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

SPRING 2019

MESSAGE FROM THE FACULTY DIRECTOR

Mr. Nicholas Benson is the owner of a family business, the John Stevens Shop, that was founded and has maintained the same address (29 Thames Street, Newport,Rhode Island) since 1705. Mr. Benson's grandfather purchased the business in 1920, so it has been a family firm for its entire history and that includes just two families. It is the eleventh oldest family business in the United States.

Most people have not heard of John Stevens but most have seen the work of Mr. Benson and his predecessors. You probably have seen their work if you have visited the grave of John F. Kennedy, the Marine Corp Monument depicting the raising of the flag on Mount Suribachi, the World War II monument, the Martin Luther King Memorial or Boston's Museum of Fine Arts. You may not have realized that each of those letters you saw carved into those monuments was the work of Nicholas Benson or his father John Vincent Benson. This is a family firm that has touched millions of people by bringing words to life in stone, on some of our most famous memorials.

The John Stevens Shop is nowhere near as large as Walmart, Inc., the largest publicly traded family business ($485 billion in revenue and 2.3 million employees. It would not even match the 100 largest family firm in the US, The Wonderful Company ($4.2 billion in revenue and 9,000 employees). However, it says something wonderful about the contributions that family firms make to society that is independent of the economic benefits that are so often emphasized. Nicholas Benson and his family provide something that is essential. We need our monuments and we need them to capture in words the essence of what they communicate. In this case family members have been passing on the stone carving skills from one generation to the next for over 300 years and this has occurred by the John Stevens Shop. The Stevens and then the Bensons passed the carving skill on to the next generation, which ensured the health and prosperity of the family business. It is unlikely that a non-family business would put the energy and commitment into stone carving needed to last 300 years. This is a case where family pride and commitment plays a major role in the firm's continuity.

The story of John Stevens Shop is one that I think applies to many family businesses. Yes, many family businesses want to pass on the family business to the next generation. Over the past fourteen years, succession has been the most oft-visited subject at FBCH meetings. It highlights the fact that family business succession often involves a great deal more than ownership succession. In this and many cases, it shows family firms also pass on other traits and skills, tangible and intangible.

What is also rare is to see a family firm or its leader recognized in a way that attracts national attention. In 2010, Nicholas Benson was named a MacArthur Foundation Fellow, often referred to as a genius award. He is the first stone carver to ever be named a MacArthur Fellow. I think his achievement is something that all those associated with family firms can share in spirit.

you can see a summary of the firm and its accomplishments at https://www.cbsnews.com/video/a-stone-carvers-family-tradition/.

UPCOMING EVENTS

July 17, 2019 (WED.) 11:30 AM to 1PM, Oahu Country Club, Honolulu. "The Family Business Journey of FCH Enterprises (Tale of Two Brothers)," Jason Higa, Chief Executive Officer of FCH Enterprises, Inc. (Zippy's Restaurants).

Aug. 7, 2019 (WED.) 11:30 AM to 1PM, Hilo Yacht Club "The Family Business Journey of FCH Enterprises (Tale of Two Brothers)," Jason Higa, Chief Executive Officer of FCH Enterprises, Inc. (Zippy's Restaurants).

Aug. 22, 2019 (Thur.) 5:30 to 7:30 PM, Maui Social, Maui Ocean Center

Sep. 20-21, 2019 (FRI. & SAT.) Annual Retreat, Moana Surfrider Hotel

October 16, 2019 (Wed.) Next Generation Peer Group Meeting

November 14, 2019 (Thur.) 11:30 AM to 1:00 PM Kahili Golf Club (Maui) Jim Doran III, Second generation owner of Ceramic Tile Plus and EY Design.

RYAN MACLAUGHLIN, THIRD GENERATION REALTOR SPEAKS TO MAUI CHAPTER OF THE FAMILY BUSINESS CENTER OF HAWAI'I

On April 5, 2019, Ryan MacLaughlin, Principal Broker and Owner of Island Sotheby's International Realty discussed “Family Business and Succession” from his third-generation perspective. Ryan grew up on Maui and then headed off to the University of Hawai'i on O'ahu, where he earned his bachelor’s degree from the School of Travel Industry Management. He said he always wanted to work in real estate but felt tourism was a good backup because it is the most significant industry in Hawai'i. Ryan is also the first speaker that I can recall, during my tenure as faculty director, who has worked in two different family businesses, one as a third generation member and one as a second generation member. This takes the concept of NextGen to a whole new level.

