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Center For Family Business

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IN THIS ISSUE

Members' Benefits

The Northeastern University Center for Family Business offers a select group of family-owned businesses these membership benefits:

- Participation in Full-Day Workshops and Executive Breakfast Case Conferences.
- Constituent Forum Participation.
- Subscription to Family Business Quarterly.
- Discounted tuition for NU's "The Management Update" Seminar Series.
- Invitations to College of Business CEO Breakfast Forums.
- Access to student interns.
- Networking opportunities.
- A family business bibliography and access to NU's libraries.
- Participation in research.
- Opportunity to link your Web site to the Center's.

Family Business Quarterly

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Emerging Issues

Putting the Finishing Touches on fambiz.com

Plans to re-launch fambiz.com are in full gear.

The new improved version of the most complete web site for family businesses should be online and available to users right around January 1, 2002.

Brave River Solutions (web.braveriver.com) a web design firm is in the process of completing a re-design of the fambiz.com site and content experts are reviewing and updating information to go on the site. Northeastern University Center for Family Business has taken over hosting of the site. Fambiz.com was originally launched in 1995, and last re-designed in 1998. It was taken off the web earlier this year to allow for the current re-design and updating by Northeastern.

According to Paul Karofsky, executive director of Northeastern's Center for Family Business, fambiz is designed to accomplish two primary goals:

1. Be a one-stop site for information about family business issues and challenges. "It will have hundreds of articles about all aspects of family business management and challenges," says Karofsky. "In addition, it will have a powerful search engine that will allow for searches by family business topic and by key words."

2. Link together the world of family business education. "There are more than 100 university-based centers for family business," says Karofsky. "We want to link as many of them as possible from fambiz.com, so that users from around the country, and around the world, can check out the content and events of as many education centers as possible."

As time goes on, Northeastern expects to add more features to fambiz.com, including email news, chats, and family business trends, according to Karofsky.

New Promotional Opportunities for Fambiz.com Sponsors

The newly designed and updated fambiz.com web site will be offering corporations and professional service firms a variety of opportunities to improve their visibility among family businesses.

Fambiz.com is being hosted by the Northeastern University Center for Family Business. Paul Karofsky, executive director of NUCFB sees fambiz.com as a new media outlet for companies and firms that want to establish a stronger identity with family businesses.

According to Karofsky, "Fambiz.com will be offering terrific exposure for companies and professional service organizations that want to brand themselves as being family-business-friendly." He estimates based on past experience that fambiz.com will have several thousand family company visitors each month, from around the country and around the world.

He also notes that Northeastern will be aggressively promoting fambiz.com via public relations, direct marketing, and other vehicles. "Our sponsors will receive visibility every time fambiz.com gets exposure. That visibility will translate into more visitors to fambiz.com."

Fambiz.com is in the process of developing sponsorship plans for companies and firms. Those interested in learning more about the opportunities should call Paul Karofsky at 781-320-8015 or email him at p.karofsky@neu.edu.

We Need Your E-Mail Address So You Can Receive Family Business Quarterly Online

The Northeastern Center's quarterly newsletter, Family Business Quarterly, is moving online. Actually, it has been online for many months, as a supplement to the printed edition, but beginning with the next issue, and continuing at least twice a year after that, it will be available only online.

According to Debbie de Carvalho, Northeastern Center's administrative assistant, the newsletter will continue to be published in a printed paper edition at least twice a year as well. "We are experimenting to determine the extent of interest in reading the newsletter online," she said. "To the extent we can substitute an online version for a printed version, we can save significant expenditures."

We want to be sure you don't miss a single timely issue, so we urge you to send us your e-mail address so you can be alerted when the next issue is posted.

