Olan Hutcheson

Many, many thanks to all our readers and clients that took the time to write, fax, and e-mail us with their comments and ideas. Your vote of confidence is spiritually uplifting and has swelled some heads around our office.

Several of you wrote in and told tales of your experiences with consultants. Some of the letters were serious, but most were "tongue in cheek." Having just finished the highly entertaining and reflective, *The Dilbert Principle*, by Scott Adams (Harper, 1996), I was amazed at how similar some of the letters we received were to those of the comic strip characters, Dilbert, Ratbert, and Dogbert. Dilbert, a syndicated comic that appears in my local newspaper, *The Dallas Morning News*, is based on the idea that *"The most ineffective workers are systematically moved to the place where they can do the least damage – management."*

Consultants, like lawyers and politicians, are easy fodder for humorists. In truth, it's hard to argue against this fact. Dilbert says *"A consultant is a person who takes your money and annoys your employees while tirelessly searching for the best way to extend the consulting contract."* A reader from Arizona shared the story that their family business had hired two consultants during the past three years. I quote, *"It seemed as though we were paying these guys and not much would happen until the contract started to draw to a close. That's when they jumped into action and discovered something that (they believed) required extending the contract."*

Many of us, at one time or another, have retained outside professional help for our business. Although much has been written on "How to Hire," the starting point when hiring an advisor is to determine what you, your family, or business desire as an outcome. Knowing who to hire and retain is the first and most important step toward achieving positive results.

Consultants are typically hired on three criteria: industry knowledge, business experience, or professional expertise. A consultant to family businesses must also bring the additional qualification of professional training in family systems.

David Bork (et al.) in their recent book, *Working with Family Businesses* (Jossey - Bass, 1996), differentiates consultants as either expert or process. Expert advisors *"practice their professional role as it was learned in professional school, offering knowledge for the family to use as they see fit."* Process consultants, on the other hand, help families make their own decisions by teaching people how to do things for themselves.

There is another class of advisors that Bork neglected, but which our readers wrote about. Around here we call them the Lucies; after the ultimate advice giver in the *Peanuts* comic strip. Exhorting Charlie Brown, the pitcher, to strike out the batter, Lucy yells "win one for a change." Yet when the batter hits the ball to center field, Lucy makes no effort to catch it. Charlie Brown asks in astonishment, "If you are so interested in winning, why didn't you try to catch the ball?" Replies an indifferent Lucy, "My role is strictly as a consultant."

Finding the right fit for a consulting engagement is critical to the desired outcome. If you would like some straight talk on hiring consultants, put "hiring" on the boomerang card and return it to us. We are happy to provide more detailed reprints and referrals.

Every business we deal with is undergoing change and transformation in one form or other. We send you our newsletter to introduce our services to you and to give you a sense of our understanding of the family business system.

Our commitment as a firm is to serve our clients well with the latest information on the issues uniquely related to family-owned businesses. Please call if you have questions about our services, or if you would like to discuss your needs.

Almost forgot, we received about 45 guesses to Dan Pryor's brain twister, "What's the next letter in the pattern A, E, F, H, I, K, L, M...?" The answer is N. It's the next letter in the alphabet that uses only straight lines.

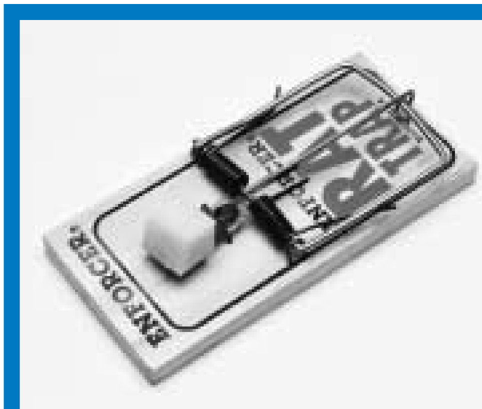
FAST FACTS

"The Garland Rule"* Explained – Grandfather established a trust for the benefit of his grandchildren in 1950 with one million dollars. Not forgetting his own child, Grandfather also installed a provision in his will that allows his child to withdraw either 5% from the principle each year or take the annual income. If you consider inflation at historical rates and taxes at prevailing rates for the past 45 years, with a 60% stocks and 40% bond portfolio. Here is what you have in 1995:

	1950 Budget (Income)	1995 Budget (Income)	1995 Value ($ Mil)	1995 Value (Real)
5% of Assets	$50,000	$21,000	$4.1	$624,000
Interest & Dividends	37,000	25,000	8.4	1.3 Mil
Garland Rule	33,000	42,000	14.9	2.3 Mil

*Garland Rule Adapted – Stock dividends plus bond interest less inflation. Money not spent in early years compounds financial benefits.

