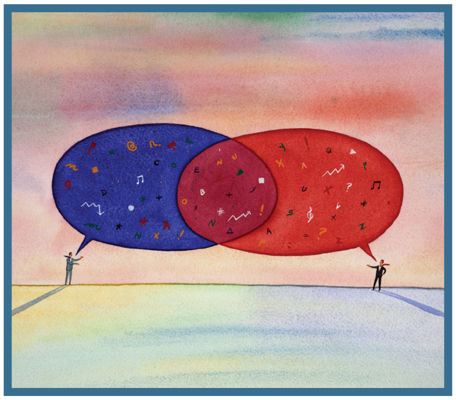
UPDATE
Fall 2010

Families and Business: Managing Communication for Effective Decision-Making

There is a Calvin and Hobbes cartoon in which Calvin says, "Sometimes when I'm talking my words can't keep up with my thoughts. I wonder why we think faster than we speak." Hobbes has the answer: "Probably so we can think twice." Sometimes, when members of a family business admit they are facing communication challenges among and between themselves, there may be more than fast thinking actually going on. We recently sat down with Gregory T. Rogers, Founder of RayLign Advisory, LLC, and Managing Director, G. Scott Budge, Ph.D., to discuss some of the common themes they have encountered when advising clients on managing their communication for effective decision-making, as well as solutions they have found helpful for resolving these challenges.

How would you define communication as it pertains to family business?

Scott: I think you have to be careful about what is meant by "communication." Some families say they don't communicate well, when, in reality they're sending messages perfectly well, but don't like what is being said, "We're not communicating here" becomes code for "I don't like what you're saying." Having said that, two of the most common challenges that are labeled communication issues are the confusion that results from family members serving in multiple roles (shareholder, executive, parent) and the impasse that results when family members get stuck in a conceptual mode and cannot figure out how to proceed with making important decisions that move the company to the next level.



How do you help families resolve these challenges?

Scott: The first step is to identify if the source of the communication issues is situational or emanates from the family history. It may be that there is some animosity about the way in which shares were divided as they were transferred from one generation to the next. Or it may be that there is friction because of current differences in access to information between shareholders who are active in the business and those who are not. Sometimes, simply providing structure can be a big help. If the intention is truly to communicate with each other, then introducing ground rules can help ease the process.

Greg: For example, spending the time securing buy-in to a process has to be encouraged. Getting the "facts" can help to eliminate unnecessary "noise." And we spend some time defining terms as a way of resolving miscommunication. We find that values clarification activities are really helpful for families to honor the commonalities and differences that exist.

Are there specific methods of communication that you recommend or discourage?

Scott: Years ago, Marshall McLuhan asked us to consider that the medium is the message and this continues to resonate with me. This means paying attention to telephonic, electronic and face-to-face delivery differences. Often we suggest that written documents be limited to those pertaining to official business that helps both institutionalize and memorialize the company.

Greg: The truth is that different people can interpret every word differently. We're such game players with regard to language that we're all very good at stuffing things into the messaging that may or may not be intentional. Some of what we do is probe to help the players define what they are talking about. What do you mean by "it" when you say, "there it goes again," is one example. "It" probably means different things to every person at the table.

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"The bottom line is that families who go far, go together."

From the Chairman

Many of you have probably heard me describe the intersection of family and wealth—"love, power and money"—as a volatile cocktail. Adding a family business to this already explosive mix can often amplify a family's underlying issues and creates new complexities to overcome.

In this issue of *Pitcairn Update*, we asked members from our network to share their expertise and advice around two topics we feel are of significant importance to thriving family businesses—managing effective communication and satisfying liquidity needs. In the feature article, Greg Rogers and Scott Budge from RayLign Advisory share ways a family can overcome communication issues. In a separate article, François de Visscher from de Visscher & Co. discusses how a family best matches outside capital with a family's needs.

As the family business evolves, so does the family's relationship to the business. The bottom line is that families who go far, go together. Remaining successful over generations requires connectedness with one another and alignment among family members around the goals of the business, the family and how those goals should be reached.

Warm regards,

Matching Capital with Your Family's Needs

By François de Visscher, President of de Visscher & Co.

Wendell Tech is a third generation family business that manufactures components for the cable and telecommunications industries. In 2005, when Henri III, the grandson of the founder, assumed control of the business, bad will emerged among family members. Despite Henri Sr.'s wish that Wendell Tech remain in the family, the future looked uncertain.

Often in family businesses, the objectives of active and inactive shareholders are not aligned and the liquidity needs of the family may not support the growth of the business. I call this relationship *the family business triangle*. Strains within the triangle become acute when the family seeks outside capital to finance a growth opportunity or to satisfy shareholder liquidity needs because outside capital has a shorter timeframe than the family's patient capital.

