

# Planning a Family & Business Legacy

Planning a Family & Business Legacy

Karl Bareither



A holistic approach to wealth transfer planning for entrepreneurs, business owners & family members

 **Karl Bareither**  
CLU, Wealth Transfer Specialist

with

**Tom Reischl**  
CLU, ChFC, MSFS

# Since 1969, hundreds of families and businesses have benefitted from Karl Bareither's FBR System<sup>SM</sup>

## Here's what clients say:

"The Specialist interviewed all of our family members individually and then had a group family meeting to discuss family and business objectives. She is good at finding out what everyone thinks and bringing it all together as a group."

— L.L., CEO, Idaho Business

"Our Specialist showed a great deal of concern about the personal interests as well as the financial. He is very concerned that you deal with the family issues at the same time and that one should not come before the other. I would recommend him."

— R.S., Vineyard Owner

"We have peace of mind about what we have done because we will leave it the way we want to leave it and we think the ranch will continue on and that is our goal."

— D.M., California Cattle Ranch Owner

"The FBR Process and Model are very good ways of enhancing family relationships and were instrumental in preparing our new family business wealth transfer plan. Our Specialist did an excellent job coordinating and implementing the new plan. I would recommend them very highly in getting the planning done while helping to resolve present and potential family and business concerns."

— J. Duarte, Dairyman

“I needed a wealth transfer plan to overcome confiscatory inheritance taxes and possibilities of unfairness within the family. Frozen assets and a going business would be useful to some, a burden to others and a distinct tax problem. Our FBR Wealth Transfer Specialist worked with all of our family members, lawyer, insurance agents and accountants, with understanding, compassion and expertise to create a workable and acceptable plan. The family found satisfaction and consolation in the work.”

— E. Williams, Farm and Vineyard Owner

“I think our Specialist is very helpful in showing families how to plan. Using the FBR Process, he gets the family to talk things over and understand one another, resulting in peaceful negotiations.”

— A. Van Exel, Dairyman/Farmer

“The FBR Model was instrumental in getting our planning done. Our Specialist is good at her work and knows what she is doing.”

— R. Engler, Wife and Co-Owner of Cattle Company

“I would recommend the FBR System. I have all the confidence in the work they did for me and my family business. They were a great help to us and we really appreciate their work.”

— N. Warmerdam, Widow, Retired Dairy Owner

### **Here’s what other business advisors say:**

“By bringing together the entire family, the Wealth Transfer Specialist brought new insight to the family business and me. He was instrumental in initiating the planning process.”

— R. Wilson, CPA

“The FBR System approach helps me do a more thorough job for my family business clients. It offers a complete approach to helping business owners plan for the future.”

—Fred Heyer, CLU, ChFC, Financial Planner

“Karl, I want to thank you for speaking to the Yuba Sutter Estate Planning Council regarding the FBR Model. I believe that your remarks were well received and of real benefit to the participants. I was particularly impressed by the questions from attorneys who indicated that they had struggled with the very issues that you were discussing.”

—John L. Guth, Attorney & Certified Specialist in Estate Planning

“Thank you Karl for speaking at our National Conference. Your Family Business Renewal presentation definitely touched the hearts of our advisors.”

—S. M., Advanced Markets Consultant

“Karl spoke at our Farmers Tax and Accounting Conference and he received excellent ratings. I was very pleased with his presentation and would recommend him as a speaker.”

—Kay Phelan, Director of Conferences  
California CPA Education Foundation

“The FBR System approach will cause a serious re-thinking of my role.”

—L. G., Planner

# Planning a Family & Business Legacy

A holistic approach to  
wealth transfer planning for  
entrepreneurs, business owners  
& family members

Karl Bareither, CLU  
Wealth Transfer Specialist

with

Tom Reischl, CLU, ChFC, MSFS

**Important Note:**

This publication is intended to provide accurate and authoritative information with regard to the subject matter covered. It is offered with the understanding that neither the publisher nor the author is engaged in rendering legal, tax, financial or other professional services. If legal, tax, financial or other expert assistance is required, the services of a competent professional should be sought.

Copyright © 2003

FBR Publishing

P. O. Box 2347

Avila Beach, CA 93424-2347

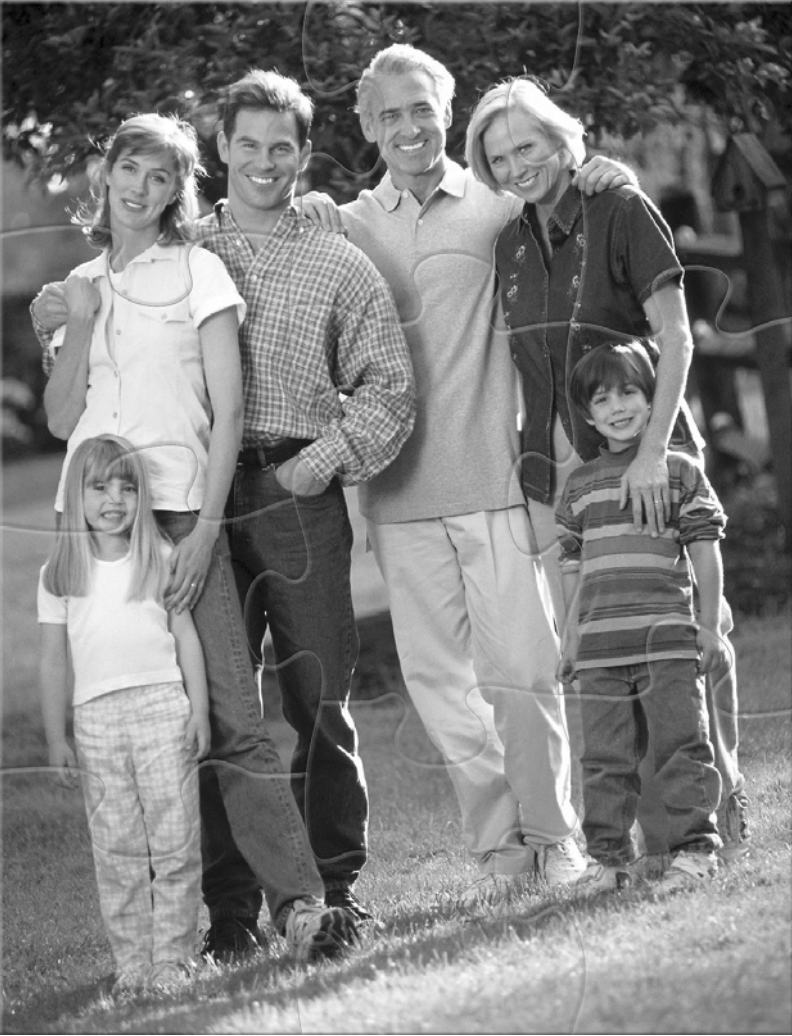
All rights are reserved under State and Federal Copyright Law. No part of this book may be reprinted, reproduced, paraphrased or quoted in whole or in part by any means without the express written permission of the publisher and author.

