

FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai'i

SUMMER 2008

INSIDE THIS ISSUE:

2008 FAMILY BUSINESS RETREAT 2

BRINGING PARENTS INTO THE FAMILY BUSINESS 2

ANTINORI WINERY RUN BY 26TH GENERATION 2

CHRIS DEY'S FIVE RULES FOR FAMILY AND BUSINESS SUCCESS 3

TURNAROUND STRATEGIES FOR FAMILY FIRMS 3

NEW DIRECTIONS FOR RAINBOW DRIVE-IN 4

MESSAGE FROM THE FACULTY DIRECTOR

It seems as if last year's retreat just ended but we are now putting the final arrangements together for this year's effort. In addition to having Dr. Marion McCollom Hampton as the retreat moderator, we have a great speaker for our Friday evening dinner. Mike Carr, a loyal member of our Family Business Center Advisory Board has arranged for Shelly B. Thompson, Vice Chair and Chief Fiduciary Officer of Bank of Hawaii to speak. Ms. Thompson has more than twenty years of wealth management experience, including extensive experience with both U.S. and international clients. She also serves on the boards of the Hawaiian Humane Society and Child and Family Services of Honolulu.

On the nearer term schedule we have Dennis Locke, a Principal with Moss-Adams LLP and expert on valuation for various purposes such as succession or ESOPs, as the lunch speaker on July 1st at the Pacific Club. Moss-Adams is well known for their valuation expertise. Dennis works out of the Seattle office but makes frequent trips to Honolulu and has worked with a number of both local and family business center member firms on issues related to valuation.

We will also have an event at the Beach Walk on June 24th, thanks to Chuck Kelley and his staff at the Outrigger Hotel. This will be an educational and a fun event. Mark the date on your calendar.



John Butler
Faculty Director
Family Business Center of Hawai'i
Harold and Sandy Noborikawa
Endowed Chair in Entrepreneurship
E-mail jebutler@hawaii.edu
Phone 808-956-8582
Cell: 808-358-2405

IN HONG KONG, A REAL FAMILY DISPUTE AT SUN HUNG KAI PROPERTIES

Hong Kong family firms are usually known to be tight lipped and prone to keeping family disputes out of the news. However, Sun Hung Kai, with a market capitalization of about U.S. \$45 billion, which makes it the largest listed real estate firm in the world, recently ended up on the front pages of Hong Kong's newspapers. Previously, the biggest news that made it into local news was when their CEO Walter Kwok was taken hos-

tage and then freed after an undisclosed sum, believed to be \$70 million, was paid. Now Kwok is in the news again because his two brothers and mother are trying to ensure that his girlfriend does not get a seat on the board and are trying to reduce her influence in company matters. Walter had been on a leave of absence for three months but then in mid-May won an injunction against his brothers and

mother that prevented them from replacing him and appointing his mother as chairman of the firm. The downside of going to court was that the rather private family fight became public news, and that is never good for a publicly traded firm, especially one that is family controlled. In one day the stock dropped almost 5% while the overall Hang Seng Index was up .4%. When the family owns almost 42% of the stock,

that is a big hit in their overall wealth, all because of a family squabble.

While the dispute has helped sales of Hong Kong newspapers, it highlights the predicted outcome of not dealing with a problem early. It appears that the dispute between family members over the role of Kwok's girlfriend has been going on for about ten years. Problems left unattended this long are likely to eventually explode, and they did.

2008 FAMILY BUSINESS CENTER OF HAWAI'I RETREAT

This year's retreat is scheduled for Friday, September 12th and Saturday, September 13th at the JW Marriott Ihilani Resort and Spa. Dr. Marion McCollom Hampton, Partner and Director for Research and Education at the Owner Managed Business Institute in Cambridge, will lead the program. Dr. Hampton is co-author of the book *Generation to Generation: Life Cycles of the Family Business* (Harvard Business School Press, 1997).

She has conducted workshops in Europe, Latin America and Asia, in addition to the many she has conducted in the US. The Owner Managed Business Institute is an internationally known organization and includes some of the best known names in family business consulting.

Before joining the Owner Managed Business Institute, Dr. Hampton had a distinguished career at Boston University's

School of Management, where she taught courses in family business while also serving as director of their Leadership Institute. She has also taught in programs at Dartmouth's Tuck School and at the Wharton School, as well as in company programs for firms such as General Electric, Caterpillar and JP Morgan. She has degrees from Yale and Harvard, which means she must have some difficulties come football and basketball seasons. This

year's event should be a valuable learning experience. Set the dates aside now.



