

FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai'i

FBC RETREAT SPECIAL 2017

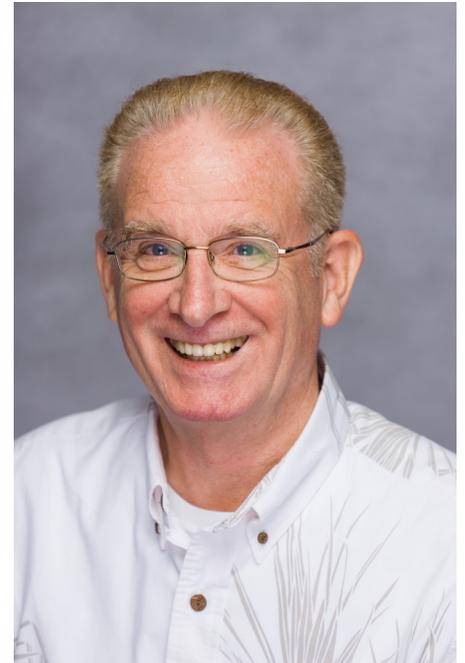
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Happy New Year to all our members and I hope that you will be able to keep all the resolutions that you have made, especially those that relate to the health of your family or family business. I want to especially thank all our members for supporting the FBCH by coming to events. Our board members have been generous with their time and helped us to put together a number of great programs on Oahu, Maui and Hawai'i islands.

The next generation program continues to thrive. This program is especially suitable for anyone who is not in the oldest generation. It gives you a chance to interact with others in your same situation and share valuable knowledge and experience. A great deal of the publicly available information about family businesses and the issues they face is fairly bland and usually quite general. It leaves you guessing about how it exactly applies in your case. E-mail Krystal Lee if you think you might be interested in joining the Next Gen program.

I would also like any member who has an idea for a program or wants to make a presentation to contact me (jebutler@hawaii.edu). It would really be helpful if you would be willing to talk to our chapters that are on Maui or the Big Island. Yes, we will provide a plane ticket, a round trip one in fact. We don't want you to be stranded.

You may also notice that I try to provide a book review in each newsletter. If you see a book related to family business please let me know so that I can provide a summary of it in a future news letter. My bookshelf is also getting full so if you want to read one of the books I have reviewed let me know and I'll send it to you. First come, first serve on the book offer.



John Butler, Faculty Director
Family Business Center of Hawai'i

I also encourage you to visit the Family Business Center of Hawai'i web page (<http://fbcofhawaii.org/>). A number of speakers have permitted us to video their presentation and you can view them there. It is nice to be able to stop a video and discuss the implications of what a speaker has said and the videos are excellent.

If you have any ideas for the web page, let us know. We want to constantly improve what we do as part of our mission: *Equipping, educating and celebrating families in business.*

ROSS NAKASHIMA SPEAKS TO HILO CHAPTER AFTER SELLING HIS BUSINESSES ON KAUAI AND THE BIG ISLAND

We also like to hear about successful efforts to keep the business in the family but it is also valuable when somebody tell us about other options. Members of the Big Island Family Business Center were fortunate to have Ross Nakashima come speak to them on January 18th, about his business career. And some of the reasons why he recently sold his businesses on Kauai and the Big Island.

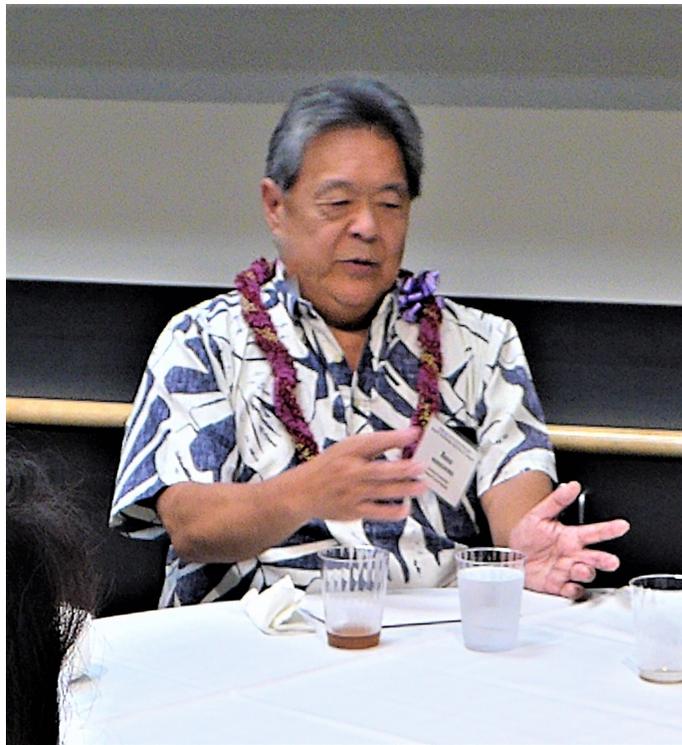
Ross began his journey in private business by working for his father after school. After finishing college with an engineering degree, he worked in the construction industry for a number of years before his father was able to lure him back to Kauai to work at his firm Venture Associates. Ross returned on the assumption that his father would be retiring however that didn't happen. This is a story we have heard from a number of our presenters. Unfortunately, disagreements with his father on how the business should be run led to Ross leaving the business. Shortly after he left, his father sold the business to Kauai entrepreneur Peter Yukimura.