Printed in the United States of America

# Contents

	Dedication . . . . .	ix
	About the Author . . . . .	xi
	Preface . . . . .	xiii
	Introduction . . . . .	1
1	It's a Family Affair . . . . .	15
2	Preparing to Communicate . . . . .	29
	<i>The FBR Model</i> . . . . .	41
3	Phase I: Understand Family Objectives . . . . .	43
	<i>Step 1: Interview individual family members</i> . . . . .	46
	<i>Step 2: Identify family objectives</i> . . . . .	50
	<i>Step 3: Analyze current plan</i> . . . . .	51
4	Phase II: Develop a New Family Wealth Transfer Plan . . . . .	55
	<i>Step 4: Determine alternative wealth transfer options</i> . . . . .	56
	<i>Step 5: Seek input from owner advisors</i> . . . . .	62
	<i>Step 6: Develop the new plan</i> . . . . .	65

5	Phase III: Present and Implement the New Plan . . . . .	69
	<i>Step 7: Present the new wealth transfer plan</i> . . . . .	70
	<i>Step 8: Consider liquidity options</i> . . . . .	76
	<i>Step 9: Implement and monitor the new plan</i> . . . . .	78
6	Planning for Philanthropy . . . . .	81
7	Fundamentals of Business Succession Planning . . . . .	95
8	Fundamentals of Estate Planning . . . . .	115
9	Selecting a Wealth Transfer Specialist . . . . .	129
10	Summary of Our Model . . . . .	139
	Epilogue . . . . .	153
	Glossary of Terms . . . . .	167
	Resources . . . . .	183
	Sample Planning Questions:	
	<i>Interview Guide</i> . . . . .	185
	<i>Current Business Continuation Plan</i> . . . . .	187
	<i>Proposed Family Wealth Transfer Plan</i> . . . . .	189
	A Sample Family Business Study . . . . .	191
	Additional Information . . . . .	205



# Introduction

*Let him that would move the world, first move himself.*

—Socrates

The land my family currently lives on is part of what was once a nine thousand-acre ranch, perched above the shimmering California coastline. A successful ranching operation, owned by a single family since 1882, was lost after a 20-year legal battle that tore both family and ranch apart. Had the family been able to successfully plan for its continuation, cattle might still be grazing on the spot occupied by our house. You might say our home is testimony to the consequences of lack of communication between the owners and heirs of a family business.

Not far away, another family feuding over a business resulted in land baron Clarence Salyer losing control of his empire when two of his sons rebelled and forced him out of power. To this day, the family is still split into two

irreconcilable factions. About the only time the remaining Salyers get together now is for periodic courtroom sessions.

The case of the Fairview Dairy is another example of a failed business transfer plan (Note: all of the following examples are based on real cases, but names have been changed to protect confidentiality).

Fairview Dairy is a successful dairy farm owned and operated by Peter, a first-generation American who came to this country as an immigrant with no formal education and no assets, save his willingness to work hard. Over time, Peter's hard work and excellent management skills resulted in his developing a high-producing, quality milk operation. After many years, he built up a multi-million dollar dairy business. As he got older, Peter decided to bring his son, Tony, into the business with the goal of eventually passing the business on to him. Unfortunately, Tony had other ambitions.

In a private meeting with Tony and his wife, Patty, I learned that their interests were quite different from Peter's. Their dream was to start a small dairy operation of their own in another state. Although Peter couldn't understand why Tony didn't share his vision of keeping the dairy in the family and building even greater production and profitability, he nevertheless helped Tony start his dream operation by giving him enough cows to get started. Tony and Patty moved to another state and began building their dream dairy operation.

The point of this story is that the vision of the second generation may not match that of the entrepreneur when it comes to the future direction of the business. It's important that this be understood in order to avoid a lot of pain down the road. The only way that can happen is if there is open, honest communication among family members when it comes to dealing with matters of the family business.

Having worked with business owners for years as an active estate planner, I dealt with many cases like Fairview Dairy. Businesses that could have—perhaps should have—survived to enrich new generations of family owners, but instead, were liquidated or sold to others outside the family.

Why is it that only 30 percent of family-owned businesses make it to the second generation? What goes wrong? I think I know the answer.

### **Getting Started**

A little personal background may be helpful. I started in the life insurance business in 1958 the way most new agents did at that time. Hours of study to learn about the products my company offered. It took a lot of practice to learn how to make effective presentations. Countless phone calls and door knocks searching for people to tell my story to. Perseverance eventually paid off; and within a couple of years, I began to experience a fair amount of success.

Success was an opiate to me. A taste of it bred a desire for more. By 1961, I was a full-fledged workaholic. My hard work paid off. Success brought with it many perks, including a life style many would envy.

Along the way, I discovered I had a knack for sorting through complicated situations and developing creative solutions. I gravitated toward what the financial services industry calls “advanced marketing.” Specializing in advanced marketing means to focus on more complicated cases, such as estate planning and small business succession planning. As time passed, I found myself most attracted to working with small business owners and their families.

I followed the usual path in developing my skills in advanced marketing. My workaholic nature drove me to pursue additional education in estate planning and business planning. In 1972, I received the Chartered Life Underwriter (CLU) designation, the industry’s mark of accomplishment in advanced marketing education.

I had settled into a comfortable work style. Taking advantage of my strength as a technician, I managed to build a very nice, stable clientele base. Clients became friends in the process of helping them plan for the continued success of their businesses, adding to the personal satisfaction I received from my work. In almost every respect, I had it made. All respects, that is, but one.