We used to call it a summer job or a part-time job but today students call it an internship. Like many students at the University of Hawai'i, Ryan did an internship while in college; only he did his internship in his aunt’s real estate firm. His grandmother founded the firm on Kalakaua Avenue in Waikiki, when the Royal Hawaiian was the only hotel on the beach and part of the road was still unpaved.

We tend to think that relatives of the owners often have an easy road when it comes to workload. You might be tempted to believe Ryan would have had a relatively privileged set of activities to perform, given he was a family member. That was not the case. He was first assigned to learn all the basic tasks beginning with how to operate the switchboard, which was used to route calls to the individual agents, a technology that is now obsolete. Then he got to master the filing system, which included file cabinets covering every inch of available wall and loaded with paper files. Finally, he was allowed to shadow an actual real estate agent to see what they did. He pointed out that the industry was very structured in the early 2000s and the agents still wore coats and ties.

Ryan graduated in 2003 and earned his real estate license within two weeks and now he was ready to begin his career as an agent. Rather than being assigned to seek clients in some higher priced neighborhoods, his aunt told him “that he needed to study the market and find one where there are no listings.” He set out to find an underserved area and build up a following. He did his research and discovered an area called Waianae that seemed to fit the bill. He started to get a few listings and gradually built up a following. In addition, as some people moved from Waianae to other areas, he was able to expand the area he serviced by both selling their home in Waianae and then finding them a home in another area of O'ahu. He spent seven years on O'ahu building up his local following successfully.

It was about this time that social media and computer technology was beginning to have a significant impact on the real estate industry. For “old timers” this meant lots of change. Ryan described his dad as “old school” and himself as “new school.” His dad had a real estate business on Maui that was similar to his aunt’s business on O'ahu. His family had moved to Maui because they thought it would be less congested and a better place to raise a family. His dad originally wanted Ryan to work for somebody else and get experience with a larger firm. Now he asked him to come home to Maui and help him run his real estate firm. Ryan had always wanted to return to Maui and so he was happy to return. He did point out that there are 1,400 licensed realtors on Maui. It is a very competitive market and “real estate agents work on commission, so you get out of it what you put into it.”

Ryan MacLaughlin, Principal Broker and Owner, Island Sotheby’s International Realty presenting to the FBCH at the Kahili Golf Club on Maui.

His firm, Island Sotheby’s International Realty has three offices on Maui, each with about 25 realtors. They are a Sotheby’s franchise, which is the famous art auction house. Ryan believes that the Southeby connection helps to signal the level of quality service that is needed to be successful in today’s real estate market. Service is one of the few ways that firms can differentiate themselves. Ryan pointed out that the average time a customer will wait for an answer to their e-mail inquiry is 3 minutes. If they don’t hear from him, they move on to the next listing.

Ryan said that he hoped one day to be able to pass on the business to one of his children.

