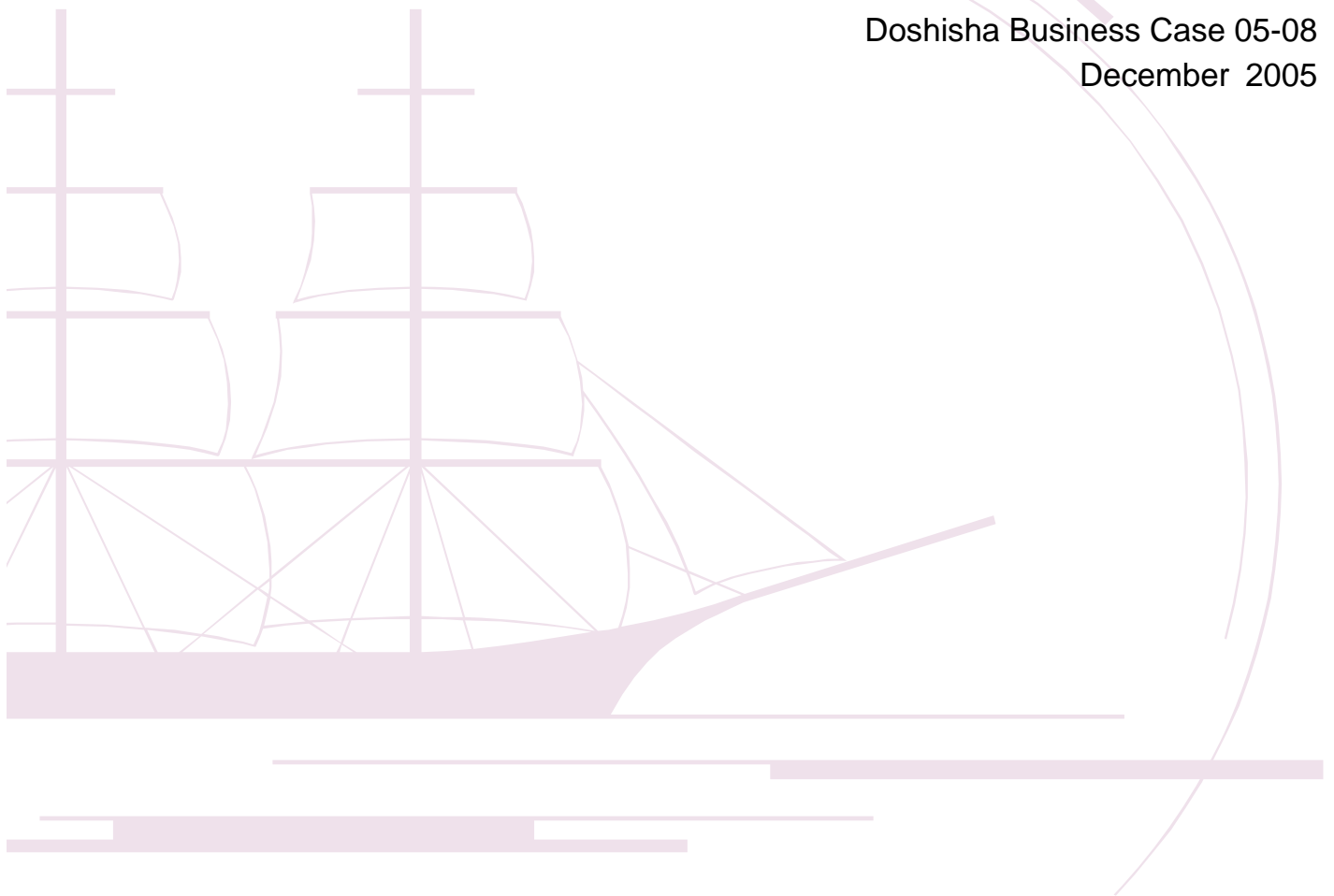


**Shanghai Morimatsu:
Roots in Japan, Technology in China**

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Shanghai Morimatsu Pressure Vessel Co Ltd.

<http://www.morimatsu.com.cn> - <http://www.morimatsu.co.jp>

In 1972 Nobuo Matsuhisa was 32 years old. He had joined the management of the privately owned family business, Morimatsu Industry, in 1959 when his father had fallen ill and he himself was only 19 years old. The company, located in the Japanese city of Gifu, was engaged in precision engineering, and manufactured water, oil, and other tanks for buildings and municipal storage. Matsuhisa had not attended university but had continued to train as an engineering and welding technician. The levels of expertise he achieved were subsequently to earn him many awards for innovation excellence, culminating in 1997 in the award of a medal by the Emperor of Japan. He had also found time to reach the highest ranks of amateur golf in Japan, and had taken part in a number of pro-am tournaments.

1972 was a memorable year for China. The American President Nixon had held his historic meeting with Mao Tse Tung and Chou En Lai in February of that year, and the Japanese Prime Minister Tanaka had followed him to Beijing in September. Domestically, the year marked the acknowledgment by the Chinese leadership that the Cultural Revolution had spun out of control and had caused immense damage to the country. The psychological scars were still raw, and the debilitating effects on education, production, business, infrastructure, and the people's well-being were everywhere to be seen.

