

# fbq

Family Business Quarterly



## Center For Family Business

Northeastern University  
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Helping Family Businesses Achieve and Maintain Success

## From the Director

Dear Member,

*It is surprising to see first hand the breadth of industries and business sectors that are influenced and even dominated by family business. As I go through my daily routine it is difficult for me sometimes to really appreciate the impact that family businesses have on the economy and some industries in particular even knowing the statistics that 80 plus percent of all business in the United States are family-businesses and that 35% of the Fortune 500 are family controlled.*

*I recently had the opportunity to visit with Tino Wallenda from the circus troupe, "The Flying Wallendas." As entertainers they provided a fresh perspective on the success of their fourth generation family business. I came away realizing that even a glamorous death-defying business like theirs still faces the same issues and challenges as the more traditional mainstream family business. Further I realized that many industries really owe their existence to the family traditions and dedication that these family members pass down through the generations. As it was in the past, it truly is the passing of technical skills and family relationships from generation to generation that keep these craft businesses and industries thriving. In our interview section, Tino Wallenda will share his views on business and how the Wallenda family has been able to create one of the best known names in the circus industry.*

*On another note, I'd like to take this opportunity to remind you about our constituent forums, or "peer groups" which are offered exclusively to members. There are three peer group forums which deal with in-depth issues facing the senior generation, leadership development of the younger generation and inter-generational family relationships. These forum groups are run with the unique concept of family businesses helping other family businesses. We now have openings in each of our three groups.*

*As we move forward I would like to ask you to consider other family businesses that you know, as many of them would benefit from our services. Please reach out to them and let them know about the Center, invite them to attend our meetings as your guest, or make a connection between them and the Center. This connection could make a tremendous difference for both them and the Center.*

*We appreciate your feedback, input, suggestions and are eager to hear from you. Please feel free to contact us and to let us know what we can do to support your family business.*

Sincerely,

Ted Clark  
Executive Director

## Northeastern's Center for Family Business

Ted Clark, Executive Director

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# Walking a Tight Rope Between Family and Business

*an interview with Tino Wallenda  
of the Flying Wallendas*

*"Once you become part of our team then  
you are really part of our family"  
- Tino Wallenda*

*The Wallenda family is a story of success. Performing in circuses for almost two hundred years, they hold several records as performers on the tightrope, and are one of the most well known and famous circus families in history. As far back as 1830, the Wallenda family was performing in a traveling circus troupe as acrobats, jugglers, clowns, aerialists, and animal trainers.*

In the late 1800s Tino Wallenda's maternal great-grandfather Engelbert Wallenda became known for his expertise in the art of flying trapeze. In the late 1920s John Ringling traveled to Cuba to see Tino's grandfather Karl Wallenda perform and signed him to join the Ringling Brothers and Barnum & Bailey Circus. In the spring of 1928, Karl and the Wallenda troupe arrived in New York. When the safety net didn't arrive from Cuba, they went on to perform without it to a fifteen-minute standing ovation. Also a circus performer, Tino's father, Alberto Zoppe, was from the circus family that brought the first tented circus to Italy in 1842. Tino's mother, Jenny, and his father, Alberto, met while they were both performing with the Ringling circus and were married. When Tino was seven years old, he began his circus training under the guidance of his grandfather Karl. Tino and his future wife, Olinka, met for the first time while they were both performing in the Shrine Circus which Karl produced. Olinka's family was from the Bertini Troupe of world-class unicyclists and aerialists. Today, the Wallenda family performs their signature Seven-Person four level pyramid with two generations of Wallendas. On their most recent tour, Tino and Olinka were performing with their son, two daughters, son-in-law, granddaughter, and Olinka's cousin.

*Continued on page 4*



*The Flying Wallendas*

*Tino Wallenda (on the left) directs the troupe as they begin to perform their famous seven-person, three-level pyramid at The Big "E" in Springfield, Massachusetts.*



## Center For Family Business

### Helping Family Businesses Achieve and Maintain Success

The Northeastern University Center for Family Business is a membership organization that provides education, networking opportunities, and support to business families.

Adding the complexities of a family and its needs to the dynamics of a competitive business can be a formidable challenge. The Center for Family Business helps business families identify and avoid potential pitfalls, solve complex interpersonal and family business issues, and plan for future family business success in an ever changing and increasingly more competitive environment.

