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**Título de la comunicación: A neglected factor in the history of multinationals of emerging economies: The management of cultural diversity. The case of Acerinox, 1964 - 2000**

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***A neglected factor in the history of multinationals of emerging economies : the management of cultural diversity. The case of Acerinox, 1964-2000<sup>1</sup>***

Abstract:

International Business literature has created concepts that try to capture the problems involved in the management of cultural diversity in globalized businesses. As organizational literature reminds us, the whole structure of a company must share and practice similar routines and tacit knowledge in order to undertake successful and sustainable long-term strategies of innovation and internationalization. This process is still more difficult in cases of strategic alliances and Joint Ventures between companies from extremely different business cultures. Business history case studies may provide depth, detail and a dynamic longitudinal approach about how strategic the management of cultural diversity in the transference and creation of knowledge in multicultural global corporations can and should be. This paper aims to contribute to this goal with the history of a Spanish-Japanese Joint Venture in the stainless steel industry: Acerinox. The first contacts among Spanish and Japanese engineers and entrepreneurs took place in the mid 1960, and the agreements and the creation of a really culturally diverse and hybrid organization unfolded between the 1970s and the late 1990s. The case study is used to support a more general proposition: the strategic importance of the endowment of excellent cultural mediators, and of a positive-looking management of cultural diversity in the formation of local talent and the emergence of multinationals born in developing economies.

## **Introduction**

International Business literature has created concepts that try to capture the problems involved in the management of cultural diversity in globalized businesses. Some of the most commonly used in the eclectic paradigm and the different versions of the Uppsala approach to multinational businesses are: *liability of foreignness*, *liability of outsidership*, *networking or relational capabilities*, and *cross-cultural management* (Johanson and Vahlne 2009, Vahlne and Johanson 2013). Usually the difficulties of a multinational in the market of destiny include the tensions and frictions involved in the ignorance of the multinational about tacit knowledge of the host economy, and in cases of Joint Ventures and alliances also of the local partner (Casanova 2009, Guillén and García Canal 2010

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<sup>1</sup> Interviews with Victoriano Muñoz Cava, Federico Lanzaco, David Herrero, José Luis Lejeune, and José Luis Lejeune, in 2012 and 2013, and corresponde with Y. Kishimoto in 2013, have been the backbone for this research, and the author wishes to acknowledge their extremely generous help.

and 2013). The centralized or decentralized governance structures used by multinationals of core economies are usually models of reference to analyze how multinationals can establish stable successful relationships with local staff of the subsidiaries in the host economies (Buckley 2009).

An interesting stream of literature has addressed issues related with the changes that take place in the local partners or staff of the subsidiary after a Joint Venture or process of Merger and Acquisition. These changes may include knowledge transfer, local training, local processes of creation/transfer of innovations from subsidiary to matrix, and sometimes leadership of the local partners or subsidiary in the globalized agenda of the multinational (Bartlett and Ghoshal 1989, Birkinshaw 2000, Mathews 2002 a and b and 2006). In a few cases, as it was the case in the company analyzed in this paper, partners or subsidiaries can go beyond expectations of the multinational, become more autonomous and overpass the multinational in global markets in some products or services.

In these processes trust is an important prerequisite for learning, and what is learnt must be transferred as tacit or explicit knowledge in the organization, and become useful by making routines. And because learning is cumulative in nature, previous knowledge seems to have a strong impact on the ability to learn more, which means that there is a history dependence in the firm evolution process (Vahlne and Johanson 2013).

International business literature tends to neglect, however, the visible hand of trust building, knowledge transfer, and cumulative learning between different business cultures inside the organization. The role of entrepreneurship is assumed to be crucial to understand production and general economic aspects in the management of multinationals, but there is scarcity of evidences about leadership in cross-cultural management inside organizations, and how important it can be in innovative processes of knowledge transfer and knowledge creation among companies.

In the case study we present in this paper, a Joint Venture between Spanish and Japanese entrepreneur without significant previous work experience, how could trust be created among Spaniards with no knowledge of Japanese culture and language, and Japanese who ignored the Spanish language and culture? How could “cumulative learning” take place? How, and who, transformed tacit knowledge into routines in new organizations with staff who ignored almost everything about each other? Who translated, read, and explained in common simple words the Japanese technical documents to be used by mostly illiterate Spanish workers in one of the poorest regions where the joint factory was brand new built in the early 1970s? It was a simple process of travels and exchange of technical staff? How and who took care of avoiding misunderstandings and solve conflicts? How trust was transformed into facts, in the continuous production of new products for the global market, without costly failures that could made the Spanish and Japanese banks and industries who were the main shareholders reduce or abandon their presence in the company?

This paper uses a case study to understand with new empirical evidences how real processes of business culture transfer take place in a multinational born in a developing economy. The Joint Venture we study, Acerinox, was from the beginning a born-global multinational, whose goal was to adopt the most modern technology in stainless steel in the world of the mid 1960s, and distribute new products of a relatively new sector in

the European and American markets. Mass production and mass distribution infrastructures were designed, and required heavy capital investments. Perfect communication, perfect standardized acquaintance and expertise in the routines (to be transferred from the Japanese technicians to the mostly illiterate Spanish workers), were two prerequisites to really attempt to be a born global company in stainless steel in the early 1970s. Without google translator, without formal chairs and teachers of Japanese language in the Spanish Universities of the 1960s, without even Japanese-Spanish dictionaries available in commercial libraries of Spain at the time, how an alliance between the fifth Japanese trading company and a few Spanish bankers and engineers with really small knowledge of global markets could really be designed to create a successful new global giant in stainless steel?

Available business school case studies about Acerinox, written from a management perspective, underestimate or plainly ignore these questions, apparently believing that it must have been an easy process, in the late 1960s, to create a large corporation in a deserts area of a backward Mediterranean country, between people who had an enormous distance regarding their knowledge about how the global market of their sector really worked. These issues must have been crucial issues, and these are “the” questions this paper believes are the neglected, fundamental questions to be asked to understand the success of born-global multinationals in emerging economies of past, and present times.

