

LARS ÅGREN

Swedish Direct Investment in the U.S.

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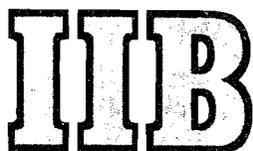
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Swedish Direct Investment in the U.S.

Lars Ågren



STOCKHOLM SCHOOL OF ECONOMICS

Institute of International Business

For Ann-Charlotte

”Plötsligt faller solen som en glödande sten, mörkret är ogenomträngligt och vi inser att vi befinner oss på ett gungfly över bottenlösa djup. Dagar och dagar: *detta* är ett ögonblick av sanning, en fast punkt, *äntligen*, nu skall vi bli lugnt metodiska. Härifrån och dit är två meter och sjutton centimeter, det antecknar vi. Det är bäst att mäta en gång till. Nu är det fjortontusen meter.”

Ingmar Bergman

Preface

This thesis is a part of the research program "Swedish Investment in the U.S." performed jointly by the Institute of International Business (IIB), at the Stockholm School of Economics, Project on Technology, Work and Character (PTWC), Washington, and The Swedish Council on Management and Work Life Issues (FA rådet).

The present volume, and the research that produced it, would not have been possible without the cooperation of a large number of individuals active in Swedish firms with operations in the U.S. More than 200 managers of such firms contributed to the study by completing a comprehensive survey study. A number of others provided invaluable help by participating in interviews made when planning the survey study and when preparing case studies. We wish to warmly thank all those individuals for giving so generously of their time. Special thanks are due to Volvo Truck Corporation and to Ericsson Telecom for their generosity and openness in allowing the undertaking of in-depth case studies of their U.S. operations.

Stockholm in April 1990

Jan-Erik Vahlne
Director
Institute of International Business

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Many thanks are due also to Volvo Truck Corporation and to Ericsson Telecom. Without the generosity of these two companies, the two case studies that form part of the project "Swedish Investment in the U.S." and that also constitute an important element of this thesis would not have been possible. In my role as co-author of the case Volvo Truck Corporation I, in particular, would like to thank Mr Torsten Dahlberg and Mr Thage Berggren for their kind interest in, and continued support of this study.

Special thanks are also due to Volvo Truck Corporation for providing the photo that is reproduced on the cover of this book. The picture may be thought of as symbolizing the long, difficult road that has to be covered by those companies striving for success on the U.S. market, including the extent to which they may have to adapt their products to achieve such success. Colleagues in the academic world may, perhaps, also find other symbolic values hidden in this photo.

It goes without saying that my fellow doctoral students and other colleagues at the Institute of International Business have contributed greatly to this study, both by providing professional advice and by, in general, contributing to a very stimulating environment. Special thanks are due to Maria Lindqvist for helping me to concentrate on research work by taking care of the Stockholm School of Economics' student exchange program for a very extensive period. In this connection, Robert Nobel likewise helped out on numerous occasions.

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As is evident from the above, a large number of persons have positively contributed to all the merits that this thesis may have. Its fallacies and deficiencies are, however, entirely my own.

Stockholm, April, 1990.

Lars Ågren

Contents

1. Introduction 1
 - 1.1 Why Study Swedish Investment in the U.S? 1
 - 1.2 Describing Swedish Investment in the U.S. 4
 - 1.3 The Market Structure Facing Swedish Investors in the U.S. 5
 - 1.4 Strategies Followed by Swedish Firms Investing in the U.S. 7
 - 1.5 Managing Swedish FDI in the U.S. 10
 - 1.6 Brief History of a Research Project 12
 - 1.7 The Structure of the Book 13
 - Notes to Chapter One 15

2. Research Method 17
 - 2.1 The Chosen Research Design and its Relation to the Four Purposes of the Thesis 17
 - 2.2 The Survey Study 19
 - 2.2.1 Constructing the Questionnaire 19
 - 2.2.2 Defining the Population 21
 - 2.2.3 Collecting the Survey Data 23
 - 2.3 The Case Studies 28
 - 2.3.1 Considering the Case Method 29
 - 2.3.2 Selecting the Cases 30
 - 2.3.3 Collecting the Case Study Data 31

3. The Magnitude and Type of Swedish Investment in the U.S. 33
 - 3.1 Putting Swedish FDI in the U.S. into Perspective 33
 - 3.2 Providing a Historical Perspective 39
 - 3.3 Some Characteristics of Swedish FDI in the U.S. 41
 - 3.4 The Results Achieved by Foreign Investors in the U.S. 49
 - 3.5 Summarizing The Findings 56

