



Asia-Pacific
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YOKKAICHI SWITCHGEAR

It was 10.30 at night, and Hiroshi Kaneda was feeling very tired. He had just completed the design of a new super-rapid switch mechanism which he was confident would ensure Yokkaichi Switchgear Company's continuing international dominance in this niche manufacturing field. He was keen to have it on the market early in 2004 when he would be 60 years old. It would be the year of the monkey, an especially significant year for him since he would be completing five cycles of the lunar calendar. He was preparing to collect his jacket and return home when the telephone rang, it was from a police station in Fushimi-dori in Nagoya, a popular entertainment area in that large Japanese city. The caller asked Kaneda to confirm that he was the employer of Fernando Salinas. Kaneda confirmed that Mr. Salinas was indeed his employee, and asked what the trouble was.

Hiroshi Kaneda was born in 1944 in a poor suburb of Nagoya. His father had been killed in Okinawa, and his mother had struggled to bring up her three sons. Hiroshi was the eldest, and had taken many small jobs to eke out the family income while studying engineering late into the night and helping his mother at home. In 1967, he graduated with a degree in electrical engineering from a technical university in Nagoya. He joined Yamamoto Electrics in nearby Suzuka, a small specialised electrical engineering company where he had done some summer internships. He soon became an effective one-man R&D unit and developed a number of innovative engine components that had sold well. However, at the end of 1987 a larger firm producing parts for the nearby Honda Motor factory purchased Yamamoto. Kaneda was offered a job in the research department of the firm at a considerably higher salary than before.

Kaneda had two teenage daughters in high school, and his wife urged him to take the offered job and the higher salary. However, Kaneda had always been driven by his own ambition to create innovative devices. He knew that he worked best as an individual and enjoyed the freedom the small firm had given him to follow his own technical instincts. In the large firm he would become part of an existing team and he was not sure how he would be received as a middle-aged newcomer. The position he had been offered was not senior and he feared that he would be forced to suppress his own interests to comply with his superiors' instructions.

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To help think over his options Kaneda called his old boss, Mr Yamamoto, who was retiring now that his firm had been sold. They agreed to meet at their favourite eel restaurant and the old man reminisced how he himself had created his company from nothing amidst the devastation of the immediate post war period. Kaneda pointed out that things were very different, many Japanese companies had developed successfully, and had acquired global reputations, and it would be difficult for him to penetrate the market. However Yamamoto swept this aside: "I know your ability," he said, "why don't you go ahead and set up your own company like I did, you can do it!" The stars glittered in the sharp cold of the December night as they left the warmth of the restaurant after several rounds of hot *sake*. The old man paused as the taxi drew up to take him home: "Look here Kaneda-kun," he said (using the familiar form used to address subordinates), "you have always done a great job for me. I have made a lot from the sale of my company. If you set up on your own, sell me Yen 50 million worth of shares in your company". Thus encouraged, Kaneda declined the offered job and in 1988 founded the Yokkaichi Switchgear Company (YSC).

For the first few years it had been very difficult, and more than once Kaneda had despaired of ever being able to continue. His wife frequently complained of his failure to join the larger company as money was scarce.

His technical skills had given Kaneda confidence in Yamamoto, and he had himself developed a number of electrical components which had formed the basis of Yamamoto's business. However he did not own the patent rights, and had therefore not benefited from them, although they had been the main reason why Yamamoto had been purchased.

Kaneda was therefore obliged to start again. At first YSC turned out simple domestic switches but it was a very competitive business, and the YSC products had very little to distinguish them from a wide range of other products on the market. As a newcomer in the already crowded field, YSC's only strategy was to offer very low prices which meant that the monthly figures often showed losses.

But Kaneda had always had good technical ideas. After some months, he had perfected the design for a switching mechanism with a niche application in a certain type of advanced electrical coupling in the power generation industry and with many other potential applications. As an engineer with a particular interest in research, he had little experience in selling, and found it very difficult even to make an appointment with potential buyers. By 1988, the Japanese market had become dominated by networks of manufacturers, assemblers and suppliers. As a new company, YSC had no name, no reputation, and no performance record. He would make visit after visit to potential customers only to return home disappointed.

