Prisoner of the Family Business: Diagnosis and Treatment

Prisoner of the family business? ...That’s ridiculous! Perhaps. For some, working in the family business may actually be the best thing that has ever happened. It could mean:

- A stronger, more passionate connection to their work
- The ability to set their own professional goals
- Freedom from the anxiety of random corporate downsizings
- Any number of other positive attributes

For others, the family business is a long-term sentence with no chance of parole. For those family business "prisoners," the negatives far outweigh the positives:

- Time off is virtually impossible
- Lack of clear vision and shared values
- Work roles not clearly defined, leading to burnout
- Surprising lack of communication about key business matters
- Feeling trapped and incapable of escape is the norm

What can be done for the prisoner of the family business? Consider the following three-step approach to simplify an incredibly complex situation:

STEP ONE: How Did I Get Here?

By thinking about the path that led to feeling imprisoned in the family business, various truths can come to light. For example:

- Was I gently (or not so gently) nudged into working here?
- Did I help out during a crisis that turned into a full-time responsibility?
- Were other career opportunities ever discussed in my family?
- Have I ever considered who would take my place when I retire?
- Was it always just assumed that I would work here?
- Did I need a job and this was the easiest solution?
- Is it clear that my family relationships would be damaged beyond repair if I chose not to work in the family business?

With this information, you will shed light on key issues that lead to joining and staying in the family business – issues that may or may not get in your way when considering a potential exit strategy.

STEP TWO: Taking a Closer Look

The big question: can I make this work or should I move on?

This is a difficult question to answer without the second step in this process – a clear, accurate, and comprehensive understanding of:

- Personality style
- Values and motivators
- Emotional and social preferences
- Professional/career vision

Once you have this data, you can step back and take an objective look at your current role in the family business. Then ask yourself:

- Can changes be made to this role so it is a better fit for who I am and what I want?
- Are there other areas of the business that might provide a better, more satisfying career for me?
- Have I done everything I can in the family business and it is simply time to move on?

STEP THREE: Writing the Next Chapter

The good news is that Step Two will provide a strong foundation whether you decide to stay in the family business or move on. The key is “30,000 foot” planning followed by small, manageable action steps.

Perhaps the small steps involve reaching out to colleagues to discuss your long-term vision. Maybe it means talking to other family members about trying to redefine your role. Whatever the ultimate vision, you won’t get there without taking these small steps. To write the next chapter of your life, you need to run the marathon, you finish the first mile.

Case 1 - The Great Escape

Tom and his older brother, Stephen, had purchased the family business from their father eight years ago. Initially, their plan was to build the business up and sell it for a significant profit. However, as time went on, Stephen saw great opportunities to continue building the business while Tom grew increasingly frustrated with his day-to-day role as operations manager and co-owner. He was growing unhappy with his current role, and sought professional help to begin an online assessment and feedback process.

Through the process, it became clear that Tom’s personality and values were a poor fit for his current role at the company. More important, because of both Tom’s and Stephen’s personality styles, neither was suited to be in an equal partnership. It was clear that Tom would not find a good fit elsewhere within the company, and should seriously consider a buy-out.

In the end, both Tom and Stephen experienced great relief from a conversation about a buy-out and their new plan. The plan enabled Stephen to run the business as he thought it should be run, and allowed Tom to pursue other professional interests.

Tom’s results on his interest inventory, as well as personality profiles, helped him focus on those professional areas he enjoyed most, as well as recall his original career interests immediately after college. The assessments enabled Tom to take a step back, review his “hard wiring,” and then objectively compare this to his current role and potential roles in the company. Rather than blaming himself for not being “good enough” to fit into his operations role, or flexible enough to fully partner with his brother, Tom was able to clearly reflect on, and plan, a more satisfying professional future for himself.

Case 2 - Staying out of Prison

Bill and Sally both work in the family business. While working as a manager was always Bill’s dream (he bought the business after working in it for years), Sally accidentally found herself in the business when she was laid off from another job. Unsure of their ability to work together, as well as Sally’s lack of confidence in her role, their financial advisor recommended that both Bill and Sally complete an assessment process to enhance their ability to determine what they each should be doing.

After completing two online assessments, coupled with an individual feedback session, it became clear to Sally that this business could be a wonderful opportunity for her if she refines her role – spending less time on the operations part of the business and more time using her creativity in marketing. It also became clear that Bill could utilize his skills and personality in expanding the work he does with the loyal customer base he has built up over the many years.

Sally and Bill had naturally started to move toward the work they liked to do. The assessment process helped them feel more comfortable that those changes were the right ones to make, and also helped them take the small steps needed to make the business a place where both Sally and Bill were happy, satisfied and successful.

By Michael A. Klein, Psy.D., MK Insights, LLC

Dr. Michael Klein is the author of the upcoming book “Trapped in the Family Business” and is the founder of MK Insights. MK Insights works with professionals and family business members in assessing personality traits, values and motivators, and emotional and social style for personal and professional development, succession planning and leadership development. Contact: mk@mkinsights.com or call 413-320-4664.
You may want to make a hot dog. Everybody makes it the same way. If you can make yours a little differently, and it can carry a little bit more, perhaps the different condiments for it, not just mustard, ketchup or relish, that may be the spark that leads to success. The challenge is that it's not easy to think of these things. Often it requires looking at things from a slightly different perspective than others.

