NEWSLETTER

fall 2005

Aspen Family Business Group

The Aspen Family Business Group: David Bork · Leslie Dashew · Dennis T. Jaffe · Sam H. Lane · Joe Paul · serves as a resource to help families create an environment in which members are open and willing to learn and grow. It is in such a setting that families are able to envision and achieve the positive possibilities of their business as well as maximize enjoyment of their family life. Our goal is for the family to develop harmonious, healthy, constructive interpersonal relationships and to maximize the success of their family-owned enterprise.

Learning from the Experience of Real Families

In this newsletter, we present accounts of the experience of four real families (two of them with identities disguised), with lessons that we can learn from their successes and their struggles.

Sam begins with an account of a family making the transition from first to second generation, and how they built a team of siblings to manage the ownership, management and family succession process.

Leslie presents a family transitioning from the second generation family team into the third generation. Her account talks about the further complexity of this transition.

Dennis presents a cautionary tale from the public record about the decision of the thriving and family-oriented Pritzker family to divide their holdings among the fifty family heirs as they entered their fourth generation, highlighting the lessons that other families can learn about communication and involvement of family owners.

Finally, Joe presents a dialogue with Dirk Junge, family heir and CEO of the Pitcairn Trust, a family that has sustained several highly successful family enterprises over more than five generations. Dirk shares some of the lessons that underlie his family's longevity.

All together, these four accounts highlight some of the richness and challenges that we discover every day in our work with family enterprises. The accounts highlight some of the common challenges—communicating, building a shared vision, developing family teamwork, providing for individual differences, and separating ownership from management—which every family must deal with in their own unique way.

looking ahead

Evolving Connections: Creating Structures for Family Business Over Time
presented by Leslie Dashew
Oct 12 · U. of S.Carolina
Family Business Program

The First Annual Latin American Family Office Conference
presented by Joe Paul
Nov 17 & 18, 2005 · Madrid

Family Business & Family Office in Spain
presented by Joe Paul
Nov 23 & 24, 2005 · Madrid

The First Asian Family Office Conference
presented by Joe Paul
Jan 24, 25 & 26, 2006 · Singapore

Women in Family Business X
presented by Leslie Dashew
March 23-26

17th Annual Aspen Family Business Gathering
Aug 3-6 · Snowmass CO
see page 3

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Getting from First to Second: Rounding the Bases by Sam H. Lane, Ph.D.

The Robert J. House family owns a financial services company. Most would say they have successfully completed the succession process from the first to the second generation. How do we know this transition has been successfully completed? Although no hard measures are available, we see the next generation functioning well as a Sibling Partner Team, and Bob and Lorna have shifted to being coaches. The business is doing well, having accomplished several new strategic initiatives. Family members have redefined their relationships to one another and even though some conflict still occurs, they are thriving.

The House Company was founded by Bob and Lorna in 1955, and offers a wide range of financial services and products to consumers. Their oldest son, Bob Jr., came to work in the business directly out of college. His younger sister, Carol Ann, worked for six years on Wall Street before joining the company. The youngest brother, Patrick, spent time as a hunting outfitter before going back and getting his MBA, and then joining the company. The company grew slowly through the years, as Bob was conservative and somewhat risk-averse. However, he was sufficiently open-minded to pursue several initiatives over the years that resulted in higher levels of revenue and profitability.

However, there have been some bumps along the way. A key employee left after twenty years and took several others with her, starting up a competetive firm. This had a negative effect for a number of years, but seems to have been overcome. Patrick found himself in a difficult personal relationship and wound up in an addiction treatment center. Bob Jr. and his wife, Ann, have an autistic child. This case is fairly typical, in many ways, of our work with family business clients. Unfortunately, the success of the House family is more infrequent than it should be.

As professionals, we have underestimated the difficulty of making the personal, family and business transitions necessary in the succession process. They are far more challenging than people might imagine.

A number of these difficulties stem from the fact that this transition evolves from a system where the parents have single power and authority to make decisions and influence events, to a situation where this power is shared equally among a group of siblings. In the case of ownership, this transition typically involves shifting from single point majority ownership to multiple minority owners. When this occurs, whatever restraining factors the parent generation has exercised are removed. Relationships tend to be more unfettered. Siblings are not constrained to get along with one another as they were when Mom and Dad were "the glue."

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Another difficulty is that this transition requires everyone to adopt new ways of relating to one another. Siblings must see each other as business partners in addition to being brothers and sisters. Parents must also see their children as adults as well as business partners. Sometimes parents discover siblings have strong feelings and thoughts they did not know existed.