## The Shoemaker's Children

One feature of my work that had always mystified me was the fact that, while the solutions I proposed to my business clients were virtually always technically correct, they didn't always solve the problem. Sometimes my ideas worked and sometimes they didn't. The fault didn't seem to lie in the solutions themselves—there was something else happening. Something not clear to me until a crisis occurred in my own family.

In 1986 my only daughter Karla, died. Not by accident or sickness, but by her own hand. My wife, Lillian, and I were devastated. I had no idea Karla was experiencing major depression. I was too busy to see. In classic workaholic fashion, while I was busy helping other families with their needs, I had neglected many of the needs of my own family. The shoemaker's family had been going barefoot.

In hindsight, there were signs. One day, not long before she died at age 24, Karla approached me and asked if I would agree to seek outside help and attempt to bring our family of five closer together. Karla knew something I didn't know. While we were obviously prosperous, something was missing. The relationship between Karla, her two brothers, her mother and me was not as close as it should have been. Communication was not as open as it could have been. Karla desperately wanted us to be a closer family; one where each was willing to listen to the others' needs; one where the father

had time—quality time—to spend with the family. But while Karla was pleading for me to take time to smell the flowers, the workaholic in me was admonishing her to plant flowers.

To placate Karla, Lillian and I agreed to seek outside help if she could convince her two brothers to participate. We knew Karla would not be successful in convincing her brothers. Frank communication in an open, family gathering environment was simply not our style. I didn't believe it was going to happen—and it didn't.

Eventually, Karla gave up trying to convene the family meeting, and then one day she just gave up everything.

No amount of time, no words, no degree of counseling can ever completely erase the pain of losing our daughter. There is simply no way to rationalize away the fact that Karla found life unbearable-unlivable. Our family relationship may not have been entirely at fault, but I can't help but think I should have been able to do something to prevent her death. Perhaps if the lines of communication had been more open between us, she could have let me know of her pain, and I could have intervened. The unanswered questions and feelings of guilt experienced after a loved one commits suicide are the heaviest burdens you can imagine.

If any good can come from such an awful experience, I like to think it's that I learned something from Karla. I learned the value of family love. The importance of open communication among family members. The value of

taking time to smell the flowers after working to plant them. The bitter cost of yielding to the temptation to measure one's worth only in terms of work and accomplishments. Our family can never heal our relationship with Karla; it's too late for that. But the four of us can honor her by working to improve our relationship with each other and by extending the lessons we've learned to other parts of our lives.

### **Finding Peace of Mind**

Given my propensity to overwork, it would have been easy for me to deal with my grief by burying myself even deeper in my work. But that would have required my ignoring Karla's wishes yet again. Instead, I chose to alter my work habits and search for balance between work and family, and at the same time, bring the lessons I learned about the importance of family relationships into my work.

I began to see my work with family businesses in a new way. I began to realize that it wasn't only about technical solutions after all. It wasn't about finding the most tax-favored way to pass the family business or the most effective estate planning technique—it was about the family itself! I emerged from my grief with a mission: to find a way to literally put family ahead of business in family businesses.

Some years later, I decided to survey my existing clients and verified what I had begun to suspect. In many

family-owned businesses, a serious breakdown in family communication hindered both quality family relationships and business profitability.

It was during this time that a family asked me to interview all their family members in order to help them prepare a new plan that would meet the needs of all family members. One of the children lived a long distance from the rest of the family and was not actively involved in the business. The family felt it was important to plan for the future of the business while the matriarch was still living and in good health.

Eventually, the planning process resulted in a plan whereby the inactive child was to receive non-business assets instead of a minority interest in the family business. Everyone in the family was satisfied with the results of the planning process. Active family members would own the business, and the inactive family member would receive non-business assets.

Armed with this success, I committed myself to finding a new way to work with family businesses. Instead of working solely with the business owner, I would work with the entire family. Instead of agreeing to develop a business plan in secret, I would encourage openness on the part of the owner and all family members. Instead of focusing only on the technical aspects of the planning solution, I would search for ways to renew the quality of life for both the business owner and the family members.

What I learned over the years, applying these new principles to my work with families and their businesses, gradually came together into a cohesive process with a beginning, a middle and an end. A process that ultimately leads to a plan for the business that meets the needs of all family members—not just the entrepreneur. A process that also met my own need to apply the lessons Karla taught me and spread the word that having a successful business and a successful family life are not mutually exclusive goals. With this book, I hope to be able to spread this message!

### **A New Way of Working with Family Businesses**

Over time, this work has led me to develop a model called Family & Business Renewal. I like to think that my personal evolution was from advisor to specialist. From a technician—using my mind to match problems and solutions—to an artist, if you will, working from the heart to conceive, design and build something new. Over time, the Family & Business Renewal Process developed into a truly unique way of doing business. More like building a monument to a family or entrepreneur than simply developing solutions and selling products. I began to see myself not as a sales person or advisor, but a wealth transfer “architect.” The more I thought about it, the better I liked the concept. Karl Bareither, Wealth Transfer Specialist.

The procedure begins with the recognition that the client is the entire family, not only the business owner. This in itself was a revolutionary breakthrough in my own thinking about my clients. I had always felt that whomever paid my bill was the client. No longer! I'm convinced that business planning cannot be done in a vacuum. Regardless of how I get paid, from the start, the family matters. An example will illustrate the importance of family relationships in business planning.

I'm reminded of Arnie, a successful grape producer client of mine. I was enjoying a conversation in the vineyard one day with Arnie's son, Milt. Normally a pleasant, amiable fellow, Milt's demeanor suddenly changed mid-way through our conversation. It took me a minute to realize what had provoked this sudden change in Milt's personality. It seems Arnie was approaching us, and the sight of his father had instantly turned Milt's attitude from positive to negative.

The reason was obvious to me. Arnie had always exercised a great deal of control over Milt, never letting the young man forget who had the power—in the family, as well as in the business. Although Milt was heir apparent of the family's business, Arnie had never given him any responsibilities in the business. Arnie's need for power and control over his son prevented him from recognizing his son's potential as a businessman. Arnie refused to invest in Milt by grooming him to be his successor and developing Milt's skills and expertise. Over the years,

Milt grew resentful of this treatment, and while he continued to work in the business, his relationship with his father steadily deteriorated. Needless to say, the tension between father and son also prevented any serious planning for business continuation.

