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FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai`i

SPRING 2017

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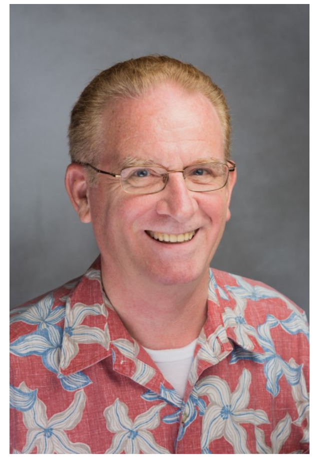
MESSAGE FROM THE FACULTY DIRECTOR



John Butler
Faculty Director
Family Business Center of Hawai'i

Harold and Sandy Noborikawa Endowed Chair in Entrepreneurship

Ken Gilbert, from Business Consulting Resources, Inc. has been working hard on arranging our 10th. Annual Family Business Center of Hawai`i retreat. Although we don't have an exact date yet Ken has been working to built a program around some interactions with a number of family businesses who will share their experiences with us. It will have both concurrent and plenary sessions, so we will have some small session, which will facilitate interaction among members and enhance out ability to learn from each others' experiences. Ken has been a key in working on our retreats over the past decade and his efforts are deeply appreciated.

This has been a big year for the FBC. We started a new chapter on Hawai`i Island, with meetings in Hilo. Mike Miyahira of Business Strategies, has taken the lead in getting the new chapter up and functioning and we have been averaging over 20 members at meetings.

We are also enjoying ongoing success with our Maui Chapter, where Nelson Okumura has been serving as local chair and helped to ensure that this chapter remains healthy.

Here on Oahu, Jenny Kelly of Seaside Ohana Investments is completing her term as Chair of our Advisory Committee. We look forward to Jared Watumull taking over as our next Chair. Thanks to Jenny and good luck to Jared. Jami Hirota, from Sam O. Hirota, Inc. has done a masterful job as serving as the chair of our program committee here on Oahu.

The entire Shidler Ohana, Vance Roley, Dean, Marjan Houshmand, Assoc. Faculty Director, Unyong Naka, Director of Development, Krystal Lee, Program Officer and I have enjoyed our association with the FBC and look forward to the future, optimistic that the FBC will build on its successes. Best wishes to all our members and may your family business evolve in ways that fulfills your dreams.

AN 130 YEAR OLD FAMILY BUISNESS KEEPS MANUFACTURING PENCILS IN THE UNITED STATES

The other day a colleague asked me why I had so many pencils. I told her I tend to use them when I think the possibility of erasing what I've written is high. I guess I could just cross out what I've written but old habits die hard. As I picked up one of the pencils and looked at it I saw the name "General" and "U.S.A." I have read so much about the decline of manufacturing in the United States and I wondered how a firm could still be manufacturing the lowly pencil. I found that the General Pencil Company has been manufacturing pencils in Jersey City since 1889. It is also a fifth generation family firm and 6th generation pencil manufacturer.

Oscar Weissenborn started the firm in 1889 but he already had rich experience in the pencil making industry. His father, Edward, after immigrating to the United States in 1854 opened a pencil factory in 1860, the American Pencil Co. He sold that firm in 1885, which prompted his son to start his own pencil company in 1889.

World War I, with its trade embargoes, almost put the firm out of business because it imported all its lead from Germany. However, as a result they developed their own formulas for lead and this has helped to explain the longevity of the firm. Apparently, the lowly pencil is not that lowly. In fact, the firm has dozen of

different pencils designed for a variety of different drawing and writing purposes. Remember, those thick pencils you used in primary school. They can still be purchased. They make a large variety of drawing pencils and one of their strengths is the ability to deliver their pencils on time. Each December they get a large number of last minute orders from stores who found out that the pencils they ordered from China won't be arriving in time for holiday shoppers. They are still in business is because they make wonderful products.

Another reason they are still in business is because the family has remained committed to the firm, which currently has some sixth generation family members working for the firm. That almost did not happen because in 1992 the CEO, Jim Weissenborn and his daughter Katie attended a seminar on how to sell a business. Cheaper imports were appearing and there was pressure to sell the business. However, Katie Weissenborn, the current president of the firm, convinced her father to keep the firm under family ownership and operation. The Weissenborn family has been manufacturing pencils in the United States since 1860 and the family is committed to keep both the business and the family business going for many years to come.