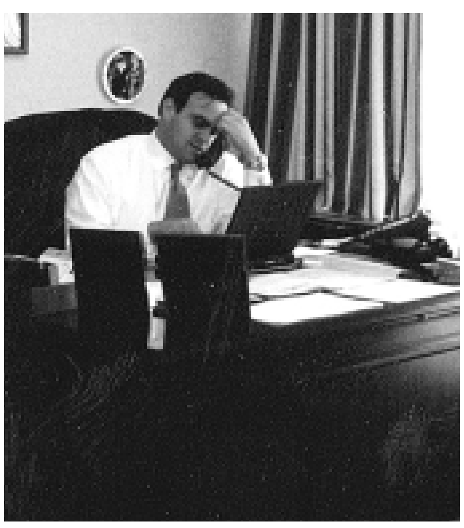
Send your email address to d.decarvalho@neu.edu. Then we'll notify you when the issue is posted, and provide you a link right to the newsletter.

Growing Up Tage — Part 2
The Day I Asked My Dad to Talk to Me About Business

By Joseph D. Tagliente,
President and CEO

As we grow up, there are special moments in our lives that strike remarkable lasting chords within our memories. Your first kiss, the first time you had chocolate ice cream with jimmies, or your first trip to Fenway. For me, there was a special moment in my life that I know I will never forget; it is the first time I ever asked my Dad to talk to me about business.

At eight years old I was fairly aware of what was going on around me. We were living in Arlington. I was attending Mrs. Burns' third grade class at the Pierce Elementary School. My sister was in kindergarten, my brother in diapers and my mom in a state of shock from having to raise three kids while my Dad was working very hard to run his business. I have very vivid memories of my father on the phone in the kitchen of our Arlington home always talking to someone. Whether it be a vendor, an employee, a banker or someone else, my Dad was always working to make the business better. When he would finally give himself some time off, he would relax by doing what he loved to do to relax: talk about business, usually to my mother. Many of these discussions would take place in the car or at the dinner table. "Gee, the P & Ls (profit and loss statements) are going to look pretty good this month, Teresa." My mom would usually reply with a constructive thought if she wasn't too tired of listening to him. Dad REALLY liked to talk about business.



Joe Tagliente, President and CEO of the Tage Corporation, Andover, MA.

As I observed my Dad in these various conversations, I noticed one thing about them: they never included me. If my Dad and I were in the car together alone going somewhere, he would play the radio or really not say much at all and get lost in his thoughts while he drove. I was curious about this. "Why doesn't he talk to me about the business? I'm smart. I understand," I thought. It was a bright spring day in 1974 when I decided that I should be included in the discussions surrounding my father's fledgling hamburger empire. As we drove through Winter Hill, Somerville (how appropriate) in his 1973 Plymouth Gold Duster, I asked him, "Hey, Dad. How come you don't talk to me about the business?"

"Would you like me to talk to you about the business Joey?"

"Sure, why not?"

The look that came over my father's face was a cross between a Cheshire cat and a small boy who discovered where mother hid the brownies. He took a deep breath and filled his lungs to begin the conversation that would continue for the rest of my life. I waited for him to begin; the silence and time of anticipation was maddening. I once read a story about a Japanese fisherman who survived a Tsunami. When he realized what was happening to him, the fear of being overwhelmed by Mother Nature's mightiest of wraths scared him, but waiting for the impending power of the ocean wave almost drove him insane. Waiting for my Dad to start talking to me about business...yeah, it was something like that.

He started the conversation with a simple discussion about people. "People are what fuel the business," he said. "They are your customers, your employees, your vendors and your lenders. If you can't relate to people, you are going to have a hard time."

I asked him who all these people were that he was talking about, and in a very simple way he explained to me, "The vendors are the people who sell you things to run your business. One man sells us meat, another sell us buns and so on. A lender lets you borrow money to grow or start your business. You pay him back with interest."

As I watched my Dad explain to me these concepts, I could tell he was delighted to explain to me what they meant. As the years passed, I became more familiar with what they meant and how important these concepts he taught me were as they were taking shape in the form of real life problems and solutions before my eyes.

There were times that my family and I watched my father really struggle with some tough challenges. He would come home some nights exhausted, with a look as if the weight of the world were on his back. He would sit down to dinner, sip red wine, like all Italians do, and look at my mom and the three of us to realize we really loved him and appreciated what he was doing. What I learned watching my Dad through these tough times is that no matter how tough the times were, you could get through them. No matter how tough the times were, they were at least your tough times because it was your business.