Clearly, this is a case where ineffective communication between two family members was at the root of the planning problem, and no amount of technical training was going to solve it! The relationship sickness had to be addressed before serious planning could begin. To try to develop and implement a solution in the midst of the distrust, hidden anger and hurt would have been futile indeed.

As we work our way through the process of Family & Business Renewal, several important principles will be repeatedly emphasized:

- The entire family must work toward a solution, not just the business owner.
- The agenda must be open and include everyone in the family who might be affected by the business planning.
- Everyone must recognize that people are the most important business asset.
- Everyone involved must strive to create a climate of open dialog and communication.
- Everyone involved must participate in developing a workable solution.

- All parties must commit to plan implementation and periodic review.

These principles were developed over many years spent working with family-owned businesses—many of them probably similar to yours. This experience has deepened my commitment to renewing both families and their businesses.

My commitment was cemented the day I met Jake.

The Lazy J is second-generation Wyoming cattle ranch. I first met Jake, the 56-year-old son of the founder, at the conclusion of a business planning presentation I made to a group of business owners. Jake was one of five children in the family and the only one working in the family business. His brothers and sisters were all well educated and working in professional or highly-skilled occupations. Jake and his wife, Martha, lived and worked on the ranch with Jake's parents, Mel and Alice, for thirty years. Jake and Martha always assumed that someday the ranch would be theirs. Whenever Jake asked his father about the future of the ranch, he was always assured that indeed, someday the ranch would be his.

When Mel died, Jake learned that all the ranch property had been owned jointly by Mel and Alice, and that Alice was now sole owner. Jake wasn't concerned, however. He was certain that his mother would arrange to leave the ranch to him at her death. When Alice

died, however, her will provided that ownership of the ranch was to be divided equally among her five children. Instead of becoming successor owner, Jake had merely a one-fifth minority interest in the Lazy J. To add insult to injury, Jake had always worked for low wages—considering it an investment in his future—and the ranch had never installed a retirement plan of any kind. Jake and Martha had very little to show for their thirty-year investment.

The tragedy of this story is that the failure to plan had destroyed the opportunity for the one person with the most interest and experience in running the family business to take it over. Jake couldn't afford to buy out his siblings so the ranch had to be sold. A business continuation plan could have been constructed that would have left the ranch to Jake and other assets to the non-ranch children. The business could have remained in the family for yet another generation—and who knows for how many more! The problem wasn't the lack of a plan—they had a plan. Apparently the plan was for Mel to leave the ranch to Alice and Alice's plan was to leave it equally to the kids.

Jake told me this story with tears in his eyes. “Who can you trust if you can't trust your own father?” he asked. “I hope you can help others avoid the same fate.”

The business I created, Family & Business Renewal (FBR) System, Inc. was formed for the express purpose of helping the owners of small businesses preserve their

family's wealth and assure the successful transition of business ownership to future generations. The balance of this book will walk you through this Model and help you apply these principles to planning for the renewal of your own family and business.



# Chapter 1

## It's a Family Affair

*The world is filled with willing people; some willing to work, the rest willing to let them.*

—*Robert Frost*

Almost everyone has had the experience of coming across a product somewhere and thinking, “I had that idea years ago—I should have patented it and started a business!” The difference between “almost everyone” and small business owners is that it’s not “I should have” but “I did.” If you’re a first-generation small business owner, you are among the minority of people who actually followed their dream and made it happen.

### **The Business Entrepreneur**

The successful business entrepreneur is a special breed. Not only does he or she have a good idea, but he also has

the personality, work ethic and determination to make the idea profitable. The ability to dream big dreams and follow through on them is a distinguishing characteristic of the entrepreneur.

There was a time when some people thought there were no more good ideas to be had. In fact, Charles H. Duell, commissioner of the U.S. patent office, said in 1899 that the government might as well close down the patent office: “Everything that can be invented has been invented,” he said. Think of all the patents issued since then! Surely no true entrepreneurs were among the skeptics. Take a single example: Thomas A. Edison. Edison certainly disproved the notion that there was nothing left to invent. Most of his earth-changing inventions came about well after Duell’s comment. There probably never was a more productive entrepreneur than Thomas Edison. So much for the notion that we’ll someday run out of entrepreneurs with new ideas—thank goodness!

Who are these people? We know they have ideas and determination, but what else puts them solidly in the class of people “willing to work,” as Frost says in the quote at the start of this chapter?

Well, for one thing, they have the ability to face defeat and disappointment over and over again. Edison is again a compelling example. Would you have the patience to try thousands of different materials for the filament of your electric light bulb idea before finding the one that

works? If you're a successful entrepreneur, you probably would. Most successful business owners have tried and failed multiple times before finally getting the combination right. Very seldom does a great idea simply drop out of the sky. It is almost always the result of much effort and hard work.

### **The Entrepreneur and the Family**

Given the amount of dedication and work required to build a successful business, it may be tempting to ask, "What family? Who has time for a family?" Unfortunately, that particular stereotype of the dedicated small business owner is often close to the truth.

In order to invest the amount of time and energy it requires to build a successful business, the entrepreneur often finds family life neglected. It's one of the sacrifices made in the pursuit of one's dream. The justification, of course, is that all the time away from the family will someday result in a better life for everyone. The trouble is, that day never seems to come. The entrepreneur, being what he is, will look for new challenges and new demands on his time.

I alluded earlier to my own struggles with workaholism. Burying oneself in work is an easy option for the individual who has invested time, energy, and ego in it—not to mention money and financial security. Workaholism is a convenient way to shelter oneself from having to deal with family problems and the myriad of

issues that constantly arise in the day-to-day life of the average family.

The results are predictable. While the entrepreneur focuses on the business, the family, while sharing in the stress that results, often is left to find solutions without the active participation of one of its key members. One consequence is that the non-business parent ends up running the family while the other runs the business. In other cases, both parents may be active in the business—providing even less parental involvement in the children's lives.