By providing high quality educational support, networking opportunities, and individual business counseling in a supportive and confidential environment, we help our members navigate the complex landscape of the family business to create greater harmony within the family and ensure continued success for the business.

*For membership information,  
please contact us at 617-373-3718*

## *Walking a Tight Rope (Continued from preceding page)*

The current leader of the Family business, Tino Wallenda, was born into the circus tradition.

In this interview with Ted Clark, Executive Director of Northeastern University's Center for Family Business, Tino Wallenda discusses their "business," where decisions really do make the difference between life and death, and how they develop the next generation of performers in this death defying business.

**Ted:** What are some of the major issues that affect your family business?

**Tino:** There are so many. There is the economy and increasing costs. There is TV, video games and all the other forms of entertainment that are vying for the minds of not only children but adults. They have all diminished the circus business. It's also difficult to keep a family together with today's standards. The

### **"How do you develop that trust within family members, when your life is on the line with these people?"**

salaries in years past were not very big but they have really not increased to the same level that other salaries have in the business world.

**Ted:** You do a lot of traveling in this business don't you? How do you keep the family together when you are on the road for such a long time?

**Tino:** Yes we travel quite a lot. We've been on the road since May and will be on tour until mid October. We've been on the road for as much as 11 months at one time. Sometimes it's only 2 or 3 months, but if you want to make a living at this, you don't make it unless you are working so its sort of "make hay when

the sun shines." As far as keeping the family together it's mostly a matter of really loving and enjoying the performing. That's what really keeps us motivated. The business is something that we have to

ging with us and that develops into practice and then they are full fledged members. As a kid in the Circus we learned through playing. All of my friends did something else, one was maybe flying



*The "Flying Wallendas" in Springfield, MA (Tino is at far right)*

deal with to keep up at a level that we can keep performing.

**Ted:** Your performance requires a great deal of skill and training and is dangerous, how do you bring the children into the business?

**Tino:** It's a slow progression and it starts when they are very small. They start performing in the act almost as soon as they can walk, with at least an appearance in front of the public. My youngest daughter was performing before she was 4 years old in the wire act with us, but for the most part they all started to perform at about 6 or 7 years old.

**Ted:** Do they have a choice of whether they will enter the business or not?

**Tino:** At first they don't have a choice simply because the concept is to get them acclimated to performing, being in front of the public and developing a desire to hear the applause. As they grow up they may only balance on my hand but sooner or later they start playing on the rig-

trapeze another one might be trampoline, somebody else might be an acrobat, so we would all be continually playing circus. It might not be politically correct nowadays but, as kids we would play cops and robbers, and cowboys and Indians but Circus World would always be the big thing we played. We would imitate our parents, and our friend's parents and we would do a whole show. As it was with my kids, play becomes practice, and then there is a responsibility of practicing because you have to hold up your part of the performance.

**Ted:** Do you bring the children in to the business aspect of the show and talk to them about the finances and the money part of it as well?

**Tino:** It's a slow learning process but eventually they have to learn the business aspect because they get to a point where, of course, they have their own families. While we are a family, there are times where we don't always perform as a group together. For instance my older daughter, Alida, and her husband, Robinson, who is from a circus family

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# Creating Effective Family Firm Shareholders

a presentation by Drew Mendoza  
Family Business Consulting Group

*"I have a piece of paper with little meaning."  
"I feel Information is being withheld from me."  
"I view owners outside the firm as parasites."  
"Some members of my family are overpaid."*

These are common comments heard from family businesses that have poor relationships between the inside and outside shareholders. But why as a manager of a family business do I need to concern myself with the formality of shareholder relations? Simply put, because keeping shareholders happy increases the well-being and value of the business.

Drew Mendoza began his presentation by highlighting the characteristics and perceptions of a group of inside and outside family business shareholders. This exercise was helpful in developing a clear understanding of the differences and needs of both groups, (see chart on page 8). One of the keys to begin improving the relationships between these groups is to understand their needs and the

**"Deserving Heirs"  
Heirs become deserving of ownership and turn it into a voluntary act by stepping up to their responsibilities. They find a higher purpose to ownership, one that is constructive, contributing, responsible, and fulfilling ...**

roles that each play as family firm shareholders.

