

Organization of the Multinational Enterprise: A Study of Mitsui & Co. in China

By Ryutaro Yamafuji
Japan Society for the Promotion of Science

The purpose of this article is to study Mitsui & Co.'s organization in China. The organizational restructuring of Mitsui & Co.'s Chinese branches increased in the period 1899–1900. With reformation, the number of employees doubled and the appointments increased. Prior to the makeover, there were only two appointments (branch manager and accounting section). However, sections for product consideration, like coal and cotton sections, were set up after the reform. Mitsui & Co eventually had the selection of a combination of both product and area divisions in the mixed structure as “Matrix” organization.

Introduction

Mitsui & Co. is the oldest and largest general trading company in Japan; its origin and development has been the subject of a great deal of research¹. Yonekawa (1990) defined a general trading company as “a firm that trades all kinds of goods with all nations of the world.”² This definition includes the following features: (1) dealing with all kinds of commodities and (2) conducting business with all kinds of places throughout the world; moreover, these features result in certain organizational issues. Stopford and Wells illustrated the organizational structures of multinational enterprises through Chandler's explanation³.

Chandler (1962) classified structural change into three stages⁴. Stage 1 comprises a single product line and is managed by a single person; stage 2 comprises a single product line and functional departments; and stage 3 includes new product lines and incorporates the system of functional departments. The functional structure adapts for stage 2, and the divisional structure adapts for stage 3. The study by Stopford and Wells (1972) was on the basis of this classification⁵; they divided a multinational enterprise into three stages: Stage 1 includes a single product line and a single foreign market; stage 2 includes additional foreign markets; and stage 3 involves certain product lines and multinational markets. They defined stage 3 as “A Global Structure” composed of three structures. The first, like Olin Mathieson, concerns the organization's structure with regard to products. The second, such as Corn Products, divides the organization into area divisions. The third, like AMF Corporation, involves the selection of a combination of both product and area divisions in a mixed structure. Davis (1977; 1979) referred to the mixed structure as the “Matrix” in his books⁶.

Mitsui & Co. established its Shanghai branch in 1877, its Hong Kong and Paris branches in 1878, and its London branch, and Lyon and Milan offices in 1879. In its initial days, the company dealt with certain goods and with select nations. It chose its

structure on the basis of location. However, it achieved success and growth in terms of volume, the number of goods increased, and the organization established many new branches. It adopted a “Standardized Accounting System” in order to coordinate its numerous goods and branches. Morikawa (1972) explained the reasons for the adoption of this system as (1) the prevention of internal competition between Mitsui & Co.’s branches and (2) inhibition of appreciation on selling price because of each branch take margin⁷. He interpreted the Standardized Accounting System as an accommodated department system on product consideration.

The purpose of this article is to study Mitsui & Co.’s organization in China. There were two reasons for placing focus on the Chinese branches. First, the number of branches in China has increased in the years straddling 1900. Prior to the First Sino-Japanese War (1894–1895), Mitsui & Co. had only three branches (Shanghai, Hong Kong, and Tianjin) in China. After the Russo-Japanese War (1904–1905), it had eleven branches (Shanghai, Hong Kong, Tianjin, Yingkou, Taipei, Amoy, Chefoo, Honkou, Beijing, Guangdong, and Tainan) in China. The second reason is to shed light on the abolishment of the comprador system⁸. The Shanghai branch abolished the comprador system in 1899; Tianjin, in 1900; Taipei, in 1901; and Hong Kong, in 1902. Therefore, we will highlight the organizational change of Mitsui & Co. in China in the years straddling 1900.

Shanghai Branch

The Shanghai branch is the oldest foreign branch of Mitsui & Co. Its principal goods were coal, cotton yarn, and cotton cloth. The coal was sold to European steamship lines and Chinese factories. And the cotton yarn and cotton cloth were sold to Chinese merchants.

The organizational change extended until 1899. In 1898 (figure 1), the Shanghai branch had 12 employees and only 2 appointments (branch manager and one person for the accounting section). However, it had a staff comprising 23 persons and 11 positions (branch manager, assistant branch manager, one person each for the cotton section, general merchandise section, coal section, insurance section, accounting section, teller section, vessel section, delivery section, and a petty cashier) in 1899 (figure 2).

Figure 1: Shanghai Branch in 1898

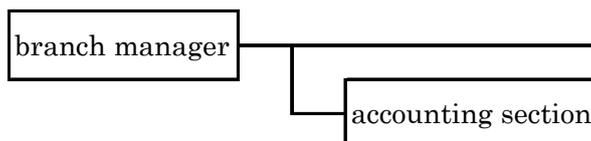
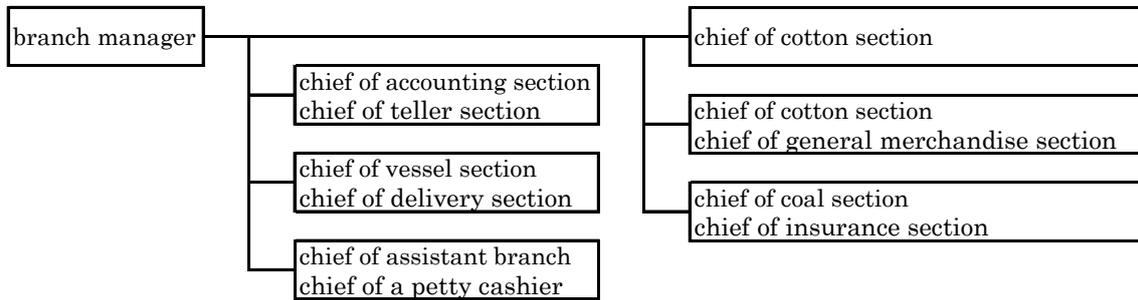


Figure 2: Shanghai Branch in 1899



Hong Kong Branch

The Hong Kong branch is the second foreign branch that Mitsui & Co. established. Its principal trading good was coal, which it sold to European steamship lines. This branch was restructured in 1899. The number of employees was doubled (from 8 persons to 16 persons) from 1898 (figure 3) to 1899 (figure 4). There were only two appointments (branch manager and a person for the accounting section) in 1898; however, they were increased to seven (one branch manager, one person each for the coal section, sales section, purchase section, accounting section, vessel section, and delivery section, respectively) in 1899.

Figure 3: Hong Kong Branch in 1898

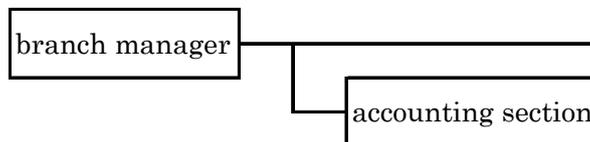
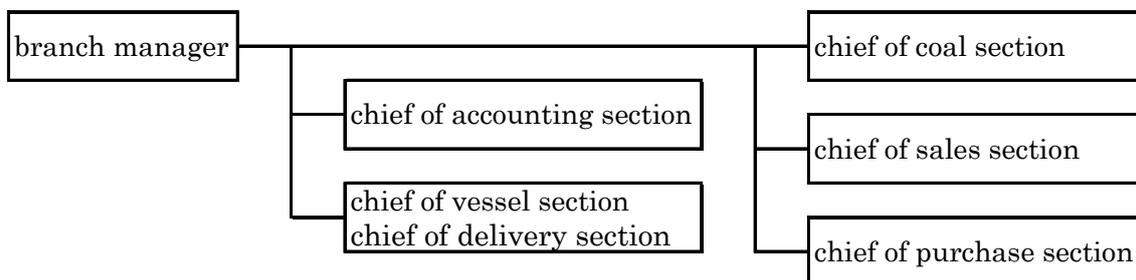


Figure 4: Hong Kong Branch in 1899



Tianjin Branch

The Tianjin branch was opened in 1888 and reformed in 1900. In 1899 (figure 5), it had only two employees and two appointments (branch manager and a person for the accounting section). However, its staff comprised ten people and three positions (branch manager, and one person each for the sales and accounting section) in 1900 (figure 6).

Figure 5: Tianjin Branch in 1899

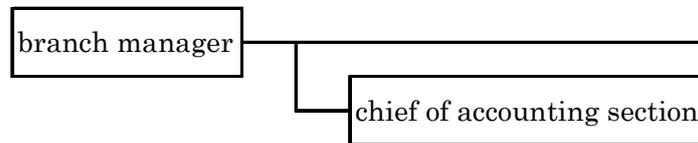
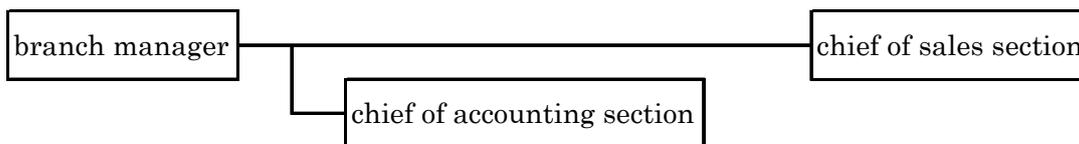


Figure 6: Tianjin Branch in 1900



Taipei Branch

The Taipei branch was set up in 1896 and restructured in 1900. The number of employees was doubled (from three persons to six persons) in the period 1899–1900. There were only two appointments (branch manager and one person for the accounting section) in 1899 (figure 7); however, the number was increased to eight (branch manager, and one person each for the machinery section, insurance section, communication section, sales section, purchase section, delivery section, and accounting section) in 1900 (figure 8).

Figure 7: Taipei Branch in 1899

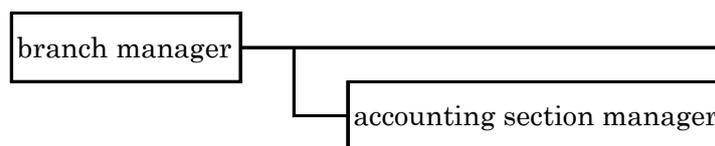
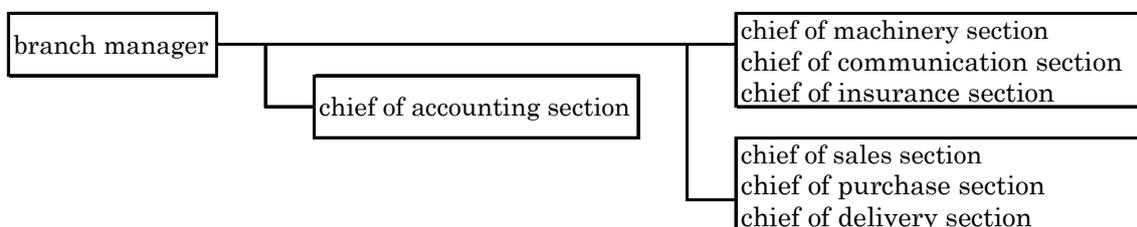


Figure 8: Taipei Branch in 1900



Conclusion

The organizational restructuring of Mitsui & Co.'s Chinese branches increased in the period 1899–1900. With reformation, the number of employees doubled and the appointments increased. Prior to the makeover, there were only two appointments

(branch manager and accounting section). However, sections for product consideration, like coal and cotton sections, were set up after the reform.

In 1900, Mitsui & Co. changed its organizational structure from only considering the location to a matrix—a combination of both product and area divisions in a mixed structure. Matrix structures are prevalent and are a resource of competitive advantage in Japan⁹. Clark et al. (1987) explained the role of a heavyweight project manager for a matrix structure as “not only a coordinator but a concept champion with direct responsibility for all aspects of the project.”¹⁰ The study of Mitsui & Co.’s matrix structure in this article would contribute to organizational studies in the matrix structure.

¹ For example, Makoto Kasuya, “The Business Actives of Mitsui & Co.’s London Branch, 1879–1896,” *Japanese Yearbook on Business History*, Vol.17, 2000, pp.67–87; Shin’ichi Yonekawa ed., *Business History of General Trading Companies*, University of Tokyo Press, 1987; Shin’ichi Yonekawa ed., *General Trading Company*, United Nations University Press, 1990.

² Yonekawa (1990), p.1.

³ John M. Stopford and Louis I. Wells, *Managing the Multinational Enterprise*, Basic Books, Inc., 1972.

⁴ Alfred A. Chandler Jr., *Strategy and Structure: Chapters in the History of the Industrial Enterprise*, M.I.T. Press, 1962.

⁵ Stopford and Wells (1972), pp.18–27.

⁶ Stanley M. Davis, *Matrix*, Addison-Wesley, 1977; Stanley M. Davis, *Managing and Organizing Multinational Corporations*, Pergamon Press, 1979.

⁷ Hidemasa Morikawa, “Meijiki Mitsui Bussan no Keiei Soshiki: Kyotsu Keisan Seido wo Chushin ni [Managing Organizations of Mitsui & Co. in Meiji Period: Standardized Accounting System],” *Keieishirin*, Vol.9, 1972, pp.7–23.

⁸ Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880-1937*, University of California Press, 2000; Yen-P’ing Hao, *Comprador in Nineteen Century China*, Harvard University Press, 1971.

⁹ Kim B. Clark, W. Bruce Chew, Takahiro Fujimoto, John Meyer, and F. M. Scherer, “*Product Development in the World Auto Industry*,” *Brookings Papers on Economic Activity*, Vol. 1987, No. 3, Special Issue On Microeconomics, 1987, pp.729–781.

¹⁰ Clark et al (1987), p.752.