A family's patient capital includes their financial investments along with their non-financial capital, such as values and stewardship. These assets have a long time horizon and are meant to be grown to serve the family for generations. Conversely, the time horizon for outside capital is finite, not much longer than five years and therefore should only be used to effectuate a transition.

To successfully utilize outside funding, the goals of the family must be aligned with the objectives of the business and outside funding source through:

Family Governance Structure

A strong family governance structure helps to define the needs and objectives of the family. What are the family's ownership goals? Their decision-making process?

The Wendells needs a governance structure to decide on the amount of control to give to Henri III. The form is less important than the family's commitment to following a well-defined process.

Family Liquidity Needs

A family business typically needs liquidity to provide income to shareholders and flexibility for unforeseen needs. All liquidity needs must be defined before the entry of an outside capital partner because most outside partners operate under the principle of *last in, first out*. The Wendells need to survey the family on future liquidity needs and define a dividend policy that satisfies all family members.

Strategic Plan

All businesses need an annually updated strategic plan that reflects current market and business developments especially if you are seeking outside sources of capital. For family businesses, the strategic plan follows the development of a family and business mission statement and incorporates the need for capital investments and shareholder liquidity. Henri Wendell III, the Board, and the management will have to define the dream of their generation and design a strategic plan.

Appropriate Capital Partner

Choosing a capital partner is guided by the use of proceeds, the cost of the capital, the amount of capital required, and the duration of the funding need. Debt financing is usually the most cost effective funding source for short-term needs. A private equity partner is appropriate for funding significant growth, but brings several disadvantages. Family businesses often want to simultaneously fund a large liquidity event and a growth opportunity. Private equity funds are usually reluctant to fund liquidity events where the capital is not staying in the family business and have a short investment horizon.

Single family offices (SFOs) have made direct investments in family businesses. The notion of "families investing in families," has several advantages. SFOs have long-term investment horizons, are willing to take non-control/minority positions, understand the dynamics and intricacies of a family business, and are value-added partners, investing their intellectual and family capital alongside the founding family.

Managing Communication

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Scott: As facilitators and advisors, we are always modeling behavior and that includes the way we speak. For instance, asking a "why" question is not as good as asking a "what" question. Instead of saying, "Why are you doing that?" we might suggest, "What is the reason for the change?" so the question doesn't sound accusatory. Direct the attention towards the source or the impediment. Everyone pretty much knows by now to use "I" statements vs. "you" statements, but often they are so good at it that they can smuggle other kinds of statements into those "I" statements.

Talk a little about the problems that arise when family business members have multiple roles in the company.

Scott: We recently worked with a global food processing business in the second generation that was being run by two brothers and two sisters. This family was not communicating poorly per se, but the messages were pregnant with history and a tendency to emit more negative and critical communication toward each other, and thus added layers of defense and protection to their messaging.

Greg: Overlapping roles (owner, manager, mentor and sibling) and blurred communication lines affected decision-making in different areas of interaction. Co-leadership implied a "team" decision–making approach; however, each family member had a business domain where they operated relatively autonomously. Integrated business decisions were challenged by domain ownership and the result was lack of objectivity. Separating "owner" from "managerial" decisions was difficult. Each sibling had a different capacity to distinguish boundaries between the roles. When siblings are in these roles, it can be hard to tell whether decision-making is foundering on sibling issues, gender complications, or the expected tensions within business units that have different results they are seeking.

Scott: I remember a *Wall Street Journal* cartoon on this very topic. In the first panel, the father is wearing his "boss" hat and says, "I'm sorry son. You're fired." In the second panel, the father wears his "parent" hat and says, "I understand you just got fired. That must hurt." What we advise the speaker to do is to identify which "hat" they are wearing when they are speaking and also have the recipient identify who is speaking and the role they are hearing. With regard to email, they might indicate, "My perspective as CEO is this" or "My perspective as Founder is this."

Are there situations in which a failure to communicate breaks down across generations? For instance, Grandma only uses the phone, but grandchild prefers texting.

Greg: We have seen situations in which families have used the generation gap as an excuse for their communication issues. It's easy to pathologize, but that's not helpful. That said, a second generation family member may have a different mindset than one in the previous generation. Mutual respect is critical, but it is also important for the family not to get trapped into applying old rules to new conditions.

Scott: What I have seen is that a medium change may signal a new level of importance. For instance, my daughter and I communicate predominantly by texting. When I do receive a phone call from her, it's a signal that it is important and I should pick up. The bottom line is that both sides need to reach out and there has to be some common desire to meet somewhere in the middle.

Have you ever encountered families in which there was a total breakdown in communication among its members? What do you suggest in those situations?

Greg: Sure. Cut-off may not be a common problem, but it does exist, usually for reasons that go way back. Basically, we try to create an awareness of what the other parties are going through. It may be an issue that needs time or it may be extremely difficult to resolve.

