

On the Verge of Growth after 90 Years: The Hood Canal Company Case Study and Teaching Note

**Catherine Pratt
Pacific Lutheran University**

The Hood Canal Company was incorporated in 1922 and has 42 Smithson family shareholders. Based on 4,000 acres in Washington State, the firm primarily harvests timber and oysters. After more than 90 years as a corporation, the firm is small with about 30 employees. The Smithson family business is in its fifth generation. With the timber rotation carefully managed and the oyster farming part of the business taking off, there is great potential. However, the board of directors is floundering, the top leadership duo is aging, there is no succession plan, and strategy is muddled.

INTRODUCTION

The Hood Canal Company was incorporated in 1922 and currently has 42 Smithson family shareholders with no one owning more than 10%. Based on over 4,000 acres including a scenic river delta in Washington State, they primarily harvest timber and oysters and also farm. After more than 90 years as a corporation, the firm is a small business with about 30 employees including three family managers. The Smithson family business is in its fifth generation and run by both the fourth and fifth generations. With the timber rotation carefully managed and the oyster farming part of the business taking off, there is great potential. However, the board of directors is floundering, the top leadership duo is aging, there is no succession plan, and strategy is muddled.

HISTORY OF THE HOOD CANAL COMPANY 1890s TO 1950s

During the late 1890s Summit Avenue in St. Paul, Minnesota, was home to timber pioneers like Frederick D. Weyerhaeuser and J. J. Hill. David Smithson also lived on Summit Avenue and was an employee of J. J. Hill. As others around him speculated on timber lands, Smithson also took the plunge and sight unseen bought numerous properties including 5000 acres near what became named Hood Canal in Washington. When David Smithson passed away unexpectedly in 1905, his son Brian Smithson found himself charged with managing the family's assets and caring for his mother and five sisters. It was more than most 23 year olds have to deal with. Brian Smithson visited properties all over the West and sold off most of them.

Brian also starting researching the timber industry and in 1907 came to Washington to look over the family land on Hood Canal. He set up a timber company with its own railroad and bought more land ending up with more than 10,000 acres total. In the fresh virgin forest, the firm frequently harvested over 50 million board feet per year employing up to 300 people for a time. The family firm formally incorporated in 1922. Like so many other timber lands in the Pacific Northwest, by 1932 the acres were

denuded of trees. As the United States entered the Great Depression the price of timber plummeted. The land was logged and the number of employees dropped to just a couple of farm employees.

Brian Smithson hung on to the now treeless land and bought out his five sisters. He and his family still primarily lived in St. Paul but started spending summers on the Hood Canal. Taxes became a burden at \$1 an acre when the value of the logged land was about \$1 an acre. In a planned move, $\frac{3}{4}$ of the land was repossessed by the local county. These are now “trust” lands managed by the Washington State Department of Resources and surround Hood Canal Company land.

With pulling salmon from the river and farming the bottom lands near the river delta, Brian was able to eke resources from the land. By the mid-1930s, Brian, his wife Francine, and their five children had moved from St. Paul to Seattle. For the most part, Brian just hung on to the land and waited for the trees to grow back.

Brian’s oldest son Samuel planned on operating the farm but never came home from World War II. By the 1950s the land had again become a tax burden to Brian. He asked his youngest son Stephen to make a choice: Did he want to farm the land on the Hood Canal? Brian offered to pay a salary for six months and if Stephen could not make a go of it the land would be sold. Stephen had fond memories of the farm and the delta where the river spilled into Hood Canal on its way to the ocean. He loved the steelhead fishing and the scenic beauty of the area. Stephen took the plunge and committed to trying to make things work.

STEPHEN SMITHSON 1950s TO 1980s

After quitting his job at a plywood company, Stephen moved with his family to the farm on the river delta. He was endlessly creative in seeking to make ends meet to support the family and pay property taxes. He raised Christmas trees, and sold scrap metal, shake bolts, and shrimp. Half the year he would catch shrimp in the Hood Canal and make a Seattle delivery each day. The Christmas trees yielded 98 cents per bale of 24 lineal feet. In 1957 he noticed the oysters on the tide flats of the river delta and added these to his shrimp delivery. This launched his new venture of harvesting and selling oysters. His Pacific oysters slowly gained a reputation as he carefully marketed to top chefs in Seattle. He built a shucking facility to accommodate the then preference for oysters without the shell. Stephen worked tirelessly for decades to market oysters in the shell.