RUTH UEJIO CHAIR OF THE FUKUNAGA FAMILY COUNCIL TALKS TO BIG ISLAND CHAPTER OF FBC

Over 30 members attended a talk by Ruth Uejio, chair of the Fukunaga Family Council on April 7th. at the Imiloa Astronomy Center in Hilo. The family council interacts with the board of SERVCO, a firm started by her grandfather Peter Fukunaga in 1919. The original name of the firm was Wailua Garage Co., Ltd. Currently, Rick Ching, a non-family member and long time member of their management team serves as CEO.

Ruth pointed out that their family council started in 2014 but the planning for it begin in 2011. Many members wondered why now because their did not seem to be any pressing family or business issues. Ruth pointed out that that made it the perfect time because starting a family council is a difficult task but it is a lot more difficult if it has to be done in the midst of numerous family and business issues.

The Fukunaga family currently has 30 members in G2, G3 and G4, with a wide range in ages both among G3 and G4 members. The 30 member size was also one of the advantages of starting a family council in 2014, given the potential geometric progression in family size as G5 and G6 enter the mix.

An outside consultant was used to help them in both the commencement and ongoing operation of the council, which includes a once per year family meeting. Ruth said they talked to a number of consultants but she felt that "fit" was the deciding and most important factor in the selection of a consulting to help with the process.

Ruth Uejio Chair of Fukunaga Family Council enjoys a light moment with Shannon Araki from Kuhio Grill

Some of the activities that the Fukunaga Family Council has addressed include:
Family employment in the firm,
Shareholder policy,
Sharing their views on dividends and liquidly,
Appetite for risk, and
Providing a majority shareholder perspective.

SERVCO has a Board of Directors where the majority of members are independent outside directors. Ruth pointed out that the Family Council communicates with the Board but it is their responsibility to oversee the successful operation of the firm. However, she also pointed out that the Board encouraged the families' members to think about having a family council.

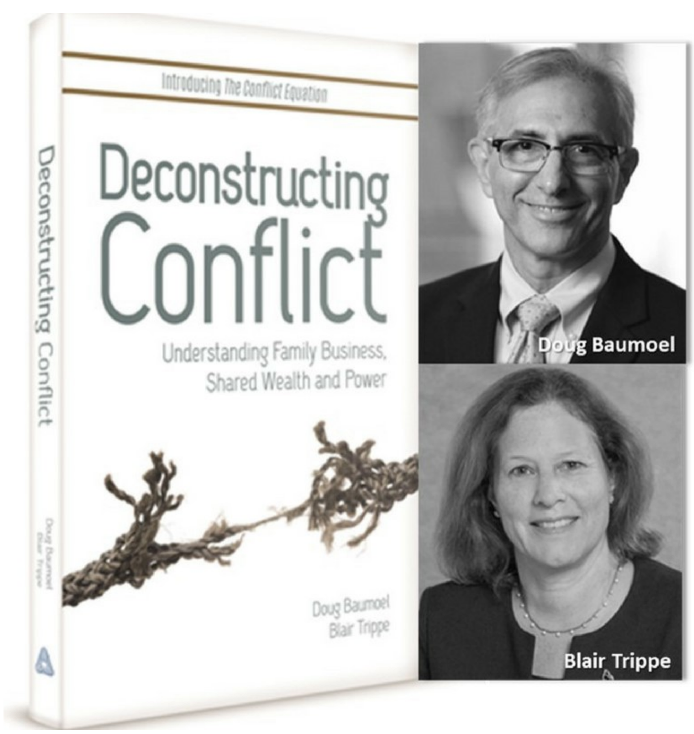
As a number of speakers have pointed out at our meetings over the years, success becomes harder with the transfer of ownership and management to the next generation. Does a establishing a family council increase the odds of success? It is probably too early to know. The effort that goes into making a firm successful is probably the same kinds of success that goes into making a family council successful. Ruth's final word of advise to the members was "Just get started….and don't stop."

The Fukunaga family is a successful family and SERVCO is a successful firm. The combination of success at the family, firm and family council level should prove to be the right ingredients for future success in the future.