Often strained relationships and shareholder strife develops as a result of poor communications and a lack of understanding of each other's role. To improve relationships, communications and ultimately

shareholder value, Drew suggested a variety of options including holding regular family meetings and creating an investor education program to keep outside shareholders more informed about the workings of the industry and the needs of the business. Drew pointed out that informed shareholders are better equipped to understand the issues

Continued on page 8



Drew Mendoza

## CONSTITUENT FORUMS

The Constituent Forums are at the heart of the Center's mission and complementary to the Core Program. Meeting every other month, the Constituent Forums provide small groups of family members a confidential setting to identify and discuss issues that are pertinent and relevant to their business. The Seniors' Forum, the Sibling, Cousins and Intergenerational Forum and the Paul Karofsky Leadership Development Forum provide members with the tools, resources and insights to successfully meet the challenges of their business.

### The forums present an opportunity to:

- share, learn and grow
- to seek advice and help solve problems
- to give advice and support others to discover solutions

### Forums provide the vehicle for:

- a confidential trustful environment for idea exchange
- advice and problem solving on business/personal issues
- integration of business, family and personal issues
- skill development in the human side of enterprise
- family business education
- personal growth and a deeper look into your own personality

Call for more information on how the forums can benefit your family and business at 617-373-7031.

## MEMBER BENEFITS

*Helping Family Businesses  
Achieve and Maintain Success*

1. Participation in the full series of six annual Breakfast Forums for four family members or key non-family employees. Breakfast Forums feature exciting presentations, case studies and panel groups with relevant and topical Family Business concerns.
2. Opportunity to participate in the Center's three peer group Affinity Forums: the Paul Karofsky Leadership Development Forum, the Seniors' Forum and the Siblings, Cousins and Intergenerational Forum.
3. Individual subscriptions for family members to the Family Business Quarterly, the Center's acclaimed newsletter featuring advice and information relevant to family business.
4. Networking opportunities with family business owners and family members, as well as leading authorities on the subject of family owned business.
5. Access to Northeastern University libraries containing an extensive bibliography of literature relevant to family-owned businesses.
6. Participation in research on concerns of family businesses, including: conflict, strategy, and further exploration of topics of interest.
7. Complimentary participation in Northeastern University College of Business Administration's CEO Breakfast Forum for the president and CEO of each family business featuring noted CEO guest speakers and attended by preeminent local business leaders.
8. Unlimited access to [www.fambiz.com](http://www.fambiz.com) the Center's powerful web based search engine with hundreds of top articles and papers regarding family business.
9. Access to Northeastern University's acclaimed co-op program.
10. Access to student interns for special marketing and research projects in your organization



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**Bill Munze 617-373-8254**

### CALL FOR ARTICLES

We welcome individuals interested in submitting articles on family business related topics.

For consideration, please forward an email including your name, affiliation and the specific topics on which you are interested in writing an article to:

Ted Clark, Executive Director  
Northeastern University  
Center for Family Business  
[ted.clark@neu.edu](mailto:ted.clark@neu.edu)

### *Walking a Tight Rope (Continued from preceding page)*

famous for flying trapeze, also perform off on their own with his family. And then occasionally they get together with us in a bigger element like we are here at the Big E to perform our seven person pyramid. But slowly they gain an understanding of the business by being involved in business conversations about contracts and about the money that we need to make to cover the expenses of going on the road with all of these vehicles that have to travel and the repairs and all of the things that go along with that.

**Ted:** When do you get them involved with the business?

**Tino:** My son is fifteen now and he has started to become involved in some of the other aspects of the business. He is repairing equipment and has for the last two or three years started setting up with me so he knows about the nuts and bolts, which is really the most important thing about performing. The reward is

in front of the audience, but there is a whole lot that goes in to it. It's the equipment, the way it's handled, maintained and the way it is set up that gives us our safety and the safeguards that you have to have. So he is entering into that realm of it right now.

