UNIVERSITY OF HAWAI'I AT MANOA

FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai`i

WINTER 2008

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MESSAGE FROM THE FACULTY DIRECTOR

The annual Family Business Center retreat was a great success. David Bork proved to be all that was promised. Over 50 members attended the event and even I got involved in the act by helping to put on a two person play about transition in a family business. The JW Marriott Ihilani Resort and Spa was a great location and the feedback that we received was very positive. We are in the process of planning for this year's retreat , which we are attempting to build around some interesting family business cases, with the discussion led by one of the most prominent professors of family business issues. I will advise you of the date and program specifics as soon as the details are set.

We start off the new year with a lunch presentation by Harmon Brown , Tuesday, January 22nd at the Pacific Club. I urge you to invite a guest who may be interested in joining the Family Business Center. You will also notice that we have a full schedule of speakers for the coming year. The tentative schedule is on the back page of this newsletter. This year's slate of speakers covers a broad range of topics of interest to members, and the next retreat promises to be just as good as last year, although with a completely new format.

As always, I look forward to another productive year working with the members and welcome your ideas and suggestions.

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WORKING WITH RELATIVES AND FAMILY BUSINESS SUCCESS: SOME GUIDELINES FOR SUCCESS

Daniel Kehrer, an experienced family business advisor, has developed some guidelines for those considering employing relatives in their family business. He suggest that attempts be made to limit business discussions outside the office and to establish regularly scheduled meeting to discuss communication issues. It is important to divide family member and business duties so that business issues do not become family debates. He also cautions that members should not forget that the family business is a business, not a family. Family members can serve as a unique advantage because they bring human capital to the firm, but they should still run the firm in a professional manner. Some firms treat family members as a source of cheap labor, and Kehrer advises owners to treat family members fairly and in a manner consistent with the ways other employees are treated. Family members are often so excited about joining a family business that they do so without having a clear sense of their duties. Kehrer suggests putting them down in writing and to be upfront about compensation. Some of Kehrer's other suggestions are offered fairly often and included encouraging relatives to get some experience outside the firm first, do not provide sympathy jobs, develop a succession plan, and do not be afraid to seek outside advice. The use of outsiders often is a way to provide a reality check, which can be difficult when family and business interests are discussed. Finally, Kehrer suggests that relatives be clearly advised to stay within clear management lines and not to confuse future ownership with present day management. Wait until you are an actual owner to act like an owner and even then it is better to follow management lines.

2007 FAMILY BUSINESS CENTER OF HAWAI'I RETREAT

This year's retreat was an outstanding success. David Bork, founder of the Aspen Family Business Group and one of the most effective family business consultants, conducted the retreat. Bork started the retreat with a session that highlighted the factors that make family businesses different and which must be considered when making business and family decisions. Dinner was followed by a two-person play, "A Tough Nut to Crack," starring faculty director John Butler and Shidler College of Business student Waranya (Mei) Roekpooritat, that highlighted the change over generations of a father-daughter team working in a family business.

On the second day, Bork outlined his system view of the family and family business, using examples from his many years of consulting experience. Understanding family patterns and how they impact on the business is extremely important. Bork used examples from his own family to show how the history of one's family has an ongoing impact on the firm's operations as well as on the good functioning of the family.

Bork has spent a long time in the family business consulting business and ended with his "silverback" presentation, where much like the old gorilla, he has seen almost everything and shared some of the most valuable lessons that he has learned.

FBCH PHOTO GALLERY

MCCLATCHY FAMILY 150 YEARS IN THE NEWSPAPER BUSINESS

CELEBRATING OUR 150th ANNIVERSARY
The Sacramento Bee

The Sacramento Bee, the flagship of 30 daily and almost 50 non-daily newspapers owned by The McClatchy Company, was founded in 1857. The third-largest newspaper corporation in the country in terms of circulation prints more than 3.2 million papers each day. It remains a growing family firm in a time when the survival of both family firms and newspapers are seen as very difficult tasks. Members of the McClatchy family are still very active in ownership and serve on the board although Gary Pruitt has been the CEO for the past twelve years. The family controls 80% of the stock and has continued to back their CEO despite some poor financial performance in recent years although its growth rate is far higher than the industry average. Kevin McClatchy noted that the family expects to stay in the business. He says that "we have been doing this for 150 years, we've withstood the challenges, and we think we're going to get though this." Their recent purchase of the Knight-Ridder group shows that the family continues to be committed to passing on the business as well as a commitment to newspapers at a time when many pundits are bailing out of the business.

Source: Wall Street Journal

FRIEDA TAKAKI A PASSIONATE SPOKESPERSON FOR ESOP

Frieda Takaki, President and CEO of CHART Rehabilitation of Hawaii, was the speaker at our November Family Business Center of Hawai'i meeting. CHART is a multi-disciplinary outpatient physical rehabilitation clinic and is considered one of the most innovative and comprehensive orthopedic rehabilitation centers in the country. In addition to serving as President of CHART, Ms. Takaki also serves as President of the Hawai'i ESOP Association and has been recently elected Chair of the National ESOP Association.