So what are the keys and factors that make such a transition successful? Probably one of the simplest and most important is the level of capability and motivation of the sibling group. It is difficult to have a successful business when either one of these factors is not present in a critical mass. Another contributing factor is when the history of the family does not contain any negative incidences that cannot be overcome. Sometmes divorces, estrangements or substance abuse problems cannot be amended, representing major obstacles.

Another contributing factor is the parents' capability to function with their children in a shared power environment. Fortunately, Bob House is not a "control freak" and was very comfortable with shifting his role from the person who made it happen to one who was a coach. Lorna felt good about herself as a mother and as an individual, and is comfortable relating to her children as adults. Carol Ann, Patrick and Bob Jr. worked hard to overcome past sibling rivalries, to understand each other as people and to develop understandings to help facilitate their interactions.

Another positive contributing factor was that the family developed documents to prenegotiate areas of potential conflict, such as a Buy-Sell Agreement, and Employment Policy and Compensation Principles.

Was this a "case study made in heaven?" No. It was a three steps forward, one step backward process. The House Family was patient, persistently determined, and kept their eye on what they wanted to achieve.

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Transition from Second to Third Generation

by Leslie Dashew

The Scenario

The Crenshaw brothers were in their 60's when they began thinking about succession for their farm equipment company. They had worked well together for almost 40 years and had not repeated the issues which plagued their father and his siblings. The three brothers were not quite ready to retire: they enjoyed the comaraderie of sharing leadership and an office, but they were fearful that if they chose one of the next generation family members over the others, the jealousy and conflict of their father's generation would be revisited upon their children. They wanted to figure out this dilemma before they were ready to retire.

There were several offspring in the third generation who thought they were qualified to be the next president, but they were still young. All three brothers felt that John's son, Dick, would probably mature into a leader. At 25 (the youngest of all the cousins) he was not yet ready to take the helm. Since there were 12 cousins in all (5 who worked in the business in a variety of capacities), the Crenshaw brothers worried that they would open Pandora's box with a discussion now about succession. When one of their close friends died suddenly, they realized that any of them could die and leave a mess for the others to sort out. This mobilized them to action.

The Process

As in many family-owned businesses, the owner/manager may make leadership of the business seem simple. The "boys" (as the Crenshaw brothers were still called) had grown up with the business and made improvements along the way. None had been schooled in management, but

knew every aspect of farm equipment design and manufacturing. By and large, the next generation lacked outside experience as well, so they lacked an appreciation of what it really meant to be president *in the future*. For example: the company had been fortunate to have a single distributor who took almost all of their production, so they never had to do much sales or marketing. The environment was changing and leadership would need to be different in the future.

Our first step was to develop a shared understanding of what it would take to lead the company in the 21st century. Through a series of family educational meetings and participation in programs outside of the business (e.g. Farr Associates Leadership Development, the Hoffman program and Women in Family Business Program) the family began to recognize that the business needed someone who had a combination of competencies that included:

- ◆ The ability to articulate a vision and enroll family and non-family employees in the implementation of the vision
- ◆ The ability to communicate effectively
- ◆ Organizational ability
- ◆ Willingness to learn and grow and commit the additional time and energy to gain competence and confidence as a leader
- ◆ Holding employees (family and non-) accountable for performance
- ◆ Marketing knowledge and understanding of how to position the business in the marketplace in the future

Gradually, during the discussions of the requirements for this position, the family focused less on one's position in the family, seniority in the business, how the second generation led the business or concern for how one would take the "rejection" of not getting the position and more on where the business was heading and the importance of the capability of a candidate to successfully guide the business in that direction. The willingness of family members to "look at themselves" was key in this process. One other cousin, who had wanted the position and felt entitled because of length of service, gained great perspective when he attended the Farr Leadership program. He came to the conclusion that he actually no longer wanted the position.

Ultimately, the family (independent of the brothers' opinions) came to the consensus that Dick should be groomed as successor. Since the brothers had not modernized their management approach, they realized that they would not be the best mentors for Dick. The family agreed that it made sense to hire an interim President who would help direct the company in the direction we identified and mentor Dick as the incoming successor. We envisioned that the interim president would serve 5-10 years.

Dick feared the prospect of having a dozen cousin partners who might fall into conflict over the direction and management of the company. The group commited to creating a family council that would continue the education which began with the succession discussion. To date, the development program is still underway and the family is gaining greater cohesiveness.