BOOK OF INTEREST TO BOTH FAMILY BUSINESSES AND THOSE WHO ADVISE FAMILY BUSINESSES

Deconstructing Conflict is a book where the authors attempt to provide a guide specifically designed to deal with conflict in a family business by providing a "Conflict Equation" to help solve disputes. All families have disputes but they still remain family, even in cases where the dispute is not resolved. They point out that conflict is built into the structure of family enterprises and that the management of conflict has a direct connection to the success of the firm. However, they point out that their goal is to provide a method to control conflict, not eliminate it because a certain level of conflict can lead to better decisions.

The conflict equation is not a numerical equation. However, it does attempt to include all the factors that could cause conflict and to treat these factors as interrelated and as part of a system where they all need to be addresses if there is to be a positive result. They see three factors: managerial interdependence, a trigger for conflict (factors that cause it to go from passive to active) and reasons for the conflict as the things that determine how large the conflict episode will be. The good news is that the also include factors such as family factors and conflict management approach which can help to mitigate the conflict. External factors also come into play, which can increase or mitigate the degree to which the situation becomes dysfunctional. They present it as an equation (see below) but it not meant to have numbers attached to each of the items. It is meant to be used for a qualitative assessment.



$$\text{Conflict} \approx \frac{\text{Interdependence x Trigger x Reasons}}{\text{Family Factors x Conflict Management Approaches}} + \text{External Factors}$$

The book then devotes a chapter to each of the elements in its conflict equation. This is not a book full of "war stories," although there are examples based on their extensive consulting experience at Continuity LLC. What it does provide is an extensive discussion of conflict in family enterprises (the business, the family, family council etc.). It also have an extensive discussion of ways to deal with conflict as well as highlighting things you should avoid, unless you want to escalate a conflict situation for some reason.

The book is well worth reading but it is not a "page burner." This is a book that is best read a chapter at a time, underlining what you find relevant and then perhaps rereading at a later date. I was amazed how much more I benefited from the second reading. I would recommend it and it is well worth the $27.95 price. It is a book that provokes thinking.

FAMILY BUSINESS CENTER HAWAI`I ISLAND PHOTO GALLERY

FAMILY FIRM THAT CAST THE FIRST LIBERTY BELL AND BIG BEN, WHICH WAS FOUNDED IN 1570, CASTS ITS LAST BELL

Whitechapel Cast the First Liberty Bell, which Cracked Shortly thereafter. The Bell on Display in Philadelphia is Actually the Third Bell but it is Cast from the Metal that Whitechapel used for the First Bell.

King George V and Queen Mary Leaving Whitechapel Foundry in 1919

Queen Elizabeth II and Prince Philip Leaving Whitechapel Foundry in 2009

Whitechapel Bell Foundry was founded not later than 1570 and perhaps as early as 1420. It is the oldest manufacturing firm in the United Kingdom, at least it was until it closed at the end of April. Alan Hughes, the current owner pointed out that people no longer buy bells because they need them but rather because they like them. The Hughes family has not owned the firm since 1570 but they have owned it for 113 years. In addition to forging the first Liberty Bell, they also forged Big Ben (the bell, not the clock), which incidentally also cracked. They then forged a second bell which is still in use. Their catalogue of bells includes some that weight over two tons and are priced close to $100,000.

In addition to the declining market for bells, which use to be used to alert towns of impending danger, summons children to school and everyone to church, tell the time, and used to sound storm and firm warnings, the firm was situated on some of the most expensive real estate in London. Many of the firm's artifacts will be housed in a museum in Smithfield. Alan Hughes said he is going to take a week off and do nothing but sleep once the firm is closed. Then he admitted with a smile, rare for this Brit who maintains as "stiff upper lip" that he hopes to be awaken by the sound of a bell. Thus, while a family firm and an industrial legend closes its doors the bells they have produced will continue to please use for many more centuries.

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Upcoming Events:

May 24-Next Maui Meeting
Randall Yee, Attorney and Certified Public Accountant
"2017 Tax Law Updates for Family Enterprises"

July 6-Next Big Island Meeting
John Roth and Kumu Belcher, Attorneys
"Estate Planning"

July 11-Oahu Meeting
Cory Campbell CEO & Founder Akamai Training and Consulting

Nov. 9-Oahu Meeting
Steven Ai, President, and Carol Ai May, Vice President of City Mill

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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 .