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Summer 2002

High-Tech Family Businesses? Yes, If They Exploit Their Special Advantages

Emerging
Issues

All businesses need to figure out how to exploit rapidly advancing technology, we are constantly told, but family businesses may have some special advantages over non-family businesses when it comes to actually putting technology to productive work.

So argued two experts who addressed a June Northeastern University Center for Family Business session. According to Brendan McSheffrey and Kevin Gulley, founders of FuelDog, a technology consulting firm, family businesses have at least five advantages in exploiting technology to achieve competitive advantage:

1. A drive for continuity. This drive "keeps family business thinking long-term," said McSheffrey. "They want to make sure the business is around for their grandchildren, or passed on to a niece. That drive is so very very different from non-family businesses. It helps you see beyond next quarter's business. That makes technology projects less scary...A long-term vision gives you a license to fail on some of them." This long-term approach helps family businesses do better than the 70% failure rate common for business technology projects.

"Families have strength in leadership that non-family businesses can't even imagine."

2. Family leadership. When it comes to succeeding with new technology, strong leadership is essential. "Families have strength in leadership that non-family businesses can't even imagine," said McSheffrey. "Change always starts from the top. Strong leadership is the key to technological change in any corporation."

3. Family values. This wouldn't at first glance seem to have much connection to technology, but according to McSheffrey, family values are "the



Kevin Gulley (left) and Brendan McSheffrey recently addressed a NUCFB educational forum on the subject of the place for technology in a family business.

flag to wrap leadership in. If you want cultural change, wrap it in the flag of your family values. Family values are an asset that can be leveraged in implementing any new system."

4. Intergenerational connection. Technology is often the province of the young. In family businesses, there tend to be multiple generations working together, so the younger generation can lobby the older generation to accept new technology. "Younger generations can give your business an advantage," said McSheffrey. "Listen to your younger generation. They probably have ideas you can use. If you're looking for a role for the younger generation, technology is a good place to look...This is something other businesses just don't have."

5. Commitment to reinvestment. In the interests of future generations, "Family businesses invest in the business to an extent that other businesses don't," said McSheffrey. However, he cautioned that making technology work is usually a matter of more than just money. "Committed reinvestment means both time and dollars."

For family businesses that doubt

the importance of technology in coming years, Gulley projected that "technology will change faster over the next twenty years than it has over the last twenty. Businesses must utilize technology in order to stay competitive and create opportunity."

The bottom line, he noted, is that "technology cannot be ignored-you need to pay attention from a family level. The leading companies will excel at leveraging technology and embracing change."

IN MEMORIAM

With sincere sorrow
we report the passing
of Center member

Sheldon A. Cohen
July 1, 2002

Interview with Bob Annand, Sr., former President of Roche Bros., Inc.

Roche Bros. and Sudbury Farms is a chain of 14 supermarkets in Greater Boston founded by Buddy and Pat Roche in 1952. The business currently employs 3700 people with gross revenues of approximately \$500,000,000. Buddy Roche sold his share of the business about 4 years ago and Pat is still active in the business, though semi-retired. Both are in their 70s. The business is currently owned by Pat Roche and three members of the second generation: two of Pat's sons, Rick and Ed, and Buddy's son, Jay. Bob Annand, Sr., is the immediate Past-President of the company and a non-family member.

PK: Tell us about your background and how you got into the business.

Bob: I started as a grocery clerk, then a night crew stock clerk with another company. Knowing that I was going to have to make a change, I interviewed for a couple of positions but I really wasn't too sure where I wanted to go. A friend of mine called me and suggested I speak with the Roche Brothers who were buying one of the stores I had worked in. I found Buddy Roche to be such a dynamic individual, that I was signed, sealed and delivered before I left his office. I started as just a grocery clerk, stocking shelves at night. Then I became what they call a 'night crew chief,' in charge of my own crew. When they opened the Westwood store around 1970, I became a grocery manager there. Then I became a buyer in the early 70s and in 1979 I became General Manager, then Vice President in about 1988 and became President in 1994. I also became CEO in 1994. When I took over as General Manager we had four stores and we were doing about \$140 million in sales. Today we have fourteen stores; we have 3700 employees and will do just under half a billion dollars.