Source: Financial Analysts Journal



Some of the catchwords in business today are *vision, re-invent, change management,* and *re-engineer.* Businesses that ignore them do so at their own peril.

Family-owned businesses have a few catch-words of their own. Some of our words are *conflict resolution, succession planning, strategy for growth,* and *transition management.* Knowing the full list of catchwords may keep your family-owned business from getting caught.

SNIPPETS

"You Don't Get a Second Chance to Make a First Impression"

Nowhere is business professionalism and etiquette judged more harshly or quickly than the answering and handling of phone calls. Presidents and CEOs of many firms draft memos instructing employees how to answer, handle, and return calls.

The "Telephone Doctor," aka. Nancy Friedman of St. Louis, teaches workshops on avoiding *The Five Forbidden Phrases*: "I don't know, We can't do that, You'll have to, Hang on a second, I'll be right back, and No." To Friedman, polite use of the telephone is not just a business; it's a crusade.

Ace Greenberg, Chairman of Bear Stearns, frequently writes memos to his subordinates instructing them to believe in his passions, one of which is returning phone calls. He writes in his recent book, *Memos From The Chairman* (Workman, 1996), *"An associate of ours who retired in 1990 had asked our personnel department for some information and she wrote me a letter and told me that they did not answer her many inquiries. A former registered rep in San Francisco said that the compliance department of Bear Stearns did not return his calls. A registered rep in Los Angeles called me and told me a client of his had called the mortgage operations in Dallas and a young lady there did not return his calls. It is hard to believe that with all the emphasis we have put on the importance of returning phone calls these three incidents should surface on one day.*

"There are usually three sides to every story, but it was hard for me to find the side that puts our people in the right. I spoke with the areas in Bear Stearns that seem to be less than perfect and I hope I ruined their weekend because I tried very hard to.

"Do you realize what a negative effect not returning a phone call has on an associate or a client?

"Using the English language as a prod has not worked. From now on, fines will be levied on lazy, inconsiderate non-phone call returnees. Please inform the people who work with you of this new policy."

BOOK ReVIEW

PAINFULLY RICH
The Outrageous Fortune and Misfortunes of the Heirs of J. Paul Getty
by John Pearson (St. Martins Press, 1995)

Can money really buy happiness? Not according to John Pearson. In his wonderfully researched five-star account of the infamously wealthy J. Paul Getty and his tormented offspring, Pearson connects family tragedies and opinions to conclude that the riches of the Getty family were *"probably the most destructive major fortune"* and *"brought only misery and havoc to the heirs."*

The enigmatic J. Paul Getty, born to working class devout Christians in Minnesota, joined his father's oil business, Minnehoma (named for Minnesota and Oklahoma) in Bartlesville, Oklahoma. Being an only child (J. Paul's sister died prior to his birth), it was taken for granted by his father that Paul would succeed him in the management and ownership of the rapidly expanding and highly successful family oil business.

Believing that his financial future was securely in front of him, J. Paul "let loose" his uncontrollable sexual desires, traveling throughout Europe and the United States seeking his next conquest. *"Not only did he like young virgins, but being very rich he could afford them. They flattered his ego, kept him young, and were far less exacting in their expectations than were older women. (Living life exactly as he wanted, Paul was never very sympathetic to the emotional demands of others.) An important factor in his sexuality, this taste for Lolita-style nymphets, was also a cause of many subsequent dramas and disasters in the family."*

It was this demonstration of character that led Paul's father, George, to effectively disinherit him and give control of the Getty oil interests to the executors of his estate. This shocking blow was a grave setback to Paul and precipitated a lifelong quest to gain his dead father's approval. Pearson, quoting sources, believes it was this insatiable desire that motored the engine of the J. Paul Getty Enterprises.