Again, about two months ago I was reading about security theft problems. Well, there is a software company in Traverse City that is basically selling anti-theft, anti-identity theft software, the rest of the state. Frankly, many of us would have thought that something like this could occur near Traverse City! I presume that there are people who prefer the lifestyle and ambiance found there and that marketing will drive what they want. If that framework, I think we can think of many, many other examples of that sort.

JH: Agreed. And I think that would be very important for existing firms that have been tied for a long time to one product line, that being creative and re-adjusting to new markets; they are finding success elsewhere, outside of the automobile industry.

SK: Absolutely. I’ll echo that in two different things. One is: those that have experience in automobiles and want to diversify, well there's light aircraft, as an option, motorboats and anything that uses a piston could just as easily be that way. A lawnmower or a vacuum cleaner could be that way. But what's more astounding is that there are a couple of former automobile engineers who have developed a strip that a doctor can put on a person's head to measure the amount of oxygen that is in the person's brain. And that will determine whether the person is sufficiently alive to be able to withstand an operation or whether the lack of oxygen has made it impossible for the person to survive anymore. That's without doing the actual surgery. And that was developed by automobile engineers who tried to use these technologies for automobiles, and it didn't work. But they were better enough to say: "Well, let's use it somewhere else." And it's that kind of entrepreneurship that developed the technology, souped it up, if you want, from bolts all the way up to the high-tech. We have now moved away from the low-value, high-volume items like fenders and seats, and moved toward the high-value, low-volume products that require lots of education and specialized skills.

JH: Thank you very much. Is there anything looming on the horizon that we can't see right now or anything in international trade, knowledge-based economies, that you foresee that just might just might just go ahead and present opportunities to the state of Michigan?

SK: The usual response in situations when income opportunities (or jobs) diminish is of two facets: one is forces pushing out as people say to themselves: "I'm not going to stay in that particular area in it because opportunities don't exist. I'm going to go somewhere else."

"We saw the most radical part of that in the early 1980's when very high interest rates and a strong dollar decimated the auto industry and people picked themselves up and moved somewhere else. Missouri, Louisiana, Oklahoma, California to find jobs in industries that were booming, such as the oil industry. That's the pushing out effect. At the same time, as opportunities decline, wages decline, land rents go down and other similar effects occur causing people to come along and say: "Wow, there's a great opportunity there; there's value there."

For example, going back to the 1980's manufacturer, instead of being located in Oregon, was willing to be located in Michigan because you had a very skilled labor force, wages weren't that high and land rents were virtually zero. Consequently, it paid to bring in the wood to make the paper here rather than to put the plant over there.

It's the conflict between those two forces, the push and the pull, that are at work right now. The Michigan economy has experienced very slow growth, relative to the rest of the country, where the unemployment rate as well as the unemployment rate have been higher than the rest of the country. Michigan loses jobs for the past several years even as the rest of the country was gaining jobs. But that's because the population growth is growing rapidly, the number of workers and the right opportunities, new prospects and the creation of those jobs will come about. The question now is how are the opportunities that are the wrong opportunities. That is, somebody has to say: "Hey, there's an opportunity for me to make money in Michigan." Number one. Number two: do we have the labor force that has re-established itself around the world that is going to be there? In the past, you just needed brute strength or showing up to work. Today, you need brain power, ingenuity and aggressiveness to accomplish things. This is the challenge for us as all we need is an opportunity for all.

JH: Thank you, Sam. Next question: family businesses really reflect entrepreneurship and finding niches that create wealth for themselves and the community. How does that look in terms of opportunities with our current economic situation?

SK: I think you hit the nail on the head, in terms of using the terms niche and entrepreneurship and finding niches that create wealth for themselves and the community. How does that look in terms of opportunities with our current economic situation?

It’s a very different issue, and it’s not just about the increased focus on education. It is all about what and how to distinguish ourselves and how to market this. We are known for its beverage. It's creating that niche and making people say: "Well this is a high-value low-volume product that requires lots of education and specialized skills.

JH: At the University of Michigan-Flint we are designing courses and programs that reflect the 21st century knowledge-based economy along with our traditional industries. How do you see much traction in the knowledge-based economy for Michigan?

SK: I want to note your use of the word “knowledge” rather than “education.” Knowledge is what we acquire throughout our life experiences and is not limited to what is gained in an academic setting. Knowing facts is important but knowing how to put things together, how to think and how to combine ideas is equally, if not more important. Acquiring knowledge is thus a long-term process and not confined just to an academic environment. It is what one learns on the job, in school and just from one's surroundings.

In the past one could have earned a respectable salary with relatively little education, say just a high school diploma. The future will require all of us to learn more and to continue acquiring knowledge over time. What's more, we will need to be flexible and creative – “think out of the box” as some people say. These skills are not only for the luxury but a necessity. In the world of today, where the tool in the die and tool industry was to know which button to press. Already today, employers tell me that the successful worker they are seeking and who offer positions to those with knowledge of math, economics, management techniques and even psychology. Those who want to be hired, those who want to earn a very comfortable life income, need those skills and will have to acquire them in a university, in education, in a formal education and thereafter too.

JH: The last question. On a broader economic framework, looking at the national economy, how much concern should we have about inflation in the future?

