

FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai'i

SPRING 2018

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I'll start out with a memory test, which I suspect our younger readers won't pass. Who are Tom and Betsy Rath? Gregory Peck, Frederick March and Jennifer Jones started in the film and Sam Sloan was the author of the book. The correct answer is that Tom Rath was the central character in *The Man in the Gray Flannel Suit* and he was trying to balance a readjustment to family life after World War II with the drive for personal success in the corporate world while also ensuring the happiness of his family. Ralph Hopkins, the president of one of the largest television and communication companies hires Tom as his special assistant and sees him as a protégé who can eventually rise to the top of the firm.

In the beginning Tom relishes the perks, first class travel and stays in five star hotels. However, he also begins to see that there are tradeoffs between his corporate career and his family. Hopkins has already made the choice and essentially minimized his contact with his family. However, he does tell Rath that the route he took is not for everybody and that there are positions in the firm that allow one to have both a career and time with one's family.

While the book was intended to be one that characterized some of the negatives of corporate life in the United States during the 1950s, the tradeoff between family and work is one that also resounds in the family business literature. Entrepreneurs, at least successful ones often want to see their firm survive beyond their time on earth. Passing the firm on to children is the best way that many see this goal reached. Stanley Marcus, in his book *Minding the Store* (p. 65) related that his brother felt somewhat forced to join the family's business, Niemen Marcus. He wrote "It was



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

inconceivable to my father that any of his sons might even contemplate any other line of endeavor.I think he was such a supreme egotist as far as his sons were concerned that he sincerely believe that since they all had his genes, they would all turn out to be equal in all ways."

I think the lesson is that some children will be perfect for the family business just like some people are ready for the sacrifices needed to reach the top of large corporations. I guess the lesson for family firms is that some will find the challenges they seek in the family firm while others will prefer other pastures.

JASON HIGA CEO OF FCH FOODSERVICE (ZIPPY'S) TALKS ABOUT GENERATIONAL TRANSITION AT THE MAUI CHAPTER MEETING

Jason Higa, CEO of FCH Enterprises, Inc., perhaps best known to most of us for their *Zippy's* restaurants and their *Napoleon's Bakeries*. However they also have other business units including *Pōmaika'i Ballroom*, *Food Solutions International*, a USDA certified kitchen and *A Catered Experience*, a full service catering company. Jason's presentation focused on the history of the firm as well as the transfer of management from Generation One to Generation Two and some of the issues associated with that transfer.

Where did the name Zippy's come from? That was the first question raised in the Q&A. Those of you who are old enough will remember when we did not have Zip codes on our mail. They were rolled out by the Post Office in 1963 and were shorthand for "Zone Improvement Plan" because they replaced the single and double digit zones used in larger cities. Jason's father Francis and his uncle Charlie wanted to call the restaurant Zip's but the name could not be approved because the USPS had a claim on that name. Some of you may remember the Mr. Zip figure that was printed on the selvage of sheets of postage stamps. Zippy's ended up as the compromise name. The brothers opened their first restaurant on McCully. Four years later an older couple who had a drive in restaurant in Kaimuki wanted to retire. They contacted the brothers and suggested they buy it. This became the second Zippy's restaurant and began their growth to their current 24 restaurants in Hawai'i.

After a period as a practicing attorney Jason decided to join the family firm. Jason's father passed away in 1999 and his cousin did not want to join the firm. As a first step in the transition to Generation Two they engaged the services of a family business consultant, who called herself the "Godmother from Hell." She conducted an assessment that included interviews with all family members as well as interviews with all senior managers. She helped identify some shared values, such as the fact that the family members took pride in their ownership of Zippy's restaurants and supported Jason as CEO.

The establishment of a family council, attendance at family business conferences and training in communication and active listening further enhanced both family relations and business side functioning. This also led to discussions that led to the redemption of Charlie Higa's shares in the business in a way that maintained family harmony and involved him selling his shares back to FCH. In fact, one of his primary parameters



Jason Higa discusses the transition from first to second generation at FCH Enterprises, Inc. (Zippy's)

in selling his shares back to the firm was that the legacy of Francis and Charlie Higa would be preserved by allowing Zippy's to continue as a family business. He also offered to help FCH any way he could in the future. It was gratifying to hear about a pleasant and effective transfer of ownership in a family firm.