The business side of J. Paul Getty was no less unorthodox. He managed his multinational companies not from a sleek, well appointed office, but rather from hotel bedrooms and through switchboard operators. Later, after his business interests had established him as the richest living American and one of the wealthiest men in the world, J. Paul hired the infamous, Claus Von Bülow to manage and direct the companies as his new Chief Executive Officer.

In 1957, the children had reached an age where J. Paul felt that they could now be useful to the family business. One son, George, was placed as vice-president of the Getty owned Tidewater Oil. Another son, J. Paul Junior, married and with the namesake child, J. Paul Getty III, asked his half-brother, George, who he barely knew, for a job. George responded with a job of pumping gas at a nearby Tidewater station. George could now drive by and see his unwelcome 26 year old half-brother, in his crisp white trousers, neat white hat, and shiny black bow tie servicing cars.

Paul Jr.(nee Paul II) received an unexpected phone call from his father in 1958 and shortly thereafter, ascended from Tidewater "pump jockey" to general manager of Getty Oil Italiana. Paul was *"an unsuitable young man to place in charge of anything, particularly with no experience of management. But none of this counted with his father. Paul was his son, and any son of his should find running a company a picnic."*

The legend of J. Paul's pecuniary beliefs are well documented with the telling of the tragic kidnapping of his grandson, J. Paul Getty III. Bandits demanded \$17 million in ransom from J. Paul. He would have "none of that" and refused to get involved. Only after five months of negotiations, that included an ear, J. Paul agreed to pay \$2.2 million, the tax deductible (a casualty loss) part of the ransom. The remaining \$1 million of ransom he loaned to the boy's father, his son, at the 1973 preferred rate of 4%.

Decadence. Greed. Dysfunction. Combine a successful business with a family rich in avarice, anger, lust, jealousy, and a *"gluttonous appetite for booze and drug addictions."* Throw in a supporting cast that includes the likes of Mick Jagger, Queen Elizabeth, and Jack Dempsey, and you have the material for a first-rate crossover between *People* magazine and a non-fiction business history book. John Pearson will not disappoint as you turn the pages of *Painfully Rich.*

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SNIPPETS

Wouldn't we all like to have this problem? Personal and business planning is important and when it comes to your Individual Retirement Account you are well advised to seek professional planning help. For those lucky souls that accumulate significant wealth in an IRA, the tax rate upon death could exceed 90%. Here is what could happen to an overfunded IRA if no planning occurs: Estate tax 55% to 60%, Income tax 25% to 30%, Excise tax approximately 6% (above $1.5 mil) for a total tax bite of around 85 to 95 percent. Here is an example:

IRA Value		2,500,000
Less:	Estate	1,425,000
	Income	687,500
	Excise	150,000
Net to Heirs		$238,000
Tax Bite to Heirs		90.5%

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ReLATIVELY Speaking is published quarterly by ReGENERATION Partners with a circulation of over 4,300. It is dedicated to addressing the concerns of family-owned businesses. Its contents are intended to provide information only and is in no way to be construed as legal advice.

GOLDEN RULE (Continued from cover.)

Founders and CEOs with "High Dominance" tend to lay awake at night dreaming about how they are going to change things. They are impatient and want it now. Subordinates with "High Compliance," however, tend to stay awake at night dreaming of ways to stop change. They want more time, more data. Too often, CEOs surround themselves with people that are just like them. Hiring "mirror images" is not only a warning sign of a bad hire, but usually leads to "blind spots" which invariably have a negative impact on the organization.

Although you will seldom find any consultant encouraging you to break the Golden Rule, you may, after determining your management team's personality types, discover that effectiveness in a business often comes from treating people the way they want to be treated rather than "doing unto others as you would have others do unto you."

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GENIUS IN WORK CLOTHES

Born in Milan, Ohio, in 1847, Thomas Alva Edison's first schoolmaster pronounced him the equivalent of "ADHD" – attention deficit hyperactive disorder. Alva's inquisitiveness and excitement were mistakenly thought to be inattention and retardation. After only three months of formal education, Edison's mother began teaching him at home, stressing exploration and experimentation.