Ross eventually ended up working for Peter Yukimura, helping to run some of Peter's various business enterprises. He later bought his father's old business from Peter when Peter decided to simplify his operation. Some time later, Ross purchased Hawaii Paper Products in Hilo. Hawaii Paper Products was very similar to Ross' Kauai business.

Ross' three kids ended up working in the company while they were in school, just as he had. Later, they decided to pursue their own paths. One joined the Air Force, another returned to school and gained a degree in sociology and psychology, and another ended up working for a bank in Honolulu. All three eventually returned to Kauai and joined the business. However, for various reasons, Ross' hopes for family succession rested on his second daughter.

Ross brought in outside help to assist with the managerial development of his daughter. However, he was not able to overcome his daughter's fear of failing. She was afraid of the possibility of failure and causing the loss of everything that he had built. She just didn't want that responsibility.

When asked what he would do differently if he had the chance, he replied that he would have brought in outside help earlier.



Ross Nakashima speaking out his experiences in the family business to the FBCH meeting in Hilo

He felt that a lot of what he had to say was being filtered by the father/daughter relationship that he had. It is often harder for family members to communicate with each other even though you would think it would be easier. If an outside consultant or a non-family manager delivers the identical message it is often received differently by a family member.

Right now Ross is taking a well deserved vacation with his wife, Pat. But he left us with the thought that he might get involved in another business but it would have to be one that had a clearly defined exit plan for him.

Special thanks to Mike Miyahira for providing the information on and the pictures of the meeting in Hilo.

BILLIE LUEDER FROM HONOLULU COMMUNIITY COLLEGE PROVIDES ADVICE ON HOW TO EFFECTIVELY COMMUNICATE ACROSS GENERATIONS

Over 100 members came to hear Billie Lueder, Director of Communications and External Affairs for Honolulu Community College speak on Understanding Generation Communication on January, 24th. She focused on millennials and the relationships that older groups have with them. She also pointed out that the relationship works in two directions and that the perceptions that millennials have of older people are often very inaccurate. She showed a short video to highlight that their impression of “older” is very inaccurate. If you missed the talk, it is online at the Family Business Center web site and the short video “What Age do Millennials Think is Old?” can be seen at <https://www.aarp.org/disrupt-aging/stories/.../what-is-old-video.html>.

She point out that there are certain snapshots that tend to characterize millennials. These include, “always connected,” most educated, 80% sleep with their phone, technology dependent, love feedback so they know they are on the right track, and they want work to accommodate their personal life.

Like many other age groups, they are motivated by a sense of belonging, challenging work, a supervisor and co-worker they like, a mission or organizational purpose they believe in, and of course a certain level of compensation and benefits. In this respect they are not so different than older groups in the work force.

The way generations communicate has also changed. The “baby boomers” come from the talk face-to-face, and to do so in formal meetings or on the telephone. E-mail changed the nature of communication for many by making it more efficient. In some cases it also created problems because the sender and receiver could not send or receive verbal cues from each other. Now, texting has arrived and not simple text messages but multiple interactive text conversations. One popular television add even has two teenagers texting each other while sitting on the same couch.