Jason concluded his presentation with the observation that FCH is well positioned to continue as a local family business and that it will continue to uphold the legacy of the founders.

While not directly related to his talk Jason provided us a promotion piece that highlighted some of the favorite dishes of well known people such as Barack Obama (Zip Min), Marcus Mariota (Portuguese sausage, fried rice and eggs over easy) and Bruno Mars (Korean Chicken with chili and rice).



SCHOTT BROS.: A CLASS PRODUCT THAT IS CONTINUING TO CELEBRATE OVER 100 YEARS OF FAMILY OWNERSHIP AND MANAGEMENT

A CBS News Story on a family firm that has been making leather jackets in the United States for over 100 years got my attention. Moreover, it was this firm that made the classic jacket that James Dean wore in the movie *East of Eden* and Marlon Brando wore in *The Wild Ones*. The firm was started by two Russian immigrant brothers, Irving and Jack Schott in 1913. It is hard to believe today but they were purported to be the first firm that put a zipper on their jackets. They produced their famous motorcycle jacket in 1928, with a retail price of \$5.50. They produced their famous bomber jacket during world war II and continued to produce these jackets for the US military for over fifty years.

They continue to manufacture their jackets in the United States, and the “made in USA” label has helped them with international sales because of the quality connotation associated with manufacturing here. The firm is currently owned and managed by the third and fourth generation of the Schott family. Their jackets are still hand cut and sewed and they maintain their status among those who appreciate a finely crafted jacket. Their classic motorcycle jacket now goes for \$740. I guess we should have purchased more of them back in 1928. For a video of the firm go to <https://www.cbsnews.com/news/the-story-and-making-of-the-iconic-leather-motorcycle-jacket/>.

The firm is no longer located on the lower East side of Manhattan but the machinery is the same, which means new parts have to be manufactured in house. They now have over 100 employees in a factory in Union, New Jersey. There is a great deal of research related to the life expectancy of firms. In addition, there are a large number of “experts” who would claim that it is no longer possible to manufacture apparel profitably in the United States. There may be lots of reasons why the Schott Bros. have been able to do this. One of the reasons may be their commitment of continue operations as a family firm.



James Dean and Marlon Brando in their Schott Brothers leather Motorcycle Jacket. These jackets continue to be manufactured. Right, General George Patton wore a Schott jacket during World War II. These jackets were manufactured for airplane crews during a period when military planes had very little heat.



Below Schott Bros. factory during the 1930.



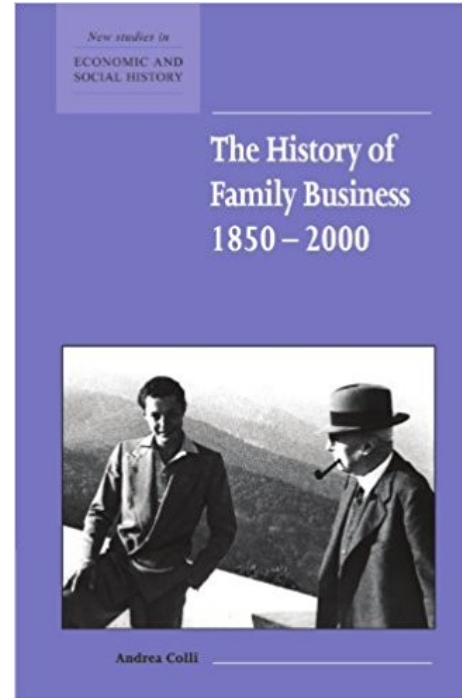
FAMILY BUSINESSES ARE ALIVE AND WELL ON A GLOBAL SCALE

Professor Colli's history of family business does its best to dispel the rumor that family businesses are a dying breed especially with respect to those that are extremely large. Two of the interesting questions that he addresses is if family firms are more profitable than non-family firms and if industrialized economies benefit from the presence of family firms.

First, the definition of a family firm is elusive, especially when we are talking about large publicly traded firms where the family owns enough stock to control the firm but may not be actively engaged in the top management of the firm (e.g., Benetton, Bancroft family and Dow Jones) two cases where the identity of the family and the firm merge. There has also been a tendency to focus on the founders of family firms rather than on the families, unless the families were dysfunctional. Colli points out that if you include family controlled firms in your definition, they are still dominant even at the level of the largest firms in many countries. While most of his data is from Europe he points out that between 75% and 95% of all registered companies in Italy are family firms, and the percentages are equally high in Sweden, Switzerland, the Netherlands and Germany.

