Keio Business School

# A venture firm manager who is troubled by a despotic president and an inexperienced staff

**Primary issue**

The president of the company that employs the client is a tyrant, and this has led to many internal problems. Because the staff that the client manages are inexperienced, he finds himself bearing most of the world load and is almost at his wit's end. He is worried about the company management, and about the future of his career.

**The client**

The client is a 30-year-old man, born in 1970, who works as a section chief at a rapidly-growing venture firm in the central districts that transports freight by sea. His father runs a small-yet-stable trading company, and his mother is a full-time housewife. There are many prominent figures among his relatives, including hospital administrators.

After spending one year at home following high school graduation, the client enrolled in a business administration program at a local private college. After he completed the program he accepted a job in aluminum product sales at a major building materials manufacturer. He switched to his current company in 1996 because the work he was doing was too routine and regulated by quotas; he felt like a pawn in a chess game. This second company had just been established when the client joined, and there were only three other employees: the president (54) and two employees who had previously worked with the president at another company and had quit with him at the same time (a 35-year-old man and a 31-year-old woman).

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This document was prepared by Keio Business School's Professor Naotaka Watanabe. Minor changes have been made in order to protect the anonymity of those related to the case.

## The company's background and management structure

The client's company is located in central Japan and transports various types of cargo, such as overgauge freight and hazardous materials. The company also provides a number of specialized door-to-door delivery services on a worldwide scale, and continues to grow each year. Because the location is also home to a major auto brand and its related parts manufacturers, the client's company is right in the middle of a large number of major clients. The company's growth was also due in part to increased exports to North America as a result of unprecedented economic growth in the U.S. during the 1990s.

Although the company was four million yen in the red during its first year, it became profitable during the second year and continued to maintain stable growth, boosting year-on-year operating profits at a rate of 200% until 1999. FY 1999 revenues totaled 1.8 billion yen, and current profits amounted to 80 million yen; even today, sales revenues continue to grow. The company's biggest merit lies in its small size; this enables it to operate in a very flexible manner and quickly meet client needs while keeping costs in check.

In general, most of the company's competitors are run by large parent companies sparsely staffed by part-time workers and employees on loan from corporate headquarters. On the other hand, the client's company has employees dedicated to each individual client, and they are trained to respond quickly to client inquiries and requests. The average age of the staff is below 30 (12 employees as of 2000), excluding the president, and that helps the company to keep HR costs far below its rivals. The company has also forged partnerships with major agencies nationwide, enabling it to minimize inventory costs and maximize per-order profits.

## Worries concerning company performance

Recently transport companies from Osaka and Tokyo have begun entering the local market and competition has grown fierce. Even the company's Tokyo branch, established three years ago, hasn't been able to turn a profit due to the extreme price wars occurring in the area. And while sales at the central Japan location continue to grow, the value of its assets and its ability to secure sales are in decline due to market entries by more powerful players, which have led to price reductions and a sharp drop in profit margins.

**How the company was founded**

The company's president was originally employed as the manager of a sales office owned by another ocean freight company. He was forced to quit his job in 1995 because of company restructuring. He consulted with the client's father, a client of the company he'd just quit, and the two worked out a deal whereby the client's father decided to invest in a company to be run by this man. The agreement was based on the condition that the client be given a job at the company and also be allowed to become a shareholder. At the time, however, the client had been dreaming of quitting his job at the building materials company and becoming a tennis instructor. In the end, the client's father held 24 shares of stock in the new company, and the client and the president (his shares were a gift from the client's father) each held 140 shares. The man who worked together with the president at his former company received 16 shares. In the beginning, most of the company's clients were ones that the president had built relationships with at his former job.

**The client's job**

Because of the small staff and a lack of funding, the client manages almost all facets of the company's operations, including sales, hiring, training, and management infrastructure.

**<Management infrastructure>**

Since 1996, the industry rapidly began computerizing its operations, and the client's company, too, had to install a computer system. Up until that time most inquiries and orders from overseas arrives by phone or fax, but the company's partners wanted to communicate via e-mail in order to save time and money. Most of the industry's infrastructure was outdated, and employees were used to creating documents by hand or typewriter. The client, who was the youngest at the time, suggested that the company install a computer system soon before they became crippled by obsolete technology. The president and the women staff were not skilled at using computers, however, and the investment would have cost the company tens of thousands of dollars, so the proposal was rejected. So the client was forced to purchase his own PC, which he used at home to learn how to create estimates and other documents using applications such as MS Excel.

