

# Case Studies

## Kanase Industries Co., Ltd.

By Shozo Hochi

### Kanase Industries Co., Ltd.

Established: 1919

Headquarters: 204-1, Inari-cho, Tanabe City,  
Wakayama Pref.

Telephone: 0739-22-7651

President: Teruo Kanaya

Capital: ¥42 million

Employees: 240

Overseas affiliate: 1

"An international joint venture is like an international marriage. Without deep mutual trust and strong human relationships, it cannot succeed. In order for two companies with different cultures, traditions and customs to jointly undertake and develop a business, deep human relations are vital."

So says Teruo Kanaya, 55, president of Kanase Industries Co., and an entrepreneur who gives the establishment of close human relations top priority in his business philosophy.

Kanase Industries is the foremost plastic button manufacturer in Japan. Its head office is in Tanabe City, Wakayama Prefecture, in the southwestern part of the Kii Peninsula projecting out into the Pacific Ocean. Kanaya, robust and in good health, is one of a new breed of businessman whose enthusiasm about international operation is clothed in modesty.

Kanase España, S.A. (KESA) is his company's joint venture in Spain. Kanaya spent seven years on the birth of KESA, and the company is now the object of wide attention among Japanese small and medium enterprises as a model of a successful joint venture undertaken overseas by a small Japanese enterprise. Attention has focused on the circumstances leading up to its establishment, the sincere and ultimately successful



Teruo Kanaya, president of Kanase Industries Co.

negotiations conducted, despite great difficulties, and its remarkable performance since starting business.

KESA was established six years ago on July 3, 1979, after many twists and turns. Located in Santa Barbara about 170 kilometers southwest of Barcelona, the bustling economic center of Spain, the company was capitalized initially at 50 million Ptas. (about \$289,000 at the present rate of \$1=173 Ptas), rising to 94 million Ptas in September 1980 shortly after its inauguration. Kanase holds 49% of the equity.

KESA was established to manufacture plastic base material using Kanase Industries' technology. It further processes the material into buttons which it sells not only in Spain but throughout the European Community (EC).

KESA's Spanish partner is Toar S.A., a major button manufacturer with 170 employees. With the founding of this joint venture, Toar S.A. switched from using natural shells for its buttons to synthetic resin. Previously Toar imported shells

from Southeast Asia and the Pacific islands, but it was plagued by violent price fluctuations and irregular supplies.

In order to resolve these problems, Toar turned its attention to synthetic resin. Spain, however, lagged in the technology to manufacture the synthetic resin base, and Toar had no choice but to look for a foreign company from which it could obtain the necessary know-how. In those days, the long drawn-out negotiations for Spain's entry into the EC were in full swing. In order to cope with the liberalization of trade which would result from Spain's membership, Toar felt it had to start producing high-grade buttons using man-made raw material immediately.

### Leadership in synthetics technology

Kanase Industries, on the other hand, was established in 1919 by Seitaro Kanaya, 84, present chairman of the board and father of the current president. Operating under its present name since 1971, the company is capitalized at ¥42 million (about \$168,000) and has 240 employees. It manufactures buttons at its head office plant, and has a second plant in Kami-Tonda Town in Wakayama Prefecture to manufacture acrylic resin sheets for use as signboards. The company's turnover comes to ¥3,000 million (\$12 million) annually.

Shell button making had been a sideline business of farmers in the Pacific coast city of Tanabe since the end of the 19th century. It was Kanaya senior who industrialized the cottage industry. In 1933, the company imported ivory nuts from Ecuador and began mass-producing ivory nut buttons for men's jackets, switching to wood to make buttons for



the military during the 1940-45 war years when ivory nuts were not available. To make up for a shortage of shells for making buttons after World War II, the company started to research technology for making buttons from synthetic resins. It improved its manufacturing skills remarkably with know-how imported from the United States in 1949.

Encouraged by its success, the company switched from shell buttons to plastic buttons. It even went so far as to teach other button makers in Tanabe City how to make buttons from synthetic resin sheets.