**Ted:** Safety and trust must be very important for what you do. How do you develop trust with family members?

**Tino:** It starts from the very beginning. As a child you learn how to trust your parents. Or maybe you learn how to not trust your parents. But hopefully my kids have learned how to trust their parents. The first time they go up on the high wire I would usually put them on my shoulders and carry them across. All of the danger is built in to my talents and abilities and how I react and so I am assured of that, and they are confident in me, so I'm able to take them across. As that goes on, then they start to do things on their own at a low level

*Continued on facing page*

*Walking a Tight Rope (Continued from preceding page)*

on the wire, not on the wire thirty feet in the air, but down on a practice wire which is anywhere from about five to ten feet off the ground. They practice, practice, practice until they get it beyond what some people might think is perfect. And you build a trust in one another, you build a trust in yourself, you build a trust in your talents and abilities. That's the base of it.

**“but sooner or later you have to put your feet, you know, step out into the deep water. If my son is to take over, it will be a gradual release into his hands”**

**Ted:** Are you doing anything to build the next generation to take over the business?

**Tino:** It is a gradual progression. I'm going to be here for

a little longer I think. The way it happened with me was I was under my grandfathers' tutelage. I was his protégé for a number of years and then I was essentially, because of certain developments, thrust into having to be in charge. But I had been brought to a point where I knew how to work, how we worked with one another, and I knew some of the business. But sooner or later you have to put your feet, you know, step out into the deep water. If my son is to take over, it will be a gradual release into his hands as he starts handling more and more of the business.



**Ted:** Do you have regular family meetings, business meetings to talk about the business?

**Tino:** No. No, we don't. We are together (laughing) so much that it's a continual meeting all the time. We talk over dinner, we talk just sitting around, we talk about different people in the act and the things that we might need to do, things that concern us about individuals, things that concern us about the workplace.

*The conclusion of this interview will appear in our next issue.*

## SOX and the Family Business

*By Peter Berenson, CPA, PFS and Timothy Napier, CPA  
Forman, Itzkowitz, Berenson & LaGreca, P. C.*

**N**o - this is not about Boston's beloved World Series champs, or the Clinton family's first feline. It's about the Sarbanes-Oxley Act of 2002 (fondly shortened to SOX by its supporters, and angrily by its critics). Corporate greed and scandal at the likes of Enron and WorldCom were the catalysts for this legislation. Public companies are its target.

So, why should owners and managers of family owned businesses take notice of SOX? Because its broad provisions have profound long lasting and, in some cases, unintended effects on family business pocketbooks and on the way families conduct their business affairs.

SOX requires CPAs that audit public companies to perform new additional audit procedures, and, as a result, audit fees have increased by as much as 50% over the last two years. Not only is additional time required to comply with SOX, but it has increased the demand for accountants, resulting in a costly shortage of professionals. This cost has manifested itself in increased fees for all services provided by CPA firms.

SOX has also made access to CPA services more difficult. Its provisions prohibit CPA firms from performing both attest (i.e. audit) and non-attest services (i.e. consulting and valuing businesses) for publicly held clients. In order to avoid the appearance of conflicts of interest, most firms that audit public companies have adopted this prohibition for their privately held and family owned clients as well. As a result, many family owned businesses are forced to consider alternatives for their accounting and auditing needs.

Several provisions in SOX address criminal acts in connection with privately owned companies that participate in federal contracts. These provisions relate to obstruction of justice, fraud, and whistleblowers. They provide for the prosecution of anyone who destroys or conceals documents with the intent to obstruct a federal investigation, making it a federal crime to commit wire fraud and making it a felony offense to retaliate against whistleblowers.

*Continued on page 8*

facing the business and that they will more likely feel positive about the managers and the company.

Mendoza also suggested that having family members work outside of the family business for a period of time

can surprisingly provide insight to better understand these relationship dynamics and reduce the sense of entitlement shareholders often feel.

## Inside and Outside Shareholder Differences

### Inside the business

Have more access to knowledge and info.

Are so steeped in the business they don't recognize what others don't know.

Have power and status and can make important decisions.

Work hard and carry a heavy burden.

May view owners outside the firm as parasites.

### Outside the business

Have less access to knowledge and info.

Want to feel more connected to the business.

May be confused and overwhelmed by the responsibility of ownership.

Often feel disrespected by owner/managers.

May suspect that owner / managers receive inflated salaries and perks.