Declaring himself independent at twelve years of age, Thomas began working for a railroad line selling food and a newspaper that he published. At age 16, he took a job in Canada as a telegrapher. His job was to signal Toronto every hour, but he quickly discovered that his task was a needless waste of time. In response, Thomas came up with his first invention – a gadget rigged to issue an hourly signal automatically.

AN AMERICAN PROFILE

By age 21, Edison had developed a pattern that continued throughout his life: working 16-plus hour days. He made his public debut as an inventor with an electric vote recorder that he intended to sell to Congress. Despite no apparent success, Edison placed a notice in *The Telegrapher* announcing, *"T. A. Edison has resigned his situation in the Western Union office, Boston, and will devote his time to bringing out inventions."*

Within a few months, the penniless Edison invented the printing-telegraph, an improved stock ticker that earned him $40,000 in 1869. Eventually this allowed Edison to set up his famed workshop in Menlo Park, New Jersey, in 1876. Here he created an invention factory that required his staff to commit to the same workaholic intensity that he maintained. Just one year later, however, their efforts created the first talking machine – the phonograph. The press immediately dubbed Thomas, *"The Wizard of Menlo Park."*

Edison soon reached worldwide fame with his next invention, the incandescent electric light. When Edison started his lighting research, indoor lighting required the burning of candles, coal, gas, or kerosene. The market for more practical lighting was there, and Edison went after it. He developed a properly shaped bulb, a filament that glowed without breaking, a pump to create a vacuum in each bulb, a manufacturing process for production, and a system to supply electricity. Edison's work with light bulbs eventually led to the creation of the General Electric Company, and attracted as a partner, the billionaire, J. P. Morgan.

There were, of course, other inventions: the first practical telephone, the modernized typewriter, motion pictures, storage batteries, and more. For all this, the public proclaimed Edison *"The most useful American."*

Whenever Edison was asked what accounted for his success, he remarked that the formula consisted of "genius, that was one percent inspiration and ninety-nine percent perspiration." A formula that today we might call "genius in work clothes."

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A HOME FOR YOU AND YOUR HEIRS

By Michael Martin, CPA with Belew, Averitt LLP

"What to do with an individual's home?"

A common problem for estate planners is "What to do with an individual's home?" The answer, for some, may be a Qualified Personal Residence Trust (QPRT).

Creating a succession plan requires business owners to make a commitment to estate planning. A common planning issue for those families that have multiple housing is how to minimize or avoid estate taxes on the their residences. In 1990, Congress provided a partial solution with the QPRT.

This residence trust allows an owner and spouse to give one, two, or even three homes at greatly reduced gift and estate tax costs and, at the same time, shift future appreciation in the home to their beneficiaries. The best part is that the parents are able to continue living in their home(s) as long as they wish.

To utilize this benefit, a trust must be established which includes a clause that requires the parent to outlive the trust term. If the parent does not survive the end of the trust, the gifted home is returned to the parents' estate and included in their overall tax obligations.

The potential tax savings, however, are significant. For example, if a donor at age 60, in the 55% tax bracket, establishes a QPRT with a home valued at $500,000, the savings amounts to about $350,000. This calculation assumes a trust term of 15 years with an annual appreciation of 3%. If the parents happen to have a vacation home in one of the "hot" areas (i.e. Wimberley, TX, Telluride, CO, Jackson Hole, WY) that is experiencing rapid appreciation and growth, the savings are potentially even greater. A bonus feature of this trust allows the parent to continue realizing the income tax benefits of home ownership by deducting real estate taxes and mortgage interest.

Establishing a residence trust is a relatively straight forward and simple legal process. Most attorneys are familiar with residence trusts, and if yours is not, any estate planning and succession attorney will know what to do. (If not, find a new attorney.) The cost will range from around $2,000 to $4,000, possibly higher in some areas and for more complex estates.

Although the residence trust sounds like a sure winner, be careful not to isolate this one opportunity without considering your entire estate. Minimizing tax burdens requires a comprehensive review and clear objectives. If, however, one of your objectives is to continue enjoying your personal residence while reducing estate taxes, then a Qualified Personal Residence Trust is an excellent option.

If you would like more written information on Qualified Personal Residence Trusts, put QPRT on the Boomerang Card and return it to ReGENERATION Partners.

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