THE WATSON DYNASTY OUTLINES THE FATHER SON DYNAMICS AND THE "FAMILY" SUCCESSION PROCESS AT IBM

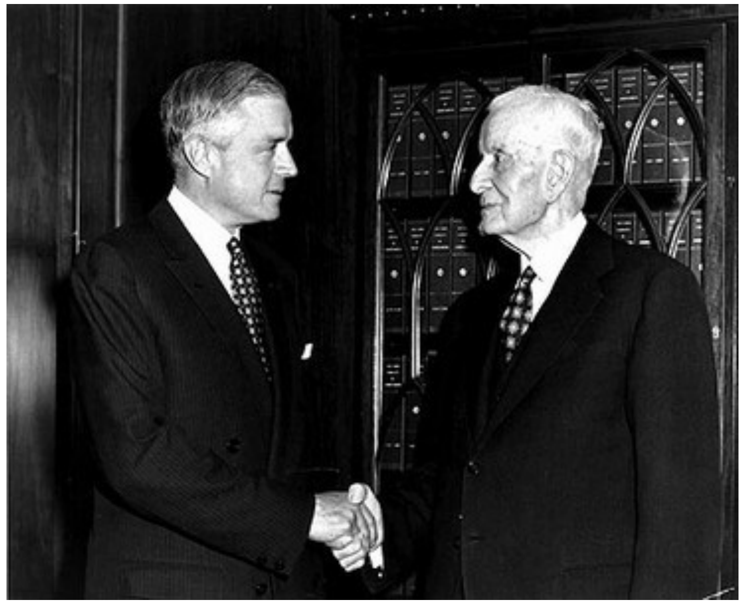
Typically, when we think of family member succession, we think of it in the context of a privately-held firm or in one where the family owns a large portion of the publicly traded stock. IBM was not such a business, yet for 57 years a father and then his son served as the CEO of one of the largest and most successful firms in the United States. Richard Tedlow, a professor at Harvard Business School, has written a scholarly, but very readable volume entitled, *The Watson Dynasty*, which focuses on the years that Thomas J. Watson Sr. and his son led IBM.

The book touches on the firm and the times (1914 to 1973) but for those readers with family business interests it often focuses on the relationship between father and son and between the two Watson brothers. It also offers a fascinating view of how these relationships developed, which might lead one to think of ways the negative aspects could be avoided. This book also provides insights into the role that both Watsons played in turning the Computing-Tabulating-Recording Company of 1914 into the IBM of 1972, one of the most significant companies in the world.

Thomas J Watson Sr. began his career working for National Cash Register and learned from their president John Patterson the finer art of selling. He was consistently promoted but like most who succeeded at NCR, he was finally fired by Patterson. Patterson had a habit of firing employees when they got too high in the organization because he did not want NCR dependent on anyone but himself. Getting fired from NCR brought good luck to Watson because he got a generous severance, which allowed him to be selective when it came to taking his next position. He took the top job at Computing-Tabulating-Recording Co. (renamed IBM in 1924) and began the 57 year period when father and son served as CEOs of IBM.

Different times call for different skills to be successful. In the earlier era, Watson Sr. knew more about the products IBM developed and sold more than anyone else in the firm. This was possible because of his deep involvement, as well as his long tenure at the top. In addition, tabulating equipment was not that difficult to fully understand. He was an extremely demanding boss but he was also civic minded. For instance, he continued paying IBM employees 25% of their base salary while they served in the military during World War II.

After Watson Jr. graduated from Brown University in 1937, he immediately joined IBM and although he expected to report directly to his father he ended up one step removed. It was a relatively unhappy period for him until his boss suddenly died of a heart attack. He joined the army in 1940 where he served as a pilot during the war. It was also during this period that he finally worked for someone who served as the mentor he needed. His father had tended to berate him but General Follett Bradley, for whom he served as an aide, showed a deep appreciation for Watson Jr.'s talents. In later years, Watson Jr. described him as one of the two great men in his life, the other being his father. Watson Jr. earned the rank of Lt. Colonel and he developed a love of flying during World War II and had decided to join United Airlines after the war.



One month before his death on June 19, 1956, IBM chairman Thomas J. Watson, Sr., (right) handed over the reins of the company to his eldest son, Thomas J. Watson, Jr. (**Courtesy of International Business Machines Corporation, © International Business Machines Corporation.**)

Watson Jr. told his plans to Gen. Bradley who told him he assumed he would join IBM and succeed his father as CEO. Bradley told him he was capable of succeeding his father and was capable of doing an excellent job. This is what encouraged him to ask his father if he could rejoin the firm. While the father and son had some disputes, it was clear that eventually Watson Jr. would be the next CEO of IBM.

The story would end here except Watson Jr. had a brother Dick, who also joined IBM and headed up their international division. Dick was more social in nature and spoke several languages . He did an excellent job. However, when Watson Jr. took over, he asked Dick if he wanted a chance to be the next CEO and when Dick said yes he put him in charge of the production of the 360 computer. The job was technical in nature and Dick was a complete failure. He eventually left the firm and Watson Jr. said appointing him was one of his biggest mistakes. It's an interesting book.

