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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

This coming November the Family Business Center of Hawai'i will celebrate its twenty-fifth birthday. We are one of the oldest family business centers in North America. In recent years I have seen several well-established family business centers close. In one case, the closure was due to a withdrawal of government funding. However, in the other cases, the decision to close was driven by “lack of interest” as reflected in reduced membership or lack of attendance at programs. While both of these are related to revenue, other factors caused that decline in revenue.

We are relatively unique in that we have a membership funded and membership program-driven model. We do occasionally lose a member, and we always regret this, but we know that this is the reality we face when we have family-business members. We have been fortunate in recent years to have attracted many more members that we have lost. We have also been blessed with the success of our chapters on Maui and on Hawai'i island.

We still have room to grow, especially on Maui and Hawai'i Island. During the fifteen years I have served as faculty director, I have noticed that most new members have been introduced to the FBCH by being invited to an event. If you know somebody whose family firm might benefit from joining, please invite them to one of our lunch meetings. This would also be a good way for our non-family business members to introduce one of their clients to our activities while treating them to a nice lunch. I, of course, think the real value of the meetings is the presentation, although I also enjoy the food.

I would also encourage those of you who are the next-generation member in your family business to come to our next-gen meetings. The only cost they involve is some of your time, and those who are active in the Next-Gen activities have found them to be incredibly valuable.

John Butler, Faculty Director, Family Business Center of Hawai‘i,
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Season’s Greeting and a
Happy New Year.

UPCOMING EVENTS

- **Wednesday, January 15, 2020 - Maui** Chapter Meeting Kahili Golf Course, 11:30am-1:00pm Speaker: Randy Coon, Trilogy Excursions
- **Wednesday, January 29, 2020 - O'ahu** Chapter Meeting O'ahu Country Club, 11:30am-1:00pm Speaker: Sarah Kalicki-Nakamura, Think LLC.
- **Wednesday, February 19, 2020 - Hawai'i Island** Chapter Meeting Imiloa Astronomy Center, 11:30am-1:00pm Speaker: Kenshiro Uki, Vice President of Operations for Sun Noodle North America
- **Friday, March 13, 2020 - O'ahu** Chapter Meeting O'ahu Country Club, 11:30am - 1:00pm Speakers: Blake Inouye and Ross Inouye, Grandsons of the Founder of Ralph S Inouye Co Ltd.
- **Wednesday, March 25, 2020 - Maui** Chapter Meeting Kahili Golf Course, 11:30am-1:00pm Speaker: To be announced

NEXT GENERATION PROVIDES NEW PERSPECTIVES

On November 8, 2019, the Family Business Center of Hawai'i had a panel discussion entitled *Next-Gen Taking Over* at the Oahu Country Club. The moderator was Jami Burks, President and the next-gen in The Makana Aloha Foundation, a family foundation that works with non-profits on Maui. Her family also has another business, Maui Ku'ia Estate Chocolate. The panelist were Chad Bloom (2nd. Generation), Vice President of The Zelinsky Company, Sarah Bow (2nd. Generation), President and COO of Bow Engineering & Development and Megan Takagi (2nd. Generation), CFP, Financial Advisor at Takagi & Takagi. All four members of the panel are a member of the FBCH's Next Gen Group, so they started their presentation by telling members a little about their meetings and how they both learn from them and support each other. They pointed out that they often find what they think is a unique issue or problem is one that many next-gens are addressing. Information on our next-gen meetings is on the RFBCH web site.

Each of the panel members outlined how their roles had changed during the transition period. It should be pointed out that each had a member of the preceding generation in the audience to provide support. Chad pointed out that "they had been in the transition phase for some time and now have a two to five-year transition plan.

Sarah pointed out that her father was a moving force in the transition, although neither her nor her brother had engineering degrees. She said they "wanted to take Bow Engineering to another level." Megan said "she spent the first seven years learning what her dad did and the next sever years thinking about what he didn't have the time to do. They all agreed that some of what worked for the previous generation might not work for them. Respect for the past, while working to identify new processes that will work even better, was a theme that the speakers stressed. Megan pointed out that respect for the past involves understanding how and why the previous generation made decisions so that "she could learn the why and how things had to be done." She also pointed out that she felt her father was the last person in

Panel members from left to right: Megan Takagi of Takagi & Takagi, Sarah Bow of Bow Engineering & Development, Inc., Chad Bloom of Zelinsky Company and Jami Burks of the Makana Aloha Foundation.

