



NEWSLETTER

Aspen Family Business Group

fall 2006

The Aspen Family Business Group: David Bork · Leslie Dashew · 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.

Continuity And Change

"Change your opinions, keep your principles; change your leaves, keep intact your roots." Victor Hugo

Think of a mobile hanging from the ceiling. The individual parts and groups are joined together by a dynamic balance in motion. When all the parts are balanced and the connections are strong yet flexible, the mobile can move with the breezes; continuously changing and rebalancing, yet also staying the same system of parts and connections.

Your family and your business are like this mobile. Individuals connected to each other in subsystems, with several subsystems moving in a dynamic and reciprocal balance around one another. When the individuals and company systems are balanced and flexibly connected, change brings out the best in the systems that you have created.

But if the parts are out of balance, or too rigidly balanced, a gust of wind, (like changes in your industry, the economy, politics, technological developments, or legal and societal trends) can overwhelm the capacity of your mobile to adapt.

Family business leaders are responsible for managing change in the family and businesses. Anticipating change, preparing for it, managing the response to it, giving it meaning and ultimately using it creatively are a few of the skills involved. In the following four articles we offer some ideas that will help you meet these challenges.

Joe has some suggestions about how to deal with your temptation to "Let Sleeping Dogs Lie" too long, or when it feels like you are "Herding Cats". Sam writes about managing direction and pace of change in several interesting ways. Following that are two case studies from Leslie that show the effects of flexible and rigid connections, and the willingness of leaders to let go.

And finally with a bit of change from previous issues we have invited a highly respected colleague, Bill Roberts, to be a guest author. Bill shares an experience that highlights the importance of stimulating change from within by engaging a catalyst who is responsible for making change happen. ♦

looking ahead

Family Firm Institute 20th Anniversary Conference

October 25-28, 2006
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Miraval Life in Balance Resort,
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18th Annual Aspen Family Business Gathering

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See page 3

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Herding Cats and Sleeping Dogs: Resistance to Change

by Joe Paul

I am mixing metaphors in my title to focus our minds on resistance to change that is based in a family's Intangible Liabilities. Most families in business have good advisors that help them manage



their tangible assets and liabilities. But facilitating change when it comes to intangible liabilities is a different kind of challenge. These are the issues that lurk in our relationships that make business and estate planning difficult. Issues like:

- Mistrust
- Feelings of unfairness
- Unclear or incompatible ideas about the purpose of the business
- Unclear or incompatible individual visions of the future of family and business

There seems to be two kinds of intangible issues that keep families stuck in their planning. They are the "Let Sleeping Dogs Lie Issues" and the "It's Like Herding Cats Issues".

Sleeping Dogs:

1. A lack of trust in a founder's competency due to age related limitations.
2. A reluctance to hold family members accountable for their performance.
3. Salaries and the distribution of benefits and dividends.

Like Herding Cats:

1. Vagueness about core values that underlie business decisions.
2. A confused or incompatible sense of purpose and/or mission for the company.
3. Governance responsibilities mixed up with management issues and family dynamics.

The Sleeping Dogs are about avoiding uncomfortable issues that may jeopardize family harmony. The Herding Cats issues are

about getting people organized and focused to take action. Any of these issues become intangible liabilities when they slow down the capacity of the business to adapt to change.

The Herding Cats issues are about getting people organized and focused to take action.

Interventions to manage resistance to change

Shakespeare said that *"we would rather bear those ills we have than fly to others that we know not of."* Here are a couple of ideas that can help manage resistance to change.

1. If you need to make a change happen but are not doing it because you are afraid of something, you have a sleeping dog that you are afraid to wake up. Ask yourself the question, "If this issue didn't involve a family member would I know what to do?" The answer is almost always, "Yes". This question often makes it clear that it isn't a matter of not knowing what to do, it is a matter of not having the will or the courage to do it.

Einstein said, *"A problem that is well defined is a problem half solved."* If the real problem is a matter of your own will or courage to make a necessary change then it is easier to figure out what needs to be done. If you need it, get executive coaching to help you do what you need to do.

2. If you are trying to get some cooperation among members of a group (scheduling a family meeting, getting a Shareholder Agreement finished, having a meeting over succession of ownership of the family summer home, etc) you are facing a problem of herding cats. This kind of disorder is often a good way for a family to resist change. If you are facing this kind of resistance you need to focus

on creating the structures and processes (e.g. documents and meetings) that disentangle family, management and ownership. Write a shareholder agreement, define meaningful subgroups (i.e. Generation-2, Shareholders) and have a meeting to discuss issues relevant to that sub-group.