One evening in the late summer of 1992, a strong typhoon swept into the Ise Bay south of Nagoya and Kaneda was trapped in Nagoya City as a landslide blocked the Kintetsu line he would take home. He found a hotel near the station and fought through the wind to a nearby restaurant. The place was crowded and he was directed to share a table with another guest. As they got talking, waiting for the storm to ease, Kaneda discovered that his neighbour worked for Nihon Gaiden, a large company in

Nagoya specialising in electrical machines, and one which Kaneda considered an important potential customer. The Nihon Gaiden man was also an engineer, and as Kaneda described his ideas, the former became very interested. However he explained that he himself was not involved in procurement. Moreover, the company had a long established relationship with a supplier of similar products. He thought that it would be difficult to make any change. Nevertheless, he gave Kaneda the name of the responsible person at Nihon Gaiden and wished him luck.

At first, the manager at Nihon Gaiden was very unfriendly. He would make appointments with Kaneda but then refuse to see him. Kaneda persisted and one day in early March, the manager not only kept the appointment, but, for the first time, was actually friendly. Kaneda later discovered that his new-found friend at the time of the typhoon had come up with a new design in which the YSC switch fitted much more efficiently than the existing supplier's product. He had therefore recommended YSC to the purchasing manager. In early May, Kaneda delivered the first YSC devices to Nihon Gaiden. This transaction had finally provided the company with a steady and reliable income.

Looking through technical journals, Kaneda realised that there was an international demand for his products. In 1994, he took part in a trade fair in Düsseldorf where his devices attracted great attention. He made some significant sales to a large German manufacturer. He spoke no English, and his participation in the Düsseldorf fair was arranged for him through the Nagoya office of Shinozuka Boeki, one of Japan's large *sogo shosha* (trading companies) which was appointed overseas agent for YSC products.

The international market had developed quite well, but Kaneda did not feel that Shinozuka really understood his products. He had thought a lot about setting up his own international department. In 1998, YSC still employed only 23 people and most of them were engineers. His wife's brother, Susumu Kato, was 61 years old, 7 years older than Kaneda. He had been the general affairs manager for several years in the Tokyo head office of one of Japan's largest steel and engineering companies. He had also spent some years at his company's shipyard in Tsu, near Nagoya, and had frequently worked with foreign representatives of ship owners building ships there. Kaneda had always respected his brother-in-law's command of English and broad business knowledge. Early in 1998, Kato retired from the subsidiary of the parent company where he had been a director. Kaneda's wife urged her husband to employ her brother. Kaneda, who had never enjoyed doing administrative tasks, invited Kato to join YSC as general business director. The arrangement with Shinozuka Boeki was terminated. Kato became responsible for the international business at YSC, buying a 10% share in the company with some of his retirement benefit.

Kato had always worked in the large organization of his previous employer, and found it difficult to adjust to the informality at YSC. He criticized some of the YSC engineers for not following the proper procedures for ordering materials, and introduced a number of small regulations. In addition, Kaneda noticed that Kato seemed to have difficulty dealing with foreign visitors, and on one occasion YSC lost a good deal with an American company because of a misunderstanding in the contract. Kato had blamed the Americans for the mistake, but Kaneda, who had dealt

with the US company in the past, suspected that Kato was in fact responsible for the error. Observing him in a meeting with some foreigners, Kaneda also suspected that Kato's English was not as good as he had first thought it was.

In April 1999, Kaneda was invited to address students at the Nanzan University in Nagoya. After his talk, he was approached by a Filipino participant, Fernando Salinas, who was an alumnus of Nanzan's advanced Japanese course. Salinas also had a degree in electrical engineering from Purdue University in the US, and had developed his studies at Tohoku University, in Sendai, northern Japan, which was well known for its outstanding electrical engineering department. Salinas saw few opportunities for work in the Philippines, and was looking for a job in Japan. He spoke both English and Japanese fluently. Salinas knew of YSC's specialization, and he and Kaneda chatted for some time about the product and its potential in the market. Kaneda invited Salinas to visit YSC and take a look at its activities.

Salinas visited the factory a week later. Kato was away visiting a client in Chinese Taipei, but Salinas impressed the YSC workers whom he met with his quiet manner and obvious familiarity with their products. Following this visit, Kaneda decided to offer Salinas a job at YSC which the latter accepted. He was given a salary which was in line with the other Japanese staff, but far higher than what Salinas could have earned in the Philippines.

