

# Setting up a Factory in China: Sanyan Steel Co., Ltd

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This case was developed based on the personal experiences of the casewriter, solely for educational purposes as a contribution to the Project entitled “Capacity Building for Investment Liberalization and Facilitation” conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). Names and other identifying information in the case are disguised. The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case.



## Executive Summary

*In 2001, Sanyan Steel Co., Ltd, the world's number one producer of B-grade special quality steel used for the manufacture of auto parts decided to put up its production facility in China to serve its mostly Japanese client companies which were already based in that economy. While the move was a strategic business decision for Sanyan, the ensuing locational and operational problems that Sanyan's China-based company and its president, Nakamura, experienced, highlighted the difficulties that investing in a foreign economy like China entailed. As Nakamura found out, investing in China meant understanding and embracing its culture, its business practices, and its people.*

*This case describes what it takes for a company like Sanyan to succeed in a foreign business environment. It underscores the need for foreign investors to recognize and accept diversity and to adapt and work within the given environment, without sacrificing the quality, productivity and professionalism of the enterprise.*

## Introduction

In recent years, almost all major global passenger car manufacturers have invested in the growing China market and have set up manufacturing facilities there. To serve the final assemblers, many auto parts manufacturers have also been establishing production lines in China, so that the auto assemblers could localize their parts manufacturing operation and achieve higher local content in the China market.

Sanyan Steel Co., Ltd was the world's number one producer of B-grade special quality steel, a key input to the manufacture of auto parts. Instead of supplying hot rolled steel bars to the parts manufacturers, who in turn shipped them from Japan to China, Sanyan Steel decided in 2001 to establish its own forging plant in China to supply their client companies forged products and help them achieve higher local content.

## Key Reasons for Deciding to Invest in China

As the Japanese auto makers moved their production overseas, many suppliers—not only “Tier one” but also “Tier two” parts makers—were expected to follow suit. Sanyan's traditional business model was to supply materials to Japanese domestic parts makers. However, as a result of the shift of the company's clients towards overseas production, Sanyan-supplied materials were increasingly being exported overseas by Japanese clients, to be used mainly in their overseas plants.

This development created a business risk both for Sanyan and for its clients. As an exported commodity, the selling price of Sanyan's steel in the local currency fluctuated with the movement of foreign exchange rate *vis-à-vis* the Japanese yen. One of the main reasons why Sanyan Steel needed to set up a plant overseas was to respond to the clients' desire to minimize the risk in foreign exchange rate fluctuations between the Japanese yen and the local currency. Likewise, Sanyan had to meet the needs of the auto manufacturing companies to increase the local content ratio in their overseas operations such as those in China, where

the central government required a higher local content ratio year-by-year from manufacturing companies.

## **Site Selection**

To meet the twin goals of minimizing price fluctuations caused by exchange rate movements and increasing local content, Sanyan was compelled to build a production facility overseas. In choosing the location of their plants, the company had to consider three basic options based on transport costs and other logistics considerations: a) proximity to the supply point of raw materials, or b) proximity to the clients' plants, or c) proximity to both the supply point of raw materials and the clients' plants.

Since the company's major clients were located in the growing passenger car production points in Bangkok, Thailand and China, they would have to bring their raw material supplies from Japan for the time being. But Sanyan expected to replace these with locally-supplied materials in the future once satisfactory quality standards had been achieved. Thus a key consideration in Sanyan's choice of location for its plants was the presence in the locality of steel mills standards, which had the potential to achieve the appropriate quality. While there was no special steel mill with acceptable quality in Thailand, there were some in China. Thus Thailand was effectively ruled out as a potential investment location, leaving potential locations in China as the viable options.

The Chinese car industry was concentrated in the three major industrial areas of China, namely, Northern China (Hua-bei area, e.g. Tianjing), Eastern China (Hua-dong area, e.g. Shanghai) and Southern China (Hua-nan area, e.g. Guanzhou). Taking into account additional factors such as density of population, economic growth potential, rate of modernization, infrastructure improvement and globalization, Sanyan considered the Hua-dong area, which included Shanghai, as the best potential location in China for its investment.

Sanyan thus decided that its plant should be in the suburbs of Shanghai, in a place called Ningbo City, located on the other side of Hangzhou Bay where there was a plan to construct a new bridge. It would take only two hours drive by car to reach Ningbo from Shanghai City center once the new bridge had been completed, compared to four to five hours via the existing highway.

Another important point in favor of the Ningbo area location which made it extremely competitive was its accessibility to the port at Beilong, the second largest major industrial port in China and the most accessible for container freight from Japan. The location would make it possible to design Sanyan's new facility based on the potential future export business of up to approximately 85% of total revenue. In Sanyan's business, a good access to a container shipping port was very important to save time and money.

## **Steel-Making Technology and its Implications for Sanyan's International Business Experience**

There were two major methods of steel making, one by melting steel scrap by using electric furnace, and the other by extracting iron from iron ore by using a blast furnace. Production

of steel using either method required a continuous production process and the maintenance of a level of output. Of the two methods, however, the traditional blast furnace required a longer time frame of continuous production lasting at least 15 years or more.

Blast furnaces never stopped running until such time when their inner refractory bricks needed to be replaced. In contrast, an electric furnace could easily suspend its operation, making it more flexible and capable of providing a shorter payback period for the investment. As a result of this fundamental difference, steel mills with electric furnace system could adjust production volumes more easily in response to a market slowdown. On the other hand, traditional steel mills using the blast furnace system had to devote much attention and effort to maintain production quantity. Thus all the blast furnace steel mills considered export as an important company strategy.<sup>1</sup>

Sanyan steel was one of the electric furnace steel mills producing mainly for Japanese domestic customers. Hence, not many people in the company had experience in the export business and only a few managers spoke English. Every time the company needed to appoint staff to an overseas office or subsidiary, it had to rely on outside recruits to fill up the position. In short, the Sanyan company was not very familiar with overseas operations when it embarked on its investment in China.

## Chief Project Leader

In selecting people for overseas assignments, it was common practice in Japanese companies to choose engineers with strong technical background who might not necessarily have a background in marketing or knowledge of the cross-cultural dimensions of international business. But it was also quite common to select a non-technical manager who was not familiar with the engineering aspects. The ideal set-up would have been that of a top management team with complementary skills and experience, for example, to have a president with an engineering background and a vice-president with business and management experience, or vice versa.

Keisuke Nakamura had varied experiences in different fields. He took science courses at the university but had been working in the business development department of a trading company for 31 years. While working with the trading company, he was involved with trading-related positions like buying and selling for 10 years or so. The rest of the time, he was busy setting up new companies or operating joint venture companies and coordinating new joint ventures. Nakamura had two previous work assignments overseas, one as vice-president for a wire drawing company in Vancouver, Canada, and another as vice-president in a steel processing center in Shanghai, China. Both companies were subsidiaries of steel mills and Nakamura spent four years each in these joint ventures.

One member of the top management team who was responsible for initiating new investment projects within Sanyan knew Nakamura since 1989 and had been providing overseas information that Nakamura requested. He decided to ask Nakamura to leave the trading company and join Sanyan as the president of the new plant in China.

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<sup>1</sup> In the case of market downturns, blast furnace steel mills often promoted export business aggressively to maintain production volume, which was why anti-dumping measures were so common in the steel business.

## First Steps at Sanyan

To Nakamura, accepting the offer was a critical decision in his business career. There were many cases of people from the steel industry joining a trading company, but to his knowledge it was very rare for a person from a trading company joining a steel mill. The offer came at a time when Nakamura was thinking of leaving the trading company to establish his own business. If he accepted Sanyan's proposal, he would have to postpone establishing his own company. He weighed carefully whether to accept the offer or not. It was a serious decision that he had to make.

Nakamura's management experience in operating companies in the past was both in his capacity as vice-president. He realized it would be helpful to become the president of a company before establishing his own company. He needed to see how tough it would be to judge everything himself and to be ultimately accountable for decision-making. Moreover, he did not know the key aspects of steel manufacturing such as production cost structure, and he knew it would be worthwhile to gain this type of experience for the sake of his own future business. Nakamura accepted the offer and joined Sanyan Steel Company in February 2001.

Nakamura knew that one critical success factor was to first create a strong management team. Whatever he did in China, it would not be possible to do it all by himself. Thus right after he joined Sanyan, Nakamura visited his old Chinese friends from his stay in Shanghai in the past, and recruited three persons to join him in setting up the new company in the Ningbo area. The three new recruits and Nakamura constituted the core members of the new company, and they worked well together.

In setting up an overseas joint venture company Nakamura's basic policy was to establish it in an area where people from the Japanese parent company would be willing to live and work. The environment had to be good, the location safe and convenient for shopping and recreation, with good schools, health care and other facilities. In contrast, in deciding on the location, the management of Japanese companies generally placed more weight on economic factors like the availability of low-cost land and labor, the risk of natural disasters like floods, and other aspects of the cost of doing business. While these aspects were important, Nakamura knew that one should not discount the importance of the quality of life that would keep the Japanese expatriate staff mentally and physically healthy while working overseas. Later on Nakamura found out that a nice environment was really important not only for the Japanese expatriate but also for the local staff in China.

Sanyan Steel had decided to build its plant in a very isolated area which was far from downtown Shanghai. Nakamura had argued to top management that a particular industrial development zone prepared by the local government authority was a suitable location that could attract many capable people to join the company. But the senior management in Japan gave more importance to locating the plant near the Chinese partner.

It was rather easy to recruit shop floor work force so long as accommodations were provided by the company. However, engineers, accountants, and capable sales people did not want to live in the countryside. They said that if the company would force them to live in such a remote area, the company would have to pay them higher salaries as recruitment bonus to compensate for the remote location. This aspect of the Chinese labor market was very different from what Nakamura had experienced in Japan. He was somehow shocked to hear these comments. But it was necessary to accept the practice in order to recruit capable staff.

## Working and Living in China

In Japan, it was generally understood that even when the decision-making authority was delegated to the staff, the latter was expected to undertake business within the well-defined scope of corporate policies and consistent with the corporate culture or the manner of doing business in that company. In general, this clear delineation of authority was not the norm in China. Many Chinese working for a company would say that once authority was given to them, it was up to them to do business in whatever manner they wished as long as it resulted in profits for the company. If a superior gave instructions for a task different from what they believed should be done, they tended to express their disagreement by saying outright that they would not do it and that the superior should do it himself. Other times, they would agree to do as instructed but would not accept responsibility for whatever went wrong.

Delegating authority in Japan did not imply a full transfer of the decision-making power, but instead allowed the staff to implement the business plan step-by-step without re-approval of tasks at every step, as long as the plan was carried out in accordance with company policy and rules. This system required a high degree of alignment with the company's practices and policies. Hence, business had to be executed in much the same manner as if the boss had done the task himself. While there was room for some individuality of style, the policies and strategies had to be followed.

At the beginning of his previous assignment in China, Nakamura used to argue with his Chinese staff. But he realized that it might be the Japanese who were unusual in their approach to work and employment relationships and that the more individualistic way of thinking of the Chinese might be more typical. For example, he knew that Japanese shop floor workers in a manufacturing plant usually worked very hard and thought of how the job could be done differently to improve production efficiency or to produce better quality products to meet corporate expectation. They sometimes worked overtime even without overtime pay. And they did not complain about low wages even if they knew that the salary of the president was much higher. They accepted the situation because they respected the president's position in the company.

Nakamura began to realize that people across the world did not work without pay. How hard they were prepared to work depended on the rules governing their employment. In case of individual effort, additional pay would be expected. Shop floor workers generally did not aim to become president of the company in the future. Nakamura thought this was a more logical arrangement than the Japanese way.

An incident took place which further strengthened Nakamura's belief that the Japanese way was different from the Chinese way. A Japanese staff member on a temporary assignment came to the plant in China to help with some engineering work. He kept his wallet and passport in his desk drawer just as he would have done in Japan, in spite of the many warnings he received from Nakamura. He went to the plant for several hours, and when he came back, his wallet and passport were gone.

The police was called. He came and interviewed people, then left. Nakamura wanted to know when they could expect to find the criminal. The police did not provide a definitive answer citing that it was nearly impossible to find the criminal among the millions of Chinese saying, "How many people do you think there are in China? Do you know?" He instead reminded Nakamura that it was the responsibility of the Japanese staff to take care of his belongings and not to leave them for "a hungry guy to eat." Nonetheless, he informed Nakamura that he wrote the police report so that the Japanese staff could apply for insurance.

Nakamura fully understood the reality of the situation then. He agreed with this policeman completely.

Nakamura also decided to make it the corporate rule in China that no Japanese staff or his family would be allowed to drive a car during their stay in China while on company or personal time. He had heard from Chinese friends several times that there were some people who intentionally hit a nice car driven by a foreigner in order to negotiate for money. Thus even if one were to drive carefully, it might not be safe to drive a car in a foreign place. Such incidents happened throughout the world, and it was better to avoid this potential trouble while living and working in China.

## **Relations with Local Government Agencies Related to Regulation of Foreign Investment**

### *How to Deal with Local Government Agencies*

It was a generally understood common practice in China for people to wait a long time to get an authorization from the government agencies to do anything. But Nakamura's experience was that clearances could be obtained fast in cases where the people in the government offices wanted something in return, in the spirit of what might euphemistically be called "reciprocity."

Responding appropriately worked anywhere in the world, but it took some experience to discern what the people they were dealing with wanted in return. After learning about this practice, Nakamura always tried to find out if there was anything that the party he was dealing with wanted, as the following examples illustrate.

### *Regulation of Foreign Investment, Local or Central*

In order to register a new joint venture company in China, it was convenient to establish the company with a total authorized investment amount of less than the threshold requirement of US\$ 30 million, which could be approved by local government at the province level. Thus Sanyan established its joint venture with a total investment of US\$ 23 million. However, due to additional requirements, the company needed to increase the total investment amount to roughly US\$ 43 million. Application for investments exceeding US\$ 30 million must be forwarded to the Central Government in Beijing after provincial approval was obtained, which took a long time.

### *Serious Need for Urgent Authorization*

The application needed to be authorized within two months because of the deadline set for the final completion of Sanyan's production line. All other members of the management team doubted that the approval could be available within the two months, but Nakamura thought he had to get it by all means. He visited the vice-mayor, who introduced him to a lady manager in charge of foreign trade and economics. Nakamura explained to the lady manager how critical the situation was and how important the project was for the automotive industry in China, inasmuch as the auto parts production from this new line were the



important inputs to the new car model which was being developed by a Japanese auto manufacturer in China.

### *How to Clear Up the Difficulties*

Nakamura sent his Chinese colleague to the lady manager's office the following day and let him try to persuade her to cooperate by all means, but it was in vain. Nakamura insisted that his colleague should go back to the lady manager's office everyday until she agreed. Five days later, she finally introduced the Chinese colleague to the general manager in charge of relations with the Beijing Central Government in the local government. This general manager suggested that the Chinese colleague visit Beijing with him. While the real motive for this suggestion was not very clear, Nakamura had no other choice but to agree.

### *When Approval Granted, a Small Request in Return...*

Two weeks later, the additional investment was approved by the Beijing Central Government, and everything was done. On Monday morning following the approval, Nakamura visited the vice-mayor's office and expressed his sincere appreciation for the splendid cooperation of the local authorities. Then the vice-mayor said that he had one request. He said there was a very important convention in Guangzhou in which many Taiwanese and Hong Kong businessmen would be participating. The vice-mayor was scheduled to make a speech on the attractiveness of his city and how the local government cooperated with foreign joint venture companies. He requested Nakamura to also deliver a supportive speech at the same convention in front of more than 600 people. He had already prepared a draft of the speech and he told Nakamura that he could just read it. Nakamura readily agreed.

### *Clever Approach*

As the host local government for Sanyan, the vice-mayor provided services that were of utmost importance to the company. The vice-mayor must have planned right from the start that he would join the convention together with Sanyan's representative who would attest to the support of the local government and the attractiveness of the city as an area for establishing new factories. He believed that Sanyan's representative would definitely agree to his request based on their close personal relationship.

Nakamura concluded that it was very important to know what people were expecting him to do for their benefit, so that he could respond in an appropriate and ethical manner.

## **Difference in Business Cultures as Related to Construction Contracts**

### *The Challenge of the First Building*

The land area for Sanyan's new factory was 60,000 square meters and the management had planned to construct nine buildings one by one, based on authorized written contracts. There were many buildings in a big city like Shanghai, which made use of H-shape steel structure,

but Sanyan was located in the countryside in Ningbo city. The local construction company was not familiar with modern building techniques using H-shape steel structure. Considering the time it would take for the construction company to learn the technique, Nakamura decided to go ahead with the conventional Chinese building method, but only for the first building. Thus the company gave the contractor time to learn the H-shape method that would be used in subsequent structures.

### *Imminent Problem*

One day in March 2002, an internal management meeting was held at the head office of the Japanese parent company. The senior managing director of the parent company told Nakamura in front of about ten concerned people that there was not enough time before the planned production start-up. He said that the first plant building must be completed on or before the end of September that year. He asked in a loud voice “Are you okay with the deadline?” Nakamura had no choice but to say, “Yes, sir.” The senior managing director clarified and confirmed the commitment, asking, “Are you serious?”

There were only six months left, and the factory had to be available for production. It was necessary to complete the plant construction as quickly as possible despite the arrangement made with the contractor to allow them time to develop the necessary expertise.

Nakamura consulted with Wang, the general manager of the local construction company, on how to overcome this problem. Wang mobilized all resources and accomplished the construction within the specified timeframe. The people concerned were very happy and from then on the construction company and Sanyan developed a much closer relationship with each other.

The first contract with Wang covered only one building. Nakamura decided to place the order for the other buildings with Wang based on his track record. Later on, Nakamura found out that the delivery of the first contract was a kind of “gift” from Wang in order to land the other contracts.

### *The Way to Make Money as a Construction Company*

Although contracts for each building construction were separate and could be placed with companies other than Wang both logically and legally, it was not convenient for more than one construction company to work on the building site. It was easy to imagine frictions arising between two parties. It was thus decided to place all contracts with only one company on a continual basis. However, Sanyan did not commit all of the business at one time to maintain some leverage against Wang in the event of his company’s non-performance. For his part Wang kept raising the unit price of every subsequent building contract gradually, because he also realized that the Sanyan management would not place new orders with another company.

### *Serious Labor Problems Developed*

Wang came to Nakamura’s office again and again asking for installment payments. Nakamura issued a check for an appropriate amount of money so as not to stop construction work. Wang was not happy with the progress payments, and finally he stopped paying wages to the construction workers, telling them that he had no money because the Japanese management was not paying the full amount of money according to the contract. He did this

on the exact day when some important European clients were visiting the company. At the precise time that the clients were having a plant tour, the Sanyan manager for general affairs came to the plant and reported to Nakamura that a huge number of construction workers were at the office protesting. People were shouting, “Pay us money, pay us our wages.” Nakamura rushed back to the office and told them that the company had already paid the full amount to Wang to cover cost and wages. Nakamura explained that what the company had not yet paid in full was the portion of the amount corresponding to Wang’s profit, because it was too expensive and had not yet been mutually agreed on. The labor representatives understood and went to Wang’s office, thus clearing up the difficulties. The tense situation had eased before the European clients went back to the office.