PK: That is significant growth in a brief period of time.

Bob: Sure. We went through a spell of looking for locations. We had a seven or eight year stint with no growth but then we started finding the right locations. We actually reorganized the company two or three times. When I became General Manager, there were some people who were non-family members who had left to start their own business so it left a big void. So we reorganized with additional people.

PK: In terms of culture and values, every leader brings his own set of values to the work place. How has it been for you to integrate yourself and your values into the values and culture of Roche Bros.?

Bob: I think my success in the family environment comes from working very closely with Buddy and Pat Roche. I understood their values and what they wanted, the quality, their customer service. They go by the Golden Rule, in their mission and beliefs. So it really wasn't about what I brought in terms of values, I think it was understanding their values. They were true entrepreneurs and knowing how they felt about the business brought a little

bit of vision to the table. They set the foundation. They had the gumption to start their own company. They lived in a three-decker house in Roslindale, so they didn't start it with a silver spoon, they started from the grassroots. In fact, their parents mortgaged their house to give them \$3,000, which was a lot of money in 1952, to start the business. They found a little store, I think it was an old Singer Sewing Machine store that had gone out of business and they put a meat market in there and that was in 1952.

PK: How are major decisions made within the company?

Bob: We now have an active Advisory Board. Its not a formal Board of Directors, it's an Advisory Board that meets on a quarterly basis with some very intelligent people with expertise in human resources, retailing and a third generation member of a 180 supermarket store chain from the Carolinas. We started about seven years ago.

PK: How did it come about?

Bob: As part of our strategic planning. We've had three major strategic planning sessions. The first one was in 1976, when we really set the direction of the company for the future. Although we were probably somewhat unorganized in dealing with people and communications, I think that was probably one of the best sessions we ever had for strategic planning because we had so much to gain from it.

PK: Did you use an outside facilitator?

Bob: Yes. He was very helpful.

PK: And that set a major direction for the company. When did you do it again?

Bob: We did it again in the 80s, and again in the 90s. In the 80s we wrote action plans to improve our quality, improve our training; we were focused on the inside rather than growth.

PK: And the 90s?

Bob: That was focused on management succession. The owners were getting older. Buddy had already semi-retired and the management team reported to me as Vice President. Buddy Roche was Chairman of the Board and Pat Roche was President. Management succession was the biggest issue we faced. There were two different plans. We put it in writing, but everybody was afraid to address it because ownership didn't want to give up power. So, it did take some time to get it into action. Then, while we were working on the ownership succession, Buddy decided to sell. Because he had three children and only one was in the business and two were outside the business, they wanted to protect the needs of the people outside the business. How many family members can you have inside the business without disrupting it and what roles are they going to play? When Buddy sold out, two of his children were bought out, leaving Pat and his two sons and Buddy's son as owners.

PK: How did ownership transition to the second generation?

Bob: Pat had two children and Buddy has three children. Two children opted not to be in the business so they were bought out when Buddy sold out. Three of them actually bought Buddy out. Right now they own 65% of the company and Pat still owns 35%.

PK: Where there are three members of the younger generation in the business, how was the decision made as to who the next leader would be?

Bob: It was made by me. When we built a new management structure, I became president and CEO and when the buyout occurred, the three new owners (the three second generation) were all made Vice Chairman of the Board. So they were always on the Board. They had all worked in various positions up through the company and the Advisory Board actually was established to help the president/CEO to name his successor. About six years ago, because of people retiring I brought in a couple of new people. I actually made one person Executive Vice-President. He had all the qualifications but he was from a major company. He actually worked for two major supermarket companies and was very intelligent but he just didn't work out in the family environment and two years later I had to let him go. He was going to be my successor. Then the second generation wanted to play a more active role in the management of the company. They own it, they want to manage it. So at the end of last year I proposed the break up of my position. I was President and CEO and I named one of them as President and COO and his brother as Vice Chairman and CEO. The third is also Vice Chairman and focused on public relations, representing the family to the community. They were all ready and wanted to step up to the plate and it was a little bit of a challenge.