Dr. Marion McCollom Hampton

BRINGING PARENTS INTO THE FAMILY BUSINESS PRESENTS CHALLENGES BUT IS ALSO A WAY TO ACQUIRE EXPERIENCE

There is a great deal of discussion and material related to children joining the family business, but in some cases it is the children who want to bring a parent into the family business. After more than twenty years of business experience in Madison, Wisconsin, Eric Schwartz decided to open a property management firm based on providing premium service to his clients. The firm, Sara Properties LLC, was a reflection of the real estate investment activities that

Schwartz had done while operating Upstairs Downstairs Deli in Madison. However, the next decision he made was quite a surprise.

As reported in the Family Business Center of Wisconsin's newsletter, he stated that "when I started this business eight years ago, I knew that there was one person who could really take this company far—my 76-year-old dad, Miles Schwartz. I brought him to Madison from Chicago five years ago and so far, it has been a good decision.

Sure, there are problems, but at the end of the day, our relationship remains incredibly strong." One of the benefits of bringing in a parent, at least in this case, was to acquire valuable experience. However, for this type of arrangement to work, both parent and child have to be comfortable with the new arrangement. Items such as compensation, hours and even the terms of employment need to be discussed, and these tend to be issues that children seldom discuss with

parents. It is usually a discussion held in the opposite direction. There is very little information available with respect to guidelines on how to make these arrangements successful. However, we do get one key from Schwartz. You have to have a strong and good relationship because it is likely to be tested during the process. The parent also has to bring something valuable to the venture and the child has to value the value of that contribution.

WELL AGED WINE FROM A WELL AGED WINERY—ANTINORI WINERY FOUNDED IN 1385



Marchese Piero Antinori and daughters Alessia, Albiera and Allegra keep wine in the family.

The Antinori family has been making wine for over 600 years and 26 generations. Today Marchese Piero Antinori is director of the company, assisted by his three daughters, Albiera, Allegra and Alessia. Marchese Piero, on the firm's web site declares, "*ancient roots play an important role in our philosophy, but they have never*

held back our spirit of innovation." This also appears to be the case with each generation of the family both maintaining the family traditions as well as seeking to innovate and make better wines. Antinori wines are among the finest made in Italy. However, Antinori believes that their mission is still not complete and that the fam-

ily "*is driven to express the vast potential of our vineyards and reconcile all that is new and undiscovered with Tuscany's traditional, cultural, agricultural, artistic and literary heritage.*" With three daughters active in the firm's management, it appears that Antinori Winery will stay in the family

CHRIS DEY PROVIDES FIVE RULES FOR FAMILY AND BUSINESS SUCCESS



Chris Dey Senior Vice President of Sales, Marketing & Operations & Alternate Governor of the New York Islanders hockey team was the speaker at our March 13th meeting at the Plaza Club. Chris' father-in-law, Charles Wang, is the

owner of the club and he persuaded Chris to commute from Hawaii for three years to "beef up" the club's marketing efforts.

Chris says that the Wang and Dey families are guided by five rules which he has found are helpful in making both family and business decisions. They are:

1) Always do the Right Thing. This doesn't mean you'll always be right but in your heart you

always know what the right thing is to do.

- 2) Always Keep Your Promises.
- 3) Always Tell the Truth, which is more clear than always be honest.
- 4) Lead by Example.
- 5) Listen.

The rules sound so simple but they can create challenges in both business and family life. While Chris' commuting is making him a "good friend" of Continental Airlines, it is also hav-

ing the desired impact on the ice hockey team. Attendance has improved, and Chris has instituted a number of new programs, some of which are specially targeted to help youngsters be able to attend games. The next step is to bring the team back to the early 1980s when the Islanders won four Stanley Cups in a row, something that has not been done since. Go Islanders!

TURNAROUND STRATEGIES FOR FAMILY FIRMS

There has been a great deal of attention given to the plight of large publicly traded firms that have experienced performance declines. Managers who have been able to return these firms to former levels of performance, such as Lee Iacocca at Chrysler, earn the title of "turnaround king" based on their success in returning the firm to profitability. Effective strategies for family firms have been given much less research attention. In fact, Ronald Cradall's book "Turnaround Strategies for the Small Church" indicates that even churches have received more attention in this area.