In most respects, members of families where a business is involved have the same needs as all families. However, living and working together can create a closeness that often results in differences that do not exist in families where there is no business interest. Here are a few examples of what I mean:

### ***Nurturing and Love***

This is probably the most basic need of every individual and a need usually met by family members. Very often, however, the family is incapable of providing unconditional love and nurturing for various reasons. And, when there is a business involved, family members often blame the business for the failure of the family to meet this need. The result can be resentment and conflict centered on the role of the business in the family's life.

***Increased Self-esteem***

This is another universal need among all people. Again, we learn to love ourselves largely through interactions with others—most importantly family members. In many cases, the existence of a business in the family can provide an ideal climate for nurturing self-esteem among family members—particularly children. In some cases, however, self-esteem becomes wrapped up in the ability or inability to meet the expectations of the business owner. Given our discussion of the personality of the typical entrepreneur, this can be a very difficult task—especially for a child.

***Fairness and Equality***

Here again is an issue that many families struggle with. In families with a small business involved, it can be an extremely difficult one to manage. How can all family members be treated fairly and/or equally when not all can or want to participate in the business? This is an important issue we'll spend more time on later.

***Relief from Tax Burdens and Transfer Costs***

Affluent families often struggle with issues around transferring the family's wealth. Debts, estate and gift taxes all have to be considered when planning for wealth preservation. When a business is involved, many of these issues become even more complicated. Later, we'll discuss in more detail the challenges faced in planning to preserve the business for future generations.

### ***Business Continuation***

This can be a particularly tricky aspect of planning. All family members may not want to continue in the business after the owner's death or retirement. For those who do have the desire, the question is one of being fully prepared to step into the role of business leader. For those family members not interested in continuing in the business, the question is one of fair treatment. The key is to create a plan, before it is needed, that will permit the continuation of the business and preserve family harmony.

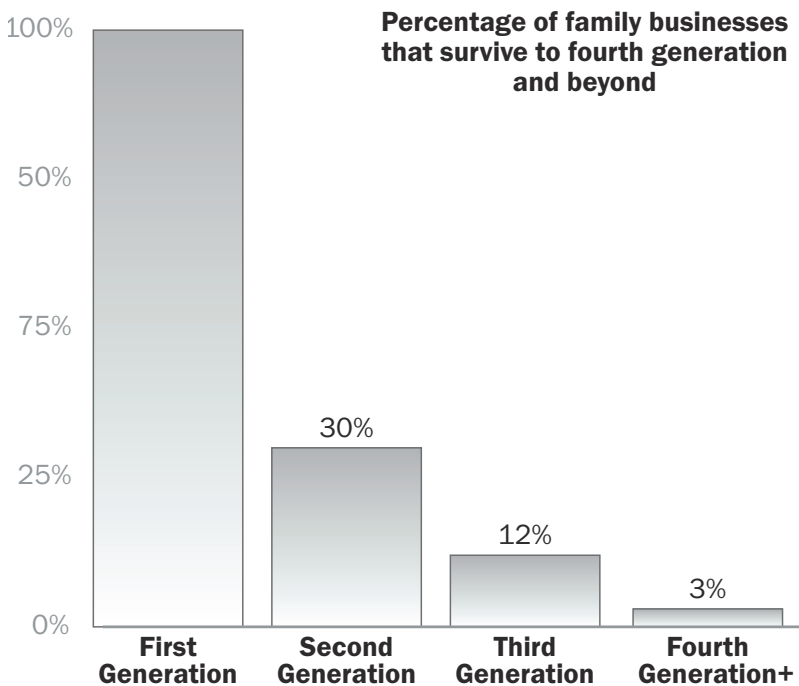
### **Keeping it in the Family**

Let's examine the issues around the transfer of business ownership more closely. Here are some interesting statistics developed by the Small Business Administration:

- Over 90 percent of all business enterprises in North America, and the majority of businesses internationally, are family owned.
- Nearly 35 percent of Fortune 500 companies are family owned.
- Family businesses account for 78 percent of all new job creation, 60 percent of the nation's employment and 50 percent of GDP.

Based on this information, it's easy to see the importance of preserving family businesses. However, that doesn't seem to be happening. Consider these facts:

- Only 30 percent of all family-owned businesses survive into the second generation.
- Only 12 percent make it to the third generation.
- Only 3 percent of all family businesses continue to operate at the fourth generation level and beyond.



Compounding the problem is the fact that, according to a recent survey, 39 percent of family-owned firms expect to experience a change in leadership due to retirement or semi-retirement in the next five years!

Of course the aging of the baby-boom population, many of whom are business owners, further exacerbates the problem. As baby-boomer owners grow older and die, someone has to assume leadership of the businesses left behind. In spite of that obvious fact, studies show that only 25 percent of senior family business owners have completed any estate planning, other than writing a will, even though 81 percent say they want the business to stay in the family.

A Gallup poll reveals that:

- 72 percent of family-owned businesses do not have a formal business continuation plan.
- 47 percent have done no estate planning at all.
- Only 7 percent have hired professionals to help deal with the family relationship issues involved in planning for the continuation of the business.

Clearly, something is preventing families with small businesses from doing the necessary planning to assure the survival of the business. Simple procrastination may be part of the problem, but family dynamics may be a more likely barrier.

### **Different Perspectives**

Picture yourself growing up in a family where the father is a typical hard-working entrepreneur. Dad is usually late for dinner. He's constantly preoccupied

with business problems and unavailable for father-son or father-daughter events like school sports and music recitals. As the business becomes more successful, even less time is available for family events. While your friend's dad is available for camping trips and Boy Scout activities, yours is too busy. (If you're a second-generation business owner, you can probably relate to this.)

Many family business owners discover too late that their years of putting the business first has been at the expense of building quality relationships with the next generation of family members—the business' eventual new owners.

Rabbi Marc Gellman and Monsignor Tom Hartman, together known as the “God Squad,” related a good example of this phenomenon in a Reader's Digest article dealing with the search for meaning in everyday life.

*We once heard of a CEO who spoke at his retirement dinner to a group of young executives. He said, “I know you want my job and I'll tell you how to get it. Last week my daughter was married, and as she walked down the aisle, I realized I did not know the name of her best friend, or the last book she read, or her favorite color. That's the price I paid for this job. If you want to pay that price, you can have it.”*

Many entrepreneurs—and their families—are paying or have paid this kind of a price.