Business history case studies may provide depth, detail and a dynamic longitudinal approach about how strategic the management of cultural diversity in the transference and creation of knowledge in multicultural global corporations can and should be (Jones 2005; Lubinski, Fear and Fernández 2013). In this line, this paper aims to contribute to deepen our knowledge about the importance of managing cultural diversity in born global companies of developing economies, with a historical analysis of the cross-cultural origins of the corporation that was in 2007 the sixth largest stainless steel group in the world: a Spanish-Japanese Joint Venture named Acerinox, legally constituted in Tokyo and Madrid in 1970. The first informal contacts among Spanish entrepreneurs and Japanese companies took place in the mid 1960s, and the agreements and management of knowledge transfer and cultural diversity unfolded between the 1970s and the late 1990s. The case study demonstrates that the endowment of excellent cultural mediators, outward-looking engineers, and the shared belief of top managers about the strategic importance of managing cultural diversity, allowed the relatively smooth formation of workers and middle ranks of managers, and the expansion of a globalized leader born in a developing economy.

### **Sources and Methodology**

A first reading from corporate websites, private business school case studies without much archival sources, and digitalized press, could have led this author to conclude that the history of the origins of this corporation was nothing else but a late example of Gerschenkronian-like elements about the role of the State and the Banks in supporting late and rapid industrialization in peripheral economies.

On the one hand, the Japanese State subsidized the internationalization of the overproduction of their competitive standardized industrial corporations, after the 1970s, with the support of the big Japanese trading corporations who had been

exploring foreign markets since the end of World War II (Yonekura 1994 and DíazMorlán and Sáez forthcoming). Acerinox could have been just one more example of this support. And the Spanish State eagerly needed to employ thousands of workers in the Andalusian province of Algeciras due to chronic local unemployment and illiteracy and the effects of political conflicts with the UK in Gibraltar in the late 1960s, and the opportunistic offer made to high authorities of the Ministry of Industry, by some Spanish entrepreneurs, to invest in a large stainless steel factory with Japanese partners somewhere in the country seemed a perfect solution for these problems, and also to obtain much needed foreign currency with exports of the new factory. So Acerinox could have also been just one more case of State-led industrialization in areas without industrial experience, in the age of State-led industrialization of developing economies of the world of the 1960s. As in many other countries, the Japanese and the Spanish States would have used legislation, and personal contacts with leading bankers and industrialists, to get privileged information, to favour private interests, and with this speed up industrialization and internationalization of capital intensive industries in underdeveloped regions of their countries.

On the other hand, public and private banks with interests in long-term industrial investments backed the plans and financed the project, from Japan, and in Spain. As in many other developing economies of the 1960s, the Japanese and Spanish banks or bankers with important industrial participations positively evaluated the opportunity to invest in State-led industrialization plans. The Acerinox plan, thus, could also be analyzed as one more case of cooperation between State and Banks in peripheral economies. Acerinox could have been seen, by analysts of Spanish and Japanese banks, as an opportunity for their other industrial companies in: construction, infrastructures, energy, and machine manufacturing.

The story, thus, easily, could have unfolded as the story of how institutions in peripheral economies join forces, though in different contexts and pressures, to support reciprocal interests: expand large private industries and accelerate national industrial output and foreign trade. However, this perspective alone could not say much about how this could successfully happen, about how needs and dreams of very distant potential partners and countries could be transformed into realities in competitive globalized markets.

The lack of appropriate primary sources that could inform about cross-cultural management conflicts and solutions initiated the search of direct information from the people who were involved in the transformation of general objectives into business realities. I was lucky to interview several times in Madrid between 2012 and 2013 the first C.E.O. of Acerinox, Victoriano Muñoz Cava; the leading cultural mediator between Spaniards and Japanese in Acerinox for more than thirty years Federico Lanzaco; the first factory manager José Luis Lejeune; and the leading legal consultant of the company during almost three decades David Herrero. Muñoz, Lejeune and Herrero answered many questions several times during 2012, 2013, and 2014 in person, by mail, and by whatsapp, and gave me many clarifications and books to understand the technological aspects involved in the market of stainless steel industries in the world in a historical perspective. David Herrero, also, made possible a short visit to the current central building of Acerinox in Madrid, and a short conversation with the current C.E.O. Bernardo Velázquez and members of his team Luis Gimeno, Miguel Ferrandis, Alberto López Chico and Santiago Muñoz. Federico Lanzaco provided not just his testimony of how cultural management took place during three decades in the company but also

many valuable documents about the history of the group in its first decades. Yoshitaka Kishimoto, director of the large Japanese trading company Nissho –merged with Iwai in 1970- who participated in the signing of the JV agreements of 1970 and cooperated with Acerinox during decades, who lives in Japan, answered a long questionnaire I sent him in February 2013, which has been very important to know details from the Japanese side of the story. Letters sent by Japanese technical staff to Federico Lanzaco, also greatly contributed to a deeper understanding of the topic of this paper: Seiji Mori, leading engineer of the first group of Japanese technical assistants from Nisshin Steel Co. Ltd<sup>2</sup> who travelled to Spain to guide local engineers build and start the new factory following the most updated technology of stainless steel from the Shunan factory in Japan; and Shigeaki Araki, who led the second Japanese technical assistants group and construction stage of Acerinox. A first opinion about the background, previous training, selection, and personal attitudes towards the Japanese processes of the Andalusian workers of the factory was composed through kind interviews with José Luis Lejeune, the first manager of the factory, and further research will in the future try to interview some of the old first employees to add a more complete perspective.