The Hood Canal Company slowly grew in both wholesale and retail of shucked and shell oysters. In the 1970s Stephen built a small retail store to appeal to the tourist market. In the 1980s, Stephen’s son Kevin took over after working with his Dad for more than a decade. Thus, the Hood Canal Company entered its third generation of leadership and the fourth generation since David Smithson bought land in the late 1800s.

KEVIN SMITHSON 1980s TO THE 21ST CENTURY

With each generational transfer, ownership continued to diffuse among family members. The Smithson extended family included Woodhouse and Norton cousins. A few worked in the business but most did not. In the mid-1980s the timber was ready for another harvest. Kevin created a plan for sustainable harvesting over generations. He bought more land and brought the acreage up to about 4000 of primarily Douglas Fir. The Hood Canal Company currently clear cuts about 40 acres of timber each year resulting in about 25 million board feet per year. The Christmas tree farm does a modest business.

Four of Kevin’s nephews are currently in their 30s and have been actively involved in the timber side of the Hood Canal Company. Seth Norton is in his 30s and now runs the oyster business. His sister Sharon manages the retail store. John Woodhouse just received his master’s degree in forestry and Mike Webber is a forester for a multi-national forest products firm. John and Mike are on the board of directors. The sixth generation is involved here and there planting trees, thinning timber, digging seed clams and working on the farm. Although unplanned, this activity builds a sense of heritage in this emerging generation.

The oyster business is on a growth trajectory. Seth continues to modestly expand the business. There is a new larger onsite retail store; the farm and tide flats are becoming a tourist destination to explore nature and buy oysters. Most of the Hood Canal Company's 30 employees are pickers and shuckers for the oyster business.

In 2011 the Hood Canal Company launched a new branded oyster that grows in bags amidst the tidal flow of the river as compared to the more traditional Pacific oysters that grow on the beach. The Hood Canal Company calls their oysters spectacular with "a distinctively clean, crisp flavor and firm meat." The new river oysters have "velvety brininess, crunchy texture and smooth vegetable finish" perfect for raw oyster eating.

The Hood Canal Company delivers and ships overnight to world class restaurants, gourmet stores, farmers markets, and retail clients. The firm's Oyster Rama is a charitable festival each year to raise money for education.

THE LAND TODAY

There are rolling hills of timber as the land trails down to the salt water marshes of Hood Canal. There are numerous flood channels and intertidal areas with cottonwoods and Sitka spruce. It is a unique and lovely place. Geoducks, moon snails, and sea cucumber are found along with eel grass. Low tide brings a mile of tide flats. The estuary holds the oyster and clam beds. Further inland there are hayfields and a designated bird and animal sanctuary. There are 18 acres of bottomland set aside as Grandfather's Park to honor Brian Smithson. The river goes through a canyon with remaining old growth timber and huge boulders. Steelhead fish work upstream through 300 feet of elevation in a mile.

The land is more than the location of a family business. It is a shared family heritage. Shareholders, and only shareholders, are entitled to build and own a home on the property. Some family members feel excluded from the family and gatherings because their parents or grandparents sold shares.

In many ways, the specialness of the land appears to be more important to the family owners than the financial health of the business. This leads us back to governance, the lack of succession planning and uncertain strategy.

OWNERSHIP AND GOVERNANCE

The Hood Canal Company is owned by 42 family members with no one having more than 10% of the shares. The board of directors consists of nine family members. The board is seeking an outside member to join the board. Several people have said no to preliminary overtures to consider joining the board. Kevin Smithson is 70 years old and president with his 73 year old cousin Smithson Shaw serving as chair of the board of directors. The shareholders and extended family meet every summer on the land for a board meeting and family meeting.

In 2010 there was a strong personality disagreement and one of Kevin's female cousins was forced off the board. The board now includes four from Kevin's generation and five from the next generation. They can work together for the most part but there are lingering underlying disputes. There is an emerging sense of urgency that Kevin needs to have a lighter load and be replaced.