From the owner's perspective, the business is often a love affair, an obsession, a love-hate relationship. Concern for employees and their families, and fear about the future success or failure of the business, are everpresent. Hardly a minute goes by without a business-related idea or concern creeping into consciousness.

From the perspective of the children in the family, the business sometimes seems like a competitor for their parents' time and attention. A source of endless tension and strife. A wedge between the two parents and between parents and children. A source of richness when things are going well, and a source of stress when they are not. No wonder the children in the family have their own love-hate relationship with the business!

Given the children's memories growing up in a household dominated by the needs of a business and the entrepreneur, is there any wonder why a chill runs up their spine the day their parents utter those most unsettling words, "Kids, just think. Someday all of this will be yours!"

### **Losing Control**

The passage of time doesn't seem to solve the problem either. I remember Pete, a very successful family-business retailer and wholesaler. Pete's only son, Jerry, worked side by side with him until the day Pete died at the ripe old age of 83. Jerry inherited the business, but incredibly, even though he had been involved in the

business most of his life, Jerry had never been allowed to make a single important business decision. He was totally unprepared to assume leadership of the business.

As with many small businesses, the biggest obstacle Jerry had faced over the years was getting his father to give up a degree of control by passing along some of the business responsibility. But Pete never did become convinced to loosen the reigns. Suddenly, at age 65, Jerry found he was in charge. Within six years, the bank owned the business. I ask you, how long will your business be able to perpetuate itself if your only active heir spends his entire business career as no more than a “go-fer” for you? The issue of losing control of the business can be incredibly difficult for some owners.

Another example clearly illustrates the problems we've been discussing. Alvin was a successful Colorado sheep rancher. One day as I visited with him, Alvin confided in me that he and his wife had always wanted to take a trip to New Zealand and Australia to see sheep ranching there. He wanted to go, but he felt he just couldn't leave the business. I reminded him that someday he was going to leave it anyway—on a much longer trip—the day he died or retired. I suggested he and his wife go ahead and take the trip and let their adopted son and daughter run the ranch. It would be good for them to get away, and besides, it would give him the opportunity to evaluate the children's management abilities.

Alvin wasn't too keen on letting his children run the ranch. I remember one day visiting with Alvin, his foreman, and his son. Alvin was busily giving instructions to his foreman, virtually ignoring his son who also was present. It was painfully obvious to all of us that Alvin had greater confidence in his foreman than in his own son. I can't help but think that this callous treatment was at least partly responsible for the son's lack of self-esteem and probably contributed to his abuse of alcohol.

Alvin never made the trip down-under. He did make the longer trip I warned him about. When Alvin died, the children were totally unprepared to manage the ranch, and before long, they were forced to sell. A very unhappy result for everyone involved. The business ended up lost, Alvin and his wife had never taken the trip they dreamed of, and for much of their lives, their relationship with their children was strained. All due to the fear of losing a little bit of control over the business.

Given all the conflicting needs among family members involved with a small business, and the pessimistic statistics for business ownership transfers, is planning a waste of time? No, but it is challenging. Planning to transfer the family's wealth to future generations, when a family business is involved, takes a special effort. Instrumental in this effort is a proven model that takes into account the needs of the business, as well as the needs of the business owners and the needs of the next genera-

tion of business and non-business heirs. What's needed is a procedure that renews both the family and the business, a model that protects all the important assets of the family—personal, business and non-business.

In the next chapter, we'll begin to examine a model that can equip you, the business owner, to leave a legacy, not a tragedy.





## Chapter 2

### Preparing to Communicate

*Many ideas grow better when transplanted into another mind than in the one where they sprung up.*

—*Oliver Wendell Holmes*

Given the discussion in the previous chapter, it's easy to surmise that the greatest problem facing succession planning in most family businesses is the failure of the current owners to communicate effectively with the future owners. If both generations fully understood each other and both supported a common plan for the future of the business, there would not be such dismal statistics on keeping the business in the family.

In my view, a big part of the problem is that traditional business succession planning has been geared to the desires of the business owner alone, to the exclusion

of everyone else in the family—including the future owners!

### **The Typical Business Plan**

At some point, the business owner becomes motivated to sit down and plan for the future of the business—perhaps due to a magazine article he read or maybe an article in the local newspaper about a local business lost to death taxes. Fear suddenly grips the business owner so he pays a visit to his trusted attorney or accountant to discuss plans for minimizing estate taxes and passing on the business.

The typical advisor rightfully sees the business owner as his or her client. They talk for a while about the desires of the owner as they relate to his estate and business. Many of these issues are being considered by the business owner for the very first time.

The response to the question, “What do you want to see happen to the business when you die?” is often a poorly thought out response that reflects the level of consideration this question has received in the past. “I want it to stay in the family.” In response to other questions, the business owner often expresses the wish that “all the children must be treated equally.”

Given this information, the typical advisor would probably create a will or other testamentary device that would divide ownership of the family business equally

among the heirs of the business owner at death. Therein lies the problem.

As we've seen, other family members often do not have the same love for the business that the entrepreneur has. Sometimes they even hate it! To leave the business equally to a mix of individuals who may or may not want to operate it is a recipe for disaster. The better approach is to leave the business to those who are willing—and able—to operate it successfully and compensate the “non-business” heirs in some other way. But how is the business owner to know which heirs are which? Communication.

### **The FBR Plan**

The practice I've developed to deal with this issue is called the Family & Business Renewal Model (hereafter referred to as the Model). The goal of the procedure is to understand more completely the wishes of not only the business owner, but everyone else in the family as well.

At the core of the procedure is the business owner's desire to do what is best for both the family and the business. Without the unconditional support for the plan on the part of the business owner, it is no more likely to succeed than any other plan. With the backing of the entrepreneur, however, this process becomes a powerful planning tool with real prospects for success.

If that is so, why don't all business owners simply adopt the Model, or something like it, and turn around

the statistics we studied earlier? It's because the Model calls for an entirely new set of skills and a change of attitude on the part of the business owner. Change of this magnitude is never easy.