The methodology of this paper is of a qualitative kind, focusing on a single but relevant case study. Acerinox was from the start in 1970 the largest Spanish stainless steel company, since the early 1980s one of the 20 top European stainless steel producers, and in three decades after the beginning of production in 1975 the group had become one of the six top world producers of flat stainless steel. The research has combined written and oral primary and secondary sources with an analytical theoretical framework close to updated evolutionary models about internationalization of businesses mentioned before, that include at least the following three basic ingredients of a multinational: dynamism; networking capabilities; and executive capabilities (Mathews 2006, Vahlne and Johanson 2013). Dynamism allows entrepreneurs to detect opportunities in the international markets of one sector; networking skills allow managers of the multinational to informally combine local abundant resources in order to get scarce strategic resources to become a global player; and executive capabilities creates an organization that has internal cohesion to learn and transform learning into new routines and tacit knowledge, despite its heterogeneous origins and elements. It is the main hypothesis of this paper that a key strategic neglected executive capability, in this framework, has historically been the management of cross-cultural diversity.

### **The origins of Acerinox**

Acerinox began as a company in 1970 (April 21 Joint Venture signed in Tokyo, September 30 founded in Madrid), for the construction of a brand new factory in the bay of Algeciras. In 1975 this factory had a thousand workers and produced some 37,000 tons of flat-rolled stainless steel (“Memorias” or annual reports of the company and Acerinox 1995). Its production and capacity at the very start already exceeded the Spanish consumption of stainless steel, estimated at 20,000 tons of flat-rolled stainless steel at the end of 1969. Spanish consumption of stainless steel started in the 1960s,

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<sup>2</sup> Nisshin Steel Co. Ltd. was formally registered in Japan in 1953, the result of the merger of Nihon Teppan (founded in 1911) and Nichia Steel Works Ltd. Information from Letter of Shigeaki Araki to Federico Lanzaco, 17 October 1977. The original was written in Japanese. The translation to Spanish, used for this reference, was found in the Spanish translation of Federico Lanzaco, A.F.L. (Federico Lanzaco private archive, correspondence with Japanese engineers in their return to Japan, 1977).

based almost completely on imports that rapidly increased from 1,100 tons in 1960 to 32.300 in 1970 (INCO report 1970 reproduced in Lanzaco report in folder 3 Archivo Federico Lanzaco AFL), and 50% of total Spanish imports of stainless steel came only from Japan in 1970. Almost one third of the total consumption in 1970 came from the chemical and petrochemical industries, and 28.5 per cent from the consumption goods industries.

The Spanish production in 1969, before Acerinox started to function, was only 1,000 tons of stainless steel produced by 14 industrial plants (Muñoz Cava 2009:32 and 41). These figures indicate that the brand new factory in Algeciras was not created for a narrow national market, but in order to conquer markets abroad.<sup>3</sup>

The levels of stainless steel production in Southern Europe were much inferior to those of Germany, France, Belgium, England and Japan in the mid 20th century, according to testimonials and statistics on foreign trade in special steels – including stainless steel – from the C.E.C.A. authorities: between 1954 and 1957 the total foreign trade of special steels (exports plus imports) of Germany, Luxembourg, France, Italy and Netherlands, was 154,000 tons, of which approximately a third was stainless steel (Historical Archives of the European Union, CEAB FONDS, Division des Statistiques, 8/670).

There were no Asian or American manufacturers in Europe until 1970, although there were commercial distributors, and many visits of interest groups of the European steel industries to Japanese factories, some of which were very sensible to the cost-reduction and highly productive innovations of the Japanese steel companies (Díaz Morlán and Sáez forthcoming). According to the testimony of Yoshitaka Kishimoto, exdirector of Nissho Iwai Co. (of the fifth largest Japanese trading company that distributed Nisshin industrial products outside Japan in 1960-70), until 1970 there was only a commercial distribution of Japanese stainless steels in Europe: in Hamburg since 1956, Antwerp 1963, Dusseldorf 1964, and since the 1960s also in Lisbon (Letter from Y. Kishimoto to P. Fernández, Tokyo, 9/2/2013). According to official documents of the European

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<sup>3</sup> In 2006 the firm already gave employment to seven times more workers (7,204 persons), and produced ten times more (3.5 million tons), than in 1975. In 2012 Acerinox was still growing, with a production of 5.6 million tons, of which 49% had its market in the US and only 8% in Spain. The year 2012 (Memorias Acerinox 2012, [www.acerinox.es](http://www.acerinox.es)) had a quota of 6.2% of the world's stainless steel market (global production was 35.4 million tons). Its industrial potential is divided over three plants in Spain (Roldán, in Ponferrada, Algeciras, Inoxfil), one in the US (NAS in Kentucky), one in South Africa (Columbus) and another in Malasia (Bahru). Its distribution network is made up of over 70 service centers, warehouses and its own commercial offices in five continents, based on a principle or model inspired initially by an idea (the proximity to industrial clients in order to adapt the product to the specific demands of the client before delivery) first used in the warehouse opened by Roldán S.A. in 1968 in Barcelona and in the service centers opened in France in the 1970s (Muñoz Cava 2009).

institutions, the first Japanese investment of stainless steel in Europe was in the Acerinox factory in Spain in 1970, in which Nisshin Steel Co. was involved. The 154,000 tons of special steels in the European foreign trade of 1954-57 was tiny in contrast to the almost 153 million tons of common steel produced by the main manufacturers of Western Europe, the US and Japan in 1950 (Iron and Steel Institute website, access march 2012; and Lanzaco unedited, 74).