For further information read: The Watson Dynasty: The Fiery Reign and Troubled Legacy of IBM's Founding Father and Son (2003) by Richard S. Tedlow. Published by Harper Business.

DANA TELFORD GETS MEMBERS AT ALL THREE CHAPTERS OF FBCH UP TO SPEED ON DEVELOPING A FAMILY CONSTITUTION

The Family Constitution:
A Foundation for Family Alignment

Presented by Dana Telford

THE FAMILY BUSINESS CONSULTING GROUP fbcg

Dana Telford, Principal Consultant for the Family Business Consulting Group, spoke at our chapters on Hilo (April 10th.), Oahu (May 7th.) and Maui (May 8th.) to get members motivated to get started on the development or revision of their family constitutions. His efforts are really appreciated, because of the day-long time commitment associated with attending a meeting in a neighboring island. The good news is that Dana recently moved to Maui, so he is also now part of our local ohana.

This year we intend to focus on the "family constitution" at our annual retreat and Dana's presentation was designed to get members to starte developing or at least think about starting to create a family constitution. Dana began each presentation by proving a handout that outlines what typically goes into a family constitution. However, he is careful to point out that there is not a law-like form that one's constitution has to take. Telford pointed out that he is also "in a family business and not because he chose to be." He happened to be born into a family that had a property management business. The main point is that if we went out and started a business, it might not be with the family members we have as co-owners in an inherited family business. Telford's message covered seven key points.

1. What is a family constitution?
2. How do you create one that is unique to your family business?
3. What are the different processes that families use to create them?
4. Who should be involved in the creation process?
5. What agreements and policies are typically included?
6. What tips will help you to create and implement a constitution?
7. Five keys to family business success.

A family constitution helps deal with these issues because it helps create alignment and a shared vision. He pointed out that families quickly grow in complexity, especially when we get to the cousin's stage. We just don't know our cousins as well as our parents and children. The constitution can help the family develop a structure for decision making. Routine matters don't need input from everyone, but there may be decisions in some areas where broad range input is needed to reach some degree of consensus. It is better to stipulate this in advance than to have to do it on the run.

How do we get started? Telford suggested that family members need to start with a long term vision and identify goals. While this sounds easy, it requires family members to come together and agree about "who we are." There are lots of things that are desirable but it is essential to segregate out those that are truly important from those that would be nice to achieve. Identifying goals and ranking them by importance is not glamorous work and it can be tedious, but doing a good job here facilitates the completion of subsequent tasks required to complete a constitution.

The final task involves having some success parameters. It is better to identify them in advance. Then comes the operationalization of the constitution, which involves how to accomplish our goals and assigning responsibility for "who does what."

Members can see Dana's presentation at the Oahu Country Club at the Family Business Center website if you were unable to attend the presentation or want a refresher course.

Dana Telford, Principal Consultant at the Family Business Consulting Group Speaking at the FBCH chapters on Maui.

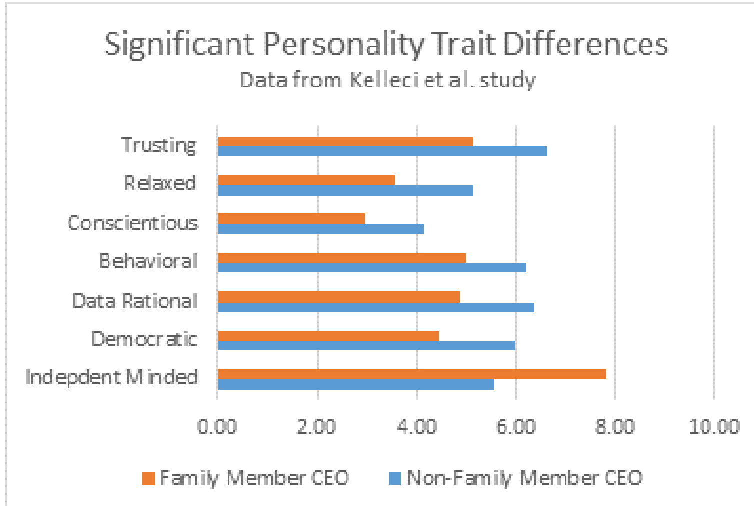
FAMILY BUSINESS CENTER OF HAWAI'I PHOTO GALLERY

DO PERSONALITY TRAIT DIFFERENCES BETWEEN FAMILY MEMBER CEOS AND NON-FAMILY MEMBER CEOS MATTER?