- 4. The Role of Industry Structure and Firm Strategy 59
 - 4.1 Introduction 59
 - 4.2 Explaining the Existence of FDI and the MNE 60
 - 4.3 Motives for FDI 66
 - 4.3.1 Motives for FDI in the U.S. 69
 - 4.3.2 Motives for Swedish FDI in the U.S. 73
 - 4.4 The Internationalization Process 75
 - 4.5 The Choice of Entry Mode; Greenfield versus Acquisition 78
 - 4.5.1 Generating Hypotheses 82
 - 4.5.2 The Evidence 84
 - 4.6 Industrial Organization 92
 - 4.6.1 Defining the Dimensions of Industry Structure 93
 - 4.6.2 The Industry Structure Facing Swedish Investors 94
 - 4.6.3 The Influence of Industry Structure 98
 - 4.7 From International to Global Competition 104
 - 4.7.1 Investigating the Role of Market Share 105
 - 4.7.2 Considering the Swedish Firms in the U.S. 106
 - 4.7.3 Strategies for the MNE 112
 - Notes to Chapter Four 117

- 5. The Role of Management and Culture 123
 - 5.1 Managing the Multinational Enterprise 123
 - 5.1.1 Managing Swedish MNEs 125
 - 5.2 Some Recent Developments 128
 - 5.3 Managing Cultural Differences 130
 - 5.4 Summarizing the Arguments; A point of Departure 135
 - 5.5 The Findings 136
 - Notes to Chapter Five 146

- 6. The Cases 149
 - 6.1 The Case of Volvo Truck Corporation 149
 - 6.1.1 Introduction 149
 - 6.1.2 AB Volvo and Volvo Truck Corporation 149
 - 6.1.3 The Heavy Truck Industry 152
 - 6.1.4 The North American Truck Market 153
 - 6.1.5 Volvo Trucks in the U.S

6.1.6	White Motor Corporation	158
6.1.7	The Acquisition	160
6.1.8	The Assets of White Motor Corporation	161
6.1.9	The Reconstruction	161
6.1.9.1	Improving Dealer Relations	161
6.1.9.2	Rationalizations and Improved Systems	162
6.1.9.3	Improving Product Quality	163
6.1.9.4	Marketing	163
6.1.9.5	Product Acceptance	164
6.1.9.6	Creating a New Corporate Head Quarters	165
6.1.10	Intercultural Relations	166
6.1.11	Management by Consensus	167
6.1.12	Personnel Policy	169
6.1.13	Summary and Concluding Remarks	169
6.1.14	Forming a New Venture: Volvo GM Heavy Truck Corp	172
6.2	The Case of Ericsson Telecom	174
6.2.1	The Ericsson Group and Ericsson Telecom	174
6.2.2	The Telecommunications Industry	176
6.2.3	Three Attempts to Enter the U.S. Market	178
6.2.4	Product Adaptation	180
6.2.5	Creating a Marketing Organization	181
6.2.6	A Mounting Crisis	182
6.2.7	Reappraisal and a New Start	183
6.2.8	Results Achieved and Lessons Learnt	184
6.3	Comparing the Cases	186
6.3.1	The Motives	186
6.3.2	The Role of Industry Structure	187
6.3.3	The Choice of Strategy	190
6.3.4	Managing Swedish Investment in the U.S.	193
7.	Summary and Conclusions	197
7.1	Introduction	197
7.2	Summarizing the Findings	198

7.2.1	Describing Swedish Direct Investment in the U.S.	198
7.2.2	The Industry Structure Facing Swedish Investors	199
7.2.3	The Strategies Employed by The Swedish Investors	200
7.2.4	Managing Swedish Investment in the U.S.	201
7.3	Theoretical Implications	203
7.4	The Lessons Learnt - Implications for Managers	211
7.5	Suggestions for Future Research	216
	Notes to Chapter Seven	218

References 219

Appendices 229

1 Introduction

1.1 Why Study Swedish Investment in the U.S. ?

In 1967, Jean-Jacques Servan-Schreiber published his best-selling book "Le Défi Américain" ("The American Challenge"). Servan-Schreiber's main argument was that Europe was flooded by American direct investment and that the sovereignty of the European nations was challenged by the ever increasing power of the American multinationals. Today, some 20 years later, a vastly different scene can be pictured. Firstly, although the U.S. remains the world's leading home country of foreign direct investment (FDI), it has, during recent years, also emerged as the leading host for such investment (see, for example, Sneddon Little, 1986). Secondly, as an effect of this change in the direction of FDI flows, a debate is raging in the U.S., in which the main issue is whether America is being sold out to foreigners. Viewpoints in the affirmative can be found not only in the popular business press but also in more scholarly works (see, for example, Gordon and Lees, 1986).