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The Pritzker's Dilemma—A Cautionary Tale

by Dennis T. Jaffe

The very private Pritzker family of Chicago, owning one of the largest and most respected family-held fortunes in the US, has been hit with lawsuits by family members in two family branches. At the death of patriarch Jay in 1999, control of the family wealth went to a team consisting of Jay's son, Tom, and two cousins, Penny and Nicholas, who had been designated and in place before his death. By all accounts, they are competent and dedicated to the family mission of preserving the family's wealth for future generations.

In a letter to family members before his death, Jay expressed his wish that the family maintain the trusts and keep the fortune together, under the leadership of the three fourth generation successors. Instead, there has been a sudden eruption of lawsuits and family strife within a family that was known for a deep dedication to family, a frugal and philanthropic lifestyle, and tough but fair business practices. At this time, the settlement of the lawsuits seems to mean that their wealth will be sold and divided among the 50+ 4^{th} generation heirs. What can we learn from the break-up of an otherwise exemplary family?

From the public record (I know none of the principles personally) we can learn something of what is happening. Jay and his brother, Robert, were partners for life, living and breathing business and making deals. While committed to family, the brothers seem to have communicated to their heirs that the only way to be respected within the family was to join the business. While the family has supported the ventures of many family members, the competitive ethic left those who failed to be dealmakers feeling less valued; even disparaged. While the family would support their ventures, there was not a feeling that it was fine to create a life in other areas than business. Jay's son, Tom, has a deep interest in Buddhist culture, but was persuaded by his father to enter the family's business. We can only speculate on his dilemma in making such a choice.

His brothers did not choose to enter business. While they were supported financially, it appears that tensions rose as the brothers felt increasingly devalued, disrespected and even shut off from the center of the family. An added complication was that two of Robert's children, by a wife from whom he had an acrimonious divorce, seemed to be treated differently than other members of their generation in terms of inheritance.

Like many families, the Pritzkers had a paternalistic style of operation. The family leaders did not include other family members, who, while they never had to worry about money, were not involved in the family business or finances in any way. They were told almost nothing of what they owned or what was being done. Their experience of being part of the family was that of children who were taken care of, and even indulged, rather than adults contributing to a serious and consequential venture.

Lack of communication and knowledge, in an emotional field of rivalry and jealousy, inflames passions. Already feeling devalued, ignored and neglected, family members learned that the trio who ran the business were paid unusually large salaries and fees for their work, which was viewed as unfair.

Their difficult experience contains some lessons. First, there was a failure of balanced attention to the shareholders. The focus of the family leadership was on rewarding and valuing the family's work of wealth creation, rather than on the development of the family as a community. There were no roles for family members if they were not in the business, and only a few found a fit in the business.

When a family member in one's own generation is elevated to a position of family leadership, they necessarily become somewhat separated from their peers in the same generation. I suspect that the three family leaders did not see their role as including the informing and leading of the other members of their generation. They saw their succession only in business terms. At the time of succession, the family also might have established clear family policies governing employment, compensation, distribution and exit from their ventures

There was a lack of appreciation of the role of two-way exchange within the family. When Jay presented his wishes to the 50 or so members of the fourth generation in a letter at a brief family meeting, there was very little discussion of this thoughtful and deeply felt work. I think that family members had emotional responses, feelings, concerns and questions, and felt that the norms of the family did not welcome such exchange. In many families, asking a question, expressing a feeling or a different view is seen as a challenge, or lack of respect for the patriarch. The family tradition of keeping information closely-held seems to have made the differences worse, as imagined deeds added to real differences. They could have come together to celebrate and share what they were doing in their many ventures.

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The Pitcairn Family—Governance for Many Generations by Joe Paul

In 1883, a Scottish immigrant, John Pitcairn, founded the Pittsburg Plate Glass Company, later known as PPG Industries. By 1923, John's three sons had a cumulative total of 27 children. To manage the needs of this rapidly growing family, the brothers created the Pitcairn Company, a family office designed to sustain the family wealth and maintain family control of PPG. It also provided the financial resources for family members to pursue professional interests outside of the family business. Later, the family formed Pitcairn Trust Company, which is now the Pitcairn Financial Group, one of the nation's premier wealth management and investment advisory firms serving individuals, families and organizations.

John Pitcairn's great-grandson, Dirk Junge, is now the Chairman of the Board. Dirk agreed to take a few minutes from his very busy schedule to answer some questions about the family history and current issues facing a 6th generation family enterprise.

From your perspective as the Chairman of the Board, what are the biggest challenges facing the leaders of multi-generational family businesses like yours?