### “Heirloom Effect” by the fourth generation the family takes on a legacy feeling.

Overall, the goal to improving shareholder relations is to bring about greater harmony between different sets of owners through a common language and create greater value for all involved.

*Drew Mendoza, is the managing principal of The Family Business Consulting Group, Inc. and was the founding director of the Loyola University Chicago Family Business Center, recognized as a leading think tank on issues relating to business-owning families.* ■

## Sarbanes-Oxley Act (Continued from preceding page)

A major SOX provision that has the potential to affect family owned businesses is a requirement that the management of public companies report annually on the effectiveness of their internal controls over financial reporting. As management of public companies deals with this requirement, it is placing demands on vendors, many of whom are family owned businesses. These demands include requests to provide improved controls and procedures, such as new electronic invoicing methods. The inability of family owned businesses to meet these requests may result in the loss of public company customers.

Family owned businesses, of course, are not required to produce financial

statements for their owners, but many must do so to obtain credit from vendors and financing from lenders, and to comply with covenants for existing loans. While the financial reporting provisions of SOX apply only to public companies, there is strong sentiment

### SOX has also made access to CPA services more difficult ...

that, with the passage of time, third party users of financial statements, such as banks and vendors, will begin to see the increased value of the process. This could lead to a “best practice” mindset among these users, and they could come to expect similar practices from all of the companies from which

they receive financial statements, large or small, public or private.

Soon after SOX became federal law, some states, most notably California and New York, began to consider legislation to apply certain of its provisions to privately owned businesses. This activity has cooled off, and there is currently no major SOX-like legislation in front of any state legislature. However, consideration by states is not totally dead, as some have imposed selected SOX provisions on non-profit organizations.

Other accounting and auditing regulations have recently been issued in response to accounting scandals. They generally add to the burden and cost

*Continued on page 11*

**New Member****Katsiroubas Bros.**

Katsiroubas Bros. has been part of the food service industry throughout the Northeast for nearly 100 years. Spanning through four generations, Katsiroubas Bros. has expanded from its roots as a local produce delivery service to a leading produce wholesaler in New England.

**Announcements****GSI Increases Presence In Food Service Equipment with Atlantic Store Fixtures Buy**

General Services Inc. (GSI) of Medford, Mass., already strong in the sales and service of supermarket meat, deli, and food service equipment, has increased its presence in the food service equipment trade with the recent purchase of Atlantic Store Fixtures of Woburn, Mass.

"The purchase of Atlantic Store Fixtures will increase our presence dramatically in the food service side for equipment and smallwares," said Larry Maganzini, GSI president. He added the purchase will also improve the offerings at supermarket retail.

Mr. Maganzini also expects his company's growth will further expand into the convenience store trade as more stores are adding food service and deli units into their offerings. GSI has been a member of the Center since 2002.

**In Memoriam**

With sincere sorrow we report the passing of a long-time Center member Morton Grossman on November 30, 2005. Mr. Grossman was largely responsible for the growth of the Grossman's building materials business and the start-up of a commercial real estate firm. He was deeply involved in many philanthropic interests.

**Keep us Informed...**

*Let us know what announcements, milestones and achievements are happening with your business. This is a great opportunity to let others in the Center know more about member companies current events.*

Send your information to:  
Debbie DeCarvalho at [d.decarvalho@neu.edu](mailto:d.decarvalho@neu.edu).

# Employing Family Members as Vendors and Suppliers

by Christopher Eckrich, Ph.D. and Stephen McClure, Ph.D.

As businesses and families grow over time, it is highly likely that, at some point, a family member will ask or be invited to provide services or be a supplier to the family business. A variation on this theme is a family member who seeks to own a franchise or an independent distributorship. While this practice is not inherently either good or bad, we see businesses split on whether using family members or their firm as vendors is a good idea.

Consider this. Your sister Karen has just gone into the catering business. You want to champion her business and encourage her by hiring her firm to cater all company entertainment functions that impact your reputation and image in the marketplace. But you pause ... What will you do if her firm's product or service is substandard? You have a duty as the CEO to protect your business's reputation for quality. Furthermore, you begin to wonder whether your cousin, a small minority shareholder who works as a CPA, will now expect to handle the firm's tax work. You already have an experienced and trusted accounting firm that is delivering a good product at a good price.

