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

SUMMER 2017

MESSAGE FROM THE FACULTY DIRECTOR

INSIDE THIS ISSUE:

John Butler
Faculty Director
Family Business Center of Hawai'i

The last year has been a momentous one for the Family Business Center of Hawai´i. Membership on Oahu is at record levels and we launched a new chapter on the Big Isdland. We have been fortunate that Ka'ili Taniguchi has joined PACE (Pacific Asian Center for Entrepreneurship) and is able to provide additional support for FBCH activities. I can't help but notice that the age composition of our membership is getting younger, which is a good thing. If there is one thing that I have learned from our speakers over the past 13 years it is that each generation brings their own perspective and special talents to successful family businesses.

I have also noticed that there is a lot more interest in being a family business. I asked one of my students what he wanted to do after graduating and he said he wanted to start a family business. The unusual thing is that he does not have a family or at this point, or a candidate to become his spouse. Perhaps this is why web sites such as e-harmony are doing so well. This is quite a change from the generation brought up on the book and movie "The Man in the Grey Flannel Suit," where the male lead Gregory Peck playing Tom Rath decides to turn down a promotion and focus on family and children, which was depicted as going against the grain of that time.

While many firms are attempting to help employees have a work life balance many family firms have achieved work-life integration, which is one of the goals of Tony Hsieh, the CEO at Zappos. Many family firms have achieved this goal but despite eliminating hierarch and titles Zappos has a way to go.

One of the highlights of the FBCH during my tenure as faculty director has been our annual retreat. Ken Gilbert has done a magnificent job organizing this year's retreat. I encourage you to attend.

Annual Retreat Nov. 17th. And 18th. at the Moana Hotel

SYMPOSIUM ON SURVIVING THE FAMILY BUSINESS LEADERSHIP TRANSITION HELD ON MAUI

Over 40 members attended a symposium on transition to the next generation on Maui on August 1st. Moderated by Lauri Foster, Senior Consultant and Partner at Business Consulting Resources it explored how three second generation members managed the transition.

The panel included Lari Bloom of The Zalinsky Company, where she serves as President and Operations Manager. The Zalinsky Company traces its roots back to California to 1884 when it was founded by David Zalinsky (D. Zalinsky and Sons). The Hawaii branch started in 1971.

The second panel member was Ryan Ouye, Vice President of Service Rentals & Supplies, Inc. This firm was started by Ryan's father in 1972 and they currently have five locations in Hawaii.

The third panel member was Christopher Redlew, President and Chief Operating Officer of Pacific Tranfer LLC, a family owned firm founded by his father in law, Alvin Tanaka in 1978.

All three firms have "successfully" completed a transition to the second generation. They pointed out that the transition is a process, not an event. In some cases, what was seen as a five year process took much longer. For one of the firms the process is in its sixteenth year. They also pointed out that there is a big difference in transitioning out of estate planning and transitioning out of the business.

The speakers also pointed out that we are always seen as children in our parents eyes. They don't want to see us fail, and as a result they may at times be saying "do whatever you want, as long as you do it my way." It is a lot easier to gain credibility in a non-family firm, in part because those at the top know they have to retire. In a family firm, the next generation may be ready to take over but they don't want to be seen as pushing the previous generation out.

All mentioned that it is helpful to have a third party involved, although the previous generation may not want to incur these costs. There appear to be some things that an outsider can not only facilitate but they can also make sure that the details get nailed down so that everyone is on the same page. One person pointed out that older people tend to forget so getting it written down is a good practice.

One other piece of sound advise is to avoid positioning people so that they have to make choices about whom to support. It is important to recognize that the founding generation is unlikely to change dramatically in the short term and that maintaining family harmony is extremely important.

The take away is that transitions take time and its is best to let them mature at their own rate. You don't want to destroy family harmony in the process because that is also likely to have detrimental effects on the firm.

It was a great program and special thanks to Lauri

INCENTIVE COMPENSATION HAS A BIGGER IMPACT ON EMPLOYEE PRODUCTIVITY IN FAMILY FIRMS VERSUS NON-FAMILY FIRMS

Research shows that family firms are less likely to use incentive compensation to attract employees. Generally, it is believed, but not proven that this is because they want to distribute profits to family members. A recent study by James Chrisman and two colleagues attempted to examine the impact that incentives had on productivity in both family and non-family firms.[1] The logic suggests that since more non-family firms tend to provide incentive compensation they will have higher levels of productivity because the best employees will choose to work for these firms.

Research also shows that there are some advantages associated with working for a family firm even if you are not a family members. Owners of family firms are often more nurturing and supportive of employees, provide greater job security and permit more flexible work practices. If a family firm does offer incentive compensation it would likely attract some of the best employees who might otherwise be attracted by a non-family firm.

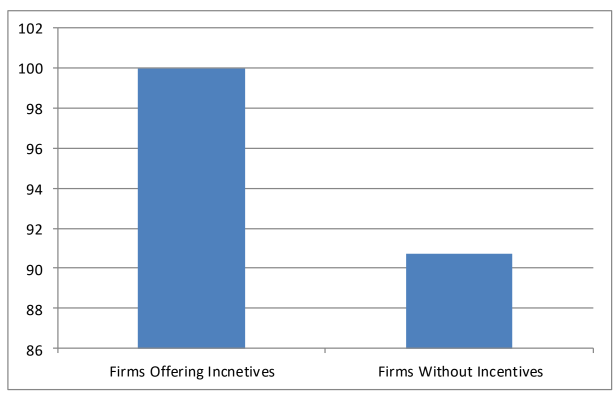
Chrisman and his colleagues used a sample of 108,384 family firms which it matched with a similar number of non-family firms to measure the impact of an incentive compensation program on productivity, which he measured as revenue per employee. What did they find?

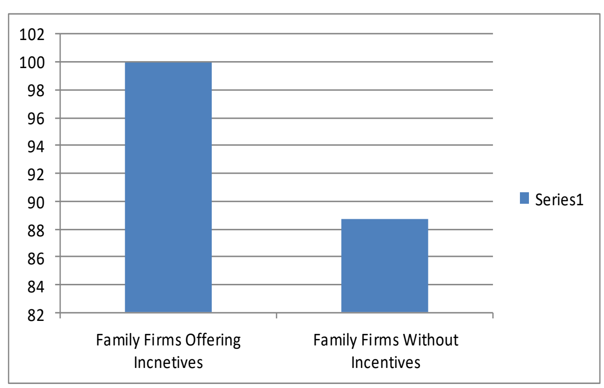
First, family firms are much less likely to offer incentive compensation (12.8% to 2.1%), health insurance (64.6% to 79.7%), retirement benefits (40.7% to 55.0%) or paid holidays (69.7% to 82.5%). So what did these firms get as a result of their incentives. Firms offering incentives had 9.3% high productivity than firms not offering incentives.

What about the contrast between family and non-family firms? First, family firms in this sample had labor productivity that was 3.3% lower than non-family firms. However, family firms that offered incentive compensation had productivity that was only –0.5 lower than non-family firms offering incentives. Thus, family firms offering incentives were substantially more productive (11.3%) than family firms not offering incentives. They were also 6.8% more productive than non-family firms that did not offer incentives. The results suggest that one ways for family firms to eliminate the productivity differential that they have historically had with respect to non-family firms is to consider some forms incentive compensation.

Does this mean that if your family firm begins to offer incentives that your productivity will increase? The simple answer is no. In fact, many of the 108,384 family firms in the sample had results that were the opposite of the general findings. This is true of all statistical findings. However, it does suggest that there are a variety of actions that tend to accompany incentive compensation that result in higher levels of productivity. This comes down to the fact that employees in these firms, for one reason or another tend to work harder, with "tend" being the key word.

A second key is making sure that the impact of incentives are measured. It is best to get tangible measures of productivity rather than "I feel" we have higher levels of productivity. In the end, high quality motivated employees are more likely to lead to high levels of success, no matter how you measure it.





1. Chrisman, James J., Srikant Devaraj & Pankaj C. Patel (2017) The Impact of Incentive Compensation on Labor Productivity in Famil and Non-Family Firms. *Family Business Review*, Vol. 30 (2), 119-136.

An Unauthorized Story by a Founder's Grandson from a Disinherited Branch of the Family: SWEET'N LOW Gone Sour

Benjamin Eisnestadt and the Cumberland Packing Corp., which he founded were both successful. Ben graduated, first in his class from law school in 1929 but when the great depression hit in October he joined his father in law in running a dinner across from the Brooklyn Navy Yard. Times were tough but the war brought an infusion of thousands of workers and sailors to the area and the dinner thrived. After the war he sold the dinner and went into the business of making tea bags.

Ben noticed that the sugar dispensers in dinners and restaurants where either bowls of sugar that were not very sanitary or sugar dispensers where the whole in the top usually got clogged. He already realized that he was not going to get much business bagging tea so he converted his business to making small containers that held sugar. This was an immediate success.

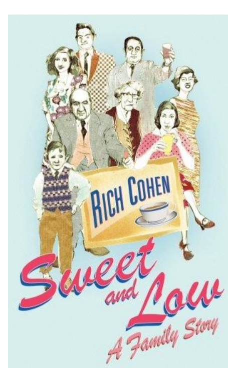
Later, as concerns about weight increased Ben and his son Marvin, who joined the business after college, developed an artificial sweetener, SWEET'N LOW, which has sold over 500 billion packets.

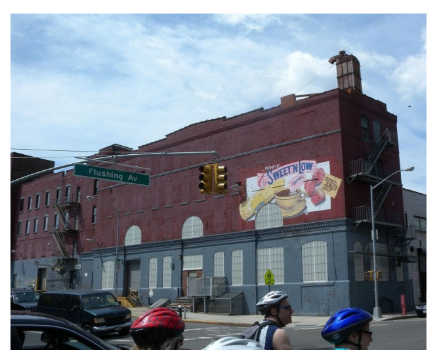
Rich Cohen, one of Ben's grandchildren, from a disinherited branch of the family has written a family story that, I'm sure most family members on the inherited wealth side wished he had not written. While there is a lot of family "dirt" in the book, the real lesson involves the separation of the family business and the family in terms of how family bills are paid with family business revenue.

As with many businesses it started when the firm was small and the business paid small bills or send workers to the family home to fix something. However, as Ben got older he paid less attention to the details of the business and almost everyone agreed that Marvin, also known as "Uncle Marvelous" was a bit too trusting of employees, several of whom had connections to organized crime. Two employees had million dollar homes build with Cumberland Packing funds, which meant that the firm was under declaring profit while the individuals were not declaring the benefits as income. When Marvin Eisnestadt found out he asked his accountant and lawyer (both later convicted) to take care of the problem. One day, over twenty FBI agents showed up and raided Cumberland.

While only two employees ended up serving jail time, a good number including Marvin pleaded guilty and incurred large fines and probationary periods. The author is not exactly objective about many of the issues related to his uncle, cousin, and grandmother but that may be expected when a family get omitted from a large estate.

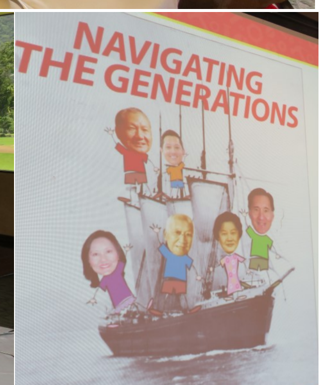
I suppose a secondary lesson is that financial success can bring as much unhappiness as pleasure. It is better to lay out ownership plans, at least for the business in advance so that it is clean to everyone what the founder's wishers were. In this case, he died before his spouse and she is the one who decided to disinherit her youngest daughter.



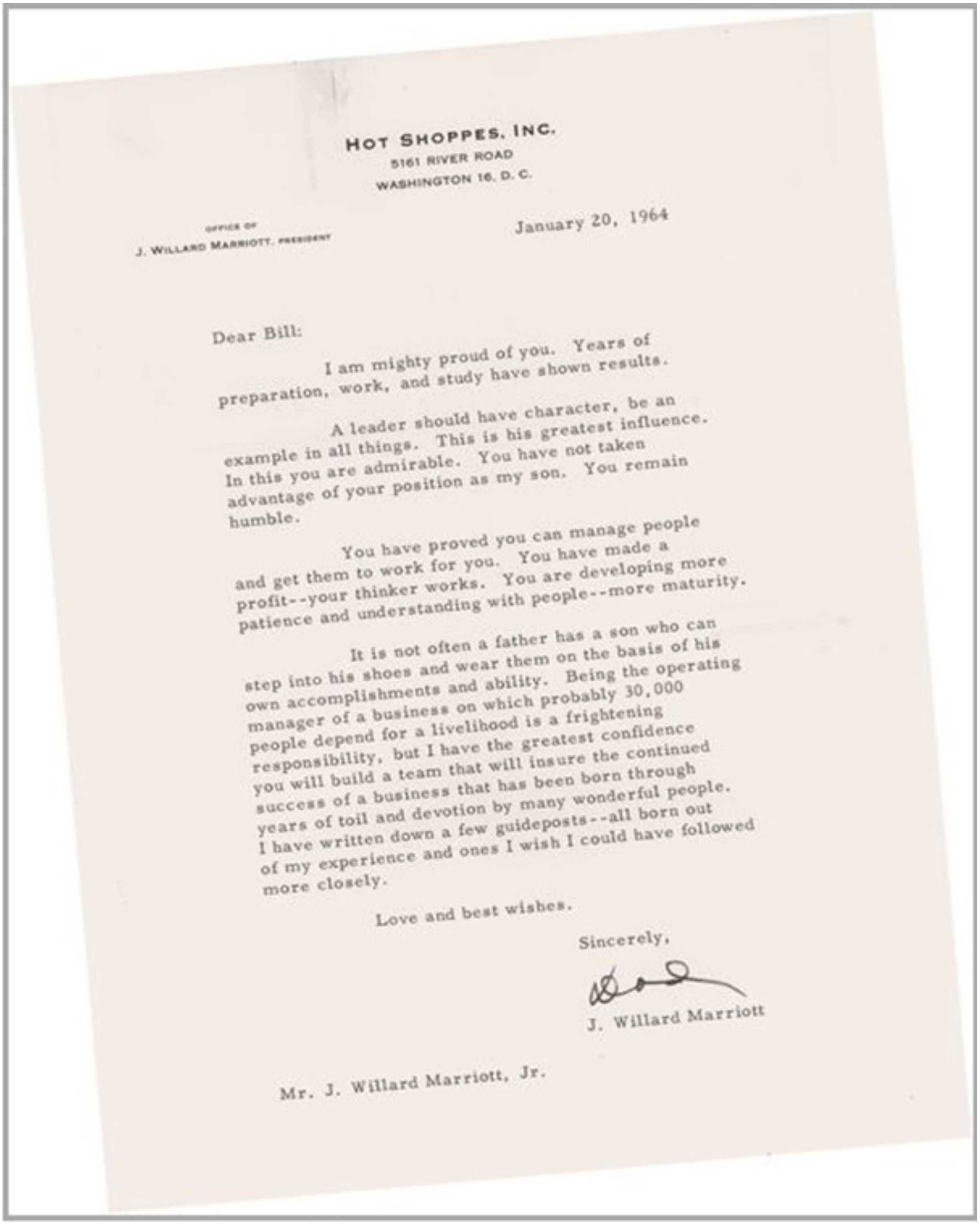


Sweet and Low: A Family Story by Rich Cohen , New York: Farrar, Straus and Girous, 2006, $25.00

FAMILY BUSINESS CENTER OAHU PHOTO GALLERY



A PERFECT LETTER FROM A FATHER TO A SON ON THE ISSUE OF SUCCESSION



HOT SHOPPES, INC.
5161 RIVER ROAD
WASHINGTON 16, D. C.