In the same year of 1972, Matsuhisa had participated in a visit to China by a Japanese business group interested in learning more about the situation there. They were curious to see what was happening in Japan's huge neighbour as it began to

emerge from its internal turmoil. Matsuhisa was impressed by the people and their sense of independence and pride despite the general deprivation. The Japanese group had taken cigarette lighters and ladies' stockings to hand out to their hosts, but these gifts were politely refused. Matsuhisa returned with a deep sense of admiration despite the evident impoverishment. "I could see that after 50 to 100 years these people would be achieving great things, but I did not believe it would happen in my lifetime", he said. On his return to Japan Matsuhisa decided to sponsor Chinese students to study at Japanese universities. Between his first visit in 1972 and 2004 he had supported more than 15 such students.

Morimatsu Industry had grown progressively and was proud of its established position in the production of stainless steel and other tanks for water and various liquids. It had pioneered new designs and materials, and by the end of the 1980s had become the leader in its field in Japan, with Nobuo Matsuhisa personally leading innovation and research. However the way ahead was not clear. As Japan had grown during the 1980s and 1990s, young people had come to avoid work in what were termed "3 K" manufacturing industries, which were seen to be *Kiken* (dangerous) *Kitsui* (tough) and *Kitanai* (dirty). So it was not easy to recruit labour, which had also become increasingly expensive. Further, it had become difficult to procure some raw materials and components at reasonable prices in Japan.

Meanwhile, across the South China Sea, China was already beginning to emerge from its long slumber. Earlier than he had anticipated, Matsuhisa therefore began to consider how China might play a part in his company's fortunes.

Many small and medium sized Japanese companies sought the help of the large trading companies (*sogo shosha*) when seeking to develop overseas contacts. However, Matsuhisa felt that to do so would be to surrender control over what might become an important part of the company's business, so he determined to rely on his own resources. He knew that many large Japanese companies had extended their manufacturing activities across several countries in Southeast Asia, but he recognised that, as a relatively small company, Morimatsu would do better to concentrate all its efforts in one country. It was natural, given his continuing interest, that his attention should focus on China. In 1990 he moved to establish a factory in Shanghai, Shanghai Morimatsu Pressure Vessel Co.Ltd.

Kyoko Nishimura was to play a critical role as a key manager liaising between the Chinese and Japanese interests of Morimatsu, overseeing the company's international business, and becoming involved in all aspects of the development of

Shanghai Morimatsu apart from strictly technical matters. She had graduated from Nagoya University in March 1986 with a degree in Japanese history. She had nevertheless been fascinated by China and what was happening there, so had enrolled at Zhong Shang University in Guangdong, to learn the language. On graduating, she had heard that the Morimatsu company was interested in China, and had arranged to be introduced to the company by an acquaintance. Later, president Matsuhisa was to say, "I was not interested in what Nishimura had studied in university. What really attracted me to her was her determination and strength of character".

As Japanese sourcing had become more problematic, Matsuhisa had been considering procurement of some components and materials in China and elsewhere. He had established a company called AMT Co. Ltd. in February 1987 in order to start trading with China. Kyoko Nishimura had been put in charge of this activity. Initially the company had imported a variety of items from China such as fans, leather goods, cashmere, and other products which had nothing to do with Morimatsu's main activities. Matsuhisa had not been concerned about that, and had simply instructed Nishimura to familiarise herself with the ways of Chinese business. Gradually, however, AMT had established possibilities for the procurement of parts and materials for Morimatsu's core business in China.

One supplier was based in Nanning in Guangxi province in Southern China, and in November 1988 Nishimura was visiting it with the president to discuss a quality problem when news reached them of the death of Matsuhisa's father. He had to return immediately to Japan, but that was far from easy since Nanning is well off the main travel routes in China, and it was necessary to travel to Hong Kong by train to catch a flight to Japan. However, the company had no contacts in Hong Kong. Nishimura therefore contacted the relative of a person the president had sponsored to study in Japan, who was able to put them in touch with a friend in Hong Kong. The friend arranged to meet them at the Hong Kong rail terminus in Kowloon and had meanwhile tried to book flights from Hong Kong to Japan. It was a very busy time in Hong Kong because the very popular Guangzhou trade fair was in progress, and no flight was immediately available, so they had to stay overnight. That evening the two dined with the Chinese woman who was helping them. Matsuhisa was fascinated to see that she had entries in several foreign currencies listed in her bank book. This opened his eyes to the significance of Hong Kong's international role and he thereupon decided to establish a Hong Kong company, which he called Tap Mate, as a base for Chinese business. The lady who had been so helpful was appointed manager.

The construction industry in China had started to grow as the economic reforms promoted by Deng Xiaoping began to take effect, and demand grew in China for Morimatsu's water tanks. Nishimura succeeded in obtaining a number of orders;

however there were constant 'problems' with the testing and certification of the Japanese made tanks for installation in China.

By 1988/89 the Japanese economy had reached the height of the 'bubble' years and there was a shortage of labour in Morimatsu's factories. In order to take advantage of plentiful cheap labour in China, and also sensing the impending growth of the Chinese domestic market, Matsuhisa took the decision to establish a factory in the newly developing Pudong area east of the Huang Pu River in Shanghai. Establishing a production base in China would also enable the company to comply more easily with the Chinese tank certification requirements, facilitating Chinese domestic sales. It was the first foreign-invested factory in the Pudong development area, so the Shanghai Morimatsu factory was dubbed "Pudong #1". Nishimura moved from Hong Kong to Shanghai and was to play a vital part in launching the factory's business.