If it is a Sleeping Dog issue, figure out what part of it is about your own fear and what part is about your attempt to protect others from themselves. You can manage your own emotions a lot easier that you can manage the emotions of others.

If, on the other hand, you feel like you are trying to herd cats it may be best to focus on managing process. If it means having meetings without everyone present, so be it. Those with the most to lose from a change will tend to be the most resistant. Diligence and persistence needs to be maintained to keep the process moving. Schedule meetings, when possible proceed with the meeting even if one or two people cancel. Use conference calls and speaker phones. Craft an agenda and circulate minutes to keep the process moving.

Diligence and persistence needs to be maintained to keep the process moving.

Resistance to change is a normal part of life. Too much change is chaos. Too little change is paralysis. Think of resistance as an indicator of fear in the system and let it help guide you to the people and the issues that need your attention. ♦

J. Joseph Paul

4025 SW 6th Avenue Drive
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The Change Process

by Sam H. Lane



Understanding the change process and its various dynamics is one of the most important and least understood of all the concepts families in business need to comprehend.

We see change has occurred when we look back but being able to create it and having perspective in the middle of a transition process is vexing for most families. Altering the current course and establishing a new direction is also very difficult for most people.

The aphorism “Change is inevitable, growth is optional, choose wisely!” is apt in this situation. Equally true is the saying “Change occurs when you have learned enough you want to change or when you are in so much pain you have to change”. A founding parent may have learned enough about the pitfalls of not planning to decide to put his or her estate in order. Or someone in a destructive relationship may finally decide he or she has had enough. In some shape, form or fashion dissatisfaction with the status quo must reach a point of overcoming the various inertial forces and resistances to change. The diagram below depicts the change process at its broadest level.

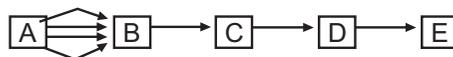


In “steady state” all of the elements within a person, a family system or a business are in equilibrium, or balance. Something occurs to upset this equilibrium causing an “unfreezing”. Change occurs during this time. At some point the elements will regain balance and the system will achieve equilibrium again.

This broad statement depicts many of the change processes we experience and

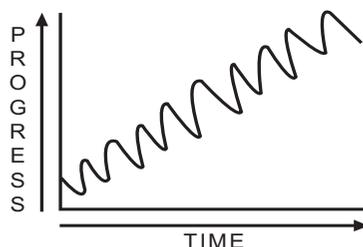
encounter. Some of the “unfreezing” described above can be radical as in the case of a death or a divorce. Other change can be more incremental and proceed in a stepwise fashion. It may be seeing a familiar situation in a different light. We advocate change as a planned process where a direction is established, a plan is developed, implemented and progress is monitored along the way. Both of these forms of change still follow the equilibrium/unfreezing/equilibrium model.

It is important to understand and emphasize change is not an event but is a process. Even though it may be precipitated by an event, the course of the process may take many different directions, follow a twisted course and move according to its own time-frame. Several concepts will help guide this understanding. One is depicted in the diagram below.



This drawing shows the change process moving sequentially from one milestone to the next. Progress is made by launching a number of different initiatives (depicted by arrows) to carry the effort to the next step in the transition. In the early going, developing a Family Mission Statement, work on an Estate Plan, and family meetings are all example efforts for the family to begin to get organized and move from the beginning stages (Point A) to the next stage (Point B).

A second useful concept is positive change does not follow a linear path over time. It looks more like the diagram below.



Change always proceeds in a “three steps forward, one step backward” fashion. On any given day you can be up and be down the next, but the overall trend is positive. Again, perspective is the key.

The important question to answer is: “Are we moving in the right direction and are we making progress?” It is helpful to realize that not all participants will buy into the need for change. Your dream may be somebody else’s nightmare.

Another important aspect of the change process is to decide what needs to be carried forward from the past, what needs to be left behind and what needs to be created anew for the future. This can be seen in the case of an individual who has experienced some life-changing event. He or she needs to decide what from the past behavioral and emotional repertoire was constructive and should be carried forward, what from the past should be part of the new life vision and what needs to be created that didn’t exist before. In a similar fashion each generation must determine for itself what to bring forward from its parents and grandparents to continue the family legacy and what should change. Without this thoughtful consideration, each generation will tend to perpetuate the messages – good and bad – they inherit.

The change process is not easy for an individual or a family. Families need to work to provide support for one another and help each other establish perspective through times of transition. ♦

Sam H. Lane
 5608 Malvey Avenue, Suite 211
 Fort Worth, TX 76107
 (817) 735-1898
 email: shlane@aol.com

Case Studies Leading Change

by Leslie Dashew



Succession of leadership is one of the most significant changes that families in business experience. It is this juncture that raises the greatest anxiety for outgoing leaders as well as the family.