I need to answer this question from my responsibilities to two different constituencies in our multi-generational family business. First, as to shareholders: One of the largest leadership challenges is finding ways to promote participation and appropriate involvement by the younger shareholder generation. It's critical to design programs that are relevant to this constituency. We must define ways to make this organization feel that it belongs to them as much as it belonged to their great-grandparents, who started the company.

As to Clients: A persistent challenge is educating clients as to realistic return expectations from their investment portfolios, i.e., this is not the time to swing a disproportionate amount of their assets into the real estate plays that all their friends are talking about.

As investment products are becoming more and more commoditized, and margins for asset management are under pressure, the new paradigm for family offices is to price their advisory services and their high-touch concierge services in such a way to more fairly recognize the cost and the value associated with these non-asset management services.

This requires family clients as well as the non-family clients to readjust their expectations as to what they should pay for these value-added services.

What have been the most important pivotal events in the family history that shaped who you are as a family and business today?

1) Certainly in the case of the Pitcairn family, the significant wealth that was created as a result of John Pitcairn's founding of the Pittsburgh Plate Glass Company, now PPG Industries, a Fortune 200 Company, is an important legacy for the family.

2) In 1923, when the three sons of John Pitcairn determined that a family office that pooled their assets was the most efficient and effective way of managing their collective wealth.

3) In 1986, the liquidation of the holding company that was founded in 1923. This provided increased liquidity and diversification opportunities for the family. At this time, we also adopted an on-going free association policy for the family which says that any adult family member has the right to choose whether to continue as a client and as a shareholder. This freedom of choice requires on-going liquidity planning.

4) Finally, the family office reinventing itself as a multi-client family office serving the needs of other families and institutions in addition to the Pitcairn family and successfully implementing this vision over the last fifteen years. Our goal is to make Pitcairn Financial Group the family's next PPG—an important and compelling goal for all those who share that vision.

What is the role of in-laws in the management of the family's interests?

From my perspective, the inclusion of in-laws has been part of our culture at least since the 1950's, when my father (an in-law) was invited to join the Pitcairn family office, and eventually became the CEO and Chairman of Pitcairn. His role in leadership materially shaped the professionalism of the firm, and the success in diversifying the assets for the family was a very important contribution. Pitcairn has a long history of having in-laws serve in key leadership positions: on the Board, the Family Council, and significant Trusteeships.

How is a sense of stewardship being developed in the 6th generation of owners?

Through participation on the Auxiliary Board, our Family Council, and educational programs, we promote the responsibility and the stewardship that comes with being part of a successful family legacy.

Even the family foundations and the philanthropic endeavors of the family are seen as investments needing a return even though it is in the not-for-profit area. There are clear benefits from being part of the family system; equally there are responsibilities and expectations that are included.

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resources

books

A) The Best of the Human Side
A Collection of Articles
by Leslie Dashew $15

B) Working With Family Business
by David Bork, Dennis T. Jaffe, Sam H. Lane, Leslie Dashew, and Quentin G. Heisler $15

C) Working With the Ones You Love
by Dennis T. Jaffe $15

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monographs

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   by David Bork
2. **Let's Celebrate the Good News for Family Business**
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3. **Consulting to the Family Business**
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4. **Family Boards: How to Make Them Work**
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5. **Joining the Family Business**
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6. **The Challenge of Families Who Work Together**
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7. **Transferring Authority in Family Business**
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8. **The Challenges of Downsizing a Family Business**
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9. **Succession Planning**
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10. **Exploring Differences in a Hierarchy**
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11. **Getting Along With Family Members**
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12. **The Family Business Employment Policy**
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Pointers Gleaned from this Newsletter's Examples

- ◆ *Share your plans with your family as early as you can, even if they are tentative*
- ◆ *Communicate regularly with family members*
- ◆ *Ask family members for concerns and expectations*
- ◆ *Make clear agreements about family member participation*
- ◆ *Make all family shareholders feel a part of the family enterprise*
- ◆ *Talk about the meaning and future of family wealth*
- ◆ *Anticipate issues; don't wait for them to hit you*
- ◆ *Be flexible and open to new ideas and not getting all of what you want from the family*

family business assessments

As an advisor to complex wealthy families and family businesses, how often have you wished you could quickly get information about areas where family members do not see eye to eye, and find a way to bring those areas to the attention of your clients in a non-threatening way?

The Aspen Family Business Inventory helps families who are in business together to sort out the issues of communication, succession, work roles and family boundaries, effective management, and their vision of the future.

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