Eventually the client was able to convince the president to install a LAN. Many errors were made once the network was in place, and since no one in the office was very familiar with computers, the PCs and server froze often. The president ranted and raved and blamed the client for buying a system that didn't function properly. Shortly after, however, the company made progress and boosted efficiency by taking orders via e-mail and working to correct network problems. As a result, each employee's performance rate rose dramatically and contributed to overall growth.

**<New employee training>**

As the number of clients increased, the staff became busier and the company decided to hire two new staff, a man and a woman, in the second year. The client was in charge of both interviewing and new employee training. Because the company was not yet well established, it was difficult to find four-year college graduates who were interested; even the ones who indicated initial interest decided to accept jobs with other companies. As a result, the client decided to recruit only people with experience in English and computers, and broadened the scope beyond four-year college graduates.

He ended up hiring a woman who had just returned from studying abroad, and who was confident with her English and computer skills. The man he hired had been working for a major corporation. While the woman's English skills were certainly proficient, she had a hard time learning her responsibilities and could not handle a broad range of tasks; no matter how many times the client cautioned her, she continued to repeat the same mistakes over and over. The man, on the other hand, was somewhat of a diligent worker but lacked initiative, and he was unable to recognize his errors unless they were pointed out to him.

The client worked hard to train the employees, hoping that he could eventually lighten his own work load. But the two new employees kept on making unthinkable mistakes, such as confusing Washington State with Washington, D.C., and saving files to the computer trash can, and the client did not feel comfortable enough to let them handle important client accounts. Training the new employees and dealing with their blunders was actually increasing his work load, not alleviating it.

**The president's behavior**

The company president knows the industry inside and out, the good and the bad, and he has survived by assuming a threatening, intimidating stance toward his competitors, and by flattering and catering to his clients. He forces his staff to comply with his wishes through shouting and other forms of intimidation. All day long his staff must listen to his angry outbursts.

The man is also very fond of alcohol, and nearly every night he requires his male staff to accompany him on drinking excursions with clients. He drags them along even on nights when he's not entertaining clients, and if an employee refuses to tag along, then he usually gets yelled at and bullied the next day.

This behavior grew worse as the company's profits rose, and the president began to bully other shipping companies into giving up space at the docks for his own cargo ships. In the meantime he showered his clients with presents and entertained them to the extent that they began to feel guilty; client accounts grew as a result. He is notorious throughout the industry as a "forceful, frightening man," and it is rumored among his clients and partners that to cross him would be a big mistake.

Once the company began to turn a profit, the president increasingly wanted exclusive rights to the earnings and plotted on many occasions to acquire the shares held by the client's family. He has proposed increasing the company's capitalization in order boost his stake above 50%, he's hired friends and given them heavy salaries so that he might have more internal allies, and he has bullied the client over trivial things, such as a full waste basket or cluttered desk, in an effort to force the client to resign; he even proclaimed that he would dissolve the company. On one occasion in particular he caused quite a ruckus when he mentioned dissolving the company at a welcome party for a new employee, saying, "You're all good-for-nothing employees! You're all fired! This is my last day — I quit! I'll destroy this company!" For a moment everyone had stood in stunned silence, failing to grasp the meaning of his words. Then everyone left the party thinking that he was just trying once more to intimidate them.

Later that night, however, and all through the next day the president placed many calls to the client's cell phone insisting that he wanted to dissolve the company. So the client and the other male staff members paid a visit to the president at his home and tried desperately to convince him to rethink his decision; they were successful. The president's words took their toll on the staff's morale, however, and the employees became distrustful of the management.

According to the client, conditions at the company are growing increasingly tense. Employees remain inexperienced. The president is intolerable. The client is ready to give up. He thinks it would be much easier to quit the company and take over management of his father's firm.

On the other hand, he has played a major role in helping the company grow and he feels a sense of affection toward it. How could he quit after making so much progress?