Now that we know about the problems and trends, Ms. Lueder provided some advice about the practical tactics in-



Billie Lueder speaking at the FBCH meeting on Oahu

involved in successfully communicating across generations. Provide specific examples when assigning them tasks. This allows them to see the tangible aspects of the task. Tell them what you think. Don't keep them guessing about what you really feel about their performance. Try to give them projects and tasks that stretch them so that it expands their capabilities. Finally, try to make their first day on the job an unforgettable one. Don't have them spend the day reading the firm's operational policy manual.

Millennials, alike most people also appreciate a high degree of professionalism. After all, they want to be professionals.

THE BEST LAID SUCCESSION PLANS WILL BE WAYLAID BY MURDER

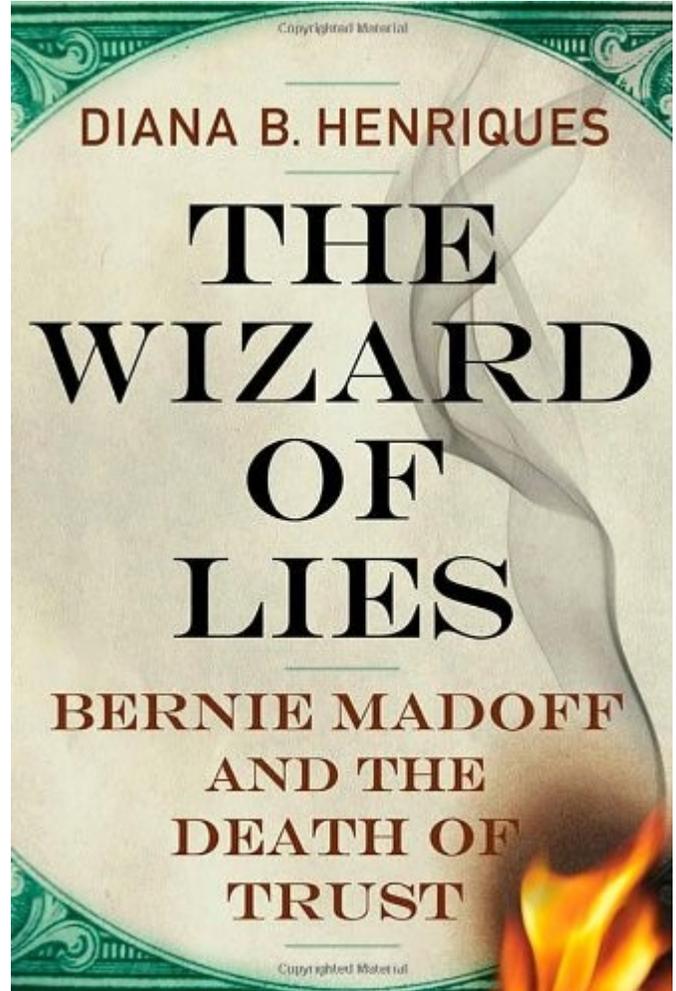
“Before I realized it, I was in the hole for a few billion dollars. This was how Bernie Madoff characterized his fall from grace in his first prison interview. The Wizard of Lies, a book by Diana B. Henriques, one of the only people to interview Bernie Madoff pointed out that the number was \$65 billion in the end. In the end his business practices not only resulted in the failure of the family firm, which also employed his two sons, Mark and Andrew and his brother Peter.

In late November of 2008, probably prompted by the financial crisis, investors in Madoff’s fund, began to withdraw funds. On December 10th he realized he would no longer be able to meet the demands of clients for cash withdrawals. Madoff returns home and tells his wife and sons that his investment business is nothing but a giant Ponzi scheme and that the losses and fraud could run to \$50 billion. Much of this money was entrusted to Madoff by his wife’s relative, employees and his closest friends. While Madoff’s sons worked in the business he kept them and his brother away from the operation of his investment fund.

The sons do the appropriate but difficult thing and contact their lawyer who contacts the Securities and Exchange Commission, who then contact the FBA. At several points, representatives questions whether they really mean millions, not billions. In the end Madoff received a sentence of 150 years, His wife was only allowed to take items that the U.S. marshal considered having no value, which did not even include 30 used golf balls, which they calculated they could sell for \$1 each.

Much of the book is about the details of the scheme. However, the most interesting and tragic parts are about the impact this had on Madoff’s family, who enjoyed the fruits of his illegal wealth but appeared to be innocent of any participation in his scheme. They were all embroiled in legal suits and the sons found it impossible to gain employment in the industry. On the second anniversary of his father’s arrest his son Mark committed suicide.

