

A BRIDGE OVER TROUBLE

They may only exist as a footnote in the annals of business history books, but Ernest Breech and Thomas White have possibly occupied the most meaningful of all management and leadership positions in a family-owned business. Ernest and Thomas were interim managers or bridge managers in the family-owned businesses, Ford Motor Company and Crane Papers, respectively.

When Edsel Ford passed away unexpectedly at an early age, Henry Ford, the founder of Ford Motor Company, re-entered the family business at age 80. After a short struggle for control, Henry agreed to grant control to his grandson, young Henry Ford II, who at age 28, became one of America's most powerful young business leaders. Henry II's wisdom surfaced when he recruited Ernest Breech to serve as his mentor and *de facto* bridge manager until he became savvy enough to assume full control of a multi-billion dollar enterprise. Once confident in his own capabilities, Henry II removed Ernest and signaled to the organization that he was now its sole leader.

Before Henry II passed away, he recalled with high praise the Breech-Ford partnership, "*He was really the chief, and I was watching and learning, hopefully. He knew a lot more than I did and so the major operating decisions, he made them.*"

One of the most difficult decisions family businesses face in times of need is whether to place a person from outside the family into the ranks of senior leadership. Bridge managers are usually summoned in five scenarios:

ONE – During a time of an unexpected dramatic change in the business.

TWO – As a result of an untimely departure or death of a senior executive.

THREE – An heir receives the call to assume the

leadership position before they have built their toolbox of management skills and experience.

FOUR – When family members are fighting for control and devaluing the business in the process.

A bridge manager that understands the unique issues of a family business may step in until the conflict is resolved.

FIVE – When the owners and directors decide to place a non-family CEO or president and are having difficulty choosing the best matched person for the job. Often in these situations the owners may "road test" a bridge

manager with the possibility of offering the candidate a permanent position.

Sometimes the call is easy. Quantum growth or the decision to go international are prime situations that may force a family-owned business to look outside for management help. There are however, many other times in the life of a family business when the decision to open the management ranks to outsiders is more difficult.

The question facing family businesses of all sizes and stages of development is how to address the issue of importing outside leadership without losing control of the business or causing strife. Consider the following ideas if hiring a bridge manager is a possibility in your family business.

First, get good counsel. Good counsel will help every family member see the situation in an objective light. Advisors who specialize in the dynamics of family-owned businesses can be valuable guides to help everyone involved to evaluate the situation and analyze the options. Outside counsel can also help family members come to a consensus on the course of action they should take. By deciding exactly what kind of leadership and expertise is needed, the family can develop a better understanding of what is required and shape their expectations accordingly.

Next, take time to make sure the "fit" is right. The understanding that a non-family leader must have access to family secrets as well as an insider's view of the business suggests that the candidate have credibility not only with employees but also with family members. The family should provide the newcomer with a clear set of expectations and a well defined system of accountability. Doing this at the onset should prevent major misunderstandings and help the individual understand what is expected.

Finally, understand that things will be different. Change of any kind causes anxiety and since bridge managers are often called during times of change, you can expect some organization

(See BRIDGE on page 4.)

"He was really the chief, and I was watching and learning, hopefully. . ."

SHOULD WE CONSIDER OUTSIDE LEADERSHIP

- Special knowledge could help us grow in the next few years
- Our leadership succession is set into the foreseeable future
- Our family business wants to take some dramatic steps toward growth
- There are questions about who is going to become CEO of the business
- Our family is aware of a leadership gap in the future
- We are considering changing our core business
- Our family business is considering going public
- Conflict among family owners is depressing the value of the business
- We want to expand our business into international markets
- Current family leadership lacks non-family business experience

TIME TO ReENGINEER YOUR CAREER?

Lifetime employment is not guaranteed in any business: family or otherwise.

"I never thought I would leave the family business." says the 46 year old unemployed heir of a \$20 million Texas based light manufacturing and distribution company. "But when Dad got an offer to sell, he took it; and the new owners replaced me with a new CFO within a week. It was only then that I discovered that my skills and experience were not enough to compete at the same level in the open market."