### **Preparing for Change**

As human beings, we all resist change to some degree. It's perfectly natural to want things to stay as they are—it's comfortable. Business owners are human too! And the level of change required is considerable.

Generally speaking, the entrepreneur becomes successful in the first place due to a set of skills non-entrepreneurial types simply don't possess. We discussed some of these earlier—patience, hard work, a desire for independence, a tolerance for risk-taking, need to be in control, etc. These qualities are absolutely indispensable when it comes to building a business from scratch. Without all or most of these attributes, success is very unlikely.

Unfortunately, these very same attributes often work against the long-term planning for the future of the business. Long-term planning means taking less risk, sharing power, less independence—things that often are an anathema to the business owner.

One successful dairyman I know has two boys in the business, but neither had ever been able to make management decisions because the father always wanted to control all the day-to-day operations. After I interviewed all the family members and facilitated a family

meeting, everyone came to the conclusion that delegation of various duties and responsibilities was important and had to happen soon. The family decided to look at how they might improve their business operation and determine when, what and how the various operations should be conducted.

As a result of this planning, the boys have taken over the day-to-day operation of the business without their father's constant overview. This solution helps the business operate smoothly and permits the father to invest more of his time in long-range planning, other business interests and travel. In the past, due to confusion about roles and responsibilities, family members were never sure when they could take time off, away from the business. As a result of the planning, family members now can easily determine time off and can mark it on the business calendar. This simple step has increased the quality of everyone's personal family life.

The sons also agreed to buy out the parent's interest in the dairy so that the other non-business family members could eventually receive their inheritance in the form of cash and notes receivable.

The results of these changes are that the family relationships have improved dramatically and business profits have increased. The quality of everyone's family life is enhanced. The parents are now pursuing activities that interest them, and the business is thriving.

So the message is clear to the entrepreneur. Prepare yourself for change. Commit to it! Embrace it! However unnatural it feels, for the long-term good of your family and your business, take the leap! The result will be worthwhile.

In order to make the changes required for effective long-term planning, it is essential that you find a way to move beyond some of your natural instincts and commit yourself to accepting less power and control over your business. All the power does not have to shift immediately, but the commitment has to be there from the start.

This is a good time to do a little soul-searching. Ask yourself candidly if you can do it. When the time comes, can you bring yourself to let go of some of the power and control you've enjoyed over the years of building the business? Can you begin to share business responsibilities you've traditionally reserved for yourself? Are you ready to help develop the next generation of business leadership? Can you separate yourself from your preconceived notions and existing biases when it comes to selecting the new leader or leaders? For the good of the family and the business, can you do it?

The answer to these questions requires that you find an inner peace and strength that you may not now possess. Draw on your belief system. Do you find strength in your religion or spirituality? If you do, go there. Do you have a personal philosophy that guides you through

life's challenges? If so, go there. If you have been too busy to cultivate a philosophy or belief system, now's a great time to do so. There are many resources and books on all these subjects. They are as close as your public library or amazon.com. Find a way to resolve within yourself the tensions that might get in the way of your doing the right thing for your family and business.

### **Create a Climate for Honest Communication**

The quest for inner peace and strength are important because they will be required as you adjust to the new world of open communication and power sharing. Your position as business owner means you must take decisive action in support of improved communication among family members, or it is simply not going to happen. Your family currently communicates the way it does because of years of interaction. A wise person once said, "If you continue to do what you've always done, you will continue to get what you always got." Commit to changing the communication climate within your family. In this case, change must originate at the top—and that means you!

The single best way to create a climate for open and honest communication is to use the direct approach. Convene the entire family—that means everyone in or out of the business, including in-laws, at a neutral site. Explain that the purpose of the meeting is to discuss plans for the future of the business (that should get their

attention). Make sure everyone can attend—even the potential troublemakers, if there are any.

At the family meeting, describe the new approach to long-term business planning. Instead of you doing all the planning, the new approach will be to involve everyone—business and non-business individuals alike—in the process. Each person is to be interviewed by an independent, third party to learn what each individual's goals, hopes, dreams and concerns are with regard to the future of the business. The responses from the interviews will be used to formulate a long-term strategy for the business. The overriding goal will be to preserve and protect the wealth of the family and assure the future success of the family business.

As part of your presentation to the family, stress that each family member is to answer all the questions in the interview as thoroughly and honestly as they can. They must share the positive as well as the negative. All interview responses will be held in strict confidence. No one, not even you—especially not you—will know who said what during the interviews.

If there is ever going to be a time when you speak to your family bluntly, from the heart, let this be the time. The importance of your leadership on this issue simply cannot be overstated. The family needs to hear, from you, that they are safe to bare their souls in the interview. Everything they say will be considered and everything they say will be kept confidential. That's the secret

to open and honest communication. Permission from the top (again, that's you) to be candid and honest in their assessment of the family business and their own personal current and future role in it—if any.

Remember the goal of the individual family member interviews is to determine the goals, hopes and dreams of the family with regard to the business. The result will be a new plan that protects and preserves the family's wealth in a way that is fair to all the individuals and best for the continued health of the family business.

### **Introducing the Wealth Transfer Specialist**

Assuming that everyone is comfortable with the notion that they have permission to be candid and honest during the family member interviews, it follows that a qualified, unbiased person must do the interviewing. Who is that person?

I call him or her a Wealth Transfer Specialist. The Specialist is someone who is trained and qualified to play the role of quarterback for the team of advisors who ultimately will design and implement the new plan. Later, we'll discuss how to identify a Specialist and how to make a wise selection. For now, let's concentrate on the role of the Specialist as it relates to the interview procedure.

The best way to create a wealth transfer plan that meets the needs of all the family members and assures the future success of the business is to take advantage

of expertise from a variety of qualified advisors. Some of these may already be in place. You may already have, for example, an attorney for the business and perhaps a CPA who advises you on tax matters. In addition, you might have an insurance agent or financial planner you work with from time to time. Any one of these individuals could conceivably play the role of the Specialist. It's a matter of having the skills and training to do the job. As an alternative, you could search for an individual already trained in the use of the Model and ready to go.

I've referred to the "team" of advisors a couple of times already. This is more than a simple sports analogy. The family business advisors really do have to work together as a team, each bringing their own particular skills to bear, in order to develop a new plan that does the whole job. Someone must lead this team. Leadership is the key function of the Specialist.