Family Business and Politics: How Steve Grossman Makes the Combination Work

Can a family business owner successfully combine careers in business and politics?

Most would say no, but if you are Steve Grossman, president of MassEnvelopePlus and Democratic candidate for governor of Massachusetts, the answer is a resounding yes.

At a recent Executive Breakfast, he posed the question: "Why do so few business people get into politics?"

His answer? "Politics is unforgiving."

But Grossman said that for him personally, "There is nothing I can do to be more useful."

The reality is that politics has at times been a burden, to the extent that in 1998 he resigned after two years as chairman of the Democratic National Committee. His father's health was declining and his youngest son was avoiding involvement in sports because his father wasn't around. The hard part was informing President Clinton about his decision.

"I told Clinton in the back seat of a car. I told him I've had a 51-year love affair with my father. The relationship you never were able to have. We cried on each other's shoulder about missed opportunities."

How has his involvement in politics affected his business? In certain respects it has hurt. "My guess is that instead of being a $30 million business, we could be a $40 or $50 million dollar (a year) business" if he wasn't in politics, he said. Yet he also ticked off examples of customers MassEnvelopePlus has won because of his involvement in politics.

He's also seen the overlap of the two areas in policy terms. His use of paid parental leave at MassEnvelopePlus "has enabled us to keep a key half dozen people. Without those half dozen people, we probably wouldn't be doing as well as we are." And it has made him a supporter of the concept politically as well.

He feels his involvement in business and politics has made him a stronger leader than he might be otherwise. From business, he's learned that "the customer is king" and "to be a better listener than talker."

He feels he also has a better sense of himself. Whether in business or politics, "I'm a motivator and nurturer of human capital."

And being in both arenas has impressed on him this lesson: "Keep your sense of humor."

***Guest Speaker** Steve Grossman (left) joins NUCFB Executive Director Paul Karofsky during a recent NUCFB executive breakfast.*

Northeastern University
Center For Family Business

Monte Carlo Analysis: A Crystal Ball For Private Investors

By Peter Talbot
State Street Global Advisors

When it comes to achieving financial and estate planning goals, many investors are unwilling to roll the dice. Yet, we all recognize that risk is inherent to investing. Typically, private investors, such as leaders of family businesses, work with investment advisors to determine the risk they are willing to assume on an ongoing basis—delivering an integrated solution that addresses investment needs, tax consequences, and ways to meet estate planning goals and charitable intentions. Today a few wealth management firms offer a new tool—Monte Carlo Analysis—which helps increase accuracy in forecasting investment results.

What is Monte Carlo Analysis?

Drawing from technology used to model nuclear reactions during the "Manhattan Project," a top secret government initiative launched during World War II, Monte Carlo Analysis allows investors to measure the effects of the uncertainty surrounding their own unique financial situations. In financial applications, Monte Carlo Analysis is often used to illustrate the effect of risk in a portfolio.

Monte Carlo Analysis uses historical data and current expertise to model thousands of "what if" scenarios, identifying the results that emerge most frequently. This analysis allows advisors to pinpoint those scenarios most likely to occur, and highlights each investor's respective probability of reaching various goals. Some examples of the goals that can be modeled for individual investors measure the probability of having sufficient assets to retire at a given age, or the effect of a gifting program on the family's financial security.

Why Monte Carlo?

Investment decisions, like business decisions, are often made in an environment filled with uncertainty around many factors—the economy, market performance, life expectancies and the success of your family business. In fact, it can be dangerous to depend on the results of analysis that assume all factors are known with confidence.

Before Monte Carlo Analysis, linear cash flow models assumed that your assets would earn a fixed, unvarying return each year and that you would live to a specified age. History has shown us that the markets do not yield unvarying returns. The stock market's volatility is a factor that is subject to considerable uncertainty and this needs to be taken into account in the financial planning process.

