# Montedison: Italian Giant On an Asian Springboard

By Takashi Suetsune

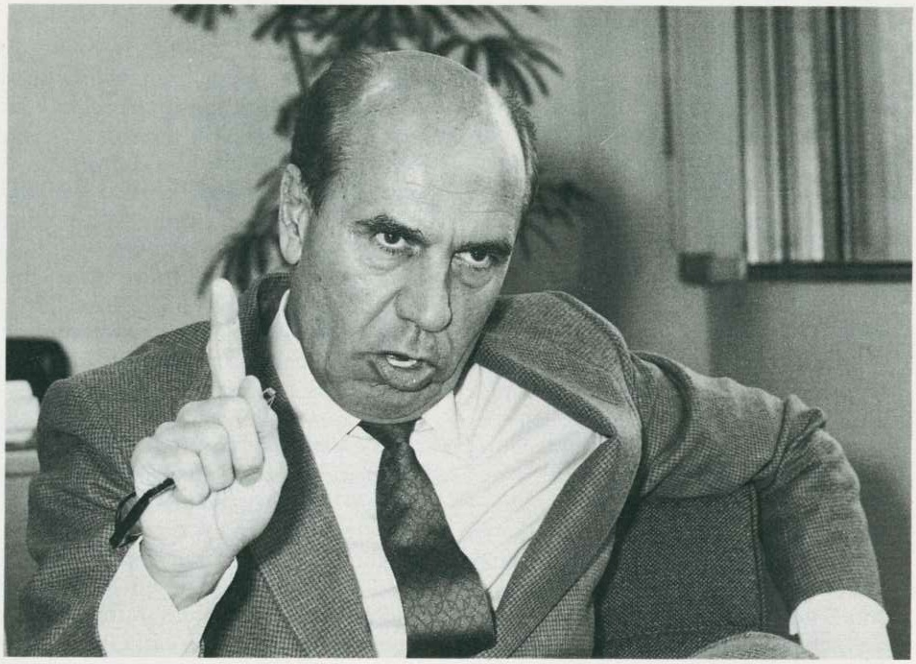
In Japan, Montedison is not a household name. A list of its products reads like a collection of tongue twisters: tobias acid, letters acid, betha-naphthal, alpha-aminoanthra-quinone, penthachloro-nitrobenzene, orthopara nitro-aniline, copper-phthalo-cyanine, perfluoro polyethers, doxorubicin and hydrochloride. Yet although their names may sound strange to the layman, these chemical products are indispensable to all types of industry.

Montedison's other key product is no more visible, and no less important. It is technology, and it is exported to all parts of the world. In all, Montedison has main offices in more than 40 countries, including Japan.

In Italy, however, Montedison is a household name. It is one of Italy's largest conglomerates, embracing more than 140 companies. It is also the world's 10th-largest chemical firm, and the only Italian company registered on the New York Stock Exchange. It is no exaggeration to say that when Montedison is in the red, the entire Italian economy stumbles.

That is not just hyperbole. In 1981, Montedison's losses were in fact running at an annual rate of more than $500 million, even as Italy as a whole suffered from inflation, unemployment and strikes. Today, however, Italy is enjoying a replay of the *miracolo economico* of the late 1950s and early 1960s. It has not only resuscitated its limping economy, but has surged ahead to outrank Britain and France in terms of GNP as the fourth-largest economy in the world. Montedison, needless to say, has played an important role in this turnaround.

After 10 years of constant red ink, Montedison returned to profitability in 1985. According to its annual report for that year, Montedison earned 113 billion lire, this only three years after losing 859 billion lire in 1982. Together with such other comeback artists as Fiat and Olivetti, Montedison is clearly one of the locomotives driving the Italian economy.



Giorgio Schejola, president of Nippon Montedison

At home and abroad, the focus is on materials, fine chemicals and intermediate businesses, as well as on health care and services. The chemical conglomerate is also actively involved in energy, pharmaceuticals, trading, financial services and even department stores and newspapers. In fact, *Il Messagero*, one of Italy's leading newspapers, is owned by Montedison, and Standa department store operates under the company's umbrella.

No one should be surprised that such a giant company has turned its attention overseas again. Recently Montedison has joined Marubeni of Japan and Occidental Petroleum of the U.S. in a joint venture with the Soviet Union to construct a mammoth petrochemical complex in the Urals. This joint venture is the largest since the Soviet Union opened its doors to joint ventures with foreign capital. The complex, which will produce 500,000 tons each of polypropylene and polyethylene annually, will be designed by Montedison.

Today Montedison is embarking on a new campaign of revitalization, with a new strategy focusing on internationalizing its activities. By 1989, the company wants to launch campaigns in new markets in Canada, the United States and Asia. Like many Italian companies, Montedison has so far had difficulty raising the share of its business abroad. About two-thirds of its revenue is still generated in the home market, far more than for many other European companies. Hence the new emphasis on Asia.

This is not to imply that Montedison is a newcomer to the region. The company has been active in India since the 1930s, predominantly in the transfer of engineering technology. Technimont, a Montedison engineering subsidiary, was established in India in 1935, and was instrumental in setting up the country's first nitric acid plant as well as a number of other production facilities.

The Asian market, however, has been comparatively small despite this long presence, accounting for only 2% of total sales. And it is here that Japan emerges as a springboard into this fast-growing part of the world, with all its potential and opportunities.

Dr. Giorgio Schejola, president of Nippon Montedison, is proud of his company's new strategy in Asia. Montedison was a supplier of products to Japan during the 1970s. Now, Schejola says, it will be working jointly with Japanese companies in the research and development of new technologies and products.

In fact, this will hark back to Montedison's earlier incarnation as a seller of patents to Japanese companies. In the early 1960s, executives of Japanese chemical companies used to speak of *Monte-mairi*, the pilgrimage to "Monte," with a mixture of sarcasm and a lingering sense of inferiority. "Monte" meant Montecatini, the giant chemical company which was later to merge with Edison to form Montedison in 1966. It was Montecatini that in the late 1950s developed the technology for polypropylene, which was soon nicknamed the "dream fiber." The technology was far beyond the capability of the Japan of those days, which after all was still producing only 200,000 automobiles annually while Fiat alone was selling two million cars a year. Hundreds of Japanese engineers visited Montecatini to learn about the company's new technology, and finally the decision was made to buy the patent.

## Time to expand

It was not the first time Montecatini had sold technology to Japan. The patents for the production of ammonium came from Montecatini between the two world wars, and there were many more. But it was only in 1961 that Montecatini established its own office in Japan. The job of the Italian representative in Tokyo in those days was mainly to sell polypropylene to Japanese companies and negotiate with Japanese industrial groups like Mitsui, Mitsubishi, Asahi Glass and Nippon Zeon.

Then the Japanese began to improve on the technology they had bought from Montedison and build their own plants. By the 1970s, companies in Japan no longer needed assistance from Montedison for polypropylene. It was the start of what Schejola calls "phase two" of Montedison's relationship with Japan, and it lasted until the mid-1980s.

Now phase three of that bilateral relationship has just started, with the old sales and purchasing relationship being overtaken by more sophisticated and closer partnerships in the form of joint ventures. Since Japanese companies are now capable of producing their own high quality chemical products with original technologies, Montedison's new strategy is research and development. Moreover, Schejola is convinced the time is right to expand the company's market share in Asia, an effort he thinks can be better done in cooperation with Japanese partners. Immediately after embarking on this new strategy, Montedison broadened its alliance with Asahi Glass, a long-time partner in Japan, to manufacture fluorine-treated products.

Although the big push is taking place now, cooperation between Montedison and Japanese companies in research and development started as early as the 1970s. A catalyzer for polypropylene which Montedison developed together with Mitsui Petrochemical in those days is still the best in the world, Schejola maintains.

But now things are moving on a different scale altogether. On November 20, 1987, Montedison announced it would invest 1,300 billion lire in R&D in pharmaceuticals, new materials, fluorderivatives, biotechnologies and fine chemicals. The announcement said the conglomerate was particularly interested in joint ventures with Japan in the pharmaceutical field. Montedison is also planning to send seven or eight young researchers to Japanese universities and research institutes shortly to establish a system for long-term collaboration. This is in addition to the relationships the company already has with a number of Japanese universities.

Schejola is candid in admitting that the Japanese can now do what the Italians were able to do in the way of original research in the 1960s and 1970s, and that Montedison has little to sell in Japan. However, he says, this new reality has not diminished the importance of the Japanese market. Rather, he stresses that he gives first priority to Japan as a market over other Asian countries. This is because he believes in the potential for selling to other parts of Asia the new products and technology Montedison develops with its Japanese partners. Already the new strategy is bearing fruit. In Thailand, Montedison is now constructing a polypropylene plant in a joint venture with Japanese firms.

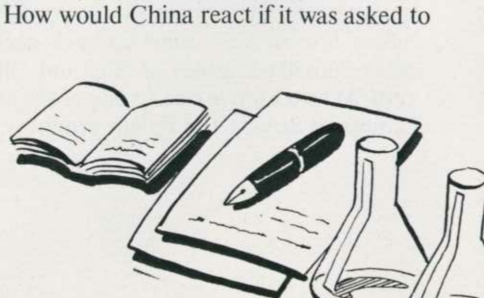
Whenever he is asked if Montedison has succeeded in Japan, Schejola always answers with a firm "yes." But he is also quick to add that his company has so far been lucky. In future, Montedison's strategy should be more calculated and solid, he seems to say. "We are deeply satisfied with our achievements," he says, "but the future is unknown."

## Cultural diversity

Such uncertainty is only to be expected when a business executive launches a new strategy in a foreign land. This is all the more true in light of the cultural gap often said to exist between the Japanese and other peoples of the world, especially Europeans and Americans, and which is now frequently blamed for much of recent trade conflicts.

A prominent U.S. government official once said that if Japan wanted to continue to do business with America, it should change its social structure and its culture. He was referring to so-called invisible trade barriers—traditional business practices and distribution systems peculiar to Japan which make it difficult for foreign companies to enter the Japanese market.

It is true that customs, ways of thinking, behavioral patterns and even business practices are deeply rooted in a country's culture and tradition. Americans and Europeans have been the guardians of their own cultures, and respect the cultural diversity which exists among themselves. Against this background, such remarks are quite absurd. How would China react if it was asked to



change its social structure in exchange for trade with the free world? We cannot ask the Chinese to abandon communism as a condition for doing business with us.

Italy is a very European country, to which Japan is still in a sense a mysterious land. It is hardly surprising if Italians say they cannot understand the Japanese mentality or the Japanese way of business. They may wish that Japanese would adapt themselves to Italian ways. Schejola, however, scoffs at the idea of asking the Japanese to change their culture and mentality. "Italians would never change their culture even if you asked to them," he says. "You cannot change culture. That is why there are so many countries in Europe with different cultures and traditions."

Montedison seems to have good partners in Japan. As Schejola says, when Montedison knocked at their doors, they were ready and willing to open them. But even Montedison has not been exempt from the hazards and difficulties which confront foreign businesses in Japan. Schejola does not complain, but he is keenly aware of the problems foreign companies encounter in Japan today. He fears a resurgence of protectionism in America and Europe as a result of their massive trade imbalances with Japan. He is also a little pessimistic about the Japanese reaction to complaints from abroad.

## Richer Europeans

Even today, Japanese remain convinced that their living standards are worse than in the provinces of France or Italy, even though they are frequently being told that Japan is supremely rich. When a Japanese tourist travels in Italy, he soon realizes he can eat in first-class restaurants for a third the price which he is obliged to pay back home. He finds he could purchase a three-bedroom apartment in Rome for "only" ¥20 million, while in Tokyo he must pay at least five times more. To Japanese eyes, then, Europeans are much "richer" than they are, and they are puzzled when asked to buy more from abroad. The Europeans and Americans, though, are convinced that the Japanese are unneccesarily frugal. This perception gap is hard to close.

In a sense, doing business in Japan with Japanese partners can be a constant struggle with such perception gaps. Schejola has accumulated valuable tips for foreign businesses hoping to succeed in the Japanese market. "I don't like to give lessons," he says, "But it is advisable to go along with the Japanese rather than compete with them. In Japan there are all the competitors you need already. Japan is one of the world's three industrial poles, and it is the one in the best health. In Japan, the leaders are Japanese companies. You have to compete according to Japanese habits and rules.

"The market here is very special," Schejola adds. "You're better off delegating as much responsibility as possible to the local organization because of the high specificity of the market. It is also advisable to have high-ranking Japanese executives. I recommend making a competent Japanese president, although I know it's difficult to get first-class Japanese CEOs for foreign companies." Young executives from the home country should be given a chance to study as much as possible about Japan, he says, "indoctrinating" them about the country in order to conquer the culture gap.

The Montedison Group has three offices in Japan, but only seven Italians managing them. The company's Japanese employees number 200. Montedison is supporting nearly 200 Japanese families, and is confident its local employees will not let it down. Schejola says, "In Japan you have to consider the long-term perspective."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