The American fears of being taken over by foreign investors are probably as ill-founded as the corresponding fears felt by Europeans 20 years ago. However, the stock of foreign direct investment in the U.S. has indeed grown rapidly during recent years, and the gap between the total FDI emanating from the U.S. and the total FDI made in the U.S. has shrunk drastically. As one part of this process, a number of very significant acquisitions in the U.S. have been made by European and Japanese multinationals. Quite a few American "household names" have thereby become controlled by foreigners. The largest share of the total direct investment in the U.S. emanates from Great Britain. Hamill & Crosbie (1988) note;

"Last year (i. e. 1987) was a record year for British acquisitions in the U.S., with a total of 262 take-overs valued at approximately \$ 32 bn.....Despite some reorientation of British direct investments towards Continental Europe in the run-up to 1992, the focus of foreign acquisitions by British companies remains firmly in the U.S. ...acquisitions announced by British companies this year include Beazer's take-over of Koppers; Marks and Spencer's acquisition of Brooks Brothers; Ferranti's acquisition of ICS; and the bids by BAT and Maxwell for Farmers and MacMillan respectively."

The Swedish experience is no exception. During the mid 70's investment in the U.S. accounted for some 10% of total Swedish FDI (Bank of Sweden statistics); ten years later that figure had risen to 30%. A number of major acquisitions have been made by Swedish firms also, for example, the acquisition of White Motor Corporation by Volvo, and that of White Consolidated by Electrolux.

The growing concern among Americans that the country is being "taken over by foreigners" has also had consequences for Swedish firms. Electrolux' bid for Murray, a Tennessee-based manufacturer of lawnmowers, caused a massive storm of protests including full-page ads in the major Swedish dailies (Murray was eventually acquired by the British firm Tomkins). The fact that the proportion of Swedish FDI going to the U.S. has dropped during 1987/88, probably as an effect of the increased efforts on the part of Swedish firms to prepare themselves for the integrated European market, does not alter the impression that the U.S. market very rapidly has become of central importance for a very large number of Swedish firms.

Given that Swedish FDI in the U.S. has been very substantial during recent years, it becomes of interest to find out something about the results of these investments. Are we looking at a success-story or at a series of failures?

Leksell et al. (1981), in an early study of Swedish FDI in the U.S., found that in 1980, 20% of all firms in their sample had negative rates of return on their U. S. operations, and that in total the rate of return for Swedish subsidiaries in the U.S. was lower than the average for Swedish firms listed on the Stockholm Stock Exchange. Absolute rate of return is a somewhat problematical measure of corporate success, and Leksell et al (op cit), in their survey, therefore also included a question about results achieved *compared with initial expectations*. Here, they found that 55% of the companies in their sample had experienced, over a five year period, rates of return that were worse or much worse than expected.

It is not difficult to find examples of problems encountered by investors entering the U.S. from European countries other than Sweden. (See Börsens Nyhetsmagasin, January 13, 1986, for an example of business press reporting, and McClain, 1986 and Hamill, 1988, for the academic perspective). The rates of return reported by European companies entering the U.S., in general seem to be lower than what could be expected. Commenting on the 1975-82 period, Mc Clain (1986, p. 327) notes that:

"...it is likely that the rate of return on equity for European manufacturing firms has not been much above 10%, if that high....By comparison, the average rate of return for all U.S. manufacturing companies during this period was 13.6%."

The experience of British companies which, given the size of the British investments in the U.S., is of particular interest, is summarized by Hamill (1988, p. 12):

"What evidence there is, suggests that the performance of British acquisitions in the U.S. has been disappointing, with the rate of return being considerably less than expectations at the time of the takeover."

Both the theoretical arguments that have been used to explain FDI in general, and the available empirical evidence, however, suggest that the rates of return on FDI should be higher than in indigenous industries. It thus seems as if there are special circumstances that make it difficult to succeed in the U.S.

Coming back to the Swedish perspective, the picture that emerges is one in which very large efforts, in terms of money and management time, are being made in order to enter the U.S. market. The results of these efforts are, however, apparently often far from satisfactory. In this situation, it is unfortunate that we know so relatively little about the Swedish FDI in the U.S. For example, we lack detailed information about the number of Swedish firms that have invested in the U.S., the size of these investors, the size and nature of their investments and the scope of their activities in the U.S. Likewise, we do not know very much about the strategies chosen by Swedish firms for entering the U.S., nor about the nature of the competition they face once they have entered the market. Finally, we are relatively ignorant of how Swedish firms organize their activities in the U.S., and of how they communicate with their American employees. Are there cultural differences that have to be bridged and, if so, how can this be accomplished?

In sum, there are a number of important issues regarding Swedish investment in the U.S. on which our level of knowledge is far from satisfactory. It is the aim of this thesis to throw some light on the most pressing of these issues, a purpose that will be given a more detailed outline in the following four sections of this chapter.