Regulations then required foreign companies to make a joint venture with Chinese partners. Morimatsu's partner was a group of farmers who knew little of the business and yet were very demanding. President Matsuhisa commented: "Our initial joint venture gave us a majority, but in China even a 1% share held by the Chinese partner seemed to result in a 50%/50% attitude. We went into China with the normal business attitude of 'give and take', but soon realised that there it is a matter of 'take and take'."

The Shanghai factory started slowly, and after three years still accounted for only about 1% of head office sales. But the workload was not light. Nishimura recalls, "At the beginning, in 1990, I was doing almost everything: translating, interpreting, sales, government relations, negotiations with the joint venture partners, and many other things". The technical and manufacturing operations were run by Japanese managers sent from head office. Kyoko Nishimura was the only Japanese executive who spoke Chinese. The relationship with the joint venture partner was particularly fractious. There were many arguments and Morimatsu received very little assistance of value from them. The situation deteriorated progressively, and finally came to a head in 1993. The company had decided to recruit staff, and a number of candidates had applied. The joint venture partner did its best to prevent this, even posting notices at the factory gate warning interested candidates not to join the company, and locking in Nishimura and her colleagues to exclude them from the process. However, president Matsuhisa had not been mistaken in his judgment of Nishimura's character: together with a colleague, she climbed over the locked factory gates and took a taxi to the Shanghai municipal offices to make an official complaint. This was followed later by a formal letter to the Mayor of Shanghai.

Following Deng Xiaoping's pivotal tour of Southern China in 1992, during which he had accused the 'leftists' of causing 'terrible harm' to China and argued strongly for the development of a market economy, Shanghai had already embarked

upon a major campaign to attract foreign investment to the city, and to Pudong in particular. However, the legal and practical measures to support this were still rudimentary and there was much bureaucratic confusion and uncertainty. At the municipal office, Nishimura pointed out that unless foreign investors were given proper protection, the city's ambitions for Pudong and other development zones would come to nothing. The city's response was to appoint a mediator, and this culminated in the termination of the joint venture partnership and the creation of a new arrangement known as a *he zuo* (合作) in Chinese, or *gassaku* (がっさく) in Japanese. Under this arrangement, a silent Chinese partner held a 4% share and received a certain guaranteed income but had no practical involvement, while Morimatsu held the remaining 96% and was entirely responsible for the management. In practice this meant that, from 1994, Morimatsu was entirely free to manage the company in its own way.

However, in 1996 the manager of Tap Mate was suddenly taken ill, and died soon after. Nishimura was transferred to Hong Kong in the middle of October that year to take her place, while remaining closely involved with the business in Shanghai which she visited regularly. A new local Hong Kong manager was appointed in due course, and Tap Mate continued to assist with procurement. However, its importance declined steadily as the Shanghai factory grew, and by 2003 its turnover had fallen to one eighth of its 1996 peak.

Koei Nishimatsu (as he was to become) was born Chinese in Shanghai and was later to take Japanese nationality. His father had been a university professor and his mother a factory manager. Both had suffered considerably during the Cultural Revolution. Like many who had been through the trauma of those times, they were fearful for their future. Nishimatsu himself had trained as an engineer at university and then joined the government inspection office in Shanghai responsible for the certification of tanks and pressure vessels. It was in this capacity that he had met president Matsuhisa who was visiting Shanghai regularly, working on the certification of Morimatsu products for installation in China. The two found that they were speaking a common language. Matsuhisa invited Nishimatsu to join the company and offered to sponsor him to study Japanese and then technology at Gifu University in Japan.

From 1990 until early 1998 the Shanghai factory was run by Japanese managers sent over from Gifu. Naturally they had Japanese ideas and management principles and instinctively sought to impose them on the Shanghai organisation. As one Japanese manager, still in Shanghai in 2004 said, "Rather than Chinese staff being able to work in their own way, the company was run for the first eight years by Japanese staff with

Japanese ideas". Nishimatsu would later comment, "The perception of the original managers was that Shanghai Morimatsu was simply an extension of the Japanese operation. They did not consider it to be a separate entity". However, as Chinese industry started to grow, demand rapidly developed for much more sophisticated products than the excellent but relatively simple structures produced in Japan. It was true that the Gifu factory had once produced more sophisticated products, but that activity had ceased over twenty years previously and there was limited residual knowledge or experience. However, two veterans from the early days had since moved to Shanghai as technical advisers, providing liaison with Japan and a channel for technical communication if required. The other Japanese staff, apart from Nishimura and Nishimatsu, were responsible for liaison with Japanese customers.

After 1998, the company expanded quickly (See Fig. 1), recruiting numerous new staff members. With many mature experienced staff joining from other organisations, it was especially difficult to create a sense of corporate togetherness and loyalty. For the Japanese managers from Gifu it would have been extremely difficult to manage this problem because of their absence of language ability and fundamental lack of experience of local culture and social behaviour. It was through his understanding of this situation, and in order to remedy it, that in 1998 president Matsuhisa decided to appoint Koei Nishimatsu to take over responsibility for the Shanghai operation. When Nishimatsu became General Manager in 1998 he faced a number of immediate problems. He explained, "From 1990 to 1998 the company had not been making money. Our costs were high, and we were very short of staff with real technical expertise. The management team consisted entirely of Japanese expatriates, which was expensive and also complicated communications. Both Chinese and Japanese staff were very capable, but there were many problems in communication even though we had interpreters working constantly with the two groups".

Nishimatsu commented on his promotion, "At the time of my appointment, I asked the president to let me do things in my own way, and he agreed. I am not God, and I knew I would experience both successes and failures. I told the president I could only be effective if he let me take decisions myself. I knew I could not do the job without his understanding and acceptance of this, which he immediately gave to me."

The Growth of Sophisticated Production in Shanghai

From 1993 onwards, several Japanese and later Western companies establishing facilities in China had approached Shanghai Morimatsu, asking them to build pressure vessels, mixing tanks, and other complex products that called for a much greater degree of sophistication than was required at Morimatsu Japan. President Matsuhisa recalled, "If we had only relied upon Japanese management in Shanghai I am sure that our people would simply have said that they were unable to meet the demands of those customers for 'difficult' products. The reaction of our Chinese staff, on the contrary, was 'OK, we don't know, but let's try', and while they were not always successful, they succeeded in 80% to 90% of the cases. They had the spirit to accept the challenge". The staff from Gifu, and particularly Kyoko Nishimura, certainly played a vital role in liaising with the Japanese customers in China, and at the very beginning some of the relevant technical experience had come from Gifu. But by far the most significant technical contribution came from the Chinese staff in Shanghai, who continued to grow and expand their range of products and technical skill.

It was of course not enough for the Chinese staff to have 'spirit'. President Matsuhisa said again, "When it came to these new products we found the technology in China itself. There are many very skilled Chinese technicians. We gathered people from all over China who had the necessary skills and knowledge". As early as 1991, the Gifu factory had benefited from Chinese know-how. Tong Haihua, who was later to become Assistant Manager of the Production department in Shanghai, had visited the Gifu factory initially to study welding techniques. However, Matsuhisa soon noticed that he was exceptionally talented. He was so skilled that he was chosen to represent Morimatsu in the Japanese national welding contest. He won the prefectural competition and thus represented Gifu in the national finals, placing 8th in the overall competition. It was 34 years since Morimatsu had sent a representative to the competition, and the competitor then had been Nobuo Matsuhisa himself. From then on, Tong spent his stay in Gifu imparting his welding expertise to the Japanese workers.

The Morimatsu name was well known in Japan. The Gifu factory had perfected the manufacture of pressure vessels, tanks for water and other liquids, and other items, always aiming for technological innovation, exploring new, lighter, and more efficient materials. It represented the best Japanese standards in its field for reliability and quality. In the Japanese Boiler Makers Association rankings, the Morimatsu Japan sales in Japan in 2004 were double that of the second ranking company and more than three times greater when the entire Morimatsu group sales were taken into account. However, the products made in Japan were not in themselves very complex structures. The quality of workmanship, particularly welding, was very high, but provided the tanks were able to withstand the problems of corrosion, and earthquake shock, and could be produced at reasonable prices, they would generally meet the customer's requirements. Morimatsu's

Japanese R&D had been concentrated in these areas. Around 80% of the customer base comprised local government authorities who would only order from Japanese manufacturers, and there was therefore only a limited risk of foreign competition. While Morimatsu could have met this demand with tanks produced in Shanghai, transportation costs made it uneconomical to do so.

The very fact that the Shanghai factory was Japanese owned attracted the orders of Japanese companies for their factories in Japan, China, and elsewhere. In 1993 Kao Corporation ordered a mixing vessel and special tank for their factory in Shanghai, and this was followed later by orders from Sony, Yamanouchi, Takeda, Murata and others. Nishimatsu commented, "At the time of the first order from Kao it was difficult, but it was very simple compared with what we are doing today". A number of products were also exported: a steam generator for a Kikkoman factory in the Philippines, and a tank for a Toray factory in Indonesia fabricated to ASME (the American Society of Mechanical Engineers) specifications. Certification to construct to ASME standards was a major step towards recognition of the quality and reliability of Shanghai Morimatsu products, and something which the Gifu head office had not obtained. Meanwhile Western companies in China were also expanding, and in 1995 Shanghai Morimatsu produced a vessel for Johnson & Johnson and in 1996 a tank and a column for Dupont, followed by many orders from Western companies for increasingly complex products which were successfully fulfilled. Shanghai Morimatsu engineers benefited from the technical know-how of clients placing the orders. One engineer commented that many Western companies had educated their Chinese technical staff very thoroughly and the Morimatsu experts had picked up a lot of information and expertise. President Matsuhisa commented, "We learned a lot from our customers, particularly the Western companies who had trained Chinese engineers with whom we found it easy to communicate and from whom we learned a great deal". The company went on to manufacture, amongst many complex items; nuclear power plant equipment built to extremely exacting specifications for export to several atomic power stations in Japan; a Hastelloy alloy process tank for Procter & Gamble, USA; a pressure vessel for export to Bayer in Germany; equipment for medical purposes in the USA requiring a high degree of precision; sulphur treatment towers for Shin Nihon Steel's Oita factory in Japan, etc. The Shanghai Morimatsu client list soon came to include a number of globally recognised names (See Fig. 2).

In 1998 simple water tanks had still accounted for 80% of the production at the Shanghai factory, mirroring the production in the Japanese parent. This had been welcome business at the time, and had enabled the company to survive through the depression caused by the 1997/8 Asian crisis with orders from government departments and foreign hotels. The company's production manager had just resigned and established a competing company making water tanks; he had taken quite a number of

Morimatsu's clients with him. Nishimatsu commented, "This convinced us that it was really simple for competitors to imitate our basic products and that we should pursue more complex, higher value-added work. Other companies would find it more difficult to compete".

The demonstrated ability of the Shanghai team, and in particular the design and technical skills of the Chinese staff, therefore offered an opportunity just at the time that demand for sophisticated plant installations was exploding. The three key executives, Matsuhisa, Nishimatsu, and Nishimura, determined to seize their chance and to focus all their efforts into improving and expanding the high value added end of the business. One of Nishimatsu's first moves was to recruit into the design department eight young graduates from the Xian Jiaotong University, one of the best in China, where they had graduated in chemical plant engineering. All eight have remained with the company and were contributing in many areas, Nishimatsu said, "They are now dispersed throughout the company, in development, sales, and the commercial side; only one remains in design".

The products the Shanghai factory manufactured from the mid 1990s were not only more sophisticated, but were seldom standard. Each customer had particular needs, requiring differing tolerances, dimensions and capacities and precisely specified performance criteria. This called for a very intense sales and marketing approach. It was necessary to recruit and train engineers and designers who could discuss and understand the customer's requirements and manufacture each product accordingly.

In order to sharpen the focus of expertise within the Shanghai organisation, separate companies were established for each important product group. The main company remained the Shanghai Morimatsu Pressure Vessel, while the others created were Shanghai Morimatsu Pharmaceutical Equipment; Shanghai Morimatsu Environment Technology Engineering; and Shanghai Morimatsu Fine Chemical Equipment.

As the company grew, the original factory facilities became inadequate, and in May 2003 a second factory started production in Pudong. An arrangement was also made with a nearby shipyard, enabling Morimatsu to build very large products on the shipyard's site. Later, plans were drawn up to build a third factory, also in Pudong, to be completed in 2005. The equipment for this factory was being sourced internationally, not only from Japan. Matsuhisa commented that a steel coil leveller of excellent quality had been ordered from Taiwan at about one fifth of the price of the Japanese equivalent.

Organisational Challenges: Japanese and Chinese Contrasts

The Shanghai organisation had thus embarked upon a road to sophistication which was taking it on a quite different development path from its Japanese parent, and which posed a number of serious organisational challenges. As the orders increased, so did staff numbers - from 60 in 1994 they had increased to 140 by the end of 1998 and by 2003 there were over 600 employees, while the sales volume had increased rapidly (See Fig.3). At the same time, productivity per employee also rose as efficiency improved (See Fig.4) and the Shanghai contribution to group sales had started to rise (See Fig. 5). After-tax profitability at the Shanghai operations was around 8% in 2004, compared with around 2.5% in Japan, where the tax burden was heavier.

In Japan, employees commonly felt a close sense of identity with the corporate family, and this was often taken for granted; loyalty to the company was traditionally instinctive. In China it was different. Matsuhisa observed, "While in Japan it is still today considered degrading to change companies, in China it is seen as a mark of ability. Therefore no shame is attached in moving to a different company. There is also no sense of obligation towards the original company, no feeling of commitment for having been educated there. I see no sign of change. In fact, the Chinese have become very 'dry'. This is despite the fact that we promote Chinese staff and Nishimatsu is there as a model; it is more a question of money. Actually the Chinese staff receive more salary than our seconded Japanese staff. In many Japanese offices in China, Japanese staff are appointed managers despite their lack of ability, and of course this greatly discourages local staff, but we do not follow that practice".

Nishimura emphasised the need for strong leadership in China. In Japan, the emphasis was on family and the corporate group and the leader may or may not be a dynamic leader. In China the leader needed to have real ability and show real results in order to gain the loyalty of the staff. A weak leader would quickly become ineffective; on the other hand, staff would accept a strong capable leader, whether male or female, young or old, Chinese or foreign.

The deputy chief of the production division in Shanghai emphasised the value and importance of the company's staff evaluation and training policy, "We regularly evaluate staff performance. We might identify that a person has a special need - for example for management skills. We have internal study groups in which I quite often give instruction, and the company sets aside time for this. The company also funds outside training, and I myself was sent on a course. We are really busy and have no spare time, so perhaps we would not go if the company did not encourage us and make the time for us to attend".

For some years Chinese staff had visited the Morimatsu organisation in Japan both to supply some additional labour and to receive training. However, the nature of

the work in Shanghai had become so much more sophisticated that Morimatsu Japan had been sending Japanese commercial and technical design staff to Shanghai for training and familiarisation with working practices there. President Matsuhisa commented that this interchange had stimulated the Japanese staff considerably; they returned mightily impressed and proud of the size and technical versatility of their company's Shanghai plants and returned motivated to renew their efforts in Japan. On the other hand, some Chinese technicians had said that they did not want to spend too long in Japan, fearing that their technical skills might suffer from the lack of technical challenge. From 2003, the Japanese parent had also started to send factory floor workers to Shanghai.

While the growth of the Shanghai factory owed little to the Japanese parent company organisationally, the personal contribution of president Matsuhisa was highly significant. He made frequent visits to Shanghai, often once a month or more. He was a keen advocate of 'managing by walking around' and, in the process, he would photograph both good and bad examples of fabrication and manufacturing practice. Video systems were established to enable constant monitoring of factory floor activity from both Gifu and within the Shanghai office. The resultant record of activities formed the basis for regular discussion groups, often led by the president, in which good and bad examples would be shown and then tabled for analysis and discussion so that lessons could be learned and shared.

Under the former central planning system in China, unlike in Japan, technical research had a distinctly academic emphasis. Technicians and scientists with academic training attached little importance to the commercial development of ideas, an attitude described as 'the problem of the three *pins*¹ - *yangpin* 样品 (samples), *zhanpin* 展品 (exhibits), or *lipin* 礼品(gifts), because there was rarely any progress to the fourth stage *shangpin* 商品(products). One senior manager in Shanghai Morimatsu commented that there remained some prejudice amongst academically qualified engineers in Shanghai who felt that their place was in the design office or research laboratory, and that the factory floor was somehow beneath their dignity, so they rarely ventured there. Top management was working to overcome this attitude.

There was also a different view of teamwork and cooperation between China and Japan. Kyoko Nishimura illustrated this with a parable: "In China three individuals are like three dragons, all with their own sense of individuality and independence; put them together and they become an insect. Japanese individuals on the other hand are like insects, but if you collect three together they become a dragon" (See Fig. 6). She further remarked that *Hōrensō* ("spinach" in Japanese) was a catchword in Japanese

¹ Lu, Qiwen. "China's Leap Into the Information Age: Innovation and Organization in the Computer Industry". Oxford University Press, 2000

companies signifying cooperation and teamwork - it stood for *Hōkoku* (reporting); *Renraku* (information and contact); and *Sōdan* (consultation) - but this did not transfer easily to China. In Japan it was always assumed that workers would co-operate and cover for each other's mistakes, working together with other teams or departments. While this concept came naturally to Japanese and was fundamental for the development of "team spirit", Nishimura discovered that, for the more individualistic Chinese disposition, it was difficult to implement.

While the Chinese team had made the major technical contribution that enabled the Shanghai factory to progress into new areas of sophistication, Nishimatsu emphasised the value of the Japanese example when it came to general management: "In managing Shanghai Morimatsu we apply the "5S" rules:- *Seiri* (Order), *Seiton* (Arrangement), *Seisō* (Cleanliness), *Seiketsu* (Neatness), and *Shitsuke* (Discipline), but we have also added a further two "Ss" - *Safety*, and *Sekinin* (Responsibility). We have also adopted the idea of *fukuri kōsei* (welfare in the workplace). On the other hand we practice neither *shushin kōyō* (lifetime employment) nor *nenkō jōretsu* (promotion by seniority)". Promotion at Shanghai Morimatsu took place on merit. There was also an evaluation system in place, linking part of the wages to performance.

While in Japan, Nishimatsu had come to appreciate the "three essential and equal elements of management emphasised by president Matsuhisa: *Seizō* (production), *Eigyō* (business), and *Zaimu* (Finance)". He was glad himself to have had the opportunity to experience all aspects of Morimatsu's business, but that had also presented him with a problem. Many times he would see something being done inappropriately in Shanghai, and would be tempted to interfere and take over the task himself. But he believed it would be wrong to do that, and that he should allow the staff to learn for themselves, so he always tried to restrain himself. He constantly passed on the same message to his senior managers: "If there is a problem, they tend to push the subordinate aside and to do the job themselves. I tell them that if they do this, the juniors will never get a chance to develop their own confidence and grow".

As is common in China, women play an important role in the management of the company. President Matsuhisa commented, "There are many female executives in Shanghai Morimatsu - all three business department executives are female, and all of them are engineers. We have thirty sales people in Shanghai, and ten of them are women. The top performers are all women - in terms of both number and value of orders gained. They are all good at English and entirely computer literate. They are also great problem solvers - if difficulties arise with their customers they are very good at solving them. Women tend to stay longer in the company". This was an environment in which, as a woman, Kyoko Nishimura's important role would not be unusual, something which could not be said about Japan. She was particularly appreciative of the contribution of women in Shanghai Morimatsu: "The work rate of the women is very

high. Almost all women continue to work, even after marriage. They have a very strong sense of responsibility. In general, women in China are commonly involved in management from the president down through middle management. Both our Sales manager and our Accounts manager are women".

A Japanese sales person, who had twice been based in Shanghai, commented on the different understanding of customer relations between Gifu and Shanghai: "Here in Shanghai, it is not that they don't see customers as being important, it is just that they don't place such emphasis on long term relationships as we do in Japan. Each order is treated on a 'one-off' basis. In Japan, if we do not handle a claim properly we will lose that customer's business; in China I think they are more pragmatic". By contrast, Nishimura mentioned that the Chinese staff might visit a customer's home and meet them out of office hours to a much greater extent than in Japan.

Nishimura emphasised the importance of trust in Japanese customer relationships. Payment on a *kakeuri* (credit) basis was common, whereas in China payment was invariably based upon a down payment followed by full cash payment on final delivery. In fact, many foreign companies in China had found it very difficult to recover payment. Shanghai Morimatsu had instituted a rigorous credit ranking of its own for customers from "A" to "E". "A" grade customers were not required to make any advance payment, while those ranked "E" had to make full payment in advance. As a further means of ensuring that bad debts were kept to a minimum, customer payments were linked to sales staff's remuneration. If a payment should fall into arrears, the sales person concerned had to pay 50% of the overdue interest; conversely, sales staff would be rewarded if credits were redeemed earlier than scheduled, or if an advance down payment of more than the standard 30% had been obtained.