Global production of stainless steel only began to accelerate from the second half of the 20th century onwards. The first million metric tons of stainless steel were not produced until 1950, according to the Iron and Steel Institute, and from then on growth was constant at an average rate of 3.5% annually (INTERNATIONAL STAINLESS STEEL FORUM - ISSF STAINLESS STEEL IN FIGURES 2012, [http://www.worldstainless.org/Files/issf/non-image-files/PDF/Stainless Steel in Figures 2012.pdf](http://www.worldstainless.org/Files/issf/non-image-files/PDF/Stainless%20Steel%20in%20Figures%202012.pdf))

There was an institutional environment in the late 1960s which created the opportunity to think about Spain as a good place to invest in a Shunan-style brand new factory of stainless steel from which to sell these new products in the European and American markets. On the one hand, in Japan the MITI was promoting through tightly controlled authorizations and credits the exports of industries with high surpluses like the stainless steel machinery builders and stainless steel flat plates producers. Japanese trading companies of big Japanese corporations had started to take positions in Germany and Belgium to try to distribute industrial products, and create commercial networks for the industrial companies of the corporations (Yonekura 1994). Spain was not initially of interest for stainless steel producers, despite the fact that, according to letters of Japanese managers of some of these trading companies, there were some companies like Fuji that were having contacts for potential investments in Andalusia or Barcelona. Also, according to V. Muñoz Cava, and F. Lanzaco, the first center of services to distribute in Spain imports of Japanese stainless steel flat products was installed in the Zona Franca of Barcelona harbor in 1964, which made the city an attractive candidate to think about a factory for Japanese industrialists. However, the final location for a Japanese investment in stainless steel production in Europe had nothing to do with previous distribution channels that existed since the 1950s in Germany and Belgium, or since 1964 in the Spanish city of Barcelona. The choice was Campo de Gibraltar, in the SouthWestern corner of Spain, a place with no previous industrial labour force (in fact, one of the worst provinces in terms of illiteracy and unemployment), no previous channels of distribution of stainless steel products, and no previous Japanese presence.

The Japanese interest in Spain developed through contacts of Spanish engineers visiting Japan in the mid 1960s (V. Muñoz Oms founder of ROLDAN S.A. and his son V. Muñoz Cava director of ROLDAN SA visited Tokyo in 1964), and visits of high officials of the Spanish Ministry of Industry to Nisshin Steel in 1969. The support of the State was in fact a key factor to attract the Japanese interest towards a place where nobody would have dared to look at the time for a modern factory. Japanese entrepreneurs avoided situations of high risk, and embraced the possibility of a long-

term commitment of the Spanish government to create stable legal conditions for development of a greenfield plant. The Spanish government was doubly interested in creating this stable environment for a JV: they eagerly needed plants able to hire thousands of low qualified local employees, and they needed growth and occupation in areas where the British interests could create political problems, as it was the case in Gibraltar, next to Campo de Gibraltar in Southern Spain.

Between 1962 and 1973, Minister Laureano López Rodó coordinated the drawing up of three Plans of Economic and Social Development, which specified various objectives to be reached and which brought together renowned technicians and business figures, experts in various sectors that needed to be promoted in some regions in Spain. This was the case of José María Aguirre Gonzalo, who was, between 1962 and 1970, president of the Transport Commission of the Plan of Economic and Social Development. Within this development plan, in 1966 a plan was decreed to stimulate development in one of the areas with most unemployment and least industrialisation in Spain: Campo de Gibraltar. The plan foresaw the installation of industrial poligons, both state-owned and private, of large companies, to give employment, develop industry and services, and to stimulate export and the influx of foreign currencies to the country (Natera 1994, Torremocha 1989). The plan was to be developed over various years, through public tenders. It was an opportunity for entrepreneurs and investors.

There existed in Madrid at this time a company called Exdisa, owned by a Valencian industrial engineer called Efrén Beltrán and a Catalan industrial engineer, Manuel Umbert. Beltrán was married to a woman whose family belonged to the Madrid aristocracy (she was daughter of the Count of Valle Suchil), with excellent contacts - still today - with the Valls Taberner family's Banco Popular. Beltrán worked in Madrid in the business of a Valencian cousin established in the capital, who sold products for the Valencian agro-industry (related to rice), until the cousin died and Beltrán set himself up independently (telephone interview with Beltrán's widow, November 2012), continuing his cousin's business and extending his cousin's network of contacts with Japanese distributors from the Nissho Trading Corporation (who at this time had a representative in Lisbon, according to a letter from its exdirector Kishimoto dated 23/2/2013). Beltrán and Umbert asked NISSHIN STEEL and NISSHO IWAI, since 1968, their participation in a joint project of manufacturing of flat stainless steel products in Spain, a product in high demand whose consumption would rapidly grow according to expectations of GDP growth of the country (all the following information comes from Archivo Federico Lanzaco, folder 3). In September of 1968 two employees of NISSHIN STEEL, one technician and one commercial person, visited Spain to write a preliminary market report for NISSHIN. In February 1969 Beltrán visited the central offices of NISSHIN in Tokyo, proposes a Spanish plan for a possible Joint Venture, and asks for a preliminary viability report. In March 1969 NISSHIN accepted the proposal, and decided to send Kishimoto Yoshitaka (subdirector of Development section of the Steel Department of the central offices of their commercial partner the trading company NISSHO IWAI in Tokyo) to have a closer view of the Spanish market. A month