1.2 Describing Swedish Direct Investment in the U.S.

When discussing the issue of Swedish FDI in the U.S., it is hard to deny the need for more adequate and extensive descriptions of the object of study. Official statistics certainly exist but tend to be limited to aggregate figures, thus providing essentially no information about single investors. (It may be noted that research on FDI, in general, tends to be based on such statistics. There is thus a very definite need for research based on information gathered at the company level.)

The limited work which has been done in the area of Swedish FDI in the U.S. (i. e. Leksell et al, 1981) must be regarded as a pilot study only; the remaining sources of information about the issue at hand are the business press and reports by consultants. The business press can, for obvious reasons, be used only as a supplementary source of information, and reports prepared by consultants tend to be limited in scope and often suffer from methodological weaknesses. For example, companies cannot be expected to disclose sensitive information to outside consultants. Furthermore, reports of this kind are often not available to the general public (for examples of consultants' reports on Swedish FDI in the U.S., see Arthur Young, 1984 & 1986, and McKinsey & Co, 1987).

The first purpose of this thesis, thus, is to provide a more detailed "map" of Swedish FDI in the U.S., than what has been available to date. The aim is to answer descriptive questions regarding the characteristics of the Swedish firms having invested in the U.S. (i.e., their size, their experience in operating outside of Sweden, the kind of industries in which they are active, etc.), as well as regarding the characteristics of their U.S. investments (i.e., their size, their performance, the nature of their activities, etc.).

In addition to describing Swedish FDI in the U.S., the intention is also to provide a perspective on the Swedish experience - this by comparing data on Swedish direct investments in the U.S. with statistics regarding the total FDI made in the U.S., as well as with selected studies on direct investments made in the U.S. by countries other than Sweden. (A comprehensive collection of articles on FDI in the U.S. can be found in Gray, 1986. Two excerpts of interest from the business press are; *International Management*, April, 1987, pp. 24-29 and *The Economist*, September 17, 1988, pp. 87-88.)

Our lack of descriptive data regarding Swedish direct investment in the U.S. is, however, not limited to the characteristics of the Swedish investors

themselves and their U.S. investments. There is, as indicated above, also a definite lack of descriptive data on the market conditions met by Swedish investors in the U.S., the strategies followed by Swedish investors in the U.S., and the existence of cultural differences, in a broad sense, in the interface between Swedes and Americans. The remaining three purposes of this thesis, include the common objective of providing such descriptive data.

In addition, these three purposes also relate to the second overriding theme of this thesis, i. e. to investigate the link between certain market-, strategy-, and culture-related variables, and the performance of Swedish investors. This is a considerable undertaking, and may well be regarded as completely beyond the scope of a doctoral thesis. It should, however, be strongly underlined that the intention here is not hypothesis testing, in a strict sense. Instead, it is to evaluate, at a relatively basic level, a number of factors that may contribute to the success or failure of Swedish investors in the U.S. For example, the intention is not to establish whether there exists a statistically significant correlation between, say, observed methods for the handling of cultural differences and the performance of Swedish investors in the U.S. Rather, the intention is to establish whether cultural differences are *regarded* as existing and whether they are *regarded* as affecting corporate success. Put differently, the intention is to explore some factors that may explain why it is apparently so difficult to enter the U.S. market successfully.

1.3 The Market Structure Facing Swedish Investors in the U.S.

Starting from a foundation in microeconomics, researchers in the area of industrial organization have analyzed the influence of industry structure on the choice of strategy and on firm performance, particularly from a *welfare perspective* (see Bain, 1956, and Caves, 1971). Much recent theorizing in the area of industry analysis and competitive analysis (henceforth termed strategy) has further elaborated on this theme, as seen from *the perspective of the firm*, and strongly underlined the crucial effect of industry structure, particularly on the level of profitability attainable within an industry, both as a whole, and in terms of the profitability of single firms within the industry, given firm characteristics. (See, for example, Buzzell et al 1974, 1975 and 1987, Galbraith and Schendel, 1983, Hitt and Ireland 1985, and Porter ,1980, 1981, and 1985.)

Aspects of industry structure have also been important for the attempts that have been made to explain, firstly, the very existence of multinational enterprises and, secondly, the way in which these behave, for example, in

terms of when and where investments are made. The work of Bain (1956) provided an important starting point for Hymer's (1960) investigation into explanations other than interest rate theory for the international spread of direct investments. Hymer's (op cit) work started a massive development of studies on the origins and behaviour of the MNE including, among others, Knickerbocker's (1973) doctoral thesis, in which oligopolistic reaction is identified as an important factor in the investment patterns of multinational firms. As noted by Kogut (1987, p. 3):

"Prior to 1960, most scholars viewed foreign direct investment as the flow of capital from one country to the next in the anticipation of higher returns. It was Hymer's distinctive contribution to shift the analysis from countries to industries. To him - and the excellent work which followed.....international competition was simply the extension of oligopolistic rivalry across borders. The themes of this research.....have laid the often unacknowledