

family business matters

The Newsletter of the Family Business Center of Hawai'i

UNIVERSITY OF HAWAI'I AT MĀNOA SHIDLER COLLEGE OF BUSINESS

VOLUME 6 NUMBER 2 | SPRING 2011

MESSAGE FROM THE FACULTY DIRECTOR



John Butler

FACULTY DIRECTOR
FAMILY BUSINESS CENTER OF HAWAI'I

Harold and Sandy Noborikawa
Endowed Chair in Entrepreneurship

Shidler College of Business
University of Hawai'i at Mānoa
Email: jebutler@hawaii.edu
Phone: (808) 956-7446

If you go to our website at www.fbcofhawaii.org you will notice that we have a full schedule of activities through 2011. We are indebted to Myron Nakata, our program chair, for his efforts in keeping the agenda full for both our Maui and Oahu meetings. The rest of 2011 looks like it will have one of the fullest and most interesting agendas yet.

This is a good time to encourage new members to join, in part because you will get a \$250 discount off your 2011-2012 dues for each new member you get to join our Center. New members identify new issues of importance to

the membership of the FBCH. New members also provide a

THE REST OF 2011 LOOKS LIKE IT WILL HAVE ONE OF THE FULLEST AND MOST INTERESTING AGENDAS YET.

pool of people to serve on the advisory board and to organize events.

I urge you to invite potential members to come to one of the regular meetings as your guest. We have found that most new members either first came as guests or as speakers. Yes, a number of speakers were so impressed with the FBCH, and you, its members, that they then joined and became members.

IN THIS ISSUE

- 2 Research: family firms have higher performance but tend to get lower acquisition value
- 2 Moving from a family business to what many call "The Firm" — Britain's first family
- 3 Acuity managing partner Kent Tsukamoto speaks at FBCH meeting on Oahu
- 3 New book examines the Smirnov family and their family vodka business
- 3 FBC member authors book
- 4 Calendar of upcoming events

DAVID BORK RETURNING TO CONDUCT FBCH'S ANNUAL RETREAT AT THE OUTRIGGER REEF ON THE BEACH

In September 2007, the Family Business Center of Hawai'i held its first annual retreat. David Bork conducted that retreat and the Center has had a number of requests to see if he would make a return visit to Hawai'i. The author of "Family Business, Risky Business: How to Make

it Work" and "The Little Red Book of Family Business," has agreed to come back to lead this year's retreat.

Once again we will be holding the retreat at the Outrigger Reef on the Beach Hotel on September 16 and 17. There will be special room rates for those who want to

stay at the hotel. Members are encouraged to bring the next generation of family members to the retreat because much of what David has to say applies to those who will eventually take over the family business. David is a great speaker and this is an event that you will not want to miss.



RESEARCH: FAMILY FIRMS HAVE HIGHER PERFORMANCE BUT TEND TO GET LOWER ACQUISITION VALUE

Research shows that family businesses are more profitable than non-family businesses. The best explanation for this relates to a concept called Stewardship Theory. This theory relates to the strong commitment that family members have not only to the continuity of the business but also to the training and development of their employees and in building longer-term relationships with employees. Obviously, this does not characterize all family firms but in numerous studies, it has been the factor most affecting the positive performance differential in

family businesses.

However, a recent study by Darya Granata (University of Lugano) and Francesco Chirico (Texas A&M University) found that this performance advantage does not hold when private family firms are sold. Their study showed that there is a family firm discount of between 5 to 16 percent when acquirers value family firms. They found that the mean EBITDA (Earnings before interest, taxes, depreciation, and amortization of intangibles) multiple was 11.28 for family firms and 13.39 for non-family firms in the food and drink industry. This means that the acquisition price would be

16 percent less for a similar family firm. It also suggests that acquirers are inclined to value family firms based on the small number of family firms that are undercapitalized

the business press.

Well, the news is not all bad. The results of the research suggest that guaranteeing that as much of the current management stay

...guaranteeing that as much of the current management stay employed in the acquired firm, especially family members, results in acquirers being willing to pay a higher price to acquire a family business.

and resource starved, and often involved in high levels of family conflict. Thus, while the majority of family firms actually deserve an acquisition premium, most suffer from the few dysfunctional family firms that are so well publicized in

employed in the acquired firm, especially family members, results in acquirers being willing to pay a higher price to acquire a family business. It appears that family even has a positive impact on performance after the business is sold.

