UNIVERSITY OF HAWAI'I AT MANOA
SHIDLER COLLEGE OF BUSINESS

VOLUME 11 NUMBER 4

FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai`i

SUMMER 2018

MESSAGE FROM THE FACULTY DIRECTOR

INSIDE THIS ISSUE:

Joe Schmieder, the Principal Consultant for the Family Consultant Group in Chicago will lead this year's FBCH Retreat on Sept. 21st. and 22nd. Joe had 25 years experience working in a family firm before beginning his highly successful career as a family business consultant. He is the author of *Innovation in the Family Business: Succeeding through Generation,* one of the best selling books on family business. This will be our 12th annual retreat, continuing a tradition that started when David Bork served as our first retreat leader in 2007.

I think we should all be proud of the continuity of our organization. I recently attended the Family Business Alliance meeting, a group of family business center directors, at Cornell University. One of the speakers pointed out that he was able to identify 130 family business centers that had existed but that only 45 that currently exist. What was particularly distressing was that Dalhousie University in Halifax, which hosted our meeting in 2016 and The University of the Pacific, which hosted our meeting in 2017 have each shut down their family business centers.

There was some discussion as to why so many centers have closed, with lack of financial support being the culprit usually blamed. This misses the point in most cases because the lack of financial support is usually caused by some other factor. Many of these centers are top-down affairs where programs are designed for family businesses and they are then offered much like an executive education model where interested individual pay to attend events.

I believe one of the reasons we have been so successful, as we head into our 25th. year is that our model is a partnership model. The dues

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

based model is effective because it provides the incentive to attend events, especially the annual retreat. This is how you get value from your dues. In addition, by including up to four members, this encourages members to make meetings a family affair. The Shidler College of Business, of course is delighted to be supportive. We believe family businesses are extremely important. I think a good set of partners helps make for longevity.

Special thinks to all our members who have helped us to continue to grow and thrive.

WAYNE KAMITAKI PROVIDES ADVICE ABOUT USING EXECUTIVE SEARCH FIRMS WHEN HIRING EXECUTIVES FROM THE MAINLAND

You have been working hard building up your firm and now realize that you are in your sixties and might some day want to step back from day to day operations. Now, you look around your firm to see if you have a manager who is ready to move up to a position such as chief operation officer or even president of the firm. You discover that you don't have anyone in the firm that is ready and perhaps scold yourself for not paying more attention to management development. Years ago, you could put an advertisement in the Help Wanted section of your local newspaper and sifted through the applicants yourself. Today, help wanted ads are not very effective and open-ended searches on the web will leave you overwhelmed with applicants, most of whom are not qualified. In some cases they will even tell you that they are not really interested in your job but rather that they want to move to Hawaiʻi.

There is nothing more important than staffing, yet research shows that it is something that most managers feel is extremely problematic in terms of selecting the best applicant. Executive Recruiters (AKA Head Hunters) have played an important role in the recruitment of executives although it is hard to find information on how well or bad the process works.

Wayne Kamitaki, President of HouseMart spoke to the Big Island Chapter on July 5, 2017. Wayne pointed out that the four principals in the firm are in their 60s and that there was a gap in terms of having managers currently capable of assuming senior executive positions in the firm. Deciding they needed some senior-level additions was relatively easy. However, it is much harder to find the right person and executive search firms are a great source of assistance. Basically, you outline the position, the duties, the characteristics you value, and most importantly the remuneration package.

While we tend to think of HouseMart as a local firm, they now have 29 retail outlets in four states. Thus, they decided to use a search firm to identify candidates for the Chief Operating Officer position. They also chose to use a mainland firm because they felt the pool of candidates would be larger. There are not many books providing advice on employing Executive Recruiters and those that exist are usually written by the recruiters. It was great that the members were able to hear about Wayne's experiences with younger brother Guy and cousin Paul Mizoguchi in attendance to provide moral support.

Were they happy with the results? Generally yes, but he pointed out that you have to be very clear about your parameters, especially the salary range you are willing to tolerate. In a sense, hiring an executive can be like buying a house. The recruiter gets a set percentage of the agreed upon salary, say 30% of the first year's salary. Thus, the higher the salary the bigger the recruitment fee.

Wayne also pointed out that you want to pay attention the degree of recourse you have if the person you hire does not work out in the short-term. It is important to be specific about the time frame

Wayne Kamitaki, President of HouseMart speaking to the Big Island Chapter of the Family Business Center of Hawaii at the Hilo Yacht Club

as well as the indicators that will be used to assess acceptable performance.

HouseMart also did something that was very sound by including both third generation owner/executives as well as some fourth generation children in the interview process. This way they were able to get some cross-generational input when assessing candidates. In the end, they had unanimous agreement about the best choice and it was not the one the recruiter ranked first.

Finally, there was the actual negotiations with the candidate. The applicant's salary demand was much higher than the salary range they had given the recruiter. It could be that applicants do more serious investigation when they actually get a job offer in terms of the higher cost of living or perhaps the cost of private schools. This suggests that it may be wise to provide the executive recruiter an information package on "living in Hawaiʻi" that includes additional information.

Finally, of course, one of the benefits of being a member of the FBC is that you can ask fellow members to recommend or not recommend recruiters that they have used.

FAMILY BUSINESS CENTER OF HAWAI`I BIG ISLAND PHOTO GALLERY









NEXT GENERATION MEETING AT WAIALAE COUNTRY CLUB

The Next Generation Peer Group (aka Next-Gens) aims to help those in the next generation transition into leadership roles within their family businesses by exposing them to various issues that may arise. The group meets approximately four times a year. It also gives participants a chance to discuss issues with others who likely have faced similar issues and provide a sympathetic ear and helpful advice.

At the June 6, 2018 session they decided to try something a little different. Based on the feedback of the group for more unstructured time, they set out to create a session that focused purely on the members of the NextGen group to share their experiences, challenges, and family stories. This is very similar to the feedback that the FBC often gets to provide members with more time for networking

There was some hesitation at first, however, after a few rounds of “step into the circle if” and other fun camp games, participants were pleasantly surprised to learn they have more in common than they realized. For every obstacle discussed, they also heard about some recent successes. They related to how awkward it can be to network. Scooping rice also came up more than once. A few shared recent heartbreaking experiences which humbled us all. In the end, participants walked away with inspiring stories and support for one another. They are looking forward to continuing the dialogue in coming sessions and encourage NextGen members to join us.

If you are interested contact Krystal Lee at krystals@hawaii.edu.

Special thanks to Noel Pacarro Brown, CIMA®, CPWA® at
The Pacarro Group at Morgan Stanley for the summary of the NextGen’s meeting .

WHAT A FAMILY MEMBER PAYS FOR THE FAMILY FIRM VERSUS WHAT A NON-FAMILY MEMBER WOULD LIKELY PAY FOR THE FIRM

Many individuals not involved in family firms assume that sons and daughters simply inherit the firm, in effect, receiving a 100% discount on the market price of the firm. I suspect there are some potential successors who feel they have contributed sufficient sweat equity to warrant a 100% discount and a number of parents who want their successors to have this discount. Although this type of data is hard to get there is evidence that successor often pay a price for the family firm and that transfer is not based on pure altruism. In fact, several years ago at a family business retreat Blake Nordstrom pointed out that the second generation of Nordstrom's had to take the firm public in order to fund their retirement so that the third generation could inherit sufficient stock to have a majority ownership position and maintain family management of their stores.

On the flip side, there is evidence that owners of family firms charge a premium when selling to outsiders, with some evidence that they demand the premium as the price of not being able to maintain family ownership and family succession. Thus, owners seem to prefer family succession and may make pricing decisions designed to achieve it. Recently, a group of academic, led by Thomas Zellweger at the Center for Family Business at the University of St. Gallen in Switzerland, have done a study that attempted to identify the family member purchasing discount.

The tough part is getting an answer because it is hard to calculate the family member purchase discount. Instead, they sampled 93,265 college students to get down to 3,293 who identified themselves as likely successors in a family firm. These students were mostly from European countries although Brazil, Argentina, South Africa and Singapore were also represented. None of the students were from the United States. The students were asked a number of questions but the key one was "**Assume that an external buyer would have to pay $1 million for your family's firm. What would you have to pay?**" Well the answer was a 55% discount. This is consistent with a study of 561 German firms where the owners indicated they gave a 59% discount to their family member purchaser.

What affected the level of discount? In cases where a student indicated their family had a high level of family cohesion, the discount was higher. However, in cases where the student had doubts about their ability to be successful running the firm they indicated a lower discount. The discount was also lower in those cases where the student indicated that a large percentage of the family's wealth was tied up in the firm. This makes sense since the retiring owners would need some money in their old age.

Students majoring in business or education also indicated that they felt they would get a larger discount in cases where the family had high levels of cohesion and less of a penalty in cases where a large percentage of wealth was tied up in the family firms. It may be that these students were more confident in their ability to be successful and that this would enhance family wealth.

Remember, there were no US people in this sample so the same discounts may not apply here.

A study of Swiss family firms provides some evidence. See *Success Facotrs for Swiss SMES: Company Succession in Practice* by Halter Christen et. al, 2013. Published by Credit Swiss.

Zellweger, T., Kellermanns, F., Chrisman, J. & Chua, J. (2012). Family control and family firm valuation by family CEOs: The importance of intentions for transgenerational control. *Organizational Science*, 23(3), 851-868.

Zellweger, T., Richards, M. Sieger, P. & Patel, P. (2016) How Much am I Expected to Pay for My Parents' Firm? *Entrepreneurship Theory and Practice*, 40(5) 1041-1069.

THE HILTONS: A FAMILY THAT PLAYED OUT ITS PROBLEMS IN THE PUBLIC EYE

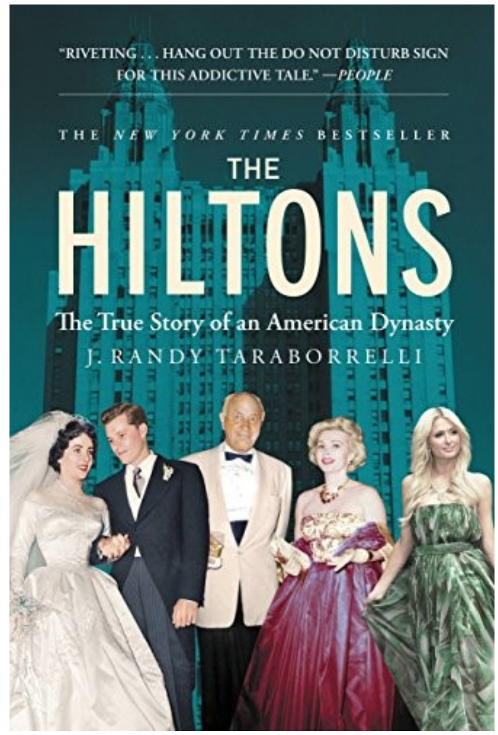
In 2007 the Blackstone Group acquired the 3,000 plus hotels of the Hilton Hotel Corporation for $20.1 billion effectively ending the family's control of the business, which was consistent with founder's Conrad Hilton's wish that the family not maintain control. The sale provided $2 billion to the Conrad Hilton Foundation, which now distributes approximately $60 million each year to various charities.

The Hilton's were often in the news because of Conrad's marriage to Zsa Zsa Gabor and oldest son's Nicky's marriage to Elizabeth Taylor. However, their real achievement was the building of one of the largest and best hotel chains in the world.

The unique thing about the Hilton Hotels is that its founder, Conrad Hilton always wanted his sons (Nicky, Barron and Eric) to work for the family firm and to do so at the highest executive level. However, he made it clear that he did not intend to leave his wealth or control of the hotel to them. He started his first hotel in 1907, by renting out rooms in back of the family house in San Antonio, Territory of New Mexico. He struggled through the depression and gradually began to acquire and build some of the best hotels in Texas and other Southern locations although he may best remembered for his acquisition and refurbishment of the Plaza Hotel and Waldorf Astoria Hotel in New York.

His first personal tragedy occurred when his oldest son, Nicky (Conrad Hilton Jr.) died in 1969 at the age of 43. He was very despondent after the his father sold the hotel's international division, which he headed, for cash and TWA stock. It was one of the few ill-advised deals his father ever made. His younger brother Barron started his own firm after turning down his father's offer of employment because he felt the salary offer was too low. Eventually, he joined the family firm and went on to serve as its president and chief executive office. He also became extremely rich in his own right acquiring a net worth of over $26 million, although much less than the $500 million his father was worth.

Conrad Hilton died in 1979 at the age of 91. His son Barron was one of the executors of his estate so he knew his father's



The Hiltons by J. Randy Taraborrelli, (2014) , published by Grand Central Publishing, NY. $30.00

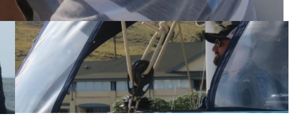
wishes with respect to the disposition of his massive wealth. He left relatively small gifts to his sisters and grandchildren, $750,000 in cash or stock to Barron and $300,000 in cash in stock to his youngest son Eric. He also left $100,000 to Constance Francesca Hilton, a daughter that Zsa Zsa Gabor had after they separated. The vast bulk of the estate then went to the Conrad Hilton Foundation, on which Eric served as a member. Then the legal problems began, which resulted in a lengthy period of time before the estate was finally settled after his daughter Francesca lost her suit.

Conrad Hilton could have afforded the best attorney in the world and he had a good one but he needed one who was an expert on taxes and the amount of voting stock a foundation can hold in one firm. Sorting out this detail added several more years to settling the estate and ate up millions of dollars.

This is sort of a gossip book but it does cover a lot of issues important to family firms.

SUNSET CRUISE IN MAUI-CALM SEAS AND GREAT FOOD

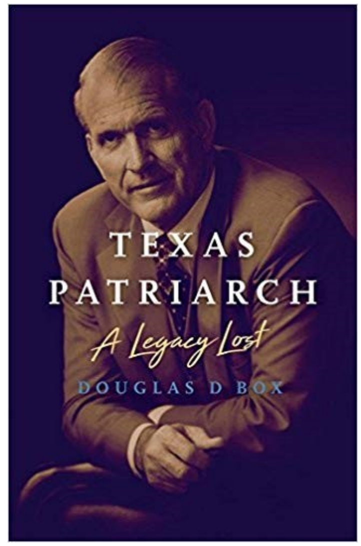
The Maui Chapter of the FBCH held their annual social by taking a sunset cruise on one of Trilogy's catamarans on Friday, June 15, 2018. It helps to have Trilogy as members and Ginger Lucy did a great job getting the event organized. We had perfect weather and calm seas. The food was great and varied so that even our vegetarians could leave full. Special thanks to Krystal Lee for flying over from Honolulu and for providing the administrative support for the event. The Faculty Director of the FBCH was also glad that he took the trip over. If we ever do it again I urge you to sign up .



FAMILY BUSINESS CENTER OF HAWAI`I PHOTO GALLERY

DOUGLAS BOX'S, A FORMER FBCH RETREAT LEADER, BOOK PROVIDES INSIGHTS FOR FAMILIES AND FOR FAMILY BUSINESSES

In 2014 Doug Box came and spoke at the annual retreat of the Family Business Center of Hawaiʻi, Some of you may remember that was the year that Hurricane Ana almost disrupted our meeting. Doug talked about his family and their various business ventures and family controversies. Currently, Mr. Box is a family business consultant and an expert in dispute resolution. A careful reading of this book, *Texas Patriarch: A Legacy Lost* provides the reader with a history lesson as to how he obtained his expertise in this area.



Cloyce Box is pictured on the cover. He was a Marine Corp officer, NFL star receiver and successful business person. Some of you may remember the television show "Dallas," where his house was the Southfork ranch of the Ewing family.

Most authors when writing about their family or themselves tend to either hold back or embellish. In this book the author has been especially generous and open, not just with the details but also in trying to accurately reflect his feelings at the time the various events occurred. He has been honest about his family and himself and the problems that they faced.

His father Cloyce was a Marine Corp officer serving in both World War II and the Korean war, a star receiver for the Detroit Lions, and an extremely successful business person. He was similar to many business founders in that the details of his life drove most events at the business and family level. .

Most of us are most greatly affected by the times we live in and by those who raise us. The impact of Cloyce and Fern Box, Doug's parents, has a major impact on the resulting success of the family firm and ultimately the family members. This is an excellent book that helps highlight the role that one generation, generally one's parents, has on the next generation. It also shows how that impact changes because sibling experiences are not identical. In the case of the Box family the conflict between the oldest and third oldest son to succeed their father resulted in both family and business conflicts. The second son had no interest in joining the family firm. The author highlights the joy of both working away from the family firm for a subsidiary and then joining the firm and often being perceived as favoring one brother of the other.

The impact of "the times" we grow up in is also highlighted in the book. Cloyce Box grew up in West Texas during the depression. His father deserted the family because he felt he was more of a drag than a help. Just as the economy was beginning to improve World War II began. After the war he attended college at West Texas State (University of Texas, El Paso) and was a star football player. He was called back to service for the Korean War so he was 26 by the time he reached the NFL, where he was a star receiver for the Detroit Lions during a period when they actually won two NFL championships. He then began a business career in construction and oil where he was extremely successful and became wealthy. While I have condensed the story here the book ties each of these stages of his life to those of his sons and the subsequent problems they faced while he was alive and also after he died at age 70.

There were a number of legal issues to sort out after the death of Cloyce Box and it is worth reading this book just to get a perspective on how much effort and cost can be expended on issues that should be thought out in advance. Different brothers took different positions on how to settle the suits, continued litigation or sale of the firm. The firm was finally sold but as with many family stories that seldom ended all the family related issues. Family-based animosity continued.

This is a great book to read There are a lot of lessons in this book, many of which I would call legacy lessons. Each generation adds to the family legacy and that is often done by learning from others. Personal experience may be the most effective way to learn but it is not always the most pleasant way to learn. This book provides a way to learn from others. I recommend it highly.

FBCH ADVISORY BOARD

Equipping, educating and celebrating families in business.

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

Upcoming Events:

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

Sept. 21-22
Annual Retreat
Retreat Leader: Joe Schmieder, The Family Business Consulting Group
Sheraton Hotel (tentative)

August 2-Maui Meeting, Kelihi Golf Club
Frieda Takaki, former Chair of National ESOP Association

Family Business Center of Hawai`i
Shidler College of Business
2404 Maile Way
Honolulu, HI 96822
Phone: 808-956-5092
Fax: 808-956-5107

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 .