Welcome

We’re excited about the “New Look” we have developed for our newsletter and our website. This effort is in response to comments people have made and is designed to enhance and increase our communication with our clients and friends. Our purpose with these materials is to share with everyone our current thinking on topics important to successful family businesses and make people aware of resources that are available. We would appreciate any feedback you might have.

In this issue of our Newsletter we cover three areas that have emerged as critical and important based upon our many years of experience in working with family businesses. Darrell talks about the contribution role clarification makes in the family’s ability to think clearly and together achieve open communication and minimize conflict. Bill has seen far too many times the negative consequences of a family’s failure to achieve an effective financial plan. He describes some of the “ins and outs” of how to go about this process. Joe describes a situation we have run into often whereby a group of people are forced to participate in a financial or legal arrangement without proper alignment of their interests, temperaments and goals. These “unnatural partnerships” almost always are not successful and create conflict and grief in the family.

Let us hear from you!

Looking Ahead

19th Annual Aspen Family Business Group Gathering

July 31st – August 3rd
Snowmass Village, Colorado

The Gathering presents an opportunity to learn more about family business from the internationally renowned associates of AFBG, as well as from other family business owners.

FFI Annual Conference


Three of our AFBG members will be presenting workshops for bringing the next generation into the family business at the annual conference.
One common problem that bedevils family businesses arises from their uniqueness in that all family members in the business have to wear at least two hats, the family hat and the business hat. The family hat requires unconditional acceptance based on membership in the family. The business hat requires conditional acceptance based on job performance.

Role clarity. Three main conditions arise from the two or more hats phenomenon. They are role conflict, in which two struggling perspectives prevent action, role confusion in which the situationally incorrect role prevails, and finally, role clarity which means balancing the sometimes paradoxical demands of each.

• Role conflict. The CFO needs to tell her father the CEO that his proposed strategy, his pet idea, poses untenable, dangerous financial risks to the business. Yet the CFO is the youngest daughter of the family, sponsored, mentored and promoted by the father who believed in her when others did not, and she is gripped by feelings of loyalty, fealty, honor and obligation toward her father. The role stalemate struggle results in silence.

• Role confusion, or wearing the wrong hat. The Sales Vice President knows that one of his Directors should be fired for substandard performance, violation of the company’s drug and alcohol policy, and personnel actions that border on hostile workplace. Yet he’s also the older brother, and wants at all costs to give his younger brother another chance—dad was always harder on him—and in the end the older brother hat prevails, and he makes a bad business decision in an attempt to solve a family problem via the business.

• Role clarity. F. Scott Fitzgerald once defined a first-rate mind as one with “the ability to hold two opposing ideas in mind at the same time and still retain the ability to function.” Stew Leonard, founder of the legendary Connecticut supermarket by the same name, once told this story to a Family Firm Institute conference. He called one of his sons into the office, put on his Boss hat, and fired the son for job performance reasons. He then took off the Boss hat, put on the Dad hat, and said “Son, I understand that you’ve just lost your job. What can I do to help you?”

Managing multiple hats is key for families in business. They need to have “hat” discussions on a regular basis to clarify, remind, and keep top of mind the right and the wrong ways to handle the role complexities that are the eternal paradoxes of family businesses. Knowing which hat to wear, and when is a critical competency.
Where there is no financial plan

Financial plans address several issues:

- Having adequate retirement income to achieve financial independence
- A plan of disposition for assets when death occurs
- Adequate funding for the estate tax liability
- Fulfilling any desires you have regarding charitable interests

When any of these components is missing, it will likely impact you, your spouse and other family members. We will focus in this article on the impact of dying without one important component of a financial plan, a will (intestate). A recent wealth management survey of adults with $500,000 of investable assets revealed that 30% did not have any form of a will. A lawyers.com interactive survey of the general population found greater than 50% had no will. A sad statistic for such an important document.

Dying without a will, and depending on where you live, your assets could be divided in ways that lead to results you will find interesting. Assets are divided according to the law of the state where you live. Surprisingly, despite efforts to protect the spouse, only sixteen states have a law that allows all assets to pass to the spouse. Some states give one-third to the spouse with the kids dividing the rest. Mississippi gives equal shares to the spouse and children. If there are five children, this means she gets 1/6th and 5/6th goes to the children. She will then have to account for the children’s share separately. When they come of legal age, their account becomes theirs with no controls. Imagine what potential problems that would create if at age 18 the children inherited half a million dollars: high speed cars and who knows what else could result in unwanted consequences.

Another relatively common situation in today’s society, having a marriage with a second spouse and children from the first marriage. Depending on the state, the spouse could get $100,000 and split the rest 50/50 with the kids.

However, if you have a 401(k) or pension plans, they are typically directed by federal law to the spouse. If the house is in joint tenancy with the spouse, it will go directly to the spouse. The same is true of joint checking and brokerage accounts. This could result in the children being disinherited, which may or may not have been the intent.

Additions in Monograph Series Coming Soon

The Trapeze Act of Family Business

The trapeze act is a metaphor for family succession and in exploring the metaphor we learn how to be of greater value in helping succession. The audience for this monograph is senior family members, advisors, board members, potential successors, and those themselves facing succession.

The Principles of Success in Family Business

This monograph discusses how strong leaders with great ideas are a force of nature and they can make wonderful things happen. Will the ship take a certain heading in a storm because the experienced captain “feels it in his bones” or because of what the compass and the charts indicate?

View our Monograph Series at www.aspenfamilybusiness.com
Without a will, even modest estates can be subject to federal or state inheritance tax. For example, if you die intestate in Pennsylvania with a $2 million estate, with a spouse and two children, the state collects almost $45,000 since in Pennsylvania; the spouse gets $30,000 and 50% of the balance. Since the kids are inheriting almost a half a million each, they are taxed at 4.5% tax rate. Certainly an unintended consequence resulting in a distribution to the state of Pennsylvania.

Unmarried couples are subject to state laws that often result in a difficult situation for the surviving partner. Live-in partners could get nothing and often are forced from shared homes. It doesn’t matter what the couple’s intent was, without a will, there is little law for the surviving partner to use to lay claim on assets that they jointly shared.

What if you have a will, you even have trust agreements, and you have prepared funding to take care of your estate tax liability without forcing liquidation of valued assets? Congratulations, you have accomplished a great deal. However, the planning is not over; situations change and require that these documents have periodic reviews. We recommend that clients review their planning annually.

**Why You Might Ask?**

In our practice, we have observed that at least three elements of an estate plan are likely to change: 1. the tax law or court cases affecting tax law 2. the economic and makeup of the estate, it is growing or changing the mix of assets. 3. the dynamics of the family change: marriages, divorces, children deciding to be part of the family business or to leave the family business, aging of the children, new children or grand children all can create a need to review the will and trust provisions.

What is perfectly clear is that if you do not have a will, contact an attorney, draft a will and sign it (attorneys tell horror stories of clients dying with unsigned wills in their files). If you have an estate plan, assign a time each year to gather your planning team together to review and update it. Trust me, you will sleep better if you do and so will your planning team!

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The Stonebridge Inn Welcomes “The Gathering 2008”!

July 31 - August 3 2008

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For more information on Stonebridge Inn or activities in Snowmass please visit www.destinationsnowmass.com

TO RESERVE YOUR PLACE AT “THE GATHERING 2008” GO TO WWW.ASPENFAMILYBUSINESS.COM
New look...same great results

We are continuing to enhance and develop our website. As it has evolved it has become clear to us it is a valuable way to keep in touch and share information with our clients and friends. One important characteristic we have found is it needs to be interactive to be effective. The feedback we have gotten says it has been a useful way for families to get to know us better, learn about important resources and be in touch with some of our latest thinking. As with all websites, it needs to be efficient and easy to navigate. We see it as a cyber age vehicle for communication and interaction much like the telephone was several years ago. We have also realized it is a dynamic rather than a static media. Therefore, we will continuously develop and enhance the website as our thinking and technology evolve. We would appreciate any feedback you might have on ways to improve our efforts.

Check out our all new website at www.aspenfamilybusiness.com

HAVE YOU READ OUR NEW E-BLAST?

This is yet another venue for us to stay in touch with our clients and friends. Just like the newsletter our E-Blast gives us a brief opportunity to share with family businesses what’s important to you today, tomorrow and generations to come. We try to share our current thinking on various topics and comment on news and ideas that are unfolding in our practices. In our last issue we introduced three new monographs and gave details on this year’s 19th Annual Gathering. If you’re not receiving the e-blast and would like to...

Go to www.aspenfamilybusiness.com to sign up today!
Among the challenges to family business succession is what I call, “Creating unnatural business partners”. Just being siblings, cousins or in-laws doesn’t mean that you will be good business partners. Still, many estate plans turn close relatives into business partners who never would have chosen to be partners on their own. Here are a few scenarios you may have seen:

- **The successor-leader as lightning rod.** If you have inherited authority greater than that of your sibling/partners be advised that when your parent passes on there may be trouble. If you become a business authority figure with your siblings any unfinished emotional business that your siblings have with your parents may come down on you. The authority that your parent enjoyed in the business may not be recognized by your partner/relatives.

- **They never got along anyway.** Many siblings have feelings of unfairness or injustice with each other. The advent of shared ownership and fiduciary responsibilities creates a higher level of involvement with close relatives than they really want. Thus shareholder or Director meetings are derailed, encumbered or postponed by family dynamics.

- **No one ever thought to train them.** Being a skillful team of business partners or Directors on your business’s board doesn’t come easily. It requires a lot of trust, respect, clear thinking, relevant knowledge, and a highly developed listening and speaking skills. All of these are teachable but too many business families neglect the training of the successor generation as owners. Ownership successors often have never had a chance to develop themselves as a functioning team until the responsibilities are already on their shoulders.

The next generation of owners is set up to fail in all three of these scenarios. But when they have developmental resources the group can:

- Think more clearly together. Sometimes they even think collectively better than any one of them could alone

- Eliminate, or at least manage disruptive emotional issues

- Develop a strong sense of loyalty and stewardship for the family’s collective interests

Good partner relationships are hard enough to develop and sustain when you are not related and when you have actually chosen each other as partners. They can be even more challenging when you are also close relatives. However, there are things that multi-generational business families have done to develop otherwise unnatural business partners into highly functional partners. It involves both individual leadership skills and team building.

- Create shared leadership and team development training sessions for the current or future generation of shareholders.

- Offer individual executive coaching resources when called for

- Give the shareholder group meaningful projects to complete. (e.g. one family owned construction equipment company is funding a hands-on project for the third generation of shareholders in their late teens to mid-20’s to build a playground in a small economically challenged Missouri town)

- Help define boundaries between different sub groups of the family and business (e.g. Shareholder Group, Board of Directors, Management Team, Family Council) with delineated norms, responsibilities, meeting times, etc.

- Develop group vetted documents such as a Shareholder Agreement, By-Laws, Mission Statements, etc.

Taking these steps will help your shareholder group be smarter, more flexible, more efficient and more powerful. It takes time and work to become that good, but it pays off in many ways.

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### MONOGRAPHS

| 1. It Ain't Easy Being Rich      | Book by David Bork                                                                                   |
| 2. Let's Celebrate the Good News for Family Business | Book by David Bork                                                                                  |
| 3. Consulting to the Family Business | Book by Dennis Jaffe                                                                                  |
| 4. Family Boards: How to Make Them Work | Book by Sam H. Lane                                                                                    |
| 5. Joining the Family Business    | Book by Leslie Dashew                                                                               |
| 7. Transferring Authority in Family Business | Book by Joe Paul                                                                                     |

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