OFFICE OF
J. WILLARD MARRIOTT, PRESIDENT

January 20, 1964

Dear Bill:

I am mighty proud of you. Years of preparation, work, and study have shown results.

A leader should have character, be an example in all things. This is his greatest influence. In this you are admirable. You have not taken advantage of your position as my son. You remain humble.

You have proved you can manage people and get them to work for you. You have made a profit--your thinker works. You are developing more patience and understanding with people--more maturity.

It is not often a father has a son who can step into his shoes and wear them on the basis of his own accomplishments and ability. Being the operating manager of a business on which probably 30,000 people depend for a livelihood is a frightening responsibility, but I have the greatest confidence you will build a team that will insure the continued success of a business that has been born through years of toil and devotion by many wonderful people. I have written down a few guideposts--all born out of my experience and ones I wish I could have followed more closely.

Love and best wishes.

Sincerely,

J. Willard Marriott

Mr. J. Willard Marriott, Jr.

CITY MILL SPEAKERS TALK ABOUT ITS HISTORY AND GENERATIONAL SUCCESSION

One of the favorite sayings in the Ai family is "when you drink water always remember the source" (飲水 思 源). This is designed to remind family members to remember the effort and values that lead to one's current success and to build on those values. Not many business get to be 118 years old, in fact most don't come near that age. The firm was founded by Chung Kun Ai in 1899 but he attributed much of his early success to James A . Dawsett and gave him some of his early business training. Mr. Dawsett's desk and safe are still in the City Mill offices on Nimitz Highway.

How to you get to be 118? Will the presentation outlined the fact that you have to overcome lots of challenges, bubonic plague, fire, the great depression and the will power to pay off a bank debt of $750,000 (about $14 million or so today). You also have to be willing to try a number of ventures such as a rice mill, a ship, the five-mast Vigilant, and even a laundry business.

A major milestone occurred in 1955 when Carol and Steven's father decided start retailing, which eventually came to over shadow wholesaling.

Some of the things that Ai family members feel is important to getting to the fourth generation include

1. Don't fight over the money.

2. Humility is important. You can tell a person's character by the way they treat other people, especially people that they don't necessarily have to actt in a courteous manner.

3. Education is the best gift you can give your children.

Developing an formal succession plan can also be very helpful. City Mill uses an outside consultant, whom they meet with twice each year. They have also established some guidelines for joining the firm, which includes getting a degree, have some successful outside work experience, have an appreciation for the family business, have a good attitude and have humility.

If you are a member and missed this presentation it is available at the FBCH web site. Contract Krystal Lee if

Steven Ai, (third generation) President of City Mill, Carol Ai May (third generation), Vice President of City Mill, and Evan Kippler (fourth generation) Project Manager and 4th. Generation Presenting at the Family Business Center Meeting on Oahu.

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Equipping, educating and celebrating families in business.

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

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TOBY TANIGUCHI
President
KTA Super Stores

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President and CEO
Suisan Company, Ltd.

Upcoming Events:

Oct. 19-Hawaii Island Meeting
Charles Kelley, M.D., President and Chairman of the Board, Seaside Ohana Investments
Imiloa Astronomy Center

Oct. 20-Maui Island Meeting
Steve Ueda, President & CEO of Suisan Company, Ltd.
Friday, October 20, 2017
Kahili Golf Club

Nov. 17-18 Annual Retreat

Family Business Center of Hawai`i
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Honolulu, HI 96822
Phone: 808-956-5092

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 .