How can they do it without me? How do I select one of my offspring versus the other? How do I let go? How do we prove our ability to take the business forward? How do we trust our siblings to run the business rather than our parent? When our identity, financial security and occupation are tied up with the success of the business, this change is monumental!

Succession of leadership is one of the most significant changes that families in business experience.

The following two vignettes, taken from real cases, illustrate the challenges, the range of success, and the principles mentioned in the other articles in this newsletter.

Successful Succession

When Luke's father decided he, the youngest, should succeed him as president of the quarry, the other siblings were resentful. 30 years later, then it was Luke's turn to pass on leadership, he did not want to engender the same emotional burden on his successor. With 6 children, several of whom were interested in becoming president, Luke was worried and sought consultation. Avoidance of pain was a great motivator!

Luke and I met with the family and began a process of education. Luke accepted my recommendation that if we allowed the next generation as board members to select the next president, they would be most likely to support him or her.

A key ingredient here was Luke's trust

both in me and the process I proposed. He was able to let go of control of the decision and allow the process to proceed. Through a year of education (as a group and some seminars identified for individual members of the team) and identifying the competencies required to lead the business in the future, the siblings were able to put aside their previously held assumptions (e.g. "any of us could be president") and more self-centered perspectives ("I've been here the longest, I deserve to be president") and look more objectively at what the business needed. The safety of the process allowed participants to raise issues and collectively explore and resolve them. The president they choose has now led the business for 4 years with great support from the family.

The safety of the process allowed participants to raise issues and collectively explore and resolve them.

A Very Different Case

Andrew, on the other hand, was less able to trust the process of change. He created his chain of equipment distributors and had a tough time separating out the emotional side of the family business from the business side. While he started off on the right foot and allowed the family to actively participate in the process of transition, he couldn't tolerate the inevitable ups and downs that occurred (e.g. issues raised that he didn't want to address, angst amongst some of the kids).

Andrew lacked what we called an "observing ego", i.e. the ability to look at one's self with some objectivity and see the impact one has on others. The window that was open for constructive change closed when he would not trust the ideas presented by his offspring (a consensus that was not easy to obtain). The next generation took his behavior to mean he would never let go. Conceptually, Andrew had unfrozen, allowed a bit of a participative process, then refroze

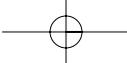
before significant change had occurred. His resistance (greatest in the middle) kept the next generation from feeling they had any influence on the outcome, so they disengaged. Resistance to change often represents an individual's attempt to maintain his dignity or esteem when feeling threatened. It was hard for Andrew to trust that his kids' solutions, which were different from his, would succeed. He could not control his reactions; he had to jump in and take over. Tolerating a different way or even a possible failure was beyond him.

Resistance to change often represents an individual's attempt to maintain his dignity or esteem when feeling threatened.

Change is inevitable, growth is optional. Our bodies change constantly as we shed old cells and create new ones. When we chose to engage in the process of change and marshal the resources needed and stakeholders involved to make the change constructively, it can be exhilarating. There is a common misconception that people resist change. Not always! When we initiate change we are more likely to embrace it. When change is imposed upon us, we are less likely to embrace it. Participation in the decisions increases the likelihood that the outcome will be accepted. As we look at these two cases, we see this principle illustrated. Change that is seen by all as handled with respect-even when we are asked to do something differently-can move us to new levels of achievement, growth and happiness. ♦

Leslie Dashew

21839 North 98th Street
Scottsdale, AZ 85255
(480) 419-4243
email: ldashew@aol.com



Resources

Books

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by Leslie Dashew \$23.50
- B) **Working With Family Business**
by David Bork, Dennis T. Jaffe,
Sam H. Lane, Leslie Dashew, and
Quentin G. Heisler \$23.50
- C) **Working With the Ones You Love**
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by David Bork
2. **Let's Celebrate the Good News
for Family Business**
by David Bork
3. **Consulting to the Family Business**
by Dennis Jaffe
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**
by Joe Paul
8. **The Challenges of Downsizing
a Family Business**
by Sam H. Lane
9. **Succession Planning**
by Sam H. Lane
10. **Exploring Differences in a Hierarchy**
by Elizabeth McGrath and Nick Bizony
11. **Getting Along With Family Members**
by Sam H. Lane
12. **The Family Business Employment
Policy**
by David Bork

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Points Gleaned from Newsletter

- ◆ *Resistance to change is a normal part of life. Too much change is chaos. Too little change is paralysis. The secret is to keep your "family mobile" in balance.*
- ◆ *We advocate change as a planned process where a direction is established, a plan is developed, implemented and progress is monitored along the way.*
- ◆ *Change is seen by all as handled with respect – even when we are asked to do something differently – can move us to new levels of achievement, growth and happiness.*
- ◆ *The best projects, the ones that lead to an implemented plan, always have a "project manger" who is a change facilitator.*

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.