A Chinese technical manager observed different attitudes to the concept of quality. Japanese customers seemed to examine the outward appearance of the final product, whereas Western customers were concerned about the inner workings, and that it should function properly (he thought this might be due to the Morimatsu reputation for quality and reliability, which was taken for granted by Japanese customers). To the Japanese manager it was of the utmost importance that the quality should be 100% ("or more"!), but he felt that in China the staff tended to be satisfied with 90%, especially if the 'final 10%' would be difficult and time-consuming to achieve.

As the development paths of the Gifu and Shanghai operations diverged, the need for day to day communication between the two locations rapidly diminished. In Shanghai the Japanese language was barely used, except in dealings with Japanese customers, and even then specifications would be developed in English. Many more Chinese staff at Shanghai Morimatsu spoke English than Japanese. However, there was frequent communication in Japanese between Matsuhisa, Nishimatsu and Nishimura, the three acting in effect as the top management team. (Of the three, only Nishimura

was confident in English, and the president spoke no Chinese.) At the working level, the exchange training programmes were steadily building personal contacts, providing a basis for deeper cooperation in future if circumstances should call for it.

Nishimatsu felt that president Matsuhisa had been particularly astute in placing his trust in Chinese management. He commented, "I feel that Japanese companies in general are quite far behind Western companies in their use of Chinese people and their degree of localisation. Many Japanese companies do not do well in China because their marketing strategies for China are controlled by their head offices in Japan. If only manufacturing for export then it may well be OK, but it is difficult for the Japanese to manage staff and domestic sales issues without Chinese help".

President Matsuhisa faced a difficult dilemma. He himself continued to play the paramount role in both Gifu and in Shanghai but was already 64 years old. The company remained privately owned, apart from the 4% silent partner in the Shanghai company. With the Shanghai factory taking the lead both in sales growth and technical sophistication, he felt that China would become increasingly important while the Gifu head office would find it difficult to develop Shanghai's technical sophistication, not least because of a lack of technical expertise in Japan. There were many challenges ahead. In Japan the company had established factories in strategic locations in order to be close to customers. In future, a need could develop to build facilities in other industrial areas in China, which would require further recruitment of critical expertise and call for further investment. It would also require a continuation of the strong control and leadership currently exercised by the president himself. He asked himself whether Japan would continue to lead, or whether management in Shanghai would assume the dominant position. He knew that a decision regarding leadership for the next generation could not be postponed for much longer.

Note: Illustrations of a small selection of the products of Morimatsu Shanghai and Morimatsu Japan are to be found in Figs. 7 and 8 respectively.

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Figure 1

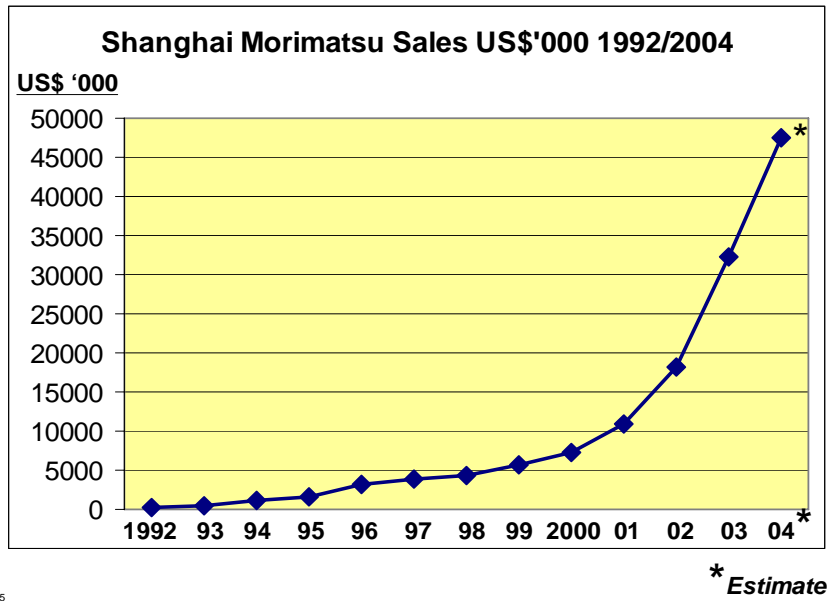


Figure 2

Some Clients of Shanghai Morimatsu

Ajinomoto	Glaxo SmithKline	Nestlé
Asahi Kasei	JGC	Nippon Paint
Bayer	Johnson&Johnson	Procter&Gamble
BASF	Hitachi Zosen	Shell
Bechtel	Huntsman	Shiseido
BP	Kao	Suntory
Chiyoda	Kikkoman	Sumitomo
Ciba Specialty Chemical	Kodak	Technip
Colgate	Kose	Teijin
Daikin	Kuraray	Toray
Dow Chemical	Kvaerner	Toshiba
Dupont	Mitsubishi Heavy	Toyo Engineering
Fluor	Mitsubishi Rayon	Unilever
GE	Mitsui Engineering	Yamanouchi
		Zimmer