afterwards, in April 1969, the President of NISSHIN STEEL, Yoshida Minoru, visited Spain, and had an interview with José María López de Letona, Sub-Secretary of the Plan for Economic-Social Development of the Spanish government, and promised the Japanese cooperation for a project of Spanish manufacturing of stainless steel. In June 1969, again a joint mission of Japanese experts from NISSHIN STEEL and NISSHO IWAI wrote a complete study in Spain about the Spanish-Japanese cooperation, including an analysis of the Spanish market, the possible location of the new factory, and the required contacts with the Spanish Administration. It was after the Japanese visit in Spain that the Minister of Industry included the sector of flat products of stainless steel within the official plans of industrial development of the backward Southern area of Campo de Gibraltar, the II Plan for the Economic and Social Development (Decree 1197 of 21 June, and Order of 25 June 1969). Beltrán officially presented his plan of ACERINOX on 29<sup>th</sup> of June of 1969, and Kishimoto visited Spain again in September of 1969 to explain to the Spanish Administration the Japanese official decision to invest in the new joint venture in Campo de Gibraltar. The project was officially approved the 20<sup>th</sup> of December of 1969, it contained no public subsidies but allowed some privileges: easiness to expropriate land, import licenses to bring heavy machinery, some credits. It also indicated that all the construction plans had to be initially linked to the performance of the company, and that a second phase of investments had to be based on foreign markets. The II Plan of Development in the area improved local infrastructures, and invested in improving illiteracy with: intensive courses of literacy, promotion and endowment of means for primary, secondary, and professional education, health centers, etc. For some people, however, the idea of locating the factory in this area was not an ambitious and wise economic policy, but a “Quixotic” project (Archivo Federico Lanzaco, folder 3, page 368).

Parallel to that, there were other engineers in Spain who had contacts and commercial agreements with Japanese trading companies since the mid 1960s. In August 1964 Victoriano Muñoz Oms, President of ROLDAN S.A. (manufacturer of iron and steel derivatives and special steels) and his son Victoriano Muñoz Cava, brand new Director of the factory of ROLDAN S.A. in Ponferrada (León) after finishing his degree of Industrial Engineering in Barcelona, travelled for the first time to Japan to negotiate and sign a technical and commercial agreement with NIPPON METAL INDUSTRY Co. Ltd. (NTK) and the trading company MITSUI Trading. In Japan they established contacts with the ROLDAN S.A. accountant's son, Federico Lanzaco, a Jesuit who with excellent training and skills in English and Japanese, who was at the time Director of the Center of Japanese Studies of the Jesuit Sophia University of Japan. The Muñoz needed Lanzaco's help the day they had to sign their agreement with NTK and Mitsui, to be a creative translator with the Japanese partners during the lunch of friendship that they celebrated in the restaurant Chinzanso in Ueno Park, Tokyo. This was the beginning of the sealing of a long-term friendship and empathy between the Muñoz family and the Japanese businessmen, that made them feel capable of presenting a competitive joint bid, supported by Banco Popular, when the official tender for the building of a Greenfield plant of stainless steel in Campo de Gibraltar was published in

the official bulletin of the Spanish government, the 30<sup>th</sup> of June of 1969 (Archivo Federico Lanzaco, folder 3, page 364).

According to a letter from the exdirector of Nissho Trading Corporation, Yoshitaka Kishimoto, in the spring of 1969, the then deputy superintendent of the Plan of Economic and Social Development, J.M. López de Letona, received in his office the president of Japan's Nisshin Steel Corporation (Mr. Yoshidaya), the representative of Nissho Y. Kishimoto, and Efrén Beltrán. They presented a plan to construct a stainless steel plant with modern Japanese technology in Spain. It is no coincidence that shortly after López de Letona received the president of Nisshin, the representative of Nissho, and Efrén Beltrán, in June 1969 (Muñoz Cava 2009:41), the government announced the public tender in the BOE (Official State Bulletin) for a stainless steel plant as part of the development plan for Campo de Gibraltar (a plan begun in 1966). Only a few months after the announcement in the BOE, in autumn 1969 (letter from Y. Kishimoto dated 23/2/2013), and before awarding the tender, López de Letona visited the Shunan factory and took part in the meeting (50<sup>th</sup> anniversary) of the International Iron and Steel Institute that took place in Osaka, with the director of Nissho Kishimoto and the president of Nisshin Steel. The deal seemed to be already concluded. In March 1968 the negotiations between Spain and the UK over the sovereignty of the territory close to the Rock of Gibraltar, including its air space, had already broken down. On June 8 1968, the Spanish government closed the border with Gibraltar, thus forcing those citizens living on the British side to return to Spain. October 1 1969, was the date set by the United Nations for the decolonization of Gibraltar through its resolution 2429 (Juan March Foundation-Archive Linz).

It was without doubt the timely coincidence of the plans of the Japanese and the Valencian, the crisis in Gibraltar, and the strategic presence of López de Letona in both issues, that, at the end of 1969, barely 17 days after the closing of the border, brought about the announcement of the public tender to build the stainless steel plant in Campo de Gibraltar, part of the development plan of the area (Archivo Federico Lanzaco, folder 3). The competition was open, but everything pointed towards it having been announced with Beltrán and his Japanese colleagues' project in mind, with the support of Banco Popular. The Banco Popular's strategic interest in these years was internationalization, although it had no significant portfolio of industrial securities (Tortella y otros 2011: 154); this from the start meant it couldn't be a solvent and experienced financial partner that could manage the long-term investments in an industry such as stainless steelworks.

According to Y. Kishimoto (letter 23/2/2013), the Japanese Minister of Industry, after exhaustive investigation (the bank that was to intermediate in the Japanese exports was a saving deposits bank and the control of risk avoidance was high in Japan, according to Kishimoto) approved a license for the project presented by Efrén Beltrán, Nissho and Nisshin in Japan, to sign an agreement of technical and financial cooperation (Exdisa of Beltrán, NIC and NSK). On December 20 1969, the Spanish government's delegate commission for Campo de Gibraltar, presided over by Laureano López Rodó, awarded the tender for the stainless steel plant to Efrén Beltrán, Popular, and Nisshin.