PK: How did you decide which one would be the COO?

Bob: They are all concerned about the company but which one was complaining about a dirty floor, which one was complaining when something wasn't right in the stores, that's the one in my mind who would be best as COO.

PK: He's the one? The one who had the attention to detail, the operations guy?

Bob: Yes, that's Edward. I wanted somebody who really got upset if that floor was dirty, or if the customer service level wasn't right or somebody didn't talk to a customer properly. And I gauged that over a period of time. If you bought something in our stores whether it was an apple or whatever and it wasn't right, who came complaining about it? That's the quality of Edward Roche. His brother, Ricky will do an equally great job as CEO, more on the inside, working on new sites and overseeing our contractual obligations.

PK: So it sounds as though you had a sense of these three men and the strengths of each and you wanted to see that each was in the right slot for himself and best serve the needs of the company, and balance the ego needs?



Robert Annand, Sr.

Bob: Right and that's always difficult, especially in a family firm because you do have egos and pride, especially if they are brothers

PK: And all three second generation principals supported your decision?

Bob: Yes, I explained, if I had given one of them the Presidency/CEO title there would have been a problem. They all wanted to be part of top leadership.

PK: Does the family have family meetings? Do they get together as family?

Bob: Yes, the family meets every other week. Just to talk about their individual positions. I encouraged them to have family meetings. Each person is an individual. Now that the company is successful, they should understand each other and what they want out of life. For example, if one plans to retire at age fifty-five, they should all understand that at an early age so they can work towards it.

PK: What have the rewards been for you as a non-family CEO in a family enterprise?

Bob: I was empowered by the founders. I was close to owning my own business and managing my own business because they empowered me and the company has been successful. But Buddy and Pat don't give compliments. It's been a funny thing, I could tell lots of war stories. We opened up a store in West Roxbury, there is nothing like it on the East Coast. It's absolutely a phenomenal store, and I designed it. I had it built, went over budget a little bit but that's ok. Buddy and Pat were both in the store and an employee was talking to Buddy and she said "What do you think of the store?", and he said, "Bob did a great job, but we don't tell him that. It might go to his head." Then the same employee, two hours later was talking to Pat and said, "Pat what do you think of the store?" "Oh, jeez it came out better than I thought it was going to come out. Isn't this great? People around here are going to love this store, it's going to be successful." So she said, "Did you tell Bob that?" And he answered, "Oh no. We don't tell him that."

PK: Because you might ask for a raise?

Bob: That's right, but I've always been there for them and they compliment me in other ways. At one time the second generation reported to me and I reported to the founders. I made a promise to Pat, that I would never retire or leave unless the company was

"LOCAL WOMAN CHARGED IN OFFICE SCAM." Al's eyes focused on the headline in the community newspaper, and then his heart sank when the article identified the woman as his current office manager. He read on about the details of her recent grand jury indictment on nine charges, including larceny and false entry into corporate books, in connection with her former employment.

Al is the president and 75% stockholder of a successful retail home appliance store located in an affluent Boston suburb. It has 37 employees and annual sales of approximately \$25,000,000. It has been a family business since its founding by Al's father almost 50 years ago. Al's sister's husband, Marty, is the general manager and oversees the daily operations. He joined the business 15 years ago when he bought his father-in-law's remaining 25% ownership.