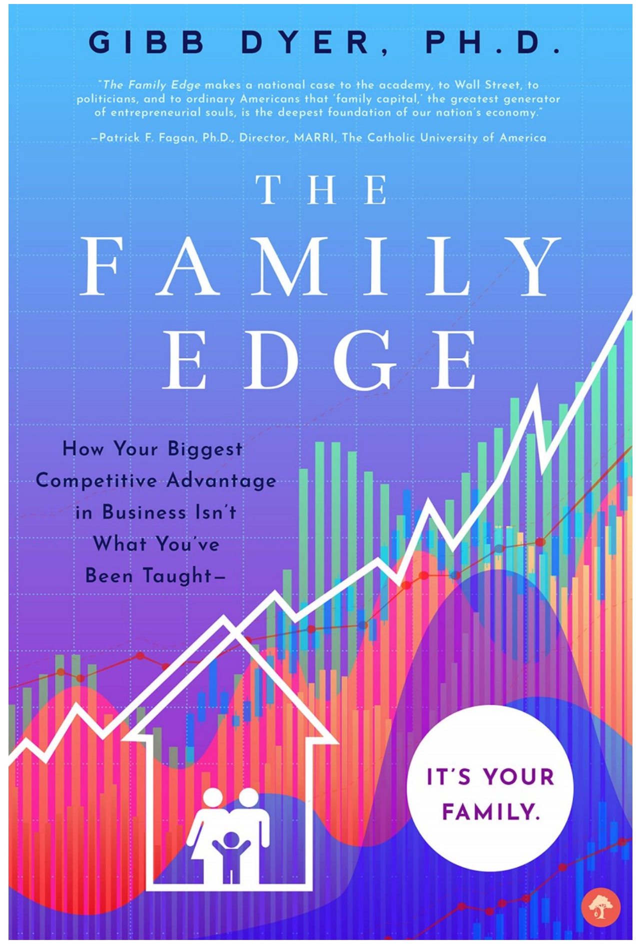
the world who printed out his e-mails. However, discussion after the meeting was over resulted in a number of members, myself included, who indicated that they also printed out important e-mails.

Sarah pointed out that all the employees trusted her father because the firm had never laid off any employees, even during the "great recession" of 2008-2009. She said that now the employees have to trust that she and her brother can provide the same job security. She said "I want them to follow me into battle" so that the firm can continue to thrive. Her father had to "wear all the hats," and his duties are now performed by three people." I guess that suggests that there was some "old school" ideas that need to be put to rest because more work does not always mean better outcomes.

The issue of technology was also touched on by all three speakers. This group of next-generation managers understand and knows how to use new technology effectively. Excel spreadsheets are no longer cutting edge, and tablets and other forms of technology allow data collection and analysis to be done in real-time. All three panel members suggest that perhaps we should establish a golden-gen program for the preceding generation.

Two days later Chad made a presentation to at the FBCH Hawai'i Island Chapter meeting in Hilo. His presentation was entitled *Contrasts / Similarities of the Current Gen / Next Gen.* He was able to synthesize some of the issues raised in the panel discussion as well as help familiarize Hawai'i Island Chapter members with the activities of our Next-Generation program.

FAMILY BUSINESS SUCCESS ALSO RESTS ON FAMILY CAPITAL



The Family Edge How You Biggest Competitive Advantage in Business isn't What You've Been Taught by Gibb Dyer. Published by Familius, LLC, Sanger, CA in 2019.
(Photo Permission by Prof. Gibb Dyer,)

Most books start with the assumption that you have a successful family business and then offer advice on how to keep it thriving and in the family. Prof. Dyer, in *The Family Edge*, takes a different approach in that you cannot have a successful family business until you have a successful business and your existing family plays a more significant role in that happening than most generally recognize. He does this by introducing the concept of family capital, which includes social and human resources in addition to financial resources. He points out that family resources have a positive correlation with business founding, which is the first step to having a family business.

The problem is that family resources have been declining, in part because family size has been declining. I know the logic is that if I have fewer children, I'll have more financial resources to devote to them. However, if you think of the family as a network that involves parents, cousins, grandparents and in-laws, then the financial wealth of the network could be much larger. Dyer points out that if we included social capital ("*connections and reputation shared by family members*") and human capital ("skill, knowledge and labor of family members") a larger family is more likely to provide more family capital. The keyword is "likely" because there are always exceptions. The interesting thing about this book is that the author often uses examples from his own family to illustrate some of the points he makes, which he also backs up with existing research.

Yes, being married increases family capital. It also allows one spouse to work while the other starts the business. The data also shows that the traditional nuclear family is much more likely to start a business successfully. That said, the author goes on to explore existing social trends such as co-habitation, later marriage age, out of wedlock births and divorce rates that lead to single parent guardianship in some cases. He also provides some interesting data that shows the trend is a global one with the bounds on marriage rate being set by Sweden at the bottom with 27% rate and Japan at the top with 69% rate. This is an "upbeat" book even though it does highlight some trends that many readers may find discouraging. Prof. Dyer provides some advice on how to increase your "family capital" no matter what type of family you have.