Salinas fitted well into most of the YSC organisation; he had identified a small problem with the insulation for one of Kaneda's designs, and they had worked well together to find a good solution. Most of the other engineers also found Salinas helpful; they respected his expertise and liked his modest manner. He offended some others however by finding problems in their technical analysis. Some resented the fact that he had such a close relationship with Kaneda. Salinas only caused a problem on two occasions after he had been drinking beer and whisky, his manner had changed, and he had spoken bitterly about the hard time he sometimes had in Japan as a Filipino.

Salinas had become especially friendly with Toru Yamamoto, a 28 year old engineer whose uncle had owned the Suzuka company where Kaneda had first worked. Despite his engineering background, Yamamoto was interested in the commercial side of the business. He worked in Kato's department and was responsible for buying in parts and materials. Salinas and Yamamoto quite often went out together in the evenings and played soccer at a local club.

Things did not go quite so well with Kato. Initially, he had taken Salinas aside and told him how he should behave in a Japanese office. He criticised him for not applying for official permission when he had returned to Cebu for a few days following the sudden death of his mother. He also often corrected his Japanese in front of other staff and had once even tried to correct his English in a meeting with some Canadians.

Salinas soon became an important member of YSC but his relationship with Kato remained difficult. They visited Europe together and signed a good contract with a Dutch manufacturer. Salinas was upset to discover that Kato had told Kaneda

that it was he, Kato, who was responsible for this success. In fact, Kato had almost lost the business in an argument over a technical point that he did not properly understand, and Salinas had smoothed over the crisis.

Kaneda himself enjoyed discussing technical design with Salinas, and they went out together from time to time after work. Occasionally, Kaneda invited Salinas to his home but this did not continue since Kaneda's wife disliked Salinas; her brother had influenced her against him, frequently criticising Salinas' failure to behave in a Japanese way and claiming that Salinas did not respect Kato's position sufficiently.

Kaneda sensed that Kato was making things difficult for Salinas, but he himself was not interested in paperwork, and needed Kato's skills in handling the financial and commercial aspects of the business. On the other hand, he had also come to realize how valuable Salinas was to the company which now earned over 60% of its income from overseas. He was very glad to have Salinas to cover this side of the business, and appreciated Salinas' excellent technical contribution.

Salinas had originally come to Japan on a student visa, and had failed to obtain a working permit. Securing a working visa for Salinas was in fact Kato's task, but he had never got around to doing anything about it and when Salinas reminded him, Kato always complained of being too busy.

The policeman told Kaneda that Salinas had been drinking in a bar and had had a brief fight with the bar owner after an argument over the bill. He said that no damage had been caused, and the policeman further mentioned that this particular bar owner had been involved in similar incidents before. Salinas had even apologised to both the owner and the policeman, and the matter had been settled amicably at the police station. However, the policeman discovered that Salinas did not have the proper papers to work in Japan, and warned Kaneda that he would be obliged to report this to the immigration authorities if proper papers were not arranged immediately. Meanwhile, he said he would allow Salinas to go back to his apartment in Yokkaichi.

Kaneda returned home and told his wife what had happened. She said that she had always suspected that Salinas would cause trouble and suggested to her husband that he should be reported to the authorities and sent back to the Philippines.

Next morning, Kaneda called Kato to his office. Kato had already heard about the incident from his sister who told Kaneda that YSC should get rid of Salinas. Kaneda pointed out to Kato that the company would suffer considerably if Salinas should leave and that YSC would risk being fined by the authorities if the matter were not quickly resolved. He pointed out that YSC's international business had grown substantially since Salinas joined the company and that he was also a very capable engineer. Kato then became angry: "Do you mean you trust that Filipino more than me?" he asked, and walked out of Kaneda's office.

That evening, Kaneda stayed up late thinking things over. He knew that his brother-in-law was in a strong position, and that his wife was also against Salinas but he knew that YSC really needed Salinas. A *Yakii-imo* (roasted sweet potato) seller

called out in the street outside and Kaneda listened with some nostalgia to the old cry of Japan wondering what his next step should be.