SK: At the moment the focus of attention is, and should be, on the state of the economy, in the US and globally, and not on inflation. The near-freezing of the credit markets, the sharp rise in the number of unemployed and the declines in economic activity are perhaps a very weak economic environment, again in the US as well as overseas. The attention and resources of the Federal Reserve and the Treasury are being marshaled to stem the declines and assist in turning the economy around. If I believed inflation was an issue of concern. Until the economic situation reverses the focus of policy, fiscal and monetary, will remain on economic recovery.

Increases in reserves and money supply are some of the tools that are necessary ingredients in enabling the economy to revive. It should be noted that historically, as well as theoretically, increases in reserves and money supply ultimately result in rising inflation. And I stress the word ultimately. With the economy in a downward spiral, concerns about inflation seem premature or even misguided.

Once the state of the U.S. economy improves we can start worrying about the inflationary consequences. At that juncture the public will need to determine whether the central bank is doing enough. There are the administration laws that exist, that reserves out as the economy picks up and prevent inflation from occurring or not. The best answer is we don't know. Arguing for less concern is the fact that we are more knowledgeable than in the past, that we have learned some things as well as the negative consequences of inflation. Also, our financial structure is more flexible and can react to the conditions of inflation. On the other side, the higher interest rates, higher the cost of supply will impose costs on certain influential sectors of the economy. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Policymakers will be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerted or not is the crux of the matter. Will the policymakers be able to withstand the pressures likely to be exerc...
Life insurance can play an important role in a business succession plan. Following are some of the common ways in which life insurance can be integrated with many of the tools, techniques and strategies commonly used in business succession planning.

**Estate Liquidity.** Some business owners will wait until death to transfer all or most of their life insurance interests to a trust, partnership or corporation. If the business owner has a taxable estate, life insurance can provide the children receiving the business the cash necessary for them to pay estate taxes. Using life insurance (owned by an irrevocable trust) to pay estate taxes is particularly useful to business owners because business interests cannot be readily liquidated. Life insurance is also a much easier and (less expensive) alternative to deferring estate taxes under IRC Section 303 redemption and other business purchase techniques. If the business owner may also use life insurance to pay estate taxes at their deaths. Typically, the insurance policy will be owned by an irrevocable life insurance trust so that the beneficiaries will receive the death proceeds free of estate taxes.

**Estate Equalization.** A business owner can use life insurance to provide those children who are not involved in the business with equitable treatment. Leaving the business to the active children and life insurance owned by an irrevocable trust to the inactive children equalizes the inheritance among all of the children. It also avoids the need for the active children to purchase the interests of the inactive children, perhaps at a time when the business may be unable to afford it. Depending on the particular facts and circumstances, the insurance may be owned by an irrevocable trust for the benefit of the inactive children, and the insured(s) may be the business owner or the business owner and his spouse.

**Buy-Sell Agreements.** A properly designed buy-sell agreement can guarantee a market and fair price for a deceased, disabled or withdrawing owner's interest in the business by allowing the business owner to own the interest, and set the value of the business interest for estate-tax purposes. Life insurance is the best way to provide the cash necessary for the business or the surviving owners to purchase the deceased owner's interest. In many instances, the cash surrender value in a life insurance policy can also be used tax free (by surrendering to basis and borrowing the excess) to help pay for a lifetime purchase of both the business and the interest.

**Nonqualified Deferred Compensation Plans.** A nonqualified deferred compensation (“NQDC”) plan can be used by a small business to provide members of the business with cash death benefits for their active and retired owners, and set the value of the business interest for estate-tax purposes. An NQDC plan may be particularly useful in those situations where the senior members have transitioned the business to the junior members and are no longer receiving a salary from the business. An NQDC plan is also useful to ensure that key employees remain with the business during the transition period—a so-called golden handcuff. Because life insurance offers tax-deferred death benefits and also tax-free death benefits, it is the most popular vehicle for “informally” funding NQDC plan liabilities.

**KEY MAN INSURANCE.** Many family businesses depend on nonfamily employees for the company’s continued success. To guard against financial loss due to the absence of an indispensable key employee, many companies take out key person life insurance.

**Section 303 Redemptions.** IRC Section 303 allows an estate a one-time opportunity to purchase the interests of a corporation (equal to the amount of estate taxes and administrative expenses), at little or no tax cost, through a partial redemption of stock. To ensure that the corporation has sufficient funds with which to accomplish this, the corporation may also use life insurance to pay estate taxes at their deaths. Typically, the insurance policy will be owned by an irrevocable life insurance trust so that the beneficiaries will receive the death proceeds free of estate taxes.

**Hedge Strategy.** Life insurance can also be used to provide a “hedge” against the business owner’s premature death in connection with a grantor retained annuity trust. For example, if the business owner established a GRAT and died before the end of the set term, the life insurance could be used to pay the estate taxes on the GRAT assets that would otherwise be paid to the GRAT’s beneficiaries. In addition, if a sale with a private annuity is used, life insurance could provide funds for the business owner’s spouse (and/or other family members) since the annuity payments would be terminated upon the death of the business owner. If life insurance could provide funds for the business owner’s spouse and other family members should the business owner die prematurely after using a self-canceling installment note to sell the business. In all of these situations, it is advisable to have the life insurance owned by an irrevocable trust so that the insurance proceeds will escape estate taxes.