For example, a linear model can't accurately predict your portfolio's performance in a year where the index underperformed 26%, especially if you happened to be one year away from retirement or selling your family business. It also doesn't effectively measure an unexpected change of life circumstance you might encounter or how such an event could alter your financial situation.

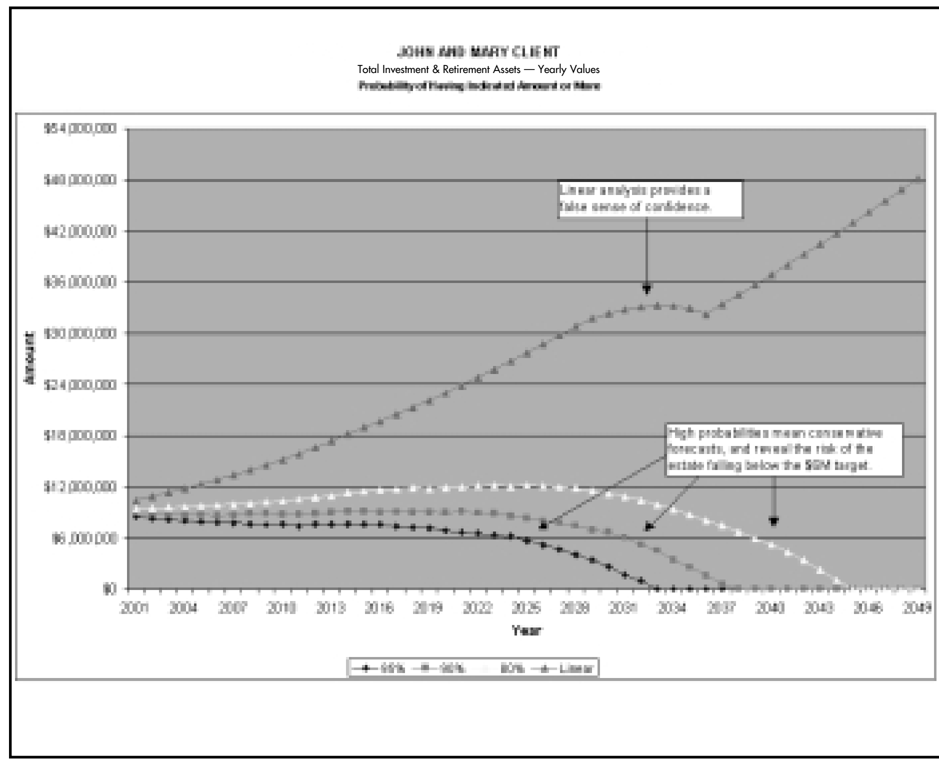
A Case Study

Let's look at a specific situation. John, age 56, and Mary, age 55, have $10M in total assets, of which $6M resides in a taxable account and the other $4M rests in their respective retirement accounts. Mary and John are trying to determine if they can afford to retire now. Mary and John's annual expenses are estimated at $230,000, including mortgage payments. They would like to maintain a $6M asset balance at all times. The couple has two children, both financially self-sufficient. Alison, age 32, is single and Michael, age 30, is married with one young child. At their death, Mary and John would like to leave 80% of their wealth to their children and 20% to a charity of their choice. The following Monte Carlo Analysis shows us a few different probabilities.

What It Means

Overall, John and Mary have an 85.55% chance of maintaining a $6M asset balance until the death of the survivor of them. The above graph depicts the possible value of their estate at the end of each year, and demonstrates the danger of relying on static projections. An important variable in this analysis is how long John and Mary live. The chart below shows the probability of John and Mary reaching their goal, assuming the survivor of them dies in a given year.

The distribution of their estate between family and charity is also subject to uncertainty. The chart below illustrates a range of possible results, from conservative predictions (90% probability) to very optimistic forecasts (5% probability).