I am sure that most of us can quickly identify someone that grew up in the family business working weekends, during vacations and throughout the summers as a child then after completing school, joined the business full-time. These individuals are typically very enthusiastic and dedicated and frequently know their business intuitively. Often they see things that effect the business before they occur. Working in the family business for these individuals is a liberating and fulfilling experience. However, they may become so specialized that they lose sight of a "bigger picture." Their expertise may become "100 miles deep but only an inch wide."

Lifetime employment is not guaranteed in any business: family or otherwise. Too often family members assume that because they are family, they are protected and will therefore have lifetime employment. Reality, however, tells quite a different story. Statistically, only about 1/3 of all family business survive during the 1st generation and only 10% ever suc-

cessfully transfer into the third generation. Family members dependent upon a family business for a career should understand the importance of these facts as they plan for their long term career.

John Thompson, chairperson of IMCOR, in his book, *The Portable Executive* (Simon & Schuster, 1995) writes that *"The only job security these days is one's marketable skills and experiences."* Thompson adds that to gain these skills, *"... all employees must become independent, self-directed, portable and must continually update their skills."*

Ed Elkins, formerly with a family business and now a corporate strategic planner with Texas Utilities, sent us the following regarding one option to updating and enhancing skills.

DESIGNED FOR EXECUTIVES

The executive MBA is a special degree program designed for working managers and executives with 10 years of significant management experience. It is offered by over 120 top universities in the U.S. and abroad. The format is designed for the professional who will continue working full-time. Typically, classes are held all day one day a week, or two days every other week. The program I attended at SMU's Cox School of Business followed the latter format.

SAME but DIFFERENT

In many ways an EMBA is like a traditional MBA. It requires the same academic rigor, is taught in the same schools, and results in the same degree. It also includes the same disciplines – finance, accounting, information technologies, marketing, and strategy. In

many other ways, however, an EMBA is different. Participants are all busy managers or executives who hold important full-time career positions and they are obviously very serious about improving themselves.

Everyone goes through the program together – the same classes, assignments, etc. – and there are team projects, which for some of my family business classmates, was their first experience at handling themselves on a level playing field with their peers. As you might imagine, these teams can be quite powerful, sometimes including a real CEO, CFO, marketing director, or director of human resources. Classroom discussions often become heated debates as there is usually an expert in the room no matter what the subject. Another EMBA bonus is the faculty – it attracts the top professors – those who are willing to lay it on the line with a group of successful business executives.

DEMANDING

An EMBA is not a way to buy an advanced degree. In many ways these programs are more demanding than the traditional MBA programs. You can expect to commit 15-20 hours each week in addition to class time, work, family, and social life. It requires a big commitment and the support and understanding of your entire family. Although most students are sponsored by their firms, others pay a portion or all of the costs.

RETURN ON INVESTMENT

While the demands are great, these programs create excitement and energy which provide an extra career boost. To those who persevere, the benefits are tremendous: an expanded vision of the marketplace, new skills, sharpened analytic abilities, confidence, respect and most importantly for working family members that have never worked outside the family business, an opportunity to see and study how others approach similar responsibilities.

The EMBA is not for everyone. However, if you are already a successful business person who wants to prepare for the business challenges in the future, an EMBA may be a part of your solution. Working under the "mentoring wings" of Mom and Dad in a family business certainly has its rewards. But career management is a continuous process and is for the long term whether it is in bringing value to your own family business or to another potential career. Southern Methodist University graduate, Eckhard Pfeiffer, president and CEO of COMPAQ and University of Chicago graduate, Richard Teerlink, CEO of Harley-Davidson, are among the thousands of graduates that saw the EMBA as a career enhancing experience.

To receive a comprehensive directory of Executive MBA programs, contact the Executive MBA council, c/o AACSB, 600 Emerson Road, Suite 300, St. Louis, MO 63141-6762.

READERS ReSPOND

From Henderson, Kentucky – My husband I both work full time in the business my father, mother and uncle formed 33 years ago. Annual sales are around \$3.5 million. *ReLATIVELY SPEAKING* is about the only resource we currently have with information relative to family businesses. How can we get help without paying for expensive consultants?

