UNIVERSITY OF HAWAI'I AT MANOA
SHIDLER COLLEGE OF BUSINESS

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FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai`i

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MESSAGE FROM THE FACULTY DIRECTOR

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Family Business Center of Hawai'i

Every family business has a star, who is usually the current president of the firm. There are numerous books and articles telling you how to prepare your successor but most have been based on "commonly accepted knowledge" rather than "data." A recent study by two professors, one at the University of Florida and the other at the Indian Institute of Management have provided some insight on how to function without the star while also improving performance.[1] They examined what happened to team performance when an NBA team loses their star player. Yes, as expected the team's performance experiences a "slight" drop in performance as measured by winning percentage accounting for the strength of team they play.

However, good things also happen as the team develops new routines to replace those used when the star player was there. These newly developed routines are what provide the positive benefit when the star returns. This is because the star incorporates the improved routines into their routines. When they examined the record of teams after their star returned they found it was better than the record before the star left. In the NBA, this small 2% improvement could mean two or three more wins and that can make a big difference in making the playoffs.

The family firm has the same set of routines that help make it a successful organization. However, a sprained ankle will not send the owner off the court. She will continue to come to work. Others will adapt to her established routines and enforce them. We have always done things this way will become even a more established mantra of the organization. At some point the owner will pass the baton and her son or daughter will, no doubt, begin to make some changes in the ways the firm operates. However, they will not get the "recombination" effects of a sports team, although the previous boss may return and inhibit change.

So what am I suggesting? Well, I would admit sports teams are a specialized type of organization. However, the recombination effects could benefit many organizations. I did meet a business owner in Alberta, Canada who took two months off. He said a palace revolt had occurred while he was away but admitted the changes made while he was away had mane him and the organization more effective.

A possible action plan is to take more time off in the five to seven years before you plan to pass the baton to the next generation and to make the length of those vacations longer. Don't take a day off to play golf. Instead, follow the Robert Trent Jones golf course tour in Alabama for a month or perhaps take a month long ocean tour. When you return, resist the attempt to roll back any changes but instead try to make them compliment your managerial style.

1. Dancing with the Stars by John S. Chen and Pranav Garg, pp. 1239-1267 in May 2018 issue of the Strategic Management Journal.

SECOND GENERATION AT SUN NOODLE SUPPORTS MISSION TO: "SUCCESSFULLY GROWING SUN NOODLE: A GLOBAL BRAND THAT STAYS TRUE TO ITS ALOHA SPIRIT"

Kenshiro Uki, son of Sun Noodle founder Hidehito Uki spoke to the FBCH Maui Chapter on Thursday, May 17th at the Kahili Golf Club. His wife (Sakura Yagi) and mother (Keiko Uki) also accompanied him and they generously interacted with the members. Networking has always been one of the biggest attractions for members. Kenshiro started by providing a time line of the history of the firm, which started in Honolulu in 1981. His grandfather had intended to start a business in Honolulu with a partner from Japan. However, that partner dropped out at the last minute. The noodle making machinery was actually at the pier and ready to be ship to Hawai`i Fortunately, his son Hidehito was in Hawaii studying English at the time so he asked him if he would be interested in running the business since he was positioned to ship the noodle making machinery. Well, what 19 year old would not want to stay in Hawai`i? Hidehito started the business but like any hard worker he had to stop for lunch each day. He met his wife Keiko at a deli where he went for lunch and after they got married she joined the firm and currently serves as its controller.

Kenshiro Uki, Vice President of Operations for Sun Noodle and a third generation noodle maker speaking at the Family Business Center of Hawai`i's Maui Meeting

Progress came fast after that with 1983 marking the entry of Sun precooked noodles into Oahu supermarkets, followed by exports to California in 1986 and a new factory in Honolulu in 1989. Today, Sun noodle also has a manufacturing facility in California and Northern New Jersey. They also have an artisan noodle operation called Ramen Lab in New York, where famous chefs come for short periods of time to prepare their favorite dishes. Diners stand while they eat to give them the feel of a noodle shop in Japan. It is also a way to prevent loitering and to keep the "table turn" or "floor turn" high.