Banesto was the triumphant winner of the public tender, and the technical team that began the project was the Japanese team proposed by Efrén Beltrán (the industrial Nisshin and the commercial Nissho), but with a director general who was forcefully pushed for by Banesto: the engineer Victoriano Muñoz Cava from ROLDAN S.A.. In April 1970 the agreements were signed in Tokyo (representing Banesto was its then director and future minister Landelino Lavilla), and September 23 the same year Aguirre Gonzalo acceded to the presidency of Banesto. On September 30 in Madrid the Spanish Company for the Manufacture of Stainless Steel, Acerinox, was founded. The contract of Joint Venture was valid for 10 years, and every two years it could be renewed. The association between Spaniards and Japanese, with different names and percentages in the shareholding structure, still remains today after 44 years. Initially the Compañía Española para la Fabricación de Acero Inoxidable, S.A. (Acerinox) had a social capital of 600 million Spanish pesetas, with the following shareholders: Banesto 50%, Bandesco 5%, Banco Guipuzcoano 5%, Efrén Beltrán and Manuel Umberto 2.5% each (total Spanish side 390 million Spanish pesetas, 65%). On the Japanese side, Nissho Iwai had 20% and Nisshin Steel 15% (total Japanese side 210 million Spanish pesetas, 35%). The first 9 Representative Council Members of the Shareholders General Council were: José María Aguirre (President), Landelino Lavilla Asina, Pío Cabanillas Gallas, José María Caballero Arzuaba, Efrén Beltrán Artés, Gregorio Valero Bermejo, Masumura Tsukasa, Mori Seiji, and Kishimoto Yoshitaka (Archivo Federico Lanzaco, folder 3, page 369). The long name was changed to the short one Acerinox S.A. on the 17<sup>th</sup> of July of 1986.

To have the backing of Banesto, and the support of the Spanish government, were two important factors to understand the successful beginning of the stainless steel factory in Campo de Gibraltar. There were other reasons for this success, and this paper highlights as a neglected factor in the literature one in particular: the successful management of cross cultural business diversity.

First, the employees of the new factory had to be rapidly hired at local level, in one of the poorest and most illiterate regions of Spain, where no industrial past could provide knowledge or expertise. They had to be rapidly trained in the most updated and modern technologies of stainless steel of the world and the rapidly hired new local managers of the plant, who had no knowledge of Japanese language or culture, had to coordinate the construction and beginning of activities of the factory in close coordination with Japanese technicians sent temporarily to the place for training who knew no Spanish, and the top managers who oversaw the global operations of the company from Madrid, a city without direct transport connection with the plant. In the first year after the signing of the agreements of the JV, Acerinox contracted almost one thousand workers in an area of high unemployment, where the pressure on the job market had just been increased by the arrival of around 5,000 people who had been living on the other side of the border with Gibraltar (interview with first factory director J.L. Lejeune, Madrid, March 2013). According to the first factory director, the first factory workers were barely educated, but were highly efficient, able to be trained quickly and efficiently

thanks to the highly standardised Japanese processes. Also, because the agreements included planned training programs in small groups over 3-5 years, between Japanese and Spanish engineers and technicians in Campo de Gibraltar in Spain and in Shunan, in Japan (Archivo Federico Lanzaco folder 3, Muñoz Cava 2009, and interviews with V. Muñoz Cava, J.L. Lejeune and F. Lanzaco in 2012 and 2013). According to the first director of the factory, (interview with J.L. Lejeune in March 2013), Acerinox competed for this workforce with CEPSA, which, according to Lejeune and Muñoz Cava, was offering better salaries in the area, being a state-owned company and not having to count costs like the private Acerinox group.

The local managerial team was hired from young industrial engineers, most of them electrical engineers, most of them just after finishing their university studies, in order to fully train them from the beginning in the new culture of the new hybrid company (Muñoz Cava 2009 and interviews 2012 and 2013, J.L. Lejeune interview 2013). Their first local director, J.L. Lejeune, an electrical engineer (whose father and grandfather were also electrical engineers) had had recent experience in electrical plants in the North of Spain, and in Ponferrada works Lejeune had had previous contacts of work with ROLDAN S.A. and the Muñoz family. Victoriano Muñoz Cava, the first general director of the company, was an industrial engineer with good training in German and Italian steel processes, and though his central office was in Madrid he continuously travelled to Campo de Gibraltar to oversee the construction of the plant and beginning of works, and to visit providers and clients in Europe, Asia and America.

To train this workforce, and the local managers of the plant, the Japanese partners sent a team of technicians from NISSHIN STEEL, led by the well-known engineer Mori Seiji, with his adjunct colleagues Nabecho, Goto, and others that would come in the following years. Nissho Iwai sent Kishimoto Yoshitaka to coordinate the commercial and economic sides of the project. The joint investment of Nisshin Steel and Nissho Iwai in Acerinox in 1970 was considered at the time to be one of the largest industrial investments of Japanese companies in Europe (Archivo Federico Lanzaco folder 3 page 370 and Muñoz Cava 2009).

To have a permanent cultural mediator between the local Spanish workforce/managers and the Japanese technicians/managers, the first General Director Victoriano Muñoz gave all his trust to Federico Lanzaco, appointed associate manager to the General Direction on the 1st of February of 1971, to reduce cultural tensions and maintain in a sustained way a positive atmosphere. Lanzaco was the son of Roldan's accountant, his uneasiness with the Barcelona of Franco's time in the 1950s and the lack of opportunities moved him to enter the Jesuit order, and there Padre Arrupe realized his natural skills in foreign languages and decided to direct his training during at least a decade to become an authority in oral and written Japanese and English. For this, Lanzaco spent several years in the University of Sophia in Tokyo, where he had privileged access in the early 1960s to Japanese literature, TV, newspapers, and contacts with Japanese business information and people. Also, in the US, and finally teaching how to learn foreign languages in Japan until he finally decided to leave Japan for

personal reasons, abandon the Jesuit order, and work again in Barcelona, around 1969, when the Acerinox plans were well under way, and needed an expert in Japanese language and culture. Lanzaco married in 1971, and right after his honeymoon he started heavy work of translation and cultural bridge for the Acerinox project in Madrid, with travels to the new factory in Campo de Gibraltar. Lanzaco was professor of Humanities in the Sophia University of Tokyo, where he was used to read and write “Kanji” handwritten by young students. Kanji was the language in which the original handwritten texts sent from Shunan to Campo de Gibraltar were written, so it was strategically urgent to have someone in which to trust, fluent in kanji, with skills in Japanese culture, to understand technical texts and to understand Japanese technicians visiting Spain. Victoriano Muñoz needed immediate translation of the numerous technical documents sent by Nisshin Steel to teach Spanish managers how to build and use the machinery of their new plant. They were lucky, they had Federico Lanzaco. The engineer Mori and his young colleagues from Japan could not believe that a Spaniard was able to correctly translate Kanji texts.

