CASE STUDY 3 Shintech Inc.

PVC Star in the Lone Star State

Shintech Inc. is a Freeport, Texas, company with a difference. This polyvinyl chloride (PVC) resin manufacturer is a wholly-owned subsidiary of Shin-Etsu Chemical Co., Japan's top producer of PVC, silicone, semiconductor silicon and rare-earth magnets. Shintech's name is itself a hybrid of Shin from Shin-Etsu Chemical and tech from Robintech, the joint-venture partner at the time the company was established.

The origins of Shintech go back to 1972 when Robintech, a producer of PVC pipe, approached Shin-Etsu with a proposal to set up a joint venture. At that time, the supply of PVC in the U.S. was inadequate to meet brisk demand, and the American chemical industry was building plants one after another and expanding existing facilities. Robintech, which planned to double its PVC pipe manufacturing capacity, approached Shin-Etsu Chemical because it needed to secure stable supplies of the raw material, PVC resin. In March 1973, the two companies agreed to establish a 50–50 joint venture.

The venture was capitalized at $5 million and had a start-up production capacity of 100,000 tons annually, making it the biggest production unit in the U.S. at that time. B.F. Goodrich Co. then dominated the American PVC market, with a total annual production capacity of 500,000 tons. It was followed by Diamond Shamrock Corp., Borden, Tenneco Chemical, Conoco (now Vista Chemical), Firestone and others.

At start-up, Shintech ranked 12th in capacity among American makers. Armed with Shin-Etsu's efficient, fully automated, labor-saving, pollution-free manufacturing process, generally regarded as the most advanced in the world, it got off to a smooth start. The company was able to obtain stable supplies of vinyl chloride monomer from Dow Chemical Co., and was soon profiting from the tight supply-demand situation. Starting up in October 1974, Shintech was in the black by the end of its first fiscal year.

Shintech initially had around 60 employees along with two Japanese engineers dispatched by Shin-Etsu Chemical to serve as technical advisers. Later, however, a difference of opinion surfaced over the management of the company. Shin-Etsu insisted on concentrating investment in PVC resin and related fields, while Robintech wanted to work toward a vertical integration of the business from PVC resin through to PVC monomer and even electrolysis-related operations.

That was the situation when the oil crisis of 1973 dealt a staggering blow to Robintech's business. Faced with a tightening cash flow, the U.S. firm proposed transferring its managerial rights in Shintech to Shin-Etsu. After lengthy negotiations, Shintech became a wholly-owned subsidiary of Shin-Etsu Chemical in July 1976.

Shintech President Chihiro Kanagawa, who jointly serves as senior executive vice president of Shin-Etsu, recently reminisced about the behind-the-scenes comings and goings then. "The executives of Shin-Etsu Chemical had heated discussions when the company was pressed to decide whether or not to acquire managerial rights from Robintech," Kanagawa recalls. "In the end, Shintaro Odagiri, who was then the president of Shin-Etsu (now chairman of the board, and one of Shintech's three directors), himself handed down the decision." Says Kanagawa: "I am happy to report that Shintech's good performance has contributed very positively to the Shin-Etsu group's consolidated financial performance."

A particularly significant presence on the board is C.B. Branch. Branch, appointed one of Shintech's directors in 1980, was formerly chairman of the board of Dow Chemical Co. He is an outstanding business executive widely admired throughout the U.S. Kanagawa says he learned a lot from his American colleague about personnel management, labor administration and community relations. Kanagawa's own management philosophy is that corporate executives must contribute to the local community if they hope to succeed in the U.S. business world. Kanagawa was elected an honorary citizen of both the state of Texas and the city of Houston in 1981, while Shintech itself contributes significantly to Freeport's tax base.


Shintech has shown outstanding business performance since its inception in 1974.

Shintech's sales have been steadily increasing since Shin-Etsu took over. By 1984, sales were up 560% over the 1976 level compared to only 130% for the U.S. PVC industry as a whole. From $27 million in fiscal 1976, Shintech's sales reached $222 million in fiscal 1985 and $230 million in fiscal 1986. They are projected to reach $250–$260 million this fiscal year.

Shintech's current PVC production capacity of 450,000 tons per year (Shin-Etsu Chemical's Kashima plant in Japan has a capacity of 200,000 tons) supports a 12% market share that makes the company the third-largest producer in the U.S. Its 130 employees include nine Japanese. The company has no debt and has an owned equity ratio exceeding 60%.

On the strength of its financial power, Shintech is now aggressively investing in new businesses. At a time when major American chemical companies are selling their PVC divisions because of deteriorating profitability and are withdrawing from the market, Shintech has not laid off a single employee. "Our American employees identify strongly with their company," says Kanagawa. "They demonstrate good teamwork and almost no one ever resigns. They are the equal of their Japanese counterparts in their dedication to their work." ●

(By Yosuke Uehara, director/planning, Landor Associates International Ltd.)