The younger generation on the board, including John Woodhouse and Mike Webber, feel it is time for a new chair and that the board is not acting progressively in planning for the future. The strategic plan over the past 25 years has been in Kevin's head. Now it is time for something more formal in the way of leadership development and transition, and strategic planning. The family and the board wrestle with preserving legacy while building the business. Most of the family shareholders are detached from the day to day running of the business. A few of them want out and are agitating to break up Hood Canal Company, sell off the assets, and disperse the wealth. The firm carries no debt. They also have very limited financial reserves due to their current dividend practice. There is no liability insurance for members of the board of directors.

You are being considered to join the board of directors as an outside member. You do not know much about the Hood Canal Company or the Smithson family other than you like their oysters. However, you do know about working on rural lands and about family business. You run a successful fourth generation family dairy business with 500 employees in three states. You have systematically engaged in best practices over the past two generations to engage in strategic planning, expand the skills of emerging leaders, and set policies for board and managerial participation by family members. The board holds its annual meeting in four weeks and you are being actively courted to join. You have been assured the board wants an active voice and external counsel. Assuming you say yes to joining the board, what counsel would you give to the Hood Canal Company to move forward?

KEY QUESTIONS

1. How can you help the board consider the looming leadership crisis and engage in succession planning?
2. What should the board be doing to develop leaders and educate current and prospective shareholders?
3. How should the Hood Canal Company address the concerns of shareholders who want to cash out? What if they already have a home on the property?
4. How can you help the board engage in strategic planning for the future? How can you help the board to understand legacy and heritage affects on strategic planning for the company?
5. How can you help the board pay attention to the great potential of the oyster business?
6. What else do you think they need to hear and put on the agenda for the next year? Are there matters that are especially urgent?

ON THE VERGE OF GROWTH AFTER 90 YEARS THE HOOD CANAL COMPANY TEACHING NOTE

INTRODUCTION

The case is suitable for small and family business classroom discussions. It is also suitable for governance and strategy discussions.

The Hood Canal Company was incorporated in 1922 and currently has 42 Smithson family shareholders with no one owning more than 10%. Based on over 4,000 acres including a scenic river delta in Washington State, their products include timber, farming, and oysters. After more than 90 years as a corporation, the firm is a small business with about 30 employees including three family managers. The Smithson family business is in its fifth generation and run by both the fourth and fifth generations. With the timber rotation carefully managed and the oyster farming part of the business taking off, there is great potential. However, attention needs to be paid to governance and especially with the board of directors. The top leadership duo is aging, there is no succession plan, and strategy is muddled.

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3. How should the Hood Canal Company address the concerns of shareholders who want to cash out? What if they already have a home on the property?
4. How can you help the board engage in strategic planning for the future? How can you help the board to understand legacy and heritage affects on strategic planning for the company?
5. How can you help the board pay attention to the great potential of the oyster business?

6. What else do you think they need to hear and put on the agenda for the next year? Are there matters that are especially urgent?

DISCUSSION

The Hood Canal Company is well past the stage when they should have addressed leadership transition and succession planning. The board needs to bring these issues out into the open even if senior family members may be unwilling. They need to systematically review the current situation, consider a transition, and identify future leadership. Although rich in natural resources, this is essentially a small firm with modest gross revenues. It is unlikely that an outside leader would be chosen but that is a possibility. How can members of this inner-focused family learn more about leading and building the business? Perhaps external mentors can be matched up with potential leaders. Are policies needed regarding education requirements and external work experience? Should the dividends be lowered for a period in order to invest in the future? This paid off successfully for the new retail store. It is unlikely that there would be enough in saved dividends to buy back shares from family members who want out. Does the firm go into debt that is shared among shareholders for increased ownership? Perhaps sell land? Harvest more timber? Is it worthwhile for one person to seek a larger ownership stake? How will they plan for perhaps more dispersed ownership in the next generation? How can they learn what they need to successfully engage in strategic planning?

There needs to be a planned discussion on the legacy and heritage versus business growth issue. These are not mutually exclusive. Where are the Smithsons in the continuum of business owning family to family owned business?

DISCUSSION LEADERSHIP PEDAGOGY

The instructor leading a classroom discussion may choose to divide the class into groups by question and then report out to the whole. The goal of the case is to help students explore counsel to a small family business to help them move forward. There are opportunities for discussion on steps in strategic planning. It is messy and there are no right answers. In multi-generation family firms, it is very common for the concepts of legacy and heritage to greatly influence business decisions. Helping students to see the pros and cons of this can move a discussion beyond pure business decisions to the complexity of family dynamics intersecting with the business.