### *Contracting in Different Business Cultures*

In other economies, it was generally understood that once a construction contract was signed, the construction company would try to keep to its terms. If something went wrong and the situation could not be managed, the contractor usually consulted with the owner on how to address the situation. However in China, when a construction company signed a contract, it was usually viewed simply as a guideline. Once the job was completed, a third party oversight committee examined the results of the construction work both from the engineering and monetary aspects. If the third party oversight committee assessed the results as reasonable, the owner was obliged to pay the amount indicated even if the project had accumulated a huge cost overrun. Cost overruns rather than savings were the norm.

There could be a number of reasons behind these practices. Prices of construction materials in China were not very stable, and it would be imprudent for a contractor to assume this risk in preparing a fixed budget. Given China’s booming economy, materials scheduled to be used were often sold out by the time they were needed according to the construction plan.

Many foreigners considered this practice as bad behavior on the part of Chinese construction companies, but Nakamura considered it just a different way of doing business. He believed that it was necessary to understand business norms well in advance before negotiations with a construction company commenced.

For instance, the contractor should have indicated in the contract sheet that the prevailing price of the item was meant only as a guideline with the provision that the actual price would depend on the market price at the time of usage. Alternatively, the construction company could secure the materials at the prevailing rate. However, what happened was that most of the time, the contract was signed and the actual price charged was the price at the time of purchase.

Another issue was the working relations between the construction company and equipment suppliers. While the construction was still going on, equipment makers could start installing their products. Unless this process was well managed, the construction company might not provide enough space to allow the equipment installation. Indeed fights between construction and equipment installers were not uncommon.

It was necessary for Nakamura to intervene and request the manager of the construction company to allow the equipment supplier to do the installation job. The construction company agreed only after receiving Nakamura’s formal request.

Later on, however, Nakamura found that the construction schedule started to slip. Asked about the reason for such a delay, Wang explained that it was due to the machine installation. Nakamura was frustrated. If that were the case, he expected Wang to inform him of the

possible delay. He then realized that he should have understood the mentality and work culture he was dealing with before he became frustrated.

## **Technical Expertise and Knowledge of Dealing across Cultures Is Necessary to Set up a New Company in another Economy**

### *Importance of Nakamura's Prior Experience in China*

Sanyan Steel Japan was a steel mill. There were many engineers but not many managers who were familiar with overseas operations. Many of the company's clients were in the Japanese auto industry and were aggressively trying to capture their share of the Chinese market by competing with American and European companies. Sanyan had decided to set up a plant in China in 2001, but found out there was no suitable key person internally to lead the project. Thus they decided to recruit Nakamura to take on this role.

As noted earlier this was the third overseas assignment for Nakamura. The first was in Canada from 1983-1987 as the vice-president of a company, which meant that his role was to oversee the whole organization. The second assignment was also as vice-president, but it was in China. It was an extremely tough job in Shanghai. The joint venture partner was the state-owned giant steel mill. The president came from the Chinese partner, and everyone else in the company of approximately 200 persons was Chinese. Nakamura had no experience working, living or even visiting other Asian economies including China. He could not speak the Chinese language at all. He had to rely on a Chinese translator who worked with him for the whole four years he was in China. Another of his colleagues was the driver of the company car. These employees were an integral part of Nakamura's life in Shanghai; without their help, Nakamura could not do anything in China.

Nakamura considered the experience he acquired during the four-year assignment as critically important for the new assignment to head Sanyan's joint venture. He was able to avoid many similar mistakes and troubles at Sanyan, thanks to his earlier experience in Shanghai.