**Family Buy-Back.** When the decision is made to leave the business to both active and inactive children, it is usually advisable to leave the active children with voting interests and the inactive children with nonvoting interests in the business. In addition, put and call options can be given. Generally, a put option given to the inactive children allows them to require the active children (or the business itself) to purchase all or a portion of their interest in the business at a set price and terms. Without a put option, there may be no practical way for an inactive child to benefit from owning the business interest unless and until the business is sold. Conversely, a call option given to the active children (or the business itself) allows them to purchase the business interests of the inactive children upon a set price and terms. Without a call option, there may be no effective way for the active children to avoid the potential conflicts that can occur between the active children who are receiving salaries and bonuses, and the inactive children who are not. By having the active children own life insurance on the business owner’s life, a “bank” is created to provide the funds to satisfy any such calls and payments. Typically, the policy will be owned outside of the business entity, such as in a trust for the benefit of the active children or by a limited liability company owned by the active children.

Julis Giarmarco is a principal with Giarmarco, Mullins & Horton, Attorneys at Law, in Troy. William Krause is the Sales Manager for Seymour Gill Financial in Southfield.

Using Life Insurance in Business Succession Planning

By Julius Giarmarco, Esq., and William Krause, FLM1, RHU, CBFS, CLTC, CBSP

Julis Giarmarco is a principal with Giarmarco, Mullins & Horton, Attorneys at Law, in Troy. William Krause is the Sales Manager for Seymour Gill Financial in Southfield.

To Twitter or Not to Twitter, That is the Question!

If you haven’t heard the buzz going around about the micro-blogging site Twitter, you must be living under a rock. Twitter is by far the hottest social and business networking application in the ever-evolving world of Internet marketing. Should you join the cyber-party?

Before answering, understand what Twitter is. In layman’s terms, Twitter.com is a website where you can follow what people are saying and they can follow you. They can “follow” someone, each of their tweets shows up on your personal webpage. When you tweet, each of your messages shows up on his/her Twitter page. One of the distinct differences between Twitter and other social communities, such as Facebook or LinkedIn, is the more literal screening process people seem to have on Twitter when deciding with whom to connect. It is not uncommon to follow complete strangers based on knowing very little about them, except maybe that they are following someone you are following. You can blink and have hundreds of people following you or vice versa. For an even clearer definition of Twitter, go to www.twitter.com and watch the video in the top right-hand corner of the page.

The unique thing about Twitter is that it only allows you to write your “tweets” (or written messages) in 140 characters or less. In the “more is less” world of Internet communication, finally a website limits the amount a user can say. Twitterers have to be short and to the point.

When you “follow” someone, each of their tweets shows up on your personal webpage. When you tweet, each of your messages shows up on his/her Twitter page. One of the distinct differences between Twitter and other social communities, such as Facebook or LinkedIn, is the more literal screening process people seem to have on Twitter when deciding with whom to connect. It is not uncommon to follow complete strangers based on knowing very little about them, except maybe that they are following someone you are following. You can blink and have hundreds of people following you or vice versa. For an even clearer definition of Twitter, go to www.twitter.com and watch the video in the top right-hand corner of the page.

On the question of whether you should add Twitter as part of your Internet marketing repertoire. The answer is no and yes. The answer is no if you are simply looking for a tool to sell more of your products or services. In my opinion, it is not being used that way and people frown upon heavy marketing and selling. If you are looking to create more online relationships, however, Twitter and the party analogy can be a goldmine of information in your industry, then I wholeheartedly recommend you jump on Twitter.

A colleague of mine, Perry Belcher, had a great analogy of how to view Twitter. Think of hosting a huge party. You wouldn’t invite someone to your party among a person or group that you did not know, and the last thing you want to happen is open the door. Instead, you’d greet them, invite them in, have a conversation and engage in business only if the opportunity presents itself. That is exactly how Twitter works.

Are you still interested in trying Twitter or did I scare you away? I hope not.

To create your Twitter account:

1. Go to Twitter.com and register for an account.
2. Take some time to complete your profile. The more thoughtful your profile is, the more likely people will follow you.
3. Write your first tweet. Let everyone know you are new to the site and find a fun way to introduce yourself.
4. Look for some of your friends on Twitter. You have a friend in Canada? Go to www.twitter.com/coreyperlman and follow “@ebootcamp” follow “click” and you will then be following me. You’ll be able to see all the people that I follow and can follow them as well if you choose.
5. For the next few weeks, tweet at least once a day. It only takes about 2-3 minutes. You can also write your tweets via your cell phone (see twitter.com for instructions).

A couple of final notes about Twitter:

1. Try not to tweet just about what you are doing. Although that is the theme of Twitter.com, most people like to offer some value in some of their tweets. For example, did you see a good article and want to share it with your followers? Simply highlight the article link and add it as a tweet.
2. You don’t have to be too picky on who you follow. It is easy to “un-follow” someone if they are tweeting too much or for any other reason.
3. On occasion, you can promote your products or services. Just remember the party analogy. If you are providing information in your industry, then I wholeheartedly recommend you jump on Twitter.