There are about 75 university based family business centers in the United States. Most of these offer programming, forums and newsletters for a very modest fee. Note: Expensive is relative. You should look for value in a consultant. If a consultant helps build positive communications and relations for the family members, you have probably received value that is well worth the cost of hiring a consultant.

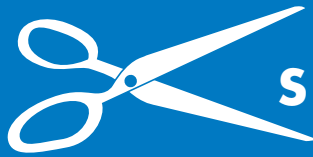
From Dallas, Texas – Our family business has made the successful transition from second to third generation. We now have fewer family members in key management roles and an outside board of directors. When we made the changes, we also started a family board of advisors. The family board meetings are usu-

ally very heated and sometimes look like a hockey game. Last meeting I took the article, [Nine Habits of Highly Successful Communicators](#) with me and asked everyone to read it and try to follow the suggestions. We had the most productive meeting ever, and all went out afterwards for dinner for the first time in three years.

Glad to hear the value of a ReLATIVELY Speaking article. Any readers that missed that article can get a copy of it by putting "Nine Habits" on the boomerang card and returning it to ReGENERATION Partners.

From Phoenix, Arizona – After 10 years of hearing about the alternative minimum tax (AMT), I finally understand. Thanks for clarifying what others seem to get bogged down with details. I do have one question though. If I have tax free municipal bonds in the amount of, say \$6,000,000, and earn all of my income from these munis, am I still subject to paying a tax?

Unfortunately, yes. You are exactly the reason the legislators revised the tax codes.



SNIPPETS



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.

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FROM THE FAMILY . . . Keys to Better Relationships

"Be humble," says Bill Marriott, owner of the family owned Marriott hotels. Bill shares his belief about the 21 most important words: I admit that I was wrong, YOU did a great job, WHAT do you think, COULD you please, THANK you, and WE. The least important, (you guessed it) I.

It's an old song but one that needs hearing again. "Failing to plan is planning to fail." One of the "seven deadly sins" in a family owned business is failing to plan and according to a recent survey by Roper, affluent Americans are not taking the necessary steps. About 3/4 of respondents said they had planned financially for their estate, less than half (46%) had provided for a power of attorney, 43% have a living will and only 35% of affluent adults have established a trust.

At ReGENERATION Partners, we try very hard to have people refer to us as specialists with family owned and managed businesses, not EXPERTS. After all it was an expert that said Vince Lombardi "possesses minimal football knowledge and lacks motivation." Authors Jack Canfield and Mark Hansen, in their book, *Chicken Soup for the Soul*, point out that the expert teachers of famous opera singer Enrico Caruso said Caruso had no voice and could not sing and that Beethoven was "hopeless as a composer."

If you ever feel like you are not making progress in the family business, consider these examples before you throw in the towel. Walt Disney was fired by a newspaper for lacking ideas. Eighteen publishers turned down Richard Bach's manuscript, *Jonathan Livingston Seagull*, before Macmillian took a chance and published the tiny book that to date has sold more than 10 million copies in the United States. A MGM internal memo from a director said, "He can't act, is slightly bald and can dance a little." Fred Astaire framed the original memo and kept it over the fireplace in his Beverly Hills home.

BOOK ReVIEW

FOUNDER:

A Portrait of the First Rothschild and his Time

BY Amos Elon (Viking Press, 1996)

Few names around the globe evoke the image of great wealth, influence and power as forcefully as the name, Rothschild. And yet to understand the patriarch Mayer Rothschild's remarkable beginnings brings an entirely new definition to the idea of "rags to riches."

Born in the walled section of Frankfurt, Germany, known as the Judengasse (ghetto) in 1744, Mayer Rothschild (translated: Red Shield) began learning early in life of oppression of Jews. Frankfurt, one of the worst cities in all of Europe in its treatment of Jews, locked the residents of the ghetto into their walled city each night and on Sundays.

Unable as a Jew to work in certain trades or to own property, Mayer's father became a money changer. This was an important job since every prince had his own currency. Mayer became fascinated with coins and at age 13 became an apprentice with a local banker. At the age of 25 Mayer gained the appointment as a court agent for a prince.