### *Succession Planning*

When Nakamura decided to join Sanyan in Japan in 2001, he made up his mind to return from China to Japan as soon as the company start-up phase was successfully completed; that is, after he had completed the construction of the factories, hired people, established the rules and procedures for the new company, overseen the installation of equipment and established good relations with Chinese banks, with the main customers and with the nearest customs office. In other words, he planned to lay the groundwork, except for the production and engineering aspects, which were not his expertise. However, just before his planned return to Japan, the Severe Acute Respiratory Syndrome (SARS) crisis broke out in China, which delayed the original time schedule by at least six months. Eventually Nakamura returned to Tokyo in 2004.

The management of the parent company proposed to select Nakamura's successor from among four candidates who were all former trading company employees. Based on their bio-data, Nakamura decided to interview one candidate, Yamada, who had much more

experience in China than Nakamura himself. After a three-hour meeting in Tokyo, they came to a mutual agreement to work together.

Right after the parent company hired Yamada as Nakamura's successor, it became obvious that quality control and production efficiency were not within acceptable standards at Sanyan's Chinese plant. Because of his lack of technical background, Nakamura could not address these issues immediately. Considering the technical problems involved, the parent company decided to assign as Nakamura's successor an engineer who was expected to solve them as soon as possible. Thus with regret, Nakamura was obliged to ask Yamada to accept the position as vice-president, instead of as president of the Sanyan plant in China.

As noted Nakamura was not a professional engineer. At first he thought that he would understand some of the engineering issues based on his university education. However, in practice it was not easy to address the technical issues without the input and strong cooperation of the engineers from the parent company. It required the full support of the parent company to effect the transfer of technical expertise to the China operations, but as a non-engineer Nakamura was not able to fully avail of this technical support. It was only in 2007, more than three years after Nakamura's departure from China, that the Ningbo plant started to run well, thanks to the efforts of everyone.

### *The Importance of Trusted Friends*

Nakamura completed his assignment in China without major difficulties except for quality control and productivity. He attributed his success to the presence of his true friends whom he could trust and from whom he obtained guidance. His friends acted as his eyes and ears who kept him informed of what was happening within the company; what could go wrong among people in the company; how local government was reacting; how well the construction job was going; whether there were anomalies in the company; whether lunches the company provided were popular; and so on. The management of many similar Japanese operations experienced troubles, problems, mistakes and monetary loss. Having trustworthy friends in operations was not common, but it was extremely useful in avoiding pitfalls.

## **What Is Most Important for Success in Other Economies?**

Reflecting on his own experience Nakamura has drawn a list of items which he thought were key success factors (See Box 1). While on the surface these pieces of advice appear simple, in fact they are complex, multi-dimensional and subtle in nature.

One additional piece of advice that Nakamura offered was that one should try to take it easy as much as possible. If one were to take everything too seriously, it would become more difficult for him and he might lose sight of what was important.

It was interesting to note that the Chinese friends and colleagues of Nakamura sometimes said that his way of doing business was more Chinese in style than that of the Chinese. But when they said that, they always smiled, saying, "Are you really a Japanese?"

**Box 1** Advice for Expatriate Managers

First, you need to acknowledge that each economy is different from your own. Thus you need to change your mind and admit that the same approach that you have used at home may not be applicable.

Second, people's desire in other economies may not be the same as yours. This can be said even in the field of religion, way of living, pleasure, mental health, vanity and so on.

Third, please do not say that democracy is the best. There are many types of democracies, and people in other economies may have different things in mind when they use the term.

Fourth, please simulate people's way of thinking so that you can understand why they are doing what they do, and why.

Fifth, please prepare multiple options from which people can choose what is best for themselves, so that they can understand that the outcome is at their own discretion.

Sixth, whenever people ask questions in any field, please answer them right away so that people can react right away and consider that you are capable.

Seventh, please do not complain about people's accidental mistakes but just suggest that they should correct them accordingly. People need to learn from their mistakes in order not to repeat them.

Eighth, please praise people when you find something good. Words of praise always make people feel positive and encouraged to contribute more to the company.