Corey Perlman is the author of the #1 Amazon.com bestseller “eBoot Camp: Proven Internet Marketing and Social Networking Strategies and Techniques to Help You Market Your Business on the Web. He also conducts seminars and workshops on the topics of Internet marketing and social media. To learn more about the upcoming eBoot Camp workshop in Novi or to purchase a copy of the book, go to www.ebootcamp.com.
From the MFBC Director

Giarmarco, Mullins & Horton, P.C. is a medium-size law firm recognized for its creative approach to the personal, legal and tax issues facing family businesses and closely held companies. The firm serves the needs of businesses of all types and sizes and is dedicated to the interests of its clients, to the end of providing the best total solution to the client’s legal needs. Client by client, Giarmarco, Mullins & Horton, P.C. has built a reputation for high-quality work and the highest standards of service and ethics.

From the MCEL Director

Seymour Gill Financial was founded with the goal of assisting clients in every aspect of their financial lives. The company provides the most personal service available, earning it a reputation for excellence in the industry. For each of its clients, it strives to help create financial stability and security to provide financial independence. The staff consists of experienced professionals with a “hands on” approach to financial guidance. Not only are team members knowledgeable, but the staff truly cares about making clients’ dreams a reality. As Financial Professionals, Seymour Gill Financial will do everything in its power to help clients focus on where they want to go, advise on how to get there, and continually remind clients of the importance of maintaining a disciplined approach to achieving dreams.

Se y m o u r Gi l l Fi n a n c i a l

Seymour Gill Financial was founded in 1941. It is the second largest accounting and business consulting firm in Michigan, with more than 550 professionals at 12 locations. Rehmann is a member of Baker Tilly International, the world’s 10th largest network of independent accounting firms and is ranked No. 39 on Inside Public Accounting’s “Top 100” list for 2007. The staff services the demands of today’s small- to mid-sized businesses through its subsidiaries in tax and accounting, business, human resources, and technology consulting, as well as national and international investigation and security; real estate management and investment and management. Rehmann is an entrepreneurial company focused on close client relationships to help smooth and accelerate each client’s journey to success. The company has a particular focus on families and their businesses with its Family CFO Executive Financial Counseling for international executives.

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From the MFBC Director

We are so delighted to provide you with timely articles in our first MFBC Family Matters. Our goal at the Michigan Family Business Center is to help your family or closely-held businesses perform well, grow and transition smoothly to your next generation or other transitions. For us, your family matters!

The Center is an initiative of Dean John Helmuth of the University of Michigan-Flint School of Management. The center joins 60 other family business centers at prominent universities across the United States, including the University of Pennsylvania’s Wharton School, Duke University and Loyola University. The SOM center is modeled upon the University of Toledo (UT) Family Business Center, which has been in existence for over 15 years. A special thanks to Director Debbie Skutch and Pam Wawrzyniak at UT, who have fielded numerous questions to help MFBC get started.

In our first year of operation, we have been honored with four MFBC sponsors: Seymour Gill Financial, Rehmann, Giarmarco, Mullins & Horton, P.C. and HealthPlus of Michigan. You can read more about the companies on the sponsors listing on this page — we encourage you to consider using their services. Each sponsor is a renowned, award-winning business in its field.

MCEL programs invite monthly speakers on a general interest to family businesses, mini-forums on specific topics requested by MFBC members and affinity groups for members in particular positions, such as succeeding generation members or corporate family business managers. Meetings are held in Troy and other selected locations to accommodate the majority of family and closely-held businesses. The Center offers a learning-content website, newsletters, and a library for members. The website at www.mcel.umflint.edu/som/mfbc/mcel.htm has news, events updates, and various print and contact resources for MFBC members.

We have held a number of seminars this year (listed elsewhere in this newsletter). Each was well-received by business attendees and we have professional speakers and consultants available at every meeting to answer questions. In our August issue and on our website, we will list the events for the 2009-2010 year.

We hope you learn something useful for your business and family in this issue and we hope to see you at future events. Please contact me at any time with questions and suggestions to make our services better fit your needs at m-f-b@umflint.edu or 810.762.0001.

Dale Tuttle

Like the Michigan Family Business Center, the Michigan Center for Entrepreneurial Leadership (MCEL) was founded in 2008. MCEL is designed to be the foremost leadership program enhancing the entrepreneurial leadership skills of business owners and organizational decision makers. Our inaugural nine-month course is set to commence in September, 2009. Applications can be completed online at www.umflint.edu/som/mcel/mcel.htm.

The MCEL program is designed to bring together owners and decision-makers with strategic level responsibility for businesses and organizations that have been successfully operating for at least two years. The first part of the program involves a series of “chalk-talks” in which professionals provide tactics to improve cash flow and employee productivity. Depending on the profile of each program cohort, emphasis will be placed on various functional areas of business including accounting, finance, marketing, operations, law, information technologies, and strategy.

During the program, each participant is paired with a mentor as well as with a MBA student. The Mentors act as a sounding board and the MBA student provides assistance as each participant develops a strategic action plan intended to make his or her organization more effective, more profitable. During the second half of the program, participants implement their strategic action plans to their cohort and to a panel of reactors that include the mentor, MBA student, and other invited panelists. Constructive and critical feedback is provided to strengthen the action plan and to improve its chances of greater success.

Please feel free to contact me at 734.474.0550 or btuttle@umich.edu regarding the content or process associated with MCEL’s Leadership Program. I will be happy to provide you with additional information and materials to anyone interested in serving on our Advisory Board, to anyone interested in providing content for our program, and of course, I am especially interested in telling you more about the MCEL program should you be interested in becoming part of our founding class.
Business Valuation: Art or Science?