His wife, Guttie, bore him 10 children to fill the already cramped ghetto house. As his five sons,

Anselm, Nathan, Jacob, Salomon and Calmann became of age, each joined their father in the currency business. Mayer's business endeavors became so successful that he was considered one of Europe's wealthiest men. Eventually, each son would leave their home in the ghetto and fan out to the other major capitals of Europe to start new banking businesses. Mayer and his wife however, would remain living in their ghetto flat until their death.

Concerned for the future of the family businesses Mayer, in his will, set forth a strict patrilineal standard by proclaiming that only sons could own and manage the family banks. Equal rights for women was an oxymoron during Mayer's day, and still today, the Rothschild women are confined to second class status in the family businesses.

Much has been written about the Rothschild family including several autobiographies. However, until publication of *Founder*, little attention had focused on the proud father and his life; but with this highly readable 170 page book, the patriarch of the dynasty can assume his rightful place in business history.

Now, with the recent sensational suicide of the sixth generation heir, Amschel Rothschild (found hanging from the towel rack in the bathroom of his suite at the Bristol Hotel, Paris), more is sure to come.

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BRIDGE (Continued from cover.)

anxiety. Preparing everyone involved for change is important. Letting go of control is perhaps the most difficult part of bringing in outside leadership. For leadership to be effective, the communication process should be open both ways: Family to newcomer and newcomer to family. Anxiety will decrease as trust increases.

As a third generation family president of a \$25 million West Texas distributorship said concerning his non-family predecessor, "He was absolutely the best thing that ever happened to this business. We hired him for what we thought would be about three months after Dad was killed in a car crash, and he ended up staying almost two years. After Dad died, my brothers and I each struggled for control."

"He was absolutely the best thing that ever happened to this business. . ."

While in conflict, the brothers could not agree to a direction for the business. One brother wanted to sell but was angry that the fighting was devaluing the company. The other brothers each believed they were the rightful heir to the business. "Our solution was

to hire an outsider. We didn't stop fighting but he helped us realize that the position was really a job and needed to go to the someone willing to work for it. My brothers lost interest after six months of having to work, and I kept him on to help me become more effective. My brothers and I did agree to invite him to join our new board."

When the swirling waters of crisis or competition threaten to destroy a family business, finding someone to bridge the flood can make a life or death difference. The decision to open the family circle to include someone from outside the family can create tension, but it need not be so. With the decision goes the possibility of the infusion of new ideas, insightful problem solving, and a dynamic new leadership equation that can catapult the business to new levels of success.

Like bridges that span the raging waters of a river, bridge managers can make the transitions over the rapids of change in business smooth and safe. As with Ford Motor Company and Crane Papers, bridge managers helped keep both the family and business healthy.

LEADER (Continued from flap)

motorcycles, thus buying the team enough time to completely remake their company.

They studied their Japanese competitors and concluded that Harley-Davidson had to play the game the way the Japanese did. By granting middle managers and line workers greater decision making power, then adapting the American inventions of Just in Time Inventory, Employee Involvement, and Statistical Quality Control, the company soon turned the corner. However, the Hogs still had a credibility problem. Known for leaking oil, inadequate electrical and braking systems and generally poor craftsmanship, managers decided that they needed new designs and some intense marketing. The founder's bearded grandson and long time design chief Willie G. Davidson led the charge as they marketed this new and improved product to their extraordinarily loyal, die-hard customers. The new owners began to remark, "It's amazing the difference. They don't beat you to death anymore, and your kidneys are still intact."

Though Harley-Davidson is no longer a family-owned business, Willie G. is the cultural torchbearer for the company. He never lost sight of what made them great: people weren't just buying a motorcycle; they were buying the Harley experience.