The rate of ownership is also high in the United States where Colli reports a figure of 95% overall and 17% of the largest 100 firms in the country. An examination of the largest firms in Europe shows much higher percentages with 46% of the largest 5,000 Dutch corporations and 50% of the largest 100 Italian corporations are family controlled and/or owned firms. The typical story-line is that as a family firm grows, it brings in external managers, becomes a publicly traded firm and gradually the influence and ownership of the family disappears but this appears to be more a case of "commonly accepted knowledge" rather than representative of what actually occurs.

The final issue and often debated question is if family businesses were more or less profitable. Generally accepted knowledge was that they earned less profit because they were more conservative with respect to capital investments and acquisitions. However their continued presence in industrialized economies and their dominance in newly industrialized



Colli, Andrea (2003) *The History of Family Business, 1850–2000*, Cambridge: Cambridge University Press. Pictured is Giovanni Agnelli (founder of FIAT) and his nephew and its subsequent CEO Giovanni (Gianni) Agnelli.

economies suggests just the opposite. This study also shows that the family structure has been the most appropriate structure for many types of firms in many different countries. Families have proven to be very adaptable to changes in the economic or political environment in ways that have allowed them to prosper. This has proven to be especially true in the newly industrialized countries of East and South-east Asia.

This book presents a great deal of data about the family firm with a strong focus on Europe. I found the book interesting and informative. However, I'm not sure everyone will want to spend \$31.00 for a 90 page book. Well, I suppose if you don't like to read long books that could be considered a positive aspect.

LEE HAUSER DISCUSSES THE SIX TRANSITIONS IN FAMILY BUSINESS

On April 3, 2018 Dr. Lee Hauser spoke to our Maui Chapter at a meeting sponsored by First Foundation. She discussed the six transitions that family business must make if they are to successfully master generational transitions. This model, depicted below was first introduced in her highly successful book entitled *"Hats Off to You,"* which she coauthored with Ernest Doud. While the family and the founder are in a constant and gradual transition, the other transitions (Business, Management, Owner, Estate) have more discrete beginnings and endings.

The first thing Dr. Hauser pointed out was that "anytime the family is together in a shared asset" whether it is an operating firm or a shared-ownership vacation home many of the same dynamics apply. In general, the first generation founding entrepreneur will provide plenty of reasons why they can't let go and retire. However, Dr. Hauser recommends that the current generation gradually extend their authority to the next generation. She pointed out that every manager makes mistakes and you want to be around when the next generation makes their mistakes so that you can be supportive. Founders also have to be realistic and not assume that their sons

or daughters will be clones of them.

Dr. Hauser also had some interesting thoughts about family communication. Each family develops their own style of communicating. Children learn it as they grow up. However, in-laws have to adapt and learn how to effectively communicate with their new family and may have come from a family with a different communication style. Owners of family business often discuss nothing but the business and those joining the family normally will want some designated social time where discussion of the family business is off limits. It is important to respect this social time.

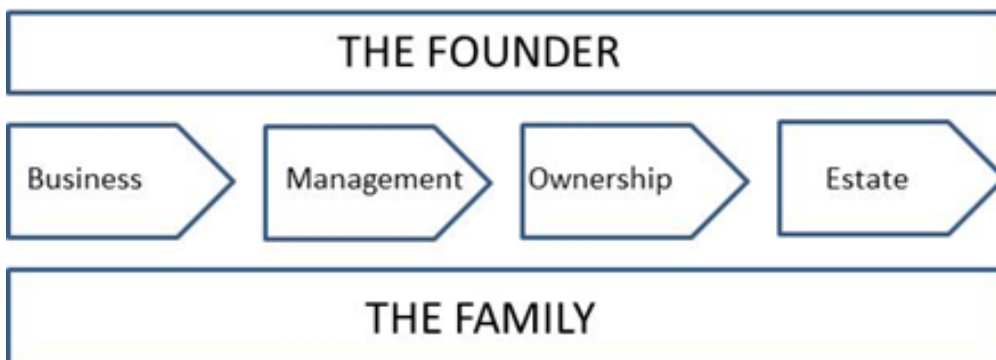
Finally, Dr. Hauser pointed out that Fair does not mean Equal. We need to be Fair in what we do for the business. However, unless there is some unusual reason Equal is what we do with our estate. She said she believes "estate equality is very important." Owners also have to recognize that if some children are owners but don't work in the business they need to think about an exit strategy for those who want to sell their stock and a reasonable dividend policy for those who want to hold it and remain responsible owners.