The issue of having a non-family member as CEO is one of the most significant questions that a family firm must consider. In some cases, there may be no family member available to serve as CEO, which makes the decision to select an outsider easier. However, in many cases, the family firm may choose a non-family member over a family member who wants to assume the role. Research has generally focused on the kinship advantages that a family member has when leading a family firm. However, a team of researchers led by Rüveyda Kelleci at Hasselt University in Belgium conducted a study to look at if and how family-member CEOs and non-family member CEOs psychological profiles differed and how those differences impacted their firm's performance.

It is a difficult job to get CEOs to sit down and fill out a personality questionnaire but this research team did get 25 non-family CEOs and 19 family-member CEOs to complete one. It covered three broad areas:

1. *Relationship with People*, which relates to how independent-minded or controlling the CEO is. To what degree does the CEO feel she/he has to be in charge and tell others what to do?
2. *Thinking Styles*, which relates to how a CEO thinks in terms of details and relying on data to drive decisions. This involves both the degree to which the CEO likes to work with numbers as well as the degree of their forward thinking.
3. *Feelings and Emotions,* which tries to measures how much the manager worries about situations or is trusting of others. Is the CEO constantly worried that things will go wrong or are they comfortable and confident that their managers will effectively handle situations?



I suppose the good news is that the differences, at least based on personality are not dramatic. The graph above outlines the differences using the results of the Kelleci et al study. In terms of *Relationship With People*, family-member CEOs are much more likely to be independent-minded when making decisions. Non-family CEOs are more comfortable with consensus and willing to go along with majority based decisions. The results are somewhat predictable since someone who owns the firm is probably a little more likely to feel they can handle decision making on their own.

In terms of *Thought Style*, non-family CEOs are much more likely to work with numbers when analyzing information and making decisions. Family member CEOs are more likely to rely on their "gut" when making decisions. Family member CEOs are more likely to be firm founders while non-family CEOs have progressed through a traditional business career, which may include formal business education, which may explain why the non-family CEOs are more data-driven.

In measuring the characteristics related to *Feelings and Emotions*, the researchers found that non-family CEOs were much more relaxed when dealing with important decisions. Non-family CEOs scored much higher on forward-thinking, which may reflect the degree to which they are comfortable with long-term goal setting and strategic planning. This also relates to their willingness to trust the information of others rather than being independent and autocratic. This may also explain why non-family CEOs find it much easier to relax than do family CEOs.

The more interesting question is the degree to which these differences impact firm performance. Given the small sample, these researchers were only able to take an "end run" at this question. They were only able to get results for non-family CEOs. For this group being controlling, outspoken and independent-minded had a negative association with a firm's performance two years out. It should be noted that these traits are less likely to be associated with this group, which may indicate that the majority may have figured out the correct posture for a non-family CEO.

The other significant findings are that the measurement of democratic behavior for non-family CEOs was associated with higher levels of profitability, It appears that building consensus may be especially important when you are a non-family CEO attempting to achieve success in a family firm. The study also highlights that both types of CEOs can be successful.

1. For more information see "CEO Personality: A Different Perspective on the nonfamily Versus Family CEO Debate" by Rüveyda Kelleci, Frank Lambrechts, Wim Voordeckers and Jolien Hurbrechts, *Family Business Review, March, 2019*, pp. 31-57.

Equipping, educating and celebrating families in business.

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

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FAMILY BUSINESS QUOTATION OF THE SEASON

"One of my key objectives is to ensure the family is proud of the company and feels a part of it. The moment the company becomes more of a financial investment for the family, we may as well go public, honestly. The family never sees the value of the equity because that gets passed on. We see ourselves simply as a steward of that equity as it moves from one generation to the next."

*– H. Fisk Johnson, fifth-generation chairman and CEO, S.C. Johnson & Son (*Wall Street Journal*, March 10, 2016)..*

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

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