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LEADER OF THE PACK

Hogs. Fat boys. Soft tails. Leather jackets and suicide clutches. Few business marketers have tied their products with a lifestyle image better than William S. Harley and Arthur Davidson from the time they built their first motorcycle in 1903 – the same year Henry Ford formed his motor company. By 1920 the Harley-Davidson Company had sold 28,000 motorcycles. Yet the popular (and now affordable) automobile took the first bite out of Harley



Davidson's market, and by 1913 only two of the several dozen American motorcycle manufacturers remained.

In an effort to raise funds during the Depression, Harley-Davidson sold the rights to manufacture its bikes in Japan to a pharmaceutical firm. Though this deal saved the company, it unwittingly laid the

groundwork for competition that would nearly kill America's sole surviving motorcycle manufacturer forty years later.

Fortunately, Harley-Davidson had become an American institution. With appearances in cult movies such as *The Wild One* and *Easy Rider*, Harleys were cultural icons. The ungainly "Hogs" had a distinctive macho roar, and the bikes attracted leather-clad rebels who loved its bad-boy mystique. In 1969 American Machine & Foundry Co. (AMF) acquired Harley-Davidson.

As of 1974 Japan had not threatened the heavyweight (750 cc) or super heavyweight (850 cc) class that Harley-Davidson dominated (though Honda, Kawasaki and Yamaha had successfully exported their lightweight motorcycles to "nice people" in America for years.) Harley-Davidson grew complacent as quality control got lost in the AMF maze. By 1980 more than 50% of the "Hogs" rolling off the assem-

bly line failed inspection (while only 5% of Japanese bikes missed their mark). One biker magazine noted that *"some of the hardware found on Harley-Davidsons looked as if it were hammered out of iron ore by rock-wielding natives along the shores of the Milwaukee River."* Yet shoddy quality didn't impact sales until 1981 when Japan finally took aim at the heavyweight market.



As AMF sought a buyer for the floundering Harley-Davidson division, senior manager Vaughn Beals enlisted twelve fellow executives to rescue Harley-Davidson in a leveraged buyout. They quickly persuaded Washington to impose a temporary tariff increase on Japanese

(See LEADER on page 4.)

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Henry James Pillows, our mythical family business owner, has celebrated his 75th birthday and has decided "mandatory retirement or not, I'm leaving." His four children, all of whom work in the business, breathe a sigh of relief that this day has finally come. Collectively, they decide to purchase their fathers stock which is valued at \$2,000,000.

The children's enthusiasm quickly fades to disappointment when they discover that none of their siblings have the financial strength for a significant purchase, let alone one of this size. Although each has been drawing a comfortable salary, the business has never paid any of the family members enough to create wealth outside of the business.

Henry needs the money to live and is disappointed when he discovers that the children are unable to purchase his stock at a fair market value. However, he is savvy enough to also realize that he really does not need to accumulate large financial holdings at his age, only to have them taxed upon his death. The solution, he discovers, may be in a "Private Annuity."

A private annuity allows Henry to sell his ownership stake in the business to his children in exchange for a lifetime income. Private annuities are similar to insurance annuities but are different in the way they are funded. Instead of an insurance company providing the vehicle, the private annuity is an agreement between two entities or individuals and does not include an insurance company. Here is how it might work:

Fair Market Value of Henry's ownership	\$2,000,000
Henry's Basis in Business	100,000
Annual Payment to Henry	314,060
Tax Free Portion	8,333
Capital Gains Portion	158,333
Ordinary Income Portion	147,394

SOURCE: Chris Fay and Lonnie Brooks of Smith & Frank, Inc., Dallas, Texas

Private annuities are not for everyone; but in the Pillow's business, Henry can step out with an annual income of \$314,060 for the rest of his life, and at the same time, reduce the eventual estate tax burden. In exchange, Henry has to give up control of the business. The major risk for Henry is "What if he outlives the children?" This risk can easily be controlled with appropriate life insurance on the children (obligors). The children assume the financial risk that their father will outlive the financial break-even of the annuity and be required to continue paying the \$314,060 until his death. However, should he pass away prior to the break-even, the children stop paying the annual annuity obligation.

If succession planning requires an exit strategy for your family, Private Annuities are one of many options. Don't key in on one approach until you and your professional advisor have considered what works best in your particular circumstance.

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