Scott: In these cases, there are larger challenges in the business than not talking to each other and these problems are not in the forefront. The conundrums may be historic and have to do with each other as well as with the business. We wouldn't want to reduce their problems to just lack of communication.

How do communication issues impact decision-making in a family business?

Greg: You can use the lack of communication to prevent decisions from being made, that can lead to the break up and sale of the company. Family members hold up the process by getting personal. Other times, families get stuck in a conceptual mode. What seems to help in these cases is putting a "straw man" down on paper.

Scott: A "straw man" is essentially a workable solution that people can focus on. If the family can't decide between three options, we build a template of a fourth. Based on their reactions to the "straw man," we can figure out what their objections are to the other three. It is very effective and it helps reflect back to them, in their own language, in their own code, what they see as being "wrong" with the other choices.

Is this especially helpful when emotions are getting in the way of making decisions?

Greg: We don't want to rid the decision-making process of emotion. We want to integrate and manage the emotion into the mix.

Scott: There are times when there's not enough emotion and a "straw man" actually helps to bring out the emotion.

Greg: What is important is that the "straw man" be constructed in such a way that when the blows come, they are directed toward the issues, not each other!

The bottom line here seems to be that many families can benefit from the support of an objective advisor who can help them sort out their multi-level communication issues.

Scott: It is important for the facilitator to truly listen to all stakeholders. Communication strategies will always be customized, but should take into account the needs and wants of all the family members, and should proceed at a pace that allows plenty of time for all parties to think as well as talk.

News & Events

Pitcairn Sponsors...

Elizabeth Pitcairn plays the Mendelssohn Stradivarius, The Red Violin, *at Glenclairn.*

Pitcairn joined de Visscher & Co., Frank Crystal & Company, and Morgan Lewis in sponsoring *The 2010 Essentials of Family Business Summit* on September 22 through 24, 2010 in Philadelphia. *The Essentials* program offers members of business-owning families the unique opportunity to learn from leading professional experts and share experiences with their peers. Guests at the seminar also enjoyed a private performance by American violin virtuoso Elizabeth Pitcairn at Glencairn Museum followed by dinner at Cairnwood Estate hosted by the sponsors.

Pitcairn Presents...

Chairman and CEO Dirk Jungé co-presented at the *Private Family Office Invitational* in Toronto on September 21, 2010 and *The 2010 Essentials of Family Business Summit* on September 23, 2010 in Philadelphia with Ann Dugan, founder of the Institute for Entrepreneurial Excellence at the University of Pittsburgh. Attendees at both events benefited from Ann and Dirk's combined expertise in the area of family governance. Their joint presentation entitled *Family Governance: The Glue That Binds* explored the complexities faced by families of wealth and provided steps that can be taken to foster family togetherness over generations.

Electronic Access

In an effort to become more environmentally responsible, Pitcairn is encouraging clients to switch to electronic statements. Statements and quarterly investment performance reports are available through our secure, client web site, MyPitcairn.com. Please contact your wealth management team if you would like to elect electronic access or learn more about MyPitcairn.com.

Tax Outlook 2010 and Beyond

New tax legislation is currently circulating through Congress, which, if passed, will significantly impact your tax liability. The following provides a brief update on the key issues currently under consideration:

Estate Tax

The currently repealed estate tax will be re-instated in 2011. We expect to see Congress adopt an exemption somewhere between \$3.5 million and \$5 million with a rate of 35% to 45%. Look for the federal estate tax exemption to be portable between spouses, which will allow any unused exemption in the first-to-die spouse's estate to be transferred to the surviving spouse.

Income Tax

The Bush tax cuts are set to expire at the end of the year. While some believe the current rate will be extended, we believe this is unlikely. We suggest that you plan for increased rates including the top 39.6% rate being applied to dividends.

Capital Gains Tax

On January 1, 2011, the tax rate on long-term gains is scheduled to increase from 15% to 20%. Given the expectation for higher income tax rates, holders with a 2 to 3 year time horizon may want to take advantage of the lower rates and sell now. Pitcairn recommends long-term holders avoid employing this strategy.

GRATs

The House passed a bill that would require a GRAT to have a minimum term of 10 years, instead of the more typical two-year term. Senate action remains uncertain, but if you are considering a GRAT, act quickly.

IRA Charitable Rollover

Although still in negotiations, we expect Congress to pass a provision which would allow direct rollover from an IRA to a public charity of up to \$100,000 a year. The provision will only be applicable to IRA owners aged 70 or older.

Health Care

As a result of the new health care law, taxpayers with income greater than \$250,000 face new Medicare taxes on investment income, trust taxes, and wages in 2012. We can recommend strategies to lessen effects of the new Medicare tax.

If you would like to further discuss these issues, please contact your Personal Financial Manager.

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