Before long most factories in the city were manufacturing plastic buttons. Thanks to improved raw materials manufacturing and processing technology, buttons were soon being made from a wide variety of synthetic resins, including urea resin, polyester resin, casein and acrylic resin. The number of establishments in Tanabe City engaged in the manufacture of buttons and related businesses today exceeds 40, employing some 800 workers. With annual production reaching about ¥5,000 million. (\$20 million), the button industry has developed into a pillar of the city's economy, ranking next to food processing and forestry products.

Kanase Industries towers above all button manufacturers. In Tanabe City, people say that the history of the postwar button manufacturing industry in Tanabe City is the history of Kanase itself. What brought the city's button industry to the prominence it enjoys today was the open technological guidance provided by Kanase Industries to its competitors.

Kanaya enjoys the full trust of businessmen in the city and, as vice-president of the Tanabe Chamber of Commerce and Industry, he devotes much of his scarce free time to vitalizing the community and expanding its business. Always internationally minded (in his student days, he once thought of joining the diplomatic service), he decided while still a senior managing director of the company to develop overseas markets. His first step was to open a branch in Osaka and start trading directly with foreign countries. At the time he was only 25 years old. Ever since, he has concentrated on international trade. Through his experience, he says, he has become convinced that "mutual understanding is indispensable in international exchange."

## A meeting of like minds

It was 12 years ago that the subject of a tie-up with Toar came up almost by chance. At the time, Kanase Industries'



Kanase España, S.A.

business seemed at a dead end because of the depression in textile-related industries and the American recession. Exports were also slipping. To get around the company's difficulties, Kanaya was considering starting production overseas and opening an overseas sales base.

In February 1973, Martinez Arago of Toar, accompanied by Sergio Canaara, an Italian button merchant, visited Kanase Industries. Canaara had business relations with both Kanase and Toar. He had deliberately brought Arago, who was planning to switch over to plastic buttons, to introduce him to Kanaya.

Upon inspecting Kanase's factory, Arago was deeply impressed by the high technical level, finding it superior even to that of Italy, the front-runner in the world fashion industry. At once, Arago and Kanaya entered into serious negotiations to arrange a joint venture. From their first meeting, Kanaya had sensed in Arago a kindred spirit. The Spanish businessman, like Kanaya himself, was meticulous about every detail. He did not put store in outward appearances, nor was he concerned only with profits; he was an earnest man who believed in sincerity in human relations.

## Barriers to an international goal

Thus the top executives of the two companies were bound from the start in a relationship of deep mutual trust. Even so, it took seven years before the joint venture materialized because so many hurdles remained to be overcome. The first was the equity ratio. In the end, Kanase Industries bowed to the local situation in Spain, and agreed to Arago's proposal of a 51-49 division of equity, with the Spanish side holding the majority.

With this obstacle out of the way, it was expected that a joint venture agreement would be signed during 1974. But suddenly, Toar informed Kanase that it

wished to shelve the project because of the deteriorating political situation in Spain and the economic difficulties caused by the oil shock. But though the plan had run aground, Kanaya and Arago maintained their personal contacts.

The spark of hope which the two kept burning suddenly flared up again in 1977, when word was received from Toar that it wanted to reopen negotiations. In the interval, President Franco had passed away, and a democratic moderate coalition had come into power, bringing with it increased political and economic stability.

From then on, talks proceeded smoothly and quickly. In July 1979, the joint venture company was established. The additional ¥65 million (\$260,000) necessary to finance a revised facilities program was supplied by Kanase in the form of a loan, itself more than 80% of Kanase's paid-in capital in the venture.

The new company started production in January 1981, and by fiscal 1984 was showing a profit of 13,810,000 Ptas (about \$80,000) on sales of 100 million Ptas.

The factory, with a floor space of 1,700 square meters, stands on a 7,250-square-meter site. Its 29 machines are operated by only 25 Spanish workers. With its special technology, the company expects eventually to obtain a 70% share of the Spanish market for high-grade buttons, and is planning to export finished products to Africa as well.

Kanaya lodges visitors from overseas in his own home, and deepens his friendship with them in a family atmosphere. He is a new type of small business executive who engages in international business with sincerity and human warmth.

Although his company is debt-free, the president's personal approach to business remains severe. "No matter how good the bottom line, a financial statement is no better than a three-day old newspaper," says Kanaya. "What is important in business management is today and tomorrow."