Division of Estate On Death of Survivor: Minimum Expected Amounts Based on Probability

Additional Monte Carlo Benefits

Monte Carlo can do more than forecast portfolio returns. For example, State Street Global Advisors has developed other useful applications for private clients. Clients who are considering funding a trust designed to reduce estate taxes, make a gift and receive income over a period of time can also benefit from this tool. Given this new technology, estate planning techniques like charitable remainder trusts (CRTs) and grantor retained annuity trusts (GRATs), are suddenly more attractive to investors because today's sophisticated estate planning experts can forecast how such trusts are likely to perform in the future.

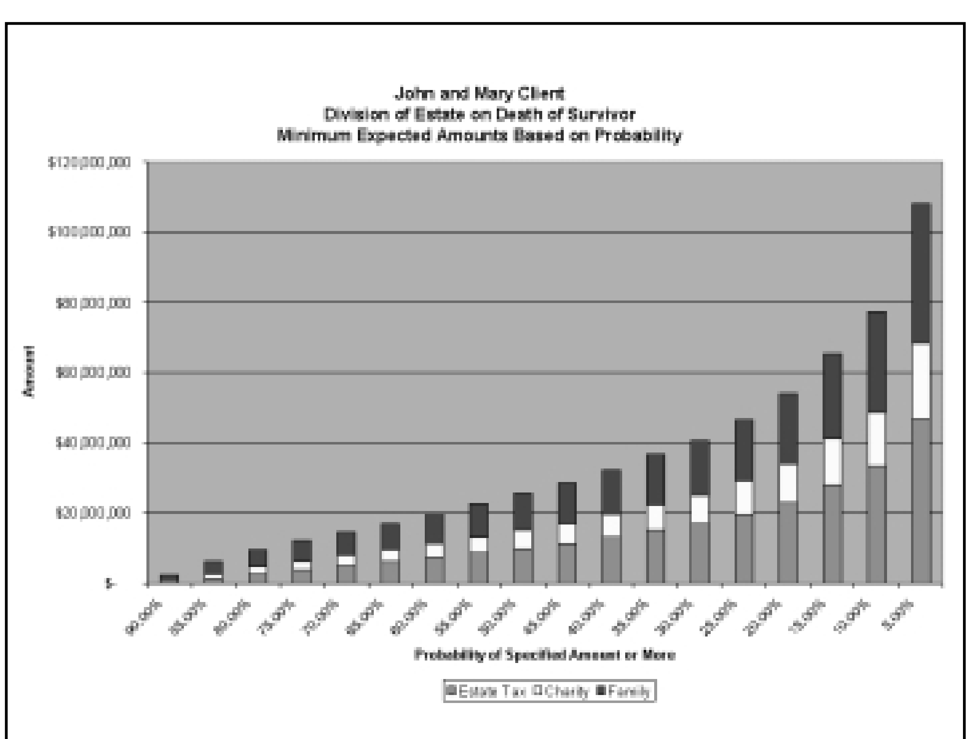
For example, if an individual were to fund a CRT, a Monte Carlo Analysis would illustrate different probabilities surrounding the amount the charity will receive when the trust terminates. In a GRAT, property left in the trust at the end of a specified term of years is distributed to the grantor's children. With Monte Carlo Analysis, the most probable minimum amount the children are likely to receive can be determined.

The Power of Monte Carlo Analysis

In essence, Monte Carlo Analysis alerts you to possible outcomes given the assumptions and unknown variables unique to your financial situation. Given this, data can be examined to identify and avoid potential problems long before they occur—enabling you to reach your financial goals and estate planning objectives even when obstacles do emerge.

It is important to note that any Monte Carlo Analysis should be revisited on a periodic basis to ensure that in the event of an unexpected change of circumstance, your estate and financial planning goals continue to be met. Finally, while Monte Carlo cannot predict the future and cannot guarantee outcomes, it provides a solid framework for thoughtful investment planning.

Peter Talbot is a Principal at State Street Global Advisors. You can reach him at (617) 664-3227.