While managers tend to blame poor performance on external events that are beyond their control, internal factors also tend to contribute to performance crisis. In many larger firms the initial step involves replacing the incumbent managers. The logic behind this practice rests on the belief that

the current managers are committed to the current strategy, which is not working, and are unlikely to be agents for change. Obviously, employing this practice in family firms creates a difficult situation at both the family and firm level. However, recent research by Prof. John Carter at Nicholls State Univ. and Andreas Schwab at Louisiana State Univ. found that family firms that had successful turnaround experiences performed a variant of the same strategy that is often used by non-family firms.

In their study of two third-generation firms, one a dairy and the other a large furniture operation, they found that an infusion of outside expertise and outside managers can be helpful in implementing a successful turnaround strategy. Quality Dairy, started in 1913, eventually had to replace inexperienced children who had been recently appointed with more experienced non-family

managers who were experienced and knew how to both cut costs and effectively manage a large work force. For instance, the son in charge of dairy production pointed out that he had previously run a small construction firm with five employees, but the 115 employees in the dairy resulted in him working 85-hour weeks and feeling that he had no control over the operations.

The situation at Fine Furniture, a firm started in 1880, was a little more difficult because the change had to come at the top. They sought the assistance of a consultant who first suggested that they carry a cheaper line of furniture rather than the high-end line they had traditionally carried. This strategy failed and they quickly returned to their traditional line. However, the consultant did persuade the current CEO to retire and got the board to agree to a younger family member taking over the top job. Since there

were several other senior managers from the previous generation, this did not result in immediate success. These family member-managers were reluctant to participate in cost cutting efforts and resisted efforts to get them to retire. At Fine Furniture the process took about four years. They also brought in non-family members for some managerial positions where they needed technical expertise.

Both firms returned to profitability but their experiences highlight the problems faced by family firms when poor financial performance suggests the existing strategy is not working. Of course, if the current managers are willing to change and disengage from the current ineffective strategy, they can avoid family conflict and get the firm back on the road to effective performance much more quickly.

**FAMILY
BUSINESS
CENTER OF
HAWAI'I**

FBCH Advisory Board

Myron M. Nakata
President
Acutron Co., Inc.

Sandra Au Fong
Senior Vice President/
Secretary
Market City, Limited

Marvin Fong
President
Market City, Limited

Kenneth M. Gilbert
Senior Consultant/Partner
Business Consulting Re-
sources, Inc.

Michael A. Carr
Vice President and Private
Banking Relationship Officer
Bank of Hawaii

Teresa Lai
Assistant Vice President
Air Central Hawaii

David Pietsch, Jr.
President
Title Guaranty Escrow Co.

V. Vance Roley
Dean
Shidler College of Business
University of Hawai'i at Mānoa

Equipping, educating and celebrating families in business

(Mission of the Family Business Center of Hawai'i)

The Family Business Center of Hawai'i is a nonprofit, member-based forum, housed within the Shidler College of Business at the University of Hawaii at Manoa.

Administrative support for the FBCH is provided by the Pacific Asian Center for Entrepreneurship and E-Business.

**Family Business Center of Hawai'i
Shidler College of Business
2404 Maile Way
Honolulu, HI 96822
Phone: 808-956-5092
Fax: 808-956-5107
E-mail: fbch@hawaii.edu
Web: www.fbcofhawaii.org**

NEW DIRECTIONS FOR RAINBOW DRIVE-IN

Jim Gusukuma, Vice President of Rainbow Drive-In, talked about the problem of trying to install non-family members as managers in a business that has always had family members as managers at the May 13th meeting at the Pacific Club. Jim pointed out that assuming employees who are outstanding at one level can move up and have similar performance at the next level just doesn't always happen. He also pointed out that the rules and procedures that rest in the

memory of family members need to be codified and written down so that managers have a basis for making decisions. For Rainbow Drive-In this involved introducing time cards to track working hours for the first time in the firm's history. They also instituted formal employee training sessions in an effort to ensure consistency in service. Rainbow's consultant/trainer told management that they didn't need to provide employee training, that the firm's loyal customers would continue

to patronize the restaurant no matter what, but the employees actually appreciated learning more about good customer service.



Jim Gusukuma, Vice President/Manager of Rainbow Drive-In speaking at the May FBC meeting.

FBCH PHOTO GALLERY

**MARKET CITY
TURNS 60**

Congratulations to FBCH member Market City Shopping Center on celebrating their 60th birthday.

Marvin and Sandy Fong, and several hundred of their closest friends, recently commemorated the milestone with a big party at the shopping center.