By Michael J. Mayette, CPA/ABV

Have you ever heard the comment “You can’t really know what a business is worth unless someone buys it?” Since there is no “one-size fits all” procedure to determine the value of a business, an assumption is made that there is more “art” than “science” involved. This may have been somewhat true many years ago; however, the business valuation profession has matured through the evolution of new tools and processes.

The business valuation process includes research, analysis and computations of models and formulas which comprise the “science” component. Some of the inputs to the formulas are based on current and future market conditions which require the judgment of the appraiser — this is the “art” component.

Evolution of the Profession

Over the years, as the need for business valuation services grew, so too did the education and sophistication of many users of business valuations. This trend continues today. Users of business valuation reports demanded a higher level of consistency and integrity from the appraisal profession. As an example, the IRS has recently issued formal business valuation guidelines for its personnel to use in evaluating the reports submitted in support of various tax matters.

As the business valuation profession continued to evolve, the body of business valuation knowledge expanded dramatically. Articles and books were written by experts in the field, and training courses were developed to educate new professionals entering the field. New organizations were formed to enhance the profession and establish standards of practice in the field. Credentials were developed to be awarded to those professionals who could demonstrate substantial knowledge and experience in business valuation. The American Institute of CPA awards the Accredited in Business Valuation (ABV) credential to qualified appraisers.

Valuation Process

The concepts applied in the valuation of a business are based primarily on financial and economic principles that make sense to many business owners and investors. For example, a stream of future cash flow has value to an investor. If a particular business generates a given amount of cash distributions to its owners, it could be sold to someone who wants to receive those distributions in the future. The application of the concepts used in the valuation of a closely held company requires both knowledge of generally accepted valuation methods and expertise in estimating rates of return and future cash flow.

While business valuation will never be an exact science, the standardization of the appraisal process and the requirements for an appraiser to obtain and maintain his or her credential has greatly improved the quality and consistency of business valuation services.

If you think you may need a business valuation, be prepared to ask questions about the process and the tools used to value your business. Understanding how “art” and “science” are blended to properly value your business will give you a stronger sense of security as you move through the process. Whether it is for succession planning, a tax related matter, mergers or dispute resolution, a credentialed business appraiser will give you confidence that your valuation is sound.

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Michael J. Mayette, CPA/ABV is a principal in the Troy office of The Rehmann Group and is a member of the Business Valuation and Litigation Services Practice Group. Contact Mike at 248.293.7095 or by e-mailing mmayette@rehmann.com.
Keeping Your Family Business in the Family

If you have a family business, one of your goals most likely is to beat the family business survival odds. Statistics tell us that approximately 30 percent of family businesses survive from first to second generation. Only 10 percent make it to the third generation. Although working with family can be fun and exciting, the survival statistics reveal the challenges. We know. Our family business story is typical. In four generations, a small window cleaning company founded by Larry’s grandfather became a multi-service regional powerhouse with sales approaching $200 million. The family worked together as a team – related by blood, unified by goals and bound by passion.

We had a terrific family business but turned a blind eye to some family-based problems. After much soul-searching during a difficult period, we sold the business to a large, publicly-held competitor. If we had only paid more attention to the issues in our family relationships, the business could have stayed in our hands.

We don’t want this to happen to you. Unfortunately, we’ve found that, like us, many families simply don’t want to address the looming clouds on the horizon and are unaware of the consequences. Here, we can speak from the heart. We tell them owning a family business is a privilege and you don’t know what you’ve got until it’s gone.

When the family is strong, there’s no better business model than a family business. We’d bet on a family business to outperform the competitors every time. So, let’s take a look at four common issues that could impede your plan to keep the business in the family.

**Issue #1: Running the business like a business.**

Family businesses can’t survive on love alone. Once you’ve decided to make your business a family affair, it will run smoother if you lay out ground rules. We like to call them “rules of engagement.” They will make working together easier and increase your chances of keeping the business in the family. These are best to formulate before you begin working together, but it’s never too late to start. Here are three to consider:

- **Document clear expectations of your working relationship.** Think job description. Who is responsible for what? Will you work as a team or have separate, autonomous territories? Who will handle compliance paperwork? For a part-time, how many hours will they be working? Do you expect him/her in the office on a regular basis or is working from home O.K.?

- **Make legal documents a must.** Legal agreements have a way of reminding everyone there’s a business at stake. When you hire office staff, we recommend employment agreements that include clauses to protect your company: client confidentiality, nondisclosure and termination. What to do when Son says “Don’t you trust me?” First, recite the golden rule. Everybody signs. No exceptions, including you. That way no one feels you expect a quick payout if a family member purchases your shares.

- **Establish office etiquette.** There’s nothing worse for others in the office than two family members going at it – even if it’s behind closed doors. When you need to have a spirited discussion with a family member, invite them for a coffee outside of the office.

- **Keep the communication open, informal and frequent.** Larry met with his father for breakfast several times a week as the business was growing. It was an opportunity to update each other in a casual atmosphere, air differences and build bonds.