Developing a family identity is one way to increase family capital. Yes, each individual has an identity but identifying oneself as part of a family acts to increase family capital. Rituals and traditions that are unique to your family are other ways to increase capital. This could be a family vacation or even a traditional Thanksgiving dinner. The author also notes that helping out in the family business, perhaps in the evening after schools helps to build family identity because it exhibits commitment.

We know from research that succession is the issue of most concern to owners of family businesses. This book also stresses the importance of trust and its role in the transfer of family capital to the next generation. Today, over 50% of Americans in the fifty-five to sixty-four age bracket don't even have a will, so more needs to be done concerning the transfer of financial wealth. Prof. Dyer points out that plans for transferring human and social capital are even more lacking. He suggests one way is to create a genogram that outlines all one's family relations and the types of human and social benefits they could provide. Business owners also need to think more broadly about how they can "pass their knowledge skill and contacts to their heirs."

This is a well-written book and unlike many books written by family business consultants, it is long on evidence that supports the prescriptions offered. It is also extremely well written and an interesting read.

JIM DORAN OF JRDORAN INC. SHARES HIS FAMILY FIRM'S STORY AND EXPERIENCES AT THE FBCH'S MAUI CHAPTER MEETING

On November 14, 2019, FBCH member Jim Doran, owner of JR Doran Inc., Ceramic Tile Plus and Exclusively Yours Design spoke at the Maui Chapter's meeting at the Kahili Golf Club. His presentation was entitled *Our Family Business.....Lessons Learned*. The firm specializes in granite and quartz countertops.

I am going to give you one take away and an excellent piece of advice he offered based on his own experience. "If you have a safe deposit box, let somebody know where the key is located." This got me writing down lots of things like bank account numbers and the value of some assets and thinking of even turning some accounts into joint accounts so that probate can be avoided.

Jim's dad founded the business on Maui in 1977 after having a similar business on the mainland. When he started, the firm had two employees but now has 38 employees and most of them have been with the company for longer than ten years. Jim's dad died in 2017, and Jim is now the majority owner with his two sisters holding the balance of ownership.

I can't go over everything that Jim discussed, but he did provide some general lessons that we could all benefit from. It is unpleasant to think that we are going to die but it will save our families a lot of grief if we think of what they will need to know and do when that happens. This also includes thinking about what will be the optimal ownership and management structure of your family firm if you want it to continue as a family firm. In Jim's case, that resulted in him being a majority owner, which does not mean no consultation with other owners but it does ensure that decisions can be made at the end of discussion instead of going on indefinitely.

Jim Doran, Owner of Ceramic Tile Plus & Exclusively Your Design. .

You would not think that there would be much change in the tile business, but both technology and trade policies have impacted the business. A large punitive tariff of over 300% had already been put on quartz tile from China for a period of ten years for "dumping" (selling below cost). Although some production has been moved to the United States, labor costs here are much higher, which means your kitchen counter will cost much more. The production of synthetic tile has also caused the firm to have to adapt as customers have gravitated toward the cheaper product and the processing of this material has related health problems. Jim reported that his firm had spent over $1 million to eliminate health risks for employees, and he passed around equipment related to new robotic processing equipment they have installed at the firm.

Recently, I have been doing more research related to the negative impact of work on health. A study by Prof. Jeff Pfeffer at Stanford University's Graduate School of Business estimated that at least 150,000 people die in the United States each year based on their workplace activity. He was not talking about work-place accidents but the link between work stress and deteriorating health. Ceramic Tile Plus & Exclusively Your Design have some very unlighted employment practices that they have initiated that are designed to enhance the health of their employees. The first one involves a $1 reward for any day where they walk at least 8,000 steps and a $2.50 award for any day when they visit the gym. They also encourage the eating of healthy snacks. No, potato chips are not a healthy snack. They also bring in a speaker every three months who speaks about the health benefits of occasionally stretching during the work day. Sitting at your desk all day is not good for your health. We should all know this from our early days in school when the teacher would make us all stand and stretch several times during the day.

An equally serious issue is that they provide a $50,000 term life insurance policy. As Jim pointed out, we don't want the relatives of our valued and long-term employees "to worry about paying for a funeral." This also has an impact on the employee. We now know that anything that reduces stress usually also reduces the impact of other health conditions.

Jim may be a transplant to Maui, but he and his firm stress buying locally and contributing to the local community in any way possible. Let's wish them another four decades of success.

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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

“Tradition is like a bow. The more we stretch the bowstring, the farther we can throw the arrows of modernity and innovation.”

— Giovanni Ferrero, third-generation CEO of Italian chocolate maker Ferrero International SA (*Wall Street Journal*, Aug. 9, 2016)

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