Al quickly assembled his team which consisted of Marty, the outside accountant and legal counsel. They jointly decided to confront Cindy, the company's, up to now, trusted and extremely competent office manager, with the article and to suspend her pending a review of the company's books and records. Marty hired Cindy two years ago, after she was highly recommended by a recruiting firm. He first followed company policy and performed a background check with three former employers. One of them provided a very favorable reference and Marty placed a great deal of value on it because he and the former employer were active together in their industry association. The other two were not particularly revealing. After hearing about the

favorable reference, Al approved Marty's hiring decision.

Al and his team were skeptical, but they theorized that Cindy was not bold enough to continue her alleged criminal ways while under investigation in connection with her previous employment. However, using special audit procedures designed to uncover fraud (which differ significantly from financial statement audit or review procedures), it took very little time to determine that serious irregularities had taken place. They began approximately three months after Cindy was hired and findings revealed that she embezzled \$300,000 through a variety of methods, which included:

a. taking cash from the daily deposits and, in some instances, replacing it with checks from miscellaneous sources such as vendor rebates,

b. issuing credits through the company's credit card processing system to her personal debit card account,

c. preparing checks payable to the company's bank which Cindy presented to Marty as routine company financial transactions for his signature. She then deposited them into her personal account at the bank,

d. participation in a voluntary savings program whereby designated amounts are withheld from employees' weekly payroll and deposited in their personal savings accounts. Cindy's share of the deposit was \$500 each week, but she, in her position as office manager, withheld \$0 from her payroll,

e. Participation in the company's health and dental insurance program which requires that participants pay one-half of the monthly premium through payroll withholding. The com-



Ah, Family Business.

Reprinted with permission of Family Business Dynamics

pany paid Cindy's premium but she, in her position as office manager, withheld \$0 from her payroll.

Cindy's bookkeeping knowledge and abilities were top flight and she attempted to artfully cover her tracks by making unauthorized general journal entries which charged the embezzled funds to many different cost of sales and expense accounts. The total loss, while significant in dollars, was only 6/10ths of 1 percent of sales, and the effect on each of these accounts was too small to arouse Al's and Marty's suspicions when they reviewed the monthly financial statements. The unauthorized journal entries were entered into the elec-

tronic bookkeeping system just like the authorized ones but, in violation of company policy, they were excluded from the handwritten journal.

In addition to immediately suspending Cindy, Marty notified the insurance carrier of the loss in accordance with the terms of the policy. The company is only partially insured, and after investigation costs, public adjuster fees and income taxes it expects to recover about one-third of its loss, or \$100,000.

The financial loss was painful enough, but the reactions of those involved were an emotional roller coaster. After each revelation there was disbelief and hope that it was explainable

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Interview with Bob Annand, Sr. continued from page 2

sound and management was in position to carry it on. Middle management is in place now with the average age in the low 40s. And the second generation is also supported with a Vice President/General Manager today.

PK: What are some of the differences you see in the generations?

Bob: This company has been so good for so many years it looks like it's on automatic pilot. It never had a losing year. Very rarely did we have tough times. We had tough times at the beginning, because when they had one store, they went to a second store. If the second store failed the company was gone. And then if the third store failed it was gone. We have always grown strong and selectively. The younger generation sees this as wonderful. But with the transition in ownership, and top management, I honestly believe in my heart that we have the right managers in the right place to continue the company through the second generation.

PK: That's got to be enormously rewarding to the founders, their successors and to you. What have been the greatest challenges you have faced from the standpoint of being a family business?

Bob: It's just being interwoven with the family. You have to be very careful in what is said. The two founders love

each other. There is a true love between the brothers and don't get in the middle. It's very difficult, and you can't survive in the middle. You have to be totally honest, you can't take one side or the other side because all of a sudden, there is no place you can survive, blood is thicker than water.

PK: What other advice or counsel would you want to offer to non-family CEOs in family businesses?

Bob: You must be totally honest and always respectful with the family with all generations. I was paid a huge compliment by a professional psychologist that worked with us on the transition. He said that very few people make a successful transition from the first generation to the second, and that I had done so. The first generation was 10-12 years older than me, but I worked for them for thirty-five years. The second generation is different. But I know I have their respect, too.