MOVING FROM A FAMILY BUSINESS TO WHAT MANY CALL "THE FIRM" – BRITAIN'S FIRST FAMILY

Yes, the future Queen comes from a family business. Her parents, Michael and Carole Middleton began their careers in the airline industry. Michael was a flight dispatcher and Carole was a flight attendant. In the early 1980's, they set up a business called Party Pieces that sold party

supplies both at their retail location and on a mail order basis. The business must have been good to them because they were able to afford to send their children to some of Britain's most prestigious schools. Each of them attended Marlborough College (college in the UK is used in the

same way we use high school in the US), which costs US \$47,000 per year. They were also able to move into an upscale home and acquire a million-dollar apartment in London, no doubt a place to stay when they visit their daughter.



Michael and Carole Middleton, the parents of Catherine Middleton



Catherine, duchess of Cambridge, and Prince William

Many entrepreneurs have "rags-to-riches" stories and so does the Middleton family. Carole's family were manual laborers and coal miners. As the British say, they went "from pit to place." The Middleton's have a long history of business ownership and it is likely that Catherine's sister Pippa or her

brother James will become the next generation at Party Pieces or perhaps expand the family business into new areas. Their connection to the royal family is probably good for business. It may also be good for the Royal Family to finally have a connection to a real business.

ACCUITY MANAGING PARTNER KENT TSUKAMOTO SPEAKS AT FBCH MEETING ON OAHU



Kent Tsukamoto, managing partner of Accuity LLP, spoke at the Oahu Family Business Center meeting on March 29 and will do a repeat

presentation at the Maui meeting on June 23.

Kent divided up the group and presented a case that involved members being participants in a realistic family succession process. Attendees, in a role playing exercise, took the position of different family members. This showed how the roles of different family members led to them taking very logical positions that were considered somewhat irrational by others. The exercise clearly suggested that a great deal of care and

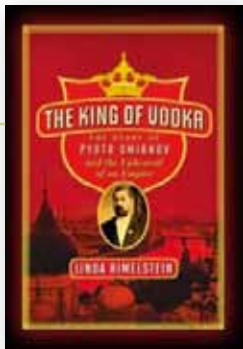
attention is needed when dealing with succession.

Ken suggested families meet early and often when discussing issues of succession because it is only

by understanding the interests and motivations of different members that issues related to passing on the firm to the next generation can be successfully solved.



NEW BOOK EXAMINES THE SMIRNOV FAMILY AND THEIR FAMILY VODKA BUSINESS



When Pyotr Smirnov died in December 1898, he was one of the richest business persons in Russia, and the owner of its largest Vodka company. Smirnov was born a serf and his rise to the top of Russia's business elite was a story used to inspire an emerging group of entrepreneurs.

Smirnov had sons by two different marriages (his first wife died) and he wanted the business to remain a family firm. Needless to say,

the children began to fight immediately. Within months of Smirnov's death, his second wife died, leaving no authority person to reign over the children.

The Russian government decided to start a Vodka monopoly, which drove down their sales and the advent of World War I and the subsequent Bolshevik revolution demolished what was left of the business.

Family members lucky enough to get out of Russia attempted to revive the brand, which eventually ended in the hands of US firm Heublein. Heublein benefited from the growth in the popularity of Vodka that began after World War II. Linda Himelstein's book "The King of Vodka" is a great tale and deals with some important family business issues.

FBC MEMBER AUTHORS BOOK



Myles Kawakami



Myles Kawakami and his wife, Joyce, are owners of Hawaiian Carpet One and Hawaiian Ceramic Tile on the island of Maui. Joyce is the director of a ministry called Feed My Sheep that provides prayer and approximately 50,000 meals a month to people across Maui. They are also members of the Family Business Center of Hawaii.

Myles has become an author. His recent book, "GOD, My Business Partner," provides some insights on how one can combine their faith and their business, to the benefit of both. Proceeds from the sale of the book go to Feed My Sheep.