In addition to leadership skill, the Specialist must have knowledge of estate planning and business succession techniques. He or she must be able to analyze the data from the family interviews, determine the important family objectives, and detail a plan for the future. While the CPA crunches the numbers, the attorney drafts the legal documents, and the financial person pursues various product solutions; the Specialist (who again, could be any one of these or a different person entirely) coordinates the entire operation and leads the team to a suc-

cessful conclusion. The Specialist is a key person in the effort to develop a new wealth transfer plan.

In addition to the technical skills required, the Specialist must also be a skilled facilitator and, in some cases, a mediator. Even some new communication skills may be required. In conducting the interviews, for example, sensitive or controversial issues sometimes surface. These must be dealt with honestly and with sensitivity. As solutions are explored, fears and concerns sometimes arise. Again, these must be handled with care and may require a family system therapist's expertise.

To get the process off to a good start, it is best to include the Specialist in the initial family meeting. This is a wonderful opportunity to introduce the Specialist to the family so they can begin to build a relationship with the person who will be conducting the confidential family member interviews. Ideally, the Specialist will explain the importance of the interviews and the manner in which they will be conducted. The Specialist also can answer questions from the family about how the practice will proceed beyond the interviews.

The single most important element of the initial family meeting is your role as the head of the family and principal business owner. Your strong support for the procedure and the Specialist will be crucial to the success of the venture.

## **Celebrate**

At the close of this initial family meeting, plan for a celebration! Getting everyone excited about the procedure that all are about to embark upon is a major accomplishment and a milestone. Demonstrate your own enthusiastic support for the journey by leading the family in a celebration or toast to the future. Plan for champagne, or if your family prefers a non-drinking atmosphere, a special dessert or other symbol of celebration. Make every effort to reinforce the importance of the next step in business and family renewal. Send an unmistakable signal that real change is about to take place!

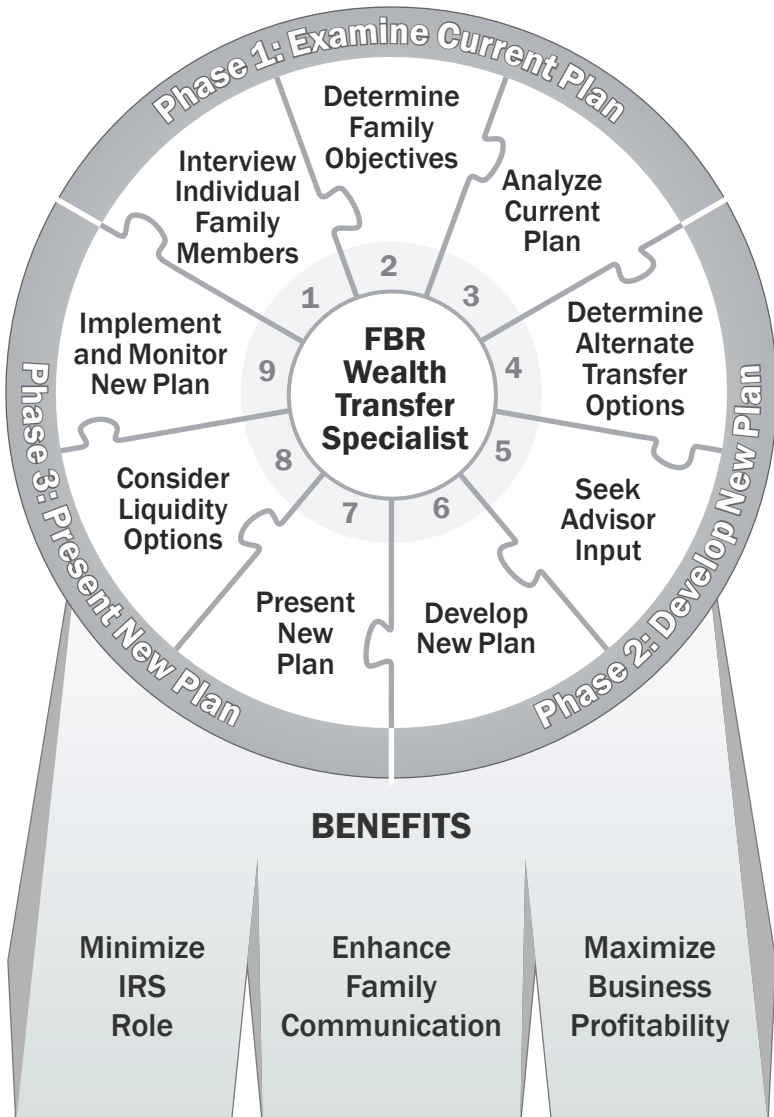
## **Chapter 2 summary points:**

**In this chapter we discussed:**

- ❖ **Understanding the typical business plan**
- ❖ **The FBR Plan**
- ❖ **Preparing for change**
- ❖ **Creating a climate for honest communication**
- ❖ **Introducing the Wealth Transfer Specialist**

# The FBR Model

## 3 Phases, 9 Steps and 3 Benefits



 **FBR SYSTEM<sup>SM</sup>**

Family & Business Renewal  
[www.fbrsystem.com](http://www.fbrsystem.com)

# Planning a Family & Business Legacy



**Karl Bareither**  
Founder & CEO  
FBR System, Inc.

Karl R. Bareither, Wealth Transfer Specialist, takes you step-by-step through a unique, time-tested approach to family business succession and estate planning.

- Find out why traditional business succession planning fails, and discover how the Family and Business Renewal (FBR) Model reaches beyond traditional planning techniques.
- Learn how to best protect your business and estate through wills, trusts, gifts, life insurance, buy-sell agreements, and more.
- Understand why and how to include the entire family in the planning process.
- See how hundreds of business owners and their families have benefited from working through the FBR Process.
- A valuable resource for all entrepreneurs, business owners and family members.

*“Our Wealth Transfer Specialist worked well with us and coordinated the whole process. I would recommend him very highly in getting the family succession and estate planning done and helping to understand current and potential family issues.”*

— J.D., California Business Owner

**\$14.95 USA**    \$23.00 CANADA

Cover design © 2003 by Cameron Clark