Dr. Lee Hauser, noted family business consultant and author speaking at FBCH's Maui Chapter meeting.



Louis Abel, Chief Investment Officer of First Foundation, introducing Dr. Hauser. First Foundation was the sponsor of her presentation.



FAMILY BUSINESS CENTER OF HAWAII PHOTO GALLERY



SIR ALEX FERGUSON ON FAMILY BUSINESS

Normally, when we think of Alex Ferguson we think of Manchester United Football (Soccer in the USA). However, of late Sir Alex has been taking to book writing and going on the lecture circuit, where he has been talking about leadership, albeit in the context of soccer. His book on leadership has an interesting section on the problems with nepotism that relates to family business.

There is one other lesson I learned regarding teamwork, and it is on the odd topic—nepotism. It does not matter whether you are running a family-managed organization or one with more widely distributed stakeholders: a leader is always tempted to look as his own kith and kin, or family friends, through a different lens. Some leaders think that if they bring a close relative into the organization, it will send the wrong message, destroy teamwork and throw everything out of kilter, because people will assume that a surname, or a personal relationship is more important than ability. These leaders have a firm rule and refuse to hire family members or friends, even if their credentials suggest they are more than worthy. Others will lurch in the opposite direction and turn a blind eye to the shortcomings of their son or niece.

I encountered this issue when one of my twins sons, Darren wanted to play as a professional. I never really considered signing him for United because I always thought it was going to be too awkward for both of us. So Cathy (his wife) and I went to see Brian Clough at Nottingham Forrest, and Darren was about to sign for him in 1990 when Archie Knox, my assistant manager, argued that I should not let him go to an opponent. Archie's point was that it was only going to be awkward if Darren made the first team. I talked it over with Cathy, who suggested I let Darren decide. I remember going to his bedroom to pose the question and it was Darren who decided he wanted to play for his old man.

As things would have it, Darren made his debut for the first team in 1990 and played 16 games during 1993, the year United won our first League title under my management. He was very unlucky because he got a hamstring injury in a Scotland Under-21 game against Italy and was out for a couple of months. By the time he was ready to return, Paul Ince and Bryan Robson had recovered from injuries, and the following

summer I did what I needed to do as a manager and signed Roy Keane, who was then 21, to buttress our midfield. That was a tragedy for Darren, because after that he never really got back into the side; he asked for a transfer because he was keen to lay regular first-team football. I helped him land at Wolverhampton Wanderers but the poor devil, he had to endure four managers in as many seasons. While he was in the first team and in the dressing room, it was a bit difficult for both of us. To Darren's credit, he understood that, at United, I was the manager not his dad, as I found out when I tried to pump him for information about the lifestyle habits of a couple of players. There was no way that Darren was going to squeal on his team-mates. He played his cards very close to his chest. As for moving Darren along to Wolves, Cathy has never forgiven me. From time to time, she will remind me with the words: "You sold your own son."

As you can see there are valuable lessons to be found everywhere. Perhaps Sir Alex should have checked on the home front before sending his son to another team.

Extracted from Ferguson, Alex (2015) "*Leading: Learning from Life and My Years at Manchester United.*" pp. 100-101.



Sir Alex Ferguson, legendary coach of United Manchester Football Club

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Upcoming Events:**April 27—Big Island Meeting****Imiloa Astronomy Center**

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

May 17-Maui Meeting**Kelihi Golf Club**

Kenshiro Uki, Vice President of Operations for Sun Noodles

May 22-Oahu**Oahu Country Club**

Alex Kawakami (3rd generation), Marketing Director, and Sarah Kawakami,
Retail and Merchandising Manager of 'Iolani Sportswear Ltd.

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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.