This is a great book if you are interested in how Madoff’s desire to be seen as successful and generous, which he was to



local charities also drove him to want to appear more successful than he was, and this also applied to how he wanted close friends and family to view him. He was one of the most prominent business persons on Wall Street. Now his is one of the most notorious financial scoundrels of all time.

The outcome is depressing in that he ruined his family and his business as well as many of his friends’ fortunes. It is an interesting read.

FAMILY BUSINESS CENTER PHOTO GALLERY



EVIDENCE ABOUT THE VALUE OF FAMILY CONSTITUTIONS

There has been a great deal of discussion about the necessity and value of a family business having a constitution but they have a relatively short history of less than 30 years. The first mention of them, in print was an article by Miguel Gallo at the University of Navarra and John Ward at Northwestern University and probably one of the best known scholars in the family business area. Originally, they used the term *Family Protocol*, which was gradually replaced by the term *Family Constitution*.

We have anecdotal evidence that family constitutions enhance family harmony, although that is a pretty difficult thing to test empirically. However, until now we have not had a systematic investigation to determine if they have any impact on the performance of the family firm. One of the problems associated with answering this question is that most family firms are privately held and do not have to report their profit in most countries. However, they do have to do so in Spain. In addition, the Spanish government wanted to encourage families owning a family firm to have a constitution so they started a program that covered between 30% to 50% of the consulting costs associated with developing a family constitution. This meant that there was a large sample of firms that developed their family constitution during the same year. They also require private firms to provide information on their financial performance.

A study by Rocio Arteaga and Susana Menéndez-Requejo entitled *Family Constitution and Business Performance: Moderating Factors*, in the **Family Business Review** (December, 2017) identified 265 firms that had developed constitutions and matched them with 265 firms who did not have constitutions. They then checked to see that both groups were equally profitable in the two year period before the constitutions were developed. They then examined the change in financial performance for the five years after the implementation of a family constitution for both sets of firms. The 265 firms that had developed a family constitution had financial performance improvement that was higher than those that did not and the difference was statistically significant.

However, as with most research there may be other reasons for the differences between the two groups so the authors

examined the impact of (1) family versus non-family CEO, (2) multiple family owners versus a single family owner of the business and (3) later generation ownership versus earlier generation ownership.

They found that having several family shareholders rather than just one shareholder had a positive impact on future performance. The implementation of a family constitution and firm performance growth was stronger when the firm had a non-family CEO and when later generation of the family were operating the firm. Again, these results reflect the differences between the two sets of matched firms, one set of 265 developed a family constitution.

The interesting part is why is there a difference. A first generation firm that is still operated by the owner is unlikely to have any confusion about the direction or operation of the firm. However, as siblings and then cousins begin to take over the operation of the family business a singleness of purpose and views is less likely. When the firm hires a non-family member CEO there may also be a greater need for the family to agree on things such as rules for family member employment, dividends succession planning, board of director membership and the structure of a Family Council. Continuous issues such as the transfer or sale of shares and how they will be valued are best full specified and the Family Constitution is an ideal mechanism for this task. It helps to put everyone on the same page.

It should be noted that the results do not mean every firm with a family constitution performed better than every firm without a family constitution. In many cases, as is true in most comparative cases, both groups have high and low performing firms. It does suggest that having a family constitution improves the odds for achieving future levels of high performance. Obviously, things such as competence, hard work and in some cases a little bit of luck have major influences on firm performance.



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

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Upcoming Events:

FEB 22—Maui Meeting
11:30 a.m. to 1 p.m.

Kahili Golf Club

Speaker: Jason Higa, Chief Executive Officer, FCH Enterprises, Inc. (Zippys' restaurants)

March 16—Oahu Meeting
Oahu Country Club

Speaker: Neal Arakaki, President of Menehune Mac

April 3—Maui Meeting
Kahili Golf Club

Lee Hauser, Author of "the Legacy Family—The Definitive Guide to Creating a Successful Multi-generational Family Business"

April 20—Big Island Meeting
Imiloa Astronomy Center

Corey Campbell, CEO and Founder, Akamai Training and Consulting, LLC

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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 Mānoa. Administrative support for the FBCH is provided by the Pacific Asian Center for Entrepreneurship .