Lanzaco translated, very quickly, in February 1971, with his accumulated knowledge of Kanji, and the help of the Japanese engineers in the factory, and some dictionaries: 9 texts with information about Nisshin Steel, the province of Yamaguchi (where Shunan factory was doing stainless steel) and the cities of Tokuyama and Shinnanyo where the factory of Shunan was (Archivo Federico Lanzaco, folder 3, page 372). Also texts about: Organization of Control of Work in the Factory of Shunan, Manual of Instructions of Officials, General Rules of Security and Health, Rules of the Personnel in Practices, and Rules for the Residence of Single employees of Daiwa (in that residence young Spanish technicians from Acerinox lived during the ten months of their stay in Shunan for training in coming years). All these translations were performed in one month, February 1971. In Spring and Summer 1971 Lanzaco had to do the worst and most important work, to translate in a clear way technical explanations about the different lines of teams in the successive processes of manufacturing of laminated products in cold for flat products of stainless steel. The original documents were handwritten in kanji, in blue paper difficult to read, and they included at least 19 different handbooks on how to use different machines used in Shunan, that would be used in Acerinox. Lanzaco had to use lenses from then onwards. In the Fall he translated more handbooks on how to operate more machinery and perform processes. The translation, month by month, of dozens of texts, followed in 1972. At the end of 1972 the translations started to include commercial texts, to be able to sell stainless steel products and how to deal with clients' complaints, or how to preserve technical secrets. More technical manuals were translated (at least ten more) between 1973 and 1977, for every single machine and every single detail.

Two Japanese translators, Oguino and Ito, worked in Acerinox Madrid, to deal with the daily conversations between technicians of Nisshin and Acerinox. Lanzaco had to help in conversations regarding details of the agreements at the top level between Spaniards and Japanese. The Japanese wanted to have well planned details about the lifestyle of

their expatriates, which the Spaniards did not understand but had to understand and support, like: house, cars, holidays, working hours, complete medical assistance, maintenance of relatives coming with the technicians, travels to Japan while working in Spain, etc. (Archivo Federico Lanzaco folder 3, page 374).

Young Spanish engineers finishing their degrees, rapidly hired by Acerinox, were immediately sent to Shunan in Japan for ten months to receive training in the factory of Nisshin, and after this stay the team immediately took over the operation of activities of sections of the new factory in Campo de Gibraltar, where Japanese teams helped them plan until the last details to achieve the best performance. Six Japanese translators were selected and hired by Federico Lanzaco to be in the factory from Madrid and Barcelona, with the help of Lanzaco's friend Antonio Cabezas, professor of Spanish in Universities of Kyoto and Kobe in Japan. These young Japanese translators were trained in Campo de Gibraltar to be there and stay.

In 1973 the factory already had a commercial network in Spain, and started exports through Japanese commercial channels in Europe, initially, and soon with the expertise and work of Spanish commercial employees. From the beginning the exports were addressed to "tough" rival countries in Europe: France, Italy, Germany, UK, Sweden. From 1974 exports were sent to the US.

The cultural hybridization seemed to be a success.

Apart from Lejeune, six other professionals with experience were contracted at the end of 1970: Manuel López de la Parte (of Banesto) as financial director; José Maria Cornejo (engineer of ICAI) for mechanical assembly; Luis Escolar, industrial engineer with experience in cold rolling of aluminium; Francisco Sagrera, industrial engineer in charge of public works; and Diego Guzmán, lawyer in charge of the purchase and expropriation of land for the factory. Going against the advice of the Japanese to contract engineers with ten years' experience, young people recently out of universities and colleges were contracted and trained for between 6 months and a year in Japan: Rafael Naranjo (current president of Acerinox), Pepe Riestra, Antonio López Igualada, Ignacio Fernández de Castillo, Guillermo Vaca de Alba, Paco Ruiz, Fernando Baldor, Miguel Conde, Julio Vizoso, Javier Alberich, Cristóbal Bulpe, and Manuel Sánchez (Muñoz Cava 2009:45).

The two cultures seemed to be destined for friction, but they reacted to the inevitable differences not with aversion and distancing, but with curiosity and respect. Everyone wanted, despite the different cultures, progress for the joint partnership. They showed mutual respect, they learned from each other, and brought this pioneering experience of Japanese industrial investment in steel in Europe to a successful conclusion (Historical Archives of the European Union, CEAB FONDS April 1970).

The contracts signed in agreement to technical, financial and human resource training strategies, as well commercial strategies, were the best example of consensus despite

differences. They also were a precedent for the way Spanish and Japanese could coexist in the future, still true today, based on deep-seated respect.

The seven agreements of the Joint Venture determined that the partnership would last 20 years and would be renewable (the participation of Nisshin as a major shareholder and on the council continues until now); they also determined agreements on technical assistance, on construction and operating of the plant in Algeciras, on finance, export and personnel training.

The contracts obliged the Algeciras plant to buy stainless steel annealed coils from Nisshin Steel Work (NSW): the Japanese wanted all annealed coils to be bought exclusively from them, but the Spanish insisted on a maximum of 30% (Kishimoto 23/2/2013).