ESOPs (Employee Stock Option Plans) are very complicated but Ms. Takaki had a well structured presentation that was filled with lots of real life examples to show how ESOPs should work, as well as outlining some of the reasons that they fail. First and foremost, she sees ESOPs as a way to empower employees through firm ownership. She pointed out that her employees asked that she no longer have a holiday party because they would rather see funds devoted to items that would improve firm performance. While she acknowleged that there have been some who have tried to abuse ESOPs, in some cases they have regretted the legal consequences.

Ms. Takaki also pointed out that she believed that ESOPs are also a succession option for family firms, especially in cases where there are not family members available or willing to assume management of the firm.

Frieda Takaki, President of the Hawaii Chapter of the ESOP Association and Chair of the National ESOP Association

NON FAMILY MEMBER CEOS: KEYS TO SUCCESS

Each year a large number of family businesses select a non-family member to run their business. In some cases this is because there are no family members available or capable of running the business, while in other cases it may reflect the decision by the owners to concentrate on their ownership role. This was clearly the case of the Bancroft family, who recently sold the "Wall Street Journal." We do not know very much about how well the non-family members succeed and the reasons related to success or lack thereof. However, recently two professors at Kennesaw State University, Timothy Blumentritt and Joseph Astrachan, and one from Loyola University's Family Business Center sought to answer this question.

They conducted a large number of in depth interviews with family business owners and non-family member CEOs. They found that four factors were very important to the success of a non-family member CEOs. First, business competence is important. Since non-family member CEOs usually command a higher salary than to family member CEOs, it does not make sense to go outside the family unless you are getting someone with a higher level of business competence. However the non-family members CEOs said that while business acumen is important one must also have "a clear awareness of family issues" and be able to lead the firm in a way that serves the long term interests of the family. One CEO also remarked that you should be aware from the beginning that your tenure is limited, although this is not true in all cases. Others felt that a cultural fit is important. One founder noted "you assume they have competency based on their resume or they wouldn't be there but then they have to have a cultural fit as well. The second factor that was found to be important was a strong board of directors, including one with outside members. One CEO remarked that he "would not work for a family firm that did not have a strong board of directors."

Many CEOs felt that a strong Board acts to buffer the CEO from family members and helps to ensure that they can do their job effectively. The third factor was family awareness, which involves building a coalition among influential family members about the direction the firm should take. Successful CEOs were able to appreciate the family's concerns but not get engulfed in fights and personalities. The final success factor that most CEOs felt was important was the presence of a family council, where a subset of family members were elected to deal with family issues and develop family policy to address issues that come up with the family and the business overlap. Non-family member CEOs felt a family council was essential.

(Study published in the "Journal of the Family Firm Institute," December, 2007)

> "I've stressed very, very strongly with my children that their number one responsibility is to be owners and not to be managers. Their number one responsibility is to find the best person to run the businesses and give them room to run those businesses." (Comment from a family business owner)

FAMILY BUSINESS CENTER OF HAWAI'I

Equipping, educating and celebrating families in business

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

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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.

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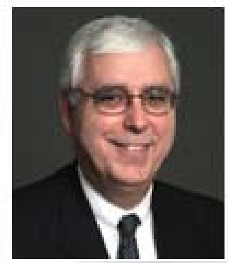
UPCOMING SPEAKERS FOR FBCH MEETINGS

Jim Gusukuma of Rainbow Drive-In will talk about succession planning at our **May** meeting. We are also setting up a tour of the new Beach Walk Development in **June**, followed by light refreshments. Dennis Locke of Moss Adams from Seattle is scheduled to talk about firm valuation at the **July** meeting. Our annual Family Business Center Retreat will take place in **September**, and we are currently trying to secure the services of one of the instructors from the Harvard Business School annual family business forum to lead that effort. For our **November** meeting we are trying to schedule Michael Murray of the Shidler Group to talk about real estate investment trusts.

Harmon A. Brown, Partner in the Chicago based law firm of Schiff Hardin LLP will speak at the **January** 22, 2008 FBC lunch meeting.



Mr. Brown's practice concentrates in estate planning, trust and estate administration and planning for closely held companies. He also has extensive experience working with closely held businesses with respect to tax planning, transfer of wealth over multiple generations and valuation of closely held businesses.

In March, local entrepreneur Chris Dey has agreed to speak at our FBCH meeting. Recently Mr. Dey agreed to take over the position of Senior Vice President of Sales, Marketing and Operations for the New York Islanders hockey team. He is also owner of Hawaii IPTV. Why would someone leave Hawaii to go to New York to take a senior position? Well the answer may lie in the fact that Mr. Dey's father-in-law is the owner of the team, having purchased it for $188 million in 2000. Since then, the team has performed well on the ice, but has been less successful on the business side. Mr. Dey said his goal is to "pack the Nassau Coliseum, site of the team's home ice on game nights.

Issues related to working for one's in-laws, or having in-laws working in the family firm, are clearly important to members of the Family Business Center. This should be an interesting session because of Mr. Dey's expertise and experience in dealing with so many issues related to family business. In addition, yes, we will have some "lucky draw" prizes to help you show your support for Hawaii's adopted National Hockey League team. The date will be supplied once Mr. Dey confirms his March travel plans.