The Aspen Family Wealth Inventory helps families who share the management of investment of significant assets to explore the issues in communicating, defining goals and making decisions clarifying roles and responsibility.

Professional Advisor Interpretation Kit **\$125**

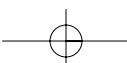
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Appoint A “Change Facilitator”

by Bill Roberts

B u s i n e s s
Succession or Exit Strategy Planning is not commonly #1 on our client’s “to do” list. One client put it succinctly when he said, “Bill, you are the perennial #11 on my “to do” list of 10”.



If Business Succession or the development of an Exit Strategy is, in fact, an important value to business owners and family members, how then, does a project that is lengthy and loaded with thorny issues, get completed? Foremost, is a succinct view of the final result. Commitment to that result is also a key component.

However, in our experience, having the result in mind and the commitment to accomplishment are not sufficient. The best projects, the ones that lead to an implemented plan, always have a “project manager” who is a change facilitator. This is the person who is assigned the task or takes on the responsibility of making sure that a plan is completed and implemented.

The best projects, the ones that lead to an implemented plan, always have a “project manager” who is a change facilitator

The project manager can be someone inside the family or the company or it can be an advisor from outside the company. The most successful projects we have participated in have selected project managers outside the family. Their objective viewpoint and candid appraisal of the personalities and impediments to the project completion is often required to keep the project on track.

An example will emphasize my point: We work with a second generation family business in the Northwest. The first member of G-3 is working in the business and is doing an excellent job of grasping the business fundamentals

and expanding its scope of operations.

Due to a unique set of facts and timing, an opportunity arose to pass significant corporate value to G-3 at potential tax savings. The savings were so significant and the timing so critical, that even though G-2’s plate was full to overflowing, he decided to move forward with the project.

Impediments to the project read like a case study of family business issues:

- 1) Difference of opinion among the G-2 husband and wife on which child or children (4 G-3 children) would receive stock in the operating business.
- 2) Control Issues
- 3) Valuation of Operating Business Entity
- 4) Bank Loan Covenants
- 5) Cash Flow Requirements
- 6) Complexity of Solution Strategies
- 7) A team of Professional advisors that while brilliant in their fields but who have their idiosyncrasies and a full plate of existing work.
- 8) Significant business projects occupying G-2’s attention.

Neither G-2 nor any of the management team had the time, nor in this case, the skill to manage the project and give the authority and responsibility to:

- 1) Clarify the goals and objectives of the project.
- 2) Resolve the dilemma with G-2 husband and spouse regarding G-3 stock ownership.
- 3) Call meetings, set agendas and provide follow-up responsibility for action items identified in meeting.
- 4) Assure that professionals have the information they need to accomplish the tasks and evaluations assigned to them.
- 5) Keep the owner informed and when needed, involved in the decision making process. Assure that he had full grasp and knowledge of the advantages and the downsides of all

strategies under consideration.

- 6) Keep tabs on the time frame established and follow-up with advisors to keep them on track and on time.
- 7) Assure that all documents and steps are completed to implement the chosen strategy and a summary is completed so that future reviews have a solid foundation of information about the transition when needed. This was critically important with banking and lending relationships remaining comfortable with the transition.

All of this was accomplished while the business revenue was expanding by 20% and new construction was adding significant additional capacity.

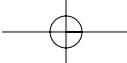
Conclusion: this project would have never reached conclusion without someone taking responsibility and driving it to completion. A significant tax savings opportunity (\$7 – 10 million savings) would have been lost forever and the goal of passing the family business within the family would be significantly impaired, if this opportunity had been missed.

While you may not enjoy such a dramatic opportunity; in our experience, the importance of having someone as project manager to complete an exit strategy plan for your business, will significantly improve the likelihood of a project being successfully completed.

Bill Roberts is a Principal of Benefit Concepts, Inc., and a member of Estate Strategies Group, a national association of wealth preservation planners. He has worked with entrepreneurs for 28 years in Business Succession and Exit Strategy Projects.

Bill Roberts

5350 South Roslyn Street, Suite 310
Greenwood Village, CO 80111
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