Kenshiro's sister is also part of the operation and is in charge of the facility in California while he supervises operations in New Jersey. His view is that "if you are a second generation you are already part of the business." He also pointed out that the path to success is not a straight line and that you have to be aware of that when you try to achieve your goals. Sometimes unexpected obstacles and a jagged course are actually good for the business because it leads to a better end results. For instance, he decided to officially open the New Jersey factory on August 2, 2012. He would have been in his early twenties and this was the day of his father's birthday. He purchased tickets to see a Yankee's game and planned the usually sightseeing activities for his mother and father. Then, they unexpectedly received an order for 40 cases of noodles. He had not even hired employees yet. All plans were cancelled and his father, mother and him spent the weekend manufacturing, packaging , labeling and finally shipping the 40 cases of noodles. The order was filled and I suppose the Yankees play 81 home games each ear so that they will have other opportunities to see them play.

When asked about decision making he said that they are collaborative up to a point, which is probably true of many businesses. Kenshiro and his sister travel to Honolulu each month for a family meeting and they have meetings on-line more often. This could be one of the real advantages for family firms in geographically dispersed locations. Technology means that more children can facilitate scaling up the business by moving to additional locations. The alternative being either not having the children in the business or including them by dividing the current pie into smaller pieces. Information technology allows families to efficiently operate over multiple locations, while also maintaining the "family essence" of a business.

Succession is always of interest to our members and Kenshiro characterized this subject as "the Holy Grail of family businesses." Sun seems to have been successful with two children occupying important managerial positions in the firm. He was also asked about financing their expansion and did they have to give up any ownership to do so. He said no ownership was surrendered and he gave a big shout out to Central Pacific Bank for their support over the years. CPB is a member of the Family Business Center and it was nice to have two members from the bank in the audience.

Best of luck to Sun Noodle going forward.

A FAMILY FIRM, MARASCHINO CHERRIES, A TRAJEDY AND THE EFFORTS OF TWO SISTERS TO ENSURE THAT THE FAMILY LEGACY CONTINUES

Maraschino cherries are something most of us never think much about and our only contact with them may be on top of a cupcake or as a garnishment in our favorite cocktail. In 1948 Arthur Mondella Sr. and his son Ralph started Dell's Maraschino Cherries in Brooklyn, NY. It grew under the leadership of Ralph's son Arthur and became one of the largest processors of maraschino cherries in the USA. This 70 year old firm is now under the managerial leadership or Ralph's two daughters Dominique Mondella and Dana Mondella Bentz. The firm is doing well and their 38,000 foot processing plant is one of the largest and most modern in the business. The interesting story is how the firm came to be managed by the two daughters.

On February 24, 2015 officials from the Dept. of Environmental Protection, New York City Police and Brooklyn District Attorney's office came to their plant to investigate the illegal dumping of wastewater. They found a false wall and told Arthur that they were going to get another search warrant to look behind it. While they were waiting he went into the bathroom and shot himself with a .357 Magnum pistol that he carried in an ankle holster.

When police opened to fake wall they entered a cellar with a large amount of harvested and growing marijuana. There was also a large amount of cash. Ian Frazer, who wrote an article on the firm speculated that Arthur would have gotten a 2 or 3 year jail term at the most and more likely probation. Despite the circumstances of how it occurs the sudden death of Arthur Mondella resulted in a high degree of uncertainty for the firm, its employees, customers and family members.

It is hard enough for family members to take over the operation of a business when they have been deeply involved in it, but in this case it was not obvious that there were any family members capable of taking the reins and guiding this business. They also had to pay a $1.2 million fine but they wanted the company to continue in business. He left an estate of $8.5 million so there was money to cover the fine and the two daughters were left 55% of the business. An aunt was given 20% and a half sister 25%.

There were initially some court suits by family members who had enjoyed perks such as company cars. The company is doing well and the sisters have restored some traditions such as the summer barbecue for all employees.

The interesting thing is why the sisters decided to run the company rather than hire an outside professional manager or get together with the other shareholders and sell the firm. After all, this is not an easy business to run. Dominique said that the firm "was his life" and that they did not inherit anything tangible from their father. At the time he died he was living with his girlfriend and they just felt they could not have gone and raided their apartment to get some mementoes. She said she was also proud that the firm would survive into the fourth generation, knowing that few firms make it that far. However, in response to questions by Ian Frazer, she sounded like a committed cherry manufacturer. She said "*I'm dreaming about it at night, seeing the cherries, the different sizes, in my head. We sell five different sizes, from small to medium to large to extra large to colossal, with stems and without…..Also crushed cherries and in halves and in different colors*" (Frazer, p. 38).

The daughters are successful but it also appears that they have developed a passion for what they are doing. When you dream about your business you are obviously excited about what you are achieving. Of course, it is also good to relax. If they lived in Hawai`i I would suggest they join the FBCH. They would probably find that some of the things they dream about are also in the dreams of our members.

For more information read: "The Maraschino Mogul "(April 23, 2018) by Ian Frazier, *The New Yorker*. "The Fall of the Cherry King" by Vivian Yee (May 1, 2015) *The New York Times*.

THIRD GENERATION NOT THE LUCKY NUMBER FOR BARNEYS

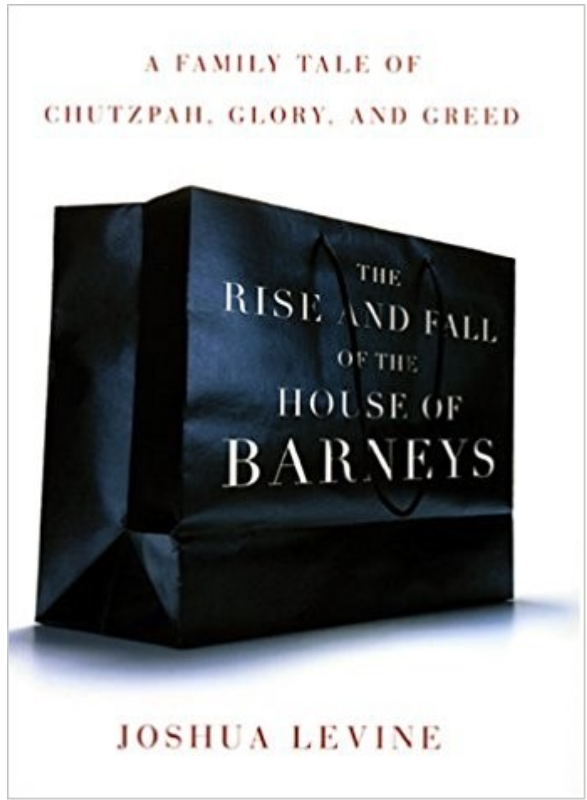
In 1993 the Pressman family spent $267 million to open a store on Madison Ave. in New York City, which achieved their goal of making it the most beautiful clothing store in the world. The Pressman family had come a long way from when Barney Pressman opened his first store (Barney's) in 1923. The original store was on 17th Street, which was not the most fashionable area of the city. In an era when most men wore suits Barney Pressman found ways to get fashionable suits and sell them at 8% to 10% less than the uptown stores. He did this by buying overstocks from other retailers because the brand name manufacturers would not sell to him because they did not want their product to be associated with a discount location. On several occasions Barney was sued by manufacturers for selling their wares below their retail price set by the manufacturers. During the depression Barney Pressman survived by selling used suits, often examining the obituaries to see who died and then contacting their widow to see if she wanted to sell their husband's suits. The local newspapers would not sell him advertising for fear of antagonizing their big name store customers.

The interesting thing about the Pressmans was that each generation stepped aside and let the next generation take over operations. Barney welcomed his son Fred into the business and gradually let him take over many of the operational decisions. Fred wanted the store to attract a different type of customer and he was not just interested in income. He was also interested in their appearance. His father has suits for all sizes while Fred really did not want to see men who needed a size 56 suit shopping in the store. He didn't want to be the "cut rate clothing king." He wanted the store to carry the most prestigious brands and attract customers who wanted those brands. However, one thing that father and son shared is that they both knew cloth, clothing, and all the aspects associated with high quality manufacturing. By the time Fred took over his father had built it into the largest menswear store in the world ($6 million in sales).

Fred linked up with the French and Italian designers such as Giorgio Armani which resulted in Barneys having a 17th street location, although it was extensively expanded and now had the largest collection of high-end designer's men ware in the city. Fred's wife also started a giftware section in the store. She said that was the only way she could see her husband because he was only working.

Fred's sons Gene and Bob were given lots of discretion when they joined the firm and Gene not only wanted to carry the top men's brands but also the top women's brands. The women's section never made a profit and the brothers pulled a lot of money out of the firm as it headed towards bankruptcy. The lavish new store generated lots of sales but never enough to cover the investment. A partnership with a Japanese firm kept them going for a while but in the end the firm failed. Fortunately, Barney Pressman was previously deceased and Fred was in poor health when the end came.

This is an interesting book and an easy read. Give it a try.



Joshua Levine (1999) The Rise and Fall of the House of Barneys: A Family Tale of Chutzpah, Glory and Greed. Oublihesd

Barney Pressman with his son Fred and grandsons Gene (right) and Bob (left)

THIRD GENERATION AT IOLANI, INC. TALKS ABOUT RETURNING HOME

The last time we had a speaker form the Kawakami family it was Lloyd Kawakami and a great deal has changed at the firm since 2014, including the company's logo. Alx and Sarah Kawakami were ensconced in Los Angeles pursuing careers in music and dance back in 2014.

Alx said he never had a passion to join the family firm and just wanted to pursue his career in music. Then, one day in September 2016 he told his wife he just felt that they should return to Hawai`i and join the family firm. Sarah replied "Its about time." She had worked in the firm for a number of years before marrying Alx and her maiden name "Kamalei" had even been trademarked and used on a brand of their women's wear and that was before Alx asked her if she would marry him.

Alx and Sarah Kawakami at the FBCH Meeting on Oahu

Alx telephoned his parents and expected to hear welcoming shouts of joy, which he did get from "mom" but "dad" asked "Why?" and What are you going to do for the firm?" He said he could see where Sarah could help because she had previously worked for the firm but didn't have any idea what Alx could do. Alx wasn't sure exactly how he would contribute but he was sure he wanted to take Iolani to a whole new level combining his love for music with the fashion business.

He said one of the issues to address was if he and his wife could work together all day long. In the past they had worked together but not on an eight hour per day, five day a week basis. One advantage is that he knew his grandparents Edith and Keiji had done this successfully and he had seen his parents successfully manage this fete. He said they did notice that after work they continued to talk about work all the time after joining the firm. Finally, they had to agree to set aside time where no talk about the business was allowed.

They also knew that being the bosses son and daughter in law would be something that would not go unnoticed by the employees. They decided they would do anything that needed to be done, including changing lightbulbs. Sarah had a title of "Retail and Merchandising Manager" while Alx's titled was relatively unsettled. They feel that "you have to work harder because you are continuing a legacy that has been successful for 65 years."

Another big issue now that they have a full time job, is time management. Sarah wants to keep up with hula and Alx wants to keep up with music and they noticed that you need to place a greater importance on time management if you want to do two things full time. Music and hula have to be more carefully planned for available free time.

Sarah said she has always felt welcomed as an in law and had previously traveled with MANOA DNA, the family's band. She said when they began working at the firm they felt some of the styles and the web site were "old." An examination of the current web site shows a wide array of styles and it appears most of the models are fairly young. Now, that millennials are the largest age segment in the US, this change makes sense. There will be 73 million millennials in 2019 and they will be the largest group of buyers.

Iolani is also updating the retail space at 1234 Kona Street. They have redone their retail space and added a stage for performances. There will also be two new retailers. One will be a donut and coffee shop, "Purvy" and the other a 25 years old family firm, "Koa Aloha Ukulele." Eventually, when the train is completed it will run down Kona street and provide a view of the firm from above, like looking down from a mountain.

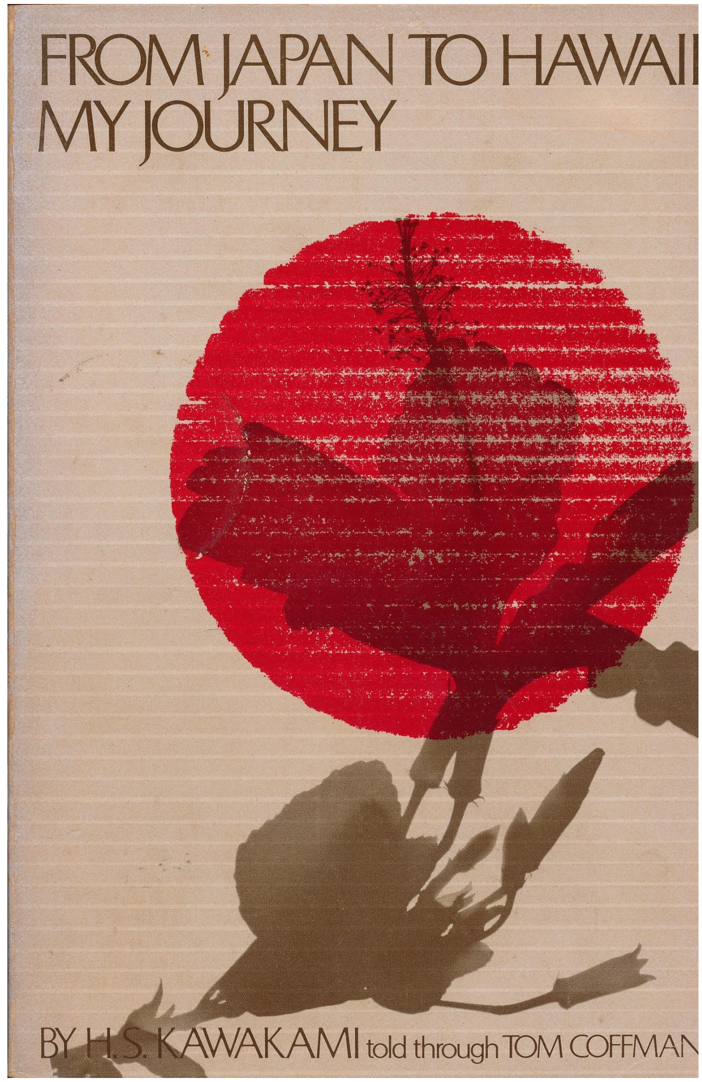
FAMILY BUSINESS CENTER OF HAWAI`I PHOTO GALLERY

H.S. KAWAKAMI AND A KAUA`I FAMILY BUSINESS

I was sitting at a UH baseball game and mentioned that we had two third generation speakers from Iolani Sportswear as speakers. He told me that several decades ago he had done a project of HS Kawakami as part of his MBA consulting project at the Shidler College of Business and that Mr. Kawakami had given him a book that he had written about his life. I couldn't believe my good luck.

If you ever lived on Kaua`i and heard the name HS (Harvey Saburo) Kawakami the first thing you would think of is "Big Save" a local supermarket that has since been purchased by Times. I am more familiar with the Kawakami's on Oahu and as near as I can tell Keiji Kawakami, a founder of Iolani Sportswear, was his nephew. He makes a reference to a nephew on Oahu who was in the garment manufacturing business on page 62 of the book. The book is a series of short chapters where he covers different episodes of this life beginning when he landed in Port Allen, Kaua`i on October 22, 1912 and provides a good insight into life there, especially prior to World War II.

The second chapter covers his education at Mid-Pacific Institute where the thirteen year old entered the second grade and admitted he was bigger than the other second graders, although short for his age. He also noted that the tuition and fees were $114 per year and that included his room and board. The today's tuition for just one day, which does not include food and board, is more than that. He said he wasn't a great student but he graduated after only nine years with penmanship being the one subject he had trouble passing. One of his classmates was Hyotaro Inouye the father of Hawai`i distinguished US senator. He loved to play basketball and remembered playing against teams with players like Sam Hippa and Neal Blaisdell.



From Japan to Hawaii, My Journey by H.S. Kawakami told through Tom Coffman (1976), Printing: Walter Soares—Sturgis Printing

The plantation system was still strong in 1922 and his first job was as an assistant bookkeeper at a sugar company in Kona where he earned $65 per month. He thought it was great because his rent and food only came to $9 per month. After World War I sugar prices began to plummet and the firm closed. He really was glad to leave Kona and get back to Kaua`i where he got a job in a plantation store, which began his love affair with retail. He provides some insights of the injustices of the plantation system including to having to ask for permission to quit his job.

After leaving the plantation store HS began his own retail store, helped by a loan from his brother for $2,000. The plantation owners did not like him because he was able to undercut their prices, which impacted their profits. Eventually, his bother also joined the business. In fact, the various business ventures of HS over the next few decades involved family members joining different business ventures although one has to look harder to identify their exploits in the book. December 7, 1941 put an end to normal commercial life on Kauai and both HS and his son George served in the military during World War II, the only father and son from Kaua`i to serve.

The final chapters deal with HS' involvement in politics and provides some interesting insights into the statehood process and the value of networks in this state. It did pay to have friends in high places if you wanted to work through the bureaucracy. What has changed?

It is an interesting book and only 70 pages long.

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Upcoming Events:

June 19-Maui Social
4:30 to 7:00 PM
Deluxe Ma`alaea Sunset Sail

July 5—Big Island Meeting
Hilo Yacht Club
Wayne Kamitaki, CEO of Housemart

July 24-Oahu Meeting
Oahu Country Club
Business Transition Planning: To Transfer or Sell?
Speakers: Ethan Lee, CPA, ABV, CFF at Pacific Business Valuations, and Craig Chong, President & CEO of Fresh Leadership

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