FBCH ADVISORY BOARD

OAHU

MARCUS BOLAND

Wealth Management Advisor
Northwestern Mutual Financial Network

JOHN BUTLER

Faculty Director
Family Business Center
University of Hawai'i at Mānoa

MARVIN FONG

President
Market City, Limited

SANDRA AU FONG

Senior Vice President/Secretary
Market City, Limited

KENNETH M. GILBERT

Senior Consultant/Partner
Business Consulting Resources Inc.

GUY KAMITAKI

Treasurer
Maui Varieties

CHARLES "CHUCK" KELLEY, M.D.

Vice President, KF Development
Outrigger Enterprises Inc.

JENNY KELLEY

Outrigger Enterprises Inc.

NANCY MORGAN

Board Member
Kualoa Ranch Hawaii

MYRON NAKATA

President
Acutron Co. Inc

RYAN OUYE

General Manager
Service Rentals & Supplies

V. VANCE ROLEY

Dean, Shidler College of Business
University of Hawai'i at Mānoa

JARED WATUMULL

Vice President
Watumull Brothers Ltd.

ANA YARAWAMAI

Owner/Member
Resort Management Group

MAUI

SARAH BREDHOFF

Private Client Services
Bank of Hawaii

SANDRA AU FONG

Senior Vice President/Secretary
Market City, Limited

KENNETH M. GILBERT

Senior Consultant/Partner
Business Consulting Resources Inc.

PAUL MIZOGUCHI

Vice President
Maui Varieties Ltd.

KEN OTA

Vice President
ISI Hawaii Water Solutions

RYAN OUYE

General Manager
Service Rentals & Supplies

V. VANCE ROLEY

Dean, Shidler College of Business
University of Hawai'i at Mānoa

EVENTS CALENDAR

SAVE-THE-DATE

FOR UPDATED INFORMATION AND ADDITIONAL EVENTS,
VISIT WWW.FBCOFHAWAII.ORG OR CALL (808) 956-5092.

FBCH Meeting - Oahu**MAY 17 • 11:30 A.M.–1 P.M.**

"Reinventing the business and family by
the third generation"*

Speaker: Paul Uyehara, president, Aloha
Tofu

FBCH Meeting - Maui**JUNE 23 • 11:30 A.M.–1:30 P.M.**

"Family business succession—the difficult
conversations"

Speaker: Kent Tsukamoto, managing
partner, Accuity LLP

Annual Social**JULY 7 • 5-7 P.M.****SHIDLER COLLEGE OF BUSINESS**

Network with fellow members and learn
about the renovated facilities and world-
class programs. Register online at www.shidler.hawaii.edu/social by June 30.

FBCH Meeting - Oahu**JULY 12 • 11:30 A.M. - 1 P.M.**

"Training company leaders"*

Speaker: Beryl Fajardo, director of
leadership development and training,
Hawaiian Airlines

Annual Retreat**SEPTEMBER 16–17****OUTRIGGER REEF ON THE BEACH**

Speaker: David Bork, founder, Aspen
Family Group

FBCH Meeting - Oahu**NOVEMBER 1 • 7:30–9 A.M.**

Speaker: Harmon Brown, partner, Schiff
Hardin LLP

FBCH Meeting - Maui**NOVEMBER 3**

Speaker: Harmon Brown, partner, Schiff
Hardin LLP

*Meeting topic subject to change.



FAMILY BUSINESS CENTER OF HAWAII
ANNUAL SOCIAL
THURSDAY, JULY 7 • 5–7 P.M.
UH MĀNOA SHIDLER COLLEGE OF BUSINESS

Casual Attire. Details regarding hosted parking will be mailed after receipt of your registration. Register online by June 30 at www.shidler.hawaii.edu/social.

MISSION OF THE FAMILY BUSINESS CENTER OF HAWAII':

Equipping, educating and celebrating families in business

The Family Business Center of Hawai'i is a nonprofit, member-based forum, housed within the Shidler College of Business at the University of Hawai'i at Mānoa. Administrative support for the Center is provided by the Pacific Asian Center for Entrepreneurship.



Family Business Center of Hawai'i

Shidler College of Business, 2404 Maile Way, Honolulu, HI 96822
Phone: (808) 956-5092 • Fax: (808) 956-5107
Email: fbch@hawaii.edu • Web: www.fbcfhwaii.org