**Issue #2: Making the parent and child team work.**

We’re always amazed at the Dad or Mom who seeks a working relationship with theirSon or Daughter only to pull the “welcome mat” under his/her feet by barking out orders, defending turf or constantly criticizing. On the other hand, a child may come into the business like a raging bull thinking Dad’s or Mom’s way is outdated and the child should lead the charge to right-sided it. The parent/child relationship – and often the father/son relationship – can be your family business’s biggest challenge. If Parent has had a solo act for a long time, morphing into the perfect father/son relationship – can be your family business’s biggest challenge.

If Parent has had a solo act for a long time, morphing into the perfect father/son relationship – can be your family business’s biggest challenge. Sometimes, when the business is smaller, a meeting with a trusted advisor or family member who is outside of the business can solve an issue. This is also an option when a purely “family-based” issue arises. For example, despite a generous salary and the commensurate responsibilities, your brother is neglecting the business.

In larger agencies, a more formal approach is best. We have a couple of suggestions:

- **Majority rules.** Select a committee consisting of family members working in the business and senior managers to break an impasse. This is a good solution for conflicts that result from basic operating issues like compensation or hiring qualifications. Follow a simple “majority rules” vote like the Supreme Court. Always have an odd number of people on the committee so there’s no hung jury, say five at the most.

- **Break-breaking councils.** For other, more “break-the-bank” decisions, we recommend a tie-breaking council that includes trusted outside advisors. What is a large, strategic decision that qualifies? Son wants to open an agency in a new geography but Parent doesn’t want to put in the capital to open a new location.

**Issue #3: Planning for succession.**

It’s a lot easier to start a family business than to let go of it. Why? The business is the founder’s identity and financial nest egg. He or she likes the power of being in charge and the esteem that comes from success. They are probably involved in the community and have been the face of the agency for years. Of course, there are ego issues, but they pale in comparison to another worry: a secure financial future.

We have tackled the succession issue with our “triple five-year” succession plan. The plan is based on three five-year intervals. In each interval, we suggest a series of questions to answer and steps to take to make transition to the next generation of leaders smooth. The key point is to realize that smooth transitions take planning and time. Let’s take a look at some of the important points.

- **Determine your retirement needs.** Most entrepreneurs have all their money in the business and need a personal financial and wealth diversification plan many years before they retire. Remember, you can’t burden the business with paying your full salary after you retire. Nor can you expect a quick return if a family member purchases your shares.

- **Decide how you will transfer shares to the family.** Gifting shares and determining whether to do so for children not working in the business require planning and the help of your tax accountant and lawyer. Best to retain someone with experience in family business to jump this hurdle. Find them in Family Business magazine at www.familybusinessmagazine.com. Also, your local college or university may have a family business program or help center with resources close to home.

- **Move out of the day-to-day operations.** Signal that the transition has begun in earnest. Begin by shortening your work week. When the transition is going well, consider taking extended vacations once, twice, even more times during the year. A well-planned phase-out eases everyone into new roles and reduces the uncertainty your employees and clients feel.

Keeping family relationships strong is the best thing you can do to perpetuate your family business. Once you have a family member working with you, make “family management” as important as client satisfaction. Most importantly, keep communication lines open. Think like a physician – early detection and treatment gets the best results. Take it from us.

**Family Business Facts**

1. There are over 24 million family businesses in the United States.

2. Family businesses employ 6 out of 10 workers.

3. Surveys show succession and conflict resolution are top issues in family businesses.

4. Trends indicate 40-50 percent of family firms in the U.S. will be owned and led by sibling teams in the future.

5. Approximately 25 percent of family firms expect their next leader to be a woman.
The Five Levels of Estate Planning
A Systematic Approach to Estate Planning

The five levels of estate planning is a systematic approach for explaining estate planning to your wealthy clients in a way that they can easily follow. Which of the five levels they’ll need will depend on their particular objectives and circumstances.

Level One: The Basic Plan
The situation for level one planning is that the clients have no wills or trusts in place, or their existing wills or trusts are outdated or inadequate. The clients’ objectives for this type of planning are to:
- Reduce or eliminate estate taxes
- Avoid probate
- Protect their heirs from their inability, disability, creditors and predators

To accomplish these objectives, use pour-over wills, revocable living trusts that allocate the decedent’s estate between a credit shelter trust and a marital trust, general powers of attorney and durable powers of attorney for health care and living wills.

Level Two: The Irrevocable Life Insurance Trust (ILIT)
The situation for level two planning is that the client’s estate is projected to be greater than the $2 million estate-tax exemption for 2006 through 2008 ($4 million for a married couple). In this case, the client can make cash gifts to an ILIT using his $12,000/$24,000 annual gift-tax exclusion.

Level Three: Family Limited Partnerships
The situation for level three planning is that the client has a projected estate-tax liability that exceeds the life insurance purchased in level two. If the client’s $1 million gift-tax exemption is used to make lifetime gifts, the gifted property and liability that exceeds the life insurance purchased in level two. If the client’s $1 million gift-tax exemption is used to make lifetime gifts, the gifted property and

Level Four: QPRTs and GRATs
The situation for level four planning is the additional need to reduce the client’s estate after his $1 million/$2 million gift-tax exemption has been used. Although paying gift taxes is less expensive than paying estate taxes, most clients will not want to pay gift taxes. There are several techniques to make substantial gifts to children and grandchildren without paying significant gift taxes.