They also limited the capacity of the Spanish to undertake activities of internationalization on their own, something that was flagrantly disregarded in 1992-93 when the opportunity arose in the United States to become partners with ARMCO and form a new company in which technical innovation would be supplied by Acerinox and the sales network in the US by the Americans. The Spanish directors independently went ahead and signed the agreement with the North Americans, although immediately afterwards, the Spanish director general flew to Tokyo to visit the president of Nisshin in hospital and explain to him and his team of directors the details and the benefits this agreement would bring to everyone. The board at Nisshin understood that it had been a good opportunity and that they themselves should have been ahead of the Spanish in entering the US market; as a consequence, the people responsible were taken to task and the decisiveness and far-sightedness of the Spanish directors were praised (Muñoz Cava 2009, interview with Herrera, Lanzaco and Muñoz).

The benefits of the partnership for NIC/SNK, according to Y. Kishimoto (letter 23/2/2013) was the sale of stainless steel hot rolled coils, the sale to Spain of products for electric ovens, and the channeling of exports from Algeciras through Nisshin's European sales networks. Additional benefits were royalties for NSK in accordance with production, dividend remuneration from shares, and the expectation that Acerinox would be the Japanese' exclusive client of rolled steel products in Spain. According to Kishimoto, the Japanese' expectations were frustrated when, for example, Banesto insisted on no initial pay-out of dividends, using instead the profits to recoup investments in five years and avoid paying tax on dividend pay-out. The Japanese needed the dividends because the capital they had invested was the guarantee given to their banks in Japan for the loan, but they accepted the deadline of five years. On the other hand, the Japanese also surprised them with a condition laid down by the Ministry of Industry, without which the construction of the plant would not be approved: to integrate the steelworks and the rolling mills (this had not been mentioned in the previous talks with López de Letona y Efrén Beltrán). Integration would mean more potential and better competitiveness for Acerinox with regard to the Japanese partner, as indeed it turned out to be.

The agreements determined, as we have noted above, the training courses for mid- and high-level technical staff. In the first phase, from 1970 to 1974, a course was programmed and repeated, first for teams of workers in cold rolled steel, then in hot rolled steel (a smaller number): ten Japanese engineers from NSK came to help in the construction and assemblage; thirty technicians from Japanese machine builders came to set up and show the working of the machines they had brought; sixty Spaniards spent half a year learning in the Nisshin factory in Shunan.

#### **4. Final Reflections**

This work takes the case of the history of the origins of Acerinox, one of the world's biggest groups in stainless steel production, to put forward a hypothesis that could compliment the LLL model: that historical circumstances, fruits of the track record and of chance in each territory, are the key to explaining why, when and how the combination of potential resources becomes activated which could, in developing markets, lead to the creation of world-leading multinationals. Applying the model, the study shows that Acerinox was a latecomer firm in an expanding dynamic sector, founded to export and insert itself in foreign markets. It started out, in 1970, from an initial position of few strategic resources (in-depth knowledge of the technology and global markets of stainless steel), but a decent amount of potential, non-strategically useful resources: a large work force that, despite a low level of literacy, was well organized for learning standardized processes in training courses lasting up to 3-5 years with Japanese technicians and translated manuals; directors who were well prepared in the sector of stainless steel and electrical installations; a patient long-term capital investor in the form of the principal partner, one of the top banks and industrial corporations of the country; abundant, cheap, reclassified land close to a natural harbour; abundant cheap energy; cheap transport; personal networks between bank/engineering/industry/Japanese culture.

These abundant and dispersed resources were mobilized, enabling the acquisition of contracts and contacts that would transfer technology and commercial links to global markets, thanks to a factor not considered in the LLL model: the dependency of the track record. The studied case reveals that the historical circumstances of a country, plus the previous track record of the entrepreneurs (together with the history of their regions) could be key to the mobilization of potential resources in private companies with no state funding, in developing countries, and thus allow the necessary strategic resources for internationalization to be captured. In the case of Acerinox, the abundant non-strategic resources on their own were unable to combine to capture technology and knowledge of global markets. It was the diplomatic conflict over Gibraltar, which reached crisis point in the 1960s and culminated with the closing of the border in June 1969, that triggered the change: in the course of one year (between 1969 and the start of 1970), the relatively disconnected, cheap, abundant, potential resources that existed in the country were mobilized and combined for the creation of Acerinox. The necessity to push the regional development of Campo de Gibraltar in the face of the expected arrival

of 5,000 people displaced from the British side, as well as to acquire foreign currency through export, no doubt led Franco's ministers of Industry, Franco López de Letona and López Bravo, to call for tenders in the mid 1960s and support private projects to build a stainless steel plant in the bay of Algeciras and not in Malaga or Barcelona, as the engineer promoters of the idea would have preferred.

Also influential was the previous historical track record of informal contacts with other countries by Catalan, Valencian and Basque engineers, which made possible that, in the light of the historical opportunity of the Gibraltar conflict and the urgency of the government of Opus technocrats, the choice of foreign partner from whom to learn about establishing a modern and global stainless steel industry in Spain was the correct one: it could have been Italy, Germany, or France, but the choice was Japan, because first the Valencian Efrén Beltrán and the Catalan Manuel Umbert, and then the Catalan Victoriano Muñoz Cava (son of engineer author of the Plan of Public Works of Catalunya in 1935, co-founder of Enher), all recognized that the world's best industrial and commercial teachings, quick and standardized, of cutting-edge knowledge of stainless steel, came from Japan. The Europeans were not going to help the Spanish conquer the EU markets or the distant protected market of North America. But the Japanese could. It was a mutually beneficial partnership, but also a challenge because of the very different business cultures, the lack of trade agreements with Japan, the ignorance of foreign languages on both sides, and the desert in which the plant had to be built by government decision. There were good human and financial resources behind it, and previous networks of understanding with the Japanese culture, which were activated with great efficiency and opportunity in order to make the most of the available resources.

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