Scenarios like this often lead family business owners to implement a policy that family cannot be used as vendors or suppliers of any kind. This firm rule avoids the potential conflicts identified above and is a popular policy for many family business owners. But what if you already employ a family member as a vendor or believe that a family member's firm can provide a superior product or service?

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## *goulston&storr*s

With more than a century of experience in advising family and closely-held businesses and their owners, Goulston & Storrs is skilled at representing businesses at each stage of development and often over the course of several generations, guiding our clients through the most significant events in the life-cycle of their businesses. With over 150 attorneys in our Boston office, we provide sophisticated legal services in virtually all areas of the law to a broad range of local, national and international clients. For more information, please visit us at [www.goulston-storr.com](http://www.goulston-storr.com). Jeffrey S. Wolfson is available at (617) 574-4146 or [jwolfson@goulstonstorr.com](mailto:jwolfson@goulstonstorr.com).

## U.S. TRUST

U.S. Trust is one of America's oldest investment management and trust companies. Founded on Wall Street in 1853 by a group of entrepreneurs, the firm served as manager, executor and trustee for the funds of wealthy individuals and corporations. U.S. Trust's earliest clients were entrepreneurs and the corporations they created. Today, affluent individuals and their families look to U.S. Trust to help preserve and enhance their wealth. Clients benefit from the firm's professional wealth management expertise, including investment management and consulting, fiduciary services, financial, tax and estate planning, and private banking. For more information, please visit [www.ustrust.com](http://www.ustrust.com). Peter Talbot is available at 617-897-3132 or [peter\\_talbot@ustrust.com](mailto:peter_talbot@ustrust.com) and Michael Lindquist is available at 617-897-3135 or [michael\\_lindquist@ustrust.com](mailto:michael_lindquist@ustrust.com) and Carrie Seligman is available at 617-897-3263 or [carrie\\_seligman@ustrust.com](mailto:carrie_seligman@ustrust.com).

FORMAN, ITZKOWITZ, BERENSON & LaGRECA, P.C.  
CPAs and Business Advisors

Forman, Itzkowitz, Berenson & LaGreca has been helping family businesses and their owners define and achieve success since 1938. In addition to traditional accounting and tax services, its staff of CPAs and advisors provide a full range of business and personal consulting tailored to each client's specific needs. Its medium size offers clients the best of both worlds – technical expertise and close personal attention. For more information, please visit [www.fibl.com](http://www.fibl.com). Peter Berenson and Carl LaGreca are available at 781-487-9200 or [pberenson@fibl.com](mailto:pberenson@fibl.com).

Family businesses that engage family members as vendors are encouraged to consider the following:

**1. Clearly state expectations** for quality and service, as you would for any other vendor. To reinforce the expectation of a business-to-business relationship, rather than that of a family member to family member, put your expectations into a friendly but clearly worded memo. The memo should clarify the expectation for a successful business relationship and identify quality and service expectations so that they are clearly stated by the other party. This memo can be shared with others—with affected managers and employees in the business, as well as with family members—to accomplish the next point: transparency.

**2. Seek transparency among family owners** about the nature and scope of the work provided. All interested parties should be aware of any business relationships between family owners/members and the family business. Talk openly about the effectiveness of the business relationship in whatever forum makes sense for your family business. In some cases, the right forum is a family meeting with the principals on both sides of the business relationship. Or it might be a management meeting. These discussions work well as long as there is an effective supplier/customer relationship. If something has gone wrong, however, see below.

**3. Put the services up-to-bid** to multiple vendors on a regular basis (usually every one to two years) to assure that pricing stays competitive. This does not have to be a cold approach that sends the message that you do not value an existing business relationship, rather do it in a way that simply allows you to assess your needs. If you are paying a little more for the relationship and value doing business with a trusted relative, understand that and make sure everyone else does too. If you are paying less because the family vendor is giving you "a deal," be clear, but beware. This kind of arrangement can backfire if there is an assumption on the family vendor's part that reduced quality and service are "okay" because of the financial consideration he or she is giving. If you find that you are paying too much, you will have valuable information for a negotiation discussion with the family vendor. Another good practice is to initiate a contract term and let the family vendor know that the services will have to be renegotiated at the conclusion. At that time, evaluate the business relationship and consciously decide whether to continue or make changes.

**4. To minimize conflict**, present the proposal to the board (independent, objective outsiders on the board help here) for review and approval. A family vendor, knowing that this is a step in the process, will increase his or her own attention to the professional nature of the business relationship.

**5. Annual reviews of existing family vendor relationships** at the board level also are a good practice. In larger family firms, consider appointing a committee of several outside directors (two to three) and key managers (one to two) to review all family vendor and supplier relationships. Some family firms already may utilize a compensation committee to review family member hiring and compensation decisions, and this committee's scope could be expanded to include family vendors.

**6. Use the normal method of making changes** to your family employment policy to add a policy statement about family supplier and customer relationships. We hope your process involves a meeting of family members so that expectations are communicated and broad acceptance is promoted.

**7. Fix the relationship if it's broken.** A severed business supplier relationship can be like a divorce. It is either messy or not, usually depending upon the civility of both parties, not just one. However, after exhausting all genuine efforts available to fix the relationship, make a clean break if that is the only remaining option. In many cases, severing a business relationship with a family vendor is like firing a family member.

Finally, we hope your business-to-business relationships with family members are successful. We frequently hear of the mutual benefits received when they are working well. But the key to this success is a professional and formal business relationship on both sides. ■

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for all businesses - family owned and public companies - that issue financial statements reported on by independent accountants.

The American Institute of Certified Public Accountants issued Statement on Auditing Standards 99, which requires auditors to increase their focus on fraud in the planning stages of an audit and to obtain additional assertions from management about their knowledge of fraud. They also issued Ethics Interpretation 101-3, which severely restricts CPAs from performing both attest services and management functions for the same client. While this concept is not a new one, the interpretation has imposed more stringent standards and requires additional documentation for attest engagements.

The Financial Accounting Standards Board issued Interpretation 46 in January 2003, which is having an enormous impact on many family owned businesses. The interpretation requires that the financial statements of certain related business entities be consolidated with those of the main business.

**some states considered legislation to apply certain provisions to privately owned businesses. This activity has cooled ..**

These related entities are ones that would most likely not exist, except for the purpose of the main business. The most common example for a family owned business would be a trust or an LLC which owns the real estate where

the main business operates. This statement was, once again, in response to accounting scandals, where corporations were using these related entities to hide enormous amounts of debt. This is another example of how this crisis has affected even family owned businesses.

To leave you on a positive note, there is some potential good news on the horizon. The various organizations that govern accounting and auditing standards have come to recognize that today's increasingly complex rules may not be meeting the needs of privately held businesses. There is increased concern that many standards are irrelevant to the financial reporting needs of private companies. Additionally, it is felt that the costs incurred by private businesses to comply with rules more fitting for large corporations outweigh the benefits. The American Institute of CPAs, in February 2005, issued a task force report on private company financial reporting. It concluded that the needs of private companies, as well as interested parties, would be best served if, in certain circumstances, financial reporting requirements were different for public and private companies.

In May, the governing Council of the American Institute of CPAs passed a resolution to work with the Financial Accounting Standards Board to evaluate potential changes to Generally Accepted Accounting Principles (GAAP) for privately held companies. These changes would focus on the identification and implementation of a process to evaluate potential changes in the recognition, measurement and disclosure differences from current GAAP. This could, no doubt, result in some much needed relief for many family owned businesses. ■

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**12** The percentage of family-owned businesses that will survive into the third generation.  
*(Joseph Astrachan, Ph. D., editor, Family Business Review)*

**48** The percentage of family business failures that are precipitated by the founder's death.  
*(Survey of 800 family-owned businesses, University of Connecticut)*

**64** The percentage of GDP that family-owned businesses contribute.  
*(Family Businesses' Contribution to the U.S. Economy: A Closer Look, the Family Business Review, September, 2003)*

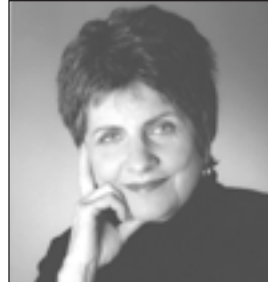
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