One technique is a qualified personal residence trust. A QPRT allows the grantor to transfer a residence or vacation home to a trust for the benefit of children, while retaining the right to use the residence for a term of years. By retaining the right to occupy the residence, the value of the remainder interest is reduced, along with the taxable gift. If the grantor survives the term, the residence (and the future appreciation thereon) are entirely removed from the grantor's estate.

Another technique is a grantor retained annuity. A GRAT is similar to a QPRT. The typical GRAT is funded with income-producing property such as subchapter S stock or FLP or FLLC interests. The GRAT pays the grantor a fixed annuity for a specified term of years. Because of the retained annuity, the gift to the remaindermen (the grantor's children) is substantially less than the current value of the property.

Both QPRTs and GRATs can be designed with terms long enough to reduce the value of the remainder interest passing to the children to a nominal amount or even to zero. However, if the grantor does not survive the stated term, the property is included in the grantor's estate. Therefore, it is recommended that an ILIT be funded as a “hedge” against the grantor's death prior to the end of the stated term.

Level Five: The Zero Estate-Tax Plan
Level five planning is a desire to disinherit the IRS. The strategy combines gifts of life insurance with gifts to charity.

Let’s take a married couple, both age 55, with a $20 million estate. Assume that there is neither growth nor depletion of the assets and that both spouses die in a year when the estate-tax exemption is $3.5 million, and the top estate-tax rate is 45 percent.

With the typical marital credit shelter trust, when the first spouse dies, $3.5 million is allocated to the credit shelter trust and $16.5 million to the marital trust. No federal estate tax is due. However, at the surviving spouse’s death, the estate tax due is $5.85 million. The net result is that the children inherit only $14.15 million.

With the zero estate-tax plan, the couple gifts $2 million during their lifetime (using their annual gift-tax exclusions) to an ILIT with generation-skipping provisions funded with a $13 million second-to-die life insurance policy. These gifts reduce the estate value to $18 million. In addition, the couple's living trusts each leave $1.5 million (the amount exempt from estate taxes) to their children upon the surviving spouse’s death. Also, the balance of their estate ($11 million) passes to a public charity or private foundation - estate-free. To summarize, the zero estate-tax plan delivers $20 million (i.e., $13 million from the ILIT and $7 million from the living trusts) to the children instead of $14.15 million; the charity receives $11 million instead of nothing, and the IRS receives nothing instead of $5.85 million.

To the extent this article contains tax matters, it is not intended or written to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer, according Circular 230, Julius H. Giarmarco, J.D., LL.M., is an estate-planning attorney with the law firm of Cox, Houlgman & Giarmarco, P.C., in Troy, Mich. His e-mail address is jhg@disinherit-irs.com. Related Articles: Estate Planning: How to Get Started, Estate Planning for the 21st Century, Edvisor Today 2006. All rights reserved.

Membership Application

Business name: ________________________________

Contact name: ________________________________

Title: ________________________________

Business address: ________________________________

Zip: ________________________________

Telephone: ________________________________

Facsimile: ________________________________

E-mail: ________________________________

Fee enclosed (check only):

$400/one year

$300/year - Chamber member

(SUCC, Chaldean, Birmingham, Troy, Rochester)

Website: ________________________________

Year company founded: ________________________________

Year company acquired by family: ________________________________

Type of business: ________________________________

Family members involved in business: ________________________________

To: SAAC, Chaldean, Birmingham, Troy, Rochester

J.D., LL.M.
Book Review

Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses

By Danny Miller and Isabelle Le Breton-Miller


You may be in for a surprise! Why does the family business Michelin have third-generation employees, some of them with 40-year seniority? Why have five generations of Timkens manufactured the best tapered roller bearings for over 100 years? How did Wal-Mart get to be the largest corporation in the world? Conventional wisdom would tell us that the distinctive aspects of family businesses are the primary weaknesses of those businesses. But the Millers in *Managing for the Long Run* have discovered a well-kept secret. Instead of weaknesses, “the very different ownership, business, and social philosophies, distinctive approaches to leadership, strategy, organizations and relations with the environment…are the pillars of competitive advantage” and result in sometimes phenomenal success stories.

The Millers clearly compare the popular practices of businesses with winning practices of successful family businesses. The practices include philosophy – ownership, business, social, risk approaches and efficiency, with resulting survival rates. The book shows how family businesses transform what other writers perceive as weaknesses into strengths.

Isabelle Le Breton-Miller, Ph.D, is a Professor at HEC Montreal, a Senior Research Fellow at the School of Business, University of Alberta and the President of OER, Inc. in Montreal, a strategic and organizational management consultancy, and Danny Miller, Ph.D., is a Research Professor of Strategic Management at HEC Montreal and Chair in Strategy and Family Enterprise at the University of Alberta.

The Millers interviewed and acted as consultants to many businesses over the years. Their experiences have led them to identify the “Four C Priorities” of the great family-controlled businesses and the practices related to those priorities:

- **Continuity:** Pursuing the Dream
- **Community:** Uniting the Tribe
- **Connection:** Being Good Neighbors and Partners
- **Command:** Acting and Adapting Freely

*Managing for the Long Run* has been translated into six languages and was selected by JPMorgan Chase as one of the 10 “must read” books for 2005. It is also a “must read” for businesses, business professors and students, and business consultants for 2009!