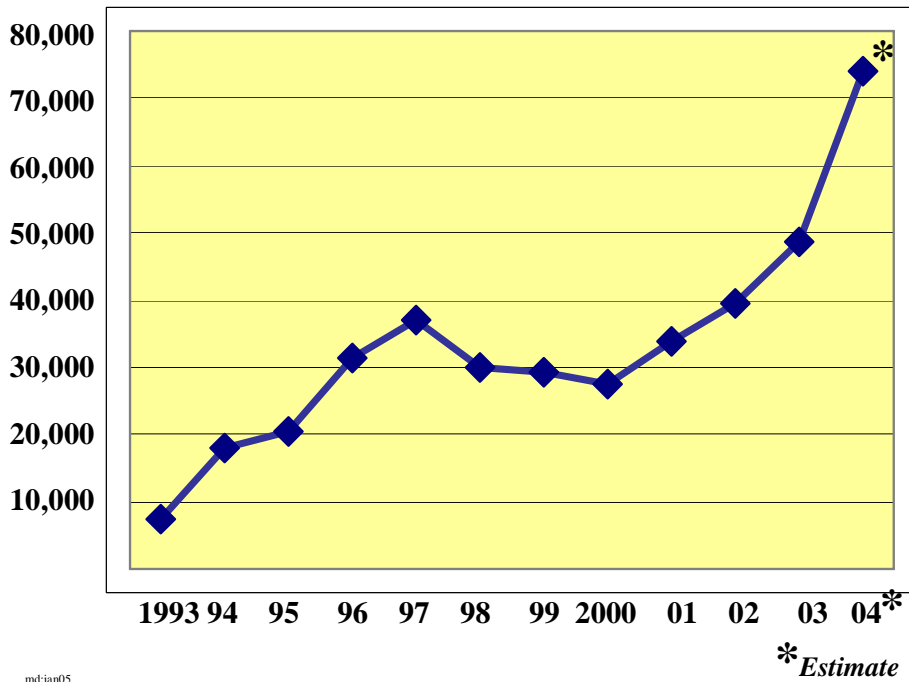
Figure 3



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Figure 4

Shanghai Morimatsu US\$ Sales Per Employee 1993/2004



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Figure 5

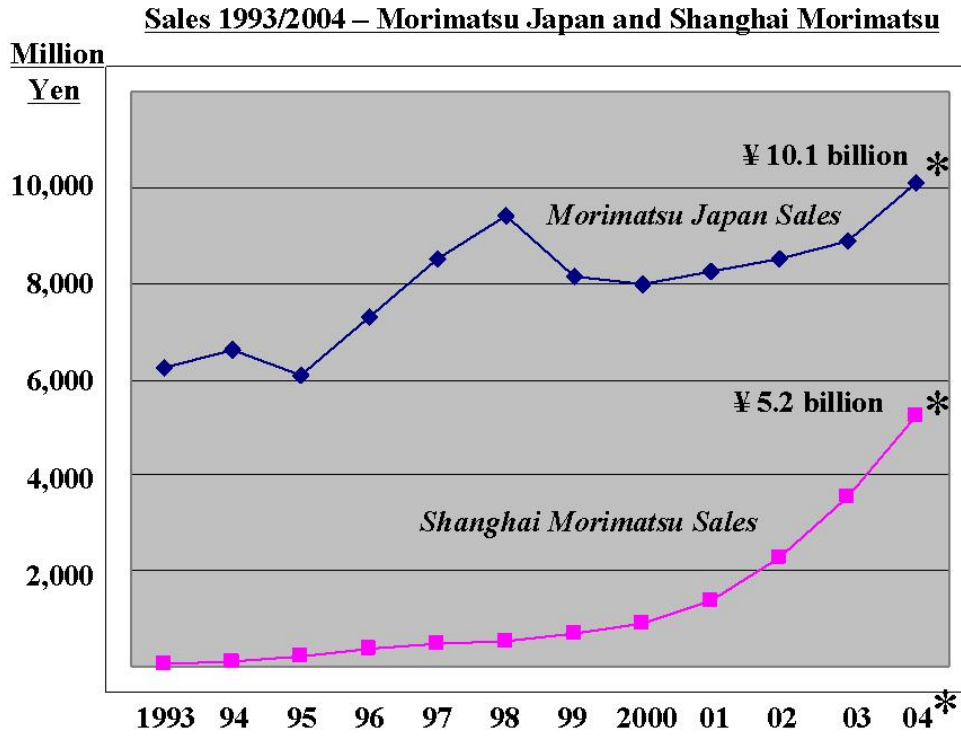


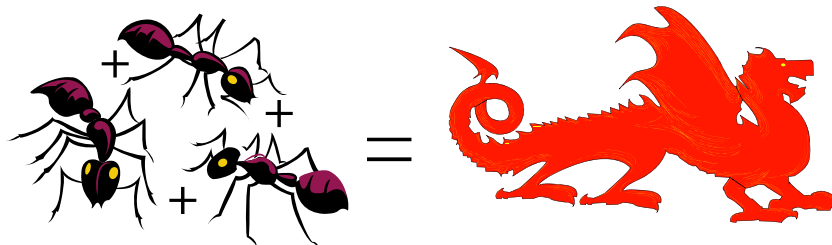
Figure 6

Chinese Individuals: Japanese Groups

A Parable



CHINA: 3 dragons together make an insect



JAPAN: 3 insects together make a dragon

md:nov04

Figure 7

Some products of Shanghai Morimatsu



Fermentation piping system



Oxidiser for a refinery



Sanitary equipment



Small filter



Large filter

md:dec04

Figure 8



Cylindrical Tank



Water Storage Tank



Tower Tanks

Some Products of Morimatsu Industries Japan

md:dec04