PK: And what does the future look like for you? What are your thoughts and plans for yourself?

Bob: Well, I'm 62 years old and semi retired. At the end of last year I really felt it was time for me to pull back a little bit. I was President/CEO. I did everything. And I think it was too much for one individual. I did bring that fellow in a couple of years ago, but he just didn't work out. Then when I let

him go I really never replaced him. I'm under contract until February 2005, about 2 1/2 years. I will work two or three days a week or whatever it takes. My goal now is to mentor. I still mentor the owners and the Vice President/General Manager. I advise them, especially when they run into a problem, as there are very few that I haven't been challenged by, so my experience is vital. In a small company, you get to wear many hats. In a big corporation everybody has their own little sand box so coming from four stores to fourteen stores is nothing. I can remember putting a salad bar in a store and I put an apron on and I went out and I worked the salad bar. I've worked the meat departments. When I have a security problem I talk to the security people, so there is nothing that I haven't been through or haven't done. I have designed every one of our stores since 1980 with an architect. There is nothing that I haven't been through whether it is negotiating for land, negotiating for a store. And then I find myself evaluating. I evaluate the performance of the company and the stores by watching the numbers. I walk the stores instead of years ago when I would just pick up the phone and call the store manager. So that is what I see as the mentor and advisor and evaluator. I'm thrilled. I have had a great career. Most non-family members will never play at the

level that the owners do. It is, after all their name on the building. They own it. So they will play at certain levels, especially the two founders. Most non-family members come down a notch. That's what they have to be very careful about. It's a challenging environment that sometimes is very, very difficult for a non-family member. And it's even tougher for family members themselves.

PK: There is a greater burden of responsibility because there is a greater expectation. Family members are held to a higher standard and rightfully so. Their name is on the store and they have to perform to a higher standard.

Bob: That is one thing I like especially about Edward Roche—he notices the details that make a difference. That's why he was chosen for that position, and he is a great person. They are all good people. They are very generous and very sincere. It's very difficult to follow Buddy and Pat's example; they were the entrepreneurs, the visionary thinkers, they started it. But there is more pressure on the second generation. They are under a microscope. The second generation is different, but they will make their own mark, and they will succeed. The Roche family values have certainly been passed down through the generations.

Save These Dates

September 25, 2002
7:30 am-10:00 am
Breakfast meeting with
Paul Harrington

October 24, 2002
5:30 pm-8:30 pm
"A Tough Nut to Crack"
Dinner Theater

November 21, 2002
7:30 am-10:00 am
Breakfast meeting
case study

March 13, 2003
8:30 am-1:00 pm
Strategic Questioning

April 29, 2003
7:30 am-10:00 am
Breakfast meeting with
Sponsors

Planning for Succession When the Next Generation Is in Flux

How do parents divide up the spoils of a family business for three members of the second generation when the children disagree about how ownership should be parceled out?

That was the question confronting members of Northeastern University's Center for Family Business in assessing a case study at a May breakfast session. In the fictionalized case, two brothers and a sister each had different roles and viewpoints about the family business and expectations about how their parents, who founded the business, should hand it off to the children. The case was loosely based on the experiences of NUCFB members Matt and Andrew Hayes of Bennett Research

A panel of professional experts concluded the discussion of the case study by advising members on the importance of identifying and analyzing each of the most important issues in a complex situation involving succession. The experts saw the following issues as most important:

Taxes. Before they can make reasonable decisions about succession,

the founders of any family business must be aware of the tax pitfalls that potentially lie ahead. "The family needs to make sure that whenever the oldest generation dies, the business won't be decimated by estate taxes...and that any buyout happens in the most tax-efficient way possible," said Deborah Pechet Quinan of State Street Global Advisers.

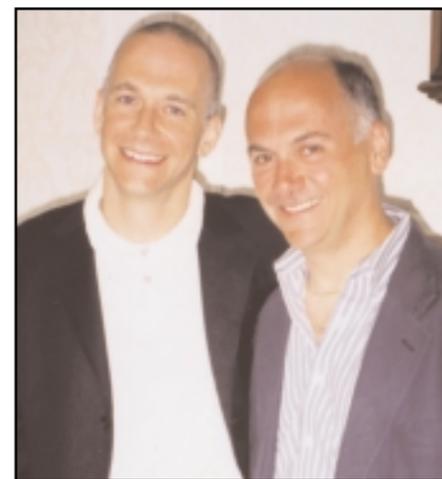
Valuation. Everyone involved in the business should have a clear sense of the company's valuation. "There is the issue of who is creating value, and when the value was created," said Jan Shields of Shields & Co. "The transfer of value is like a relay race. You have to hand it off smoothly."

Ownership. One frequent question that arises in family businesses is whether family members who aren't involved in running the business should retain ownership. According to several of the professionals, it's generally counter-productive for uninvolved family members to retain ownership. "We believe that anyone who is not in the business should not own stock in the business," said Shields. "It leads to

conflicts of interest." Jeff Wolfson of Goulston & Storrs agreed. "An inactive owner is generally trouble," he observed. Lisa Murray of Citizens Bank cautioned owners to consider carefully "whether the numbers support" buying out uninvolved family members, to avoid burdening the business too heavily.

Communication. All family members need to communicate their desires, and then the founders need to incorporate the various wishes into their decisions, to the extent possible. "The biggest problems occur when parents don't share their decisions, and the reasons for their decisions," said Deborah Pechet Quinan. Peter Berenson of Forman, Itzkowitz, Berenson & LaGreca, raised a similar concern. "Does the company have the ability to satisfy goals and objections of each party?" he asked.

Compensation. One of the major challenges facing the founders as they prepare to hand off the business is ensuring that they receive enough compensation to fund their retirement. "Any transfer of stock needs to provide



The experience of brothers Andrew and Matt Hayes formed the basis of a case study that NUCFB members discussed at a recent executive breakfast.

an income stream to the parents," said Carrie Seligman of Northwestern Mutual Financial Network.

As Shields noted, whatever decisions parents make in such circumstances will not necessarily make everyone happy. "There's a difference between making everyone happy and dealing appropriately."

Anatomy of an Embezzlement

continued from page 3

and that Cindy was still the innocent, competent and trusted employee she was previously thought to be.

Then reality set in and hope turned to anger with Cindy becoming an obvious target. But a less obvious target was Marty who became angry with himself for unknowingly allowing this embezzlement to happen under his nose and, in some instances, for becoming an unwitting participant. Al directed his anger toward Marty for doing what he considered a less than adequate job of supervising daily operations. This created stress between their families, and other

family members who were not involved in the business began to express support for one or the other.

Anger soon turned to feelings of revenge and recovery. Did Cindy still have any of the money she embezzled and was there any way to recover it? The insurance policy requires that law enforcement authorities be notified and Al and Marty were only too anxious to comply. And then Al entertained the thought of asking Marty to share in the loss beyond that which resulted from his 25% ownership in the business. That thought was later abandoned but it was

a clear indication of the level of stress between family members.

Finally, Al and Marty's feelings turned to helping the business community. They pledged their financial resources and full cooperation to the prosecution process to ensure that Cindy never again holds a position of trust that would allow her to continue her criminal ways with other employers.

Fortunately, the business is successful and will recover from this loss. The family bonds appear to be strong and the family members are working with professionals to ensure that there will be no

lasting scars on their personal and business relationships. Al and Marty consider this an expensive learning experience and they are working with their accountant to evaluate and improve their business practices and close the loopholes that enabled these alleged criminal acts.

This article is based on a real incident. The names and circumstances have been changed to protect the family's privacy and to avoid interference with the ongoing legal process.

Peter Berenson, CPA, PFS, of Forman, Itzkowitz, Berenson & LaGreca, P.C., can be reached at 617-964-2800.

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