Total Investment & Retirement Assets — Yearly Values

Save These Dates

November 27, 2001	April 2, 2002	May 8, 2002	June 11, 2002
7:30 am-10:00 am	5:30 pm-8:30 pm	7:30 am-10:00 am	8:30 am-1:00 pm
The Housens Revisited	Family Dinner	A Business Family Case Study: Bargeo Ventures, Inc.	Internet Know-How for Family Enterprises

Outsiders on the Family Board Can Make a Difference

By Aron Pervin

Recently, a family business owner was advised that his company could really benefit from an outside board of directors. He resisted the idea. If we had a board, it would have told us not to do the outrageously risky things we did to become successful, he said.

His comment highlights two problems with the growing family enterprise. Success often substitutes as evidence of good planning. And family patriarchs and matriarchs are usually accountable to no one-and like it that way.

A board of directors could offer a solution for both dilemmas. Unfortunately, boards are usually an unused appendage. For most family businesses, boards of directors are made up of family members and the companies' lawyers.

Surveys by Pervin & Co. in Canada in 1998 and by MassMutual in the United States in 1995 indicated that more than 60 per cent of family businesses have a board of directors or advisory board. But both surveys suggest that more than 80 per cent of board members are insiders-family and close associates only.

These boards exercise little authority. Less than half of the survey respondents believed that their boards made a contribution. It seems members' principal function is to affix their signatures in the proper places to signify that a legally ordained meeting was held, even though it never took place.

Should things be any different? After all, the boss generally is the controlling shareholder. Why would the people with the most at risk want to be accountable to outsiders who would question all major decisions?

My own experience suggests three reasons why they should.

First, an independent board lifts the family business owner's aspirations, confidence and commitment. Its mere presence signals to employees and potential financiers that the family remains interested in keeping and expanding the business.

Second, effective boards stimulate action on essential but taboo family issues. Too often, such topics as estate planning, succession, family compensation and benefits, dividend policy, and authority of family members–all loaded issues with family consequences–are set aside for more proper or more comfortable consideration. A board considers these to be routine points of business discussion.

Third, managers gain professionalism and momentum by reporting to a board. When internal family disputes arise over the business–a time when communications in family businesses may become undignified–directors act as the voice of reason.

Making sure a board succeeds in a family business environment isn't easy. Family managers have to break out of old habits of authoritarianism and secrecy. They should also provide some guidelines for the board, such as a written mandate and clearly defined boundaries to set off their responsibilities from those of shareholders and management.

The family will also have to give up some of its sinecures. Everyone who sits on the board should be a contributing member, which means honorary positions are abolished. This can be troublesome when the chief executive officer's spouse, or a passive owner who understands little about business and does not work in the firm occupies the honorary position.

In fact, most insiders don't belong on the board–neither key employees, family members nor the company accountant or lawyer, whose advice the business already has. Getting inside directors to leave can be a delicate matter. If insiders' board membership constitutes their chief source of company information, they still need to be kept informed once they're off.

Directors also have to make adjustments. They should appreciate that family-run firms are different from other businesses, and sometimes impose special demands. For instance, family businesses often embody deep-seated values or religious feelings that family members consider important. There may also be specific financial considerations for the family with respect to money it withdraws from the firm.

It's the family's job to forge a consensus on these matters and give board members a clear mandate. A board cannot function without family consensus, and perhaps the company can't either.

To work with an outside board, the family CEO's chief prerequisite is to have enough confidence to relinquish a degree of control. The leader must be convinced that the benefits justify surrendering some control.

If this condition is met, the CEO can learn to live with the board by following a few rules:

* Treat the board members as if they represented shareholder control of the business, whether or not this is the case. Competent board members will not stay unless they believe their decisions carry weight.

* Define the boards' mandate, functions, responsibility and authority in writing.

* Encourage board members to learn as much about the business as possible and to improve any skills that would aid in the decision making process.

* Share business problems. Remember, everybody has them. The board cannot help unless it knows about them.

* Prepare for board meetings. The agenda and all additional relevant information should be sent to each board member in advance.

* And prepare minutes for each meeting, summarizing action plans and timetables.

* The owner who is willing to make the giant leap from sole decision maker to accountability may find that an independent board provides a valuable source of business experience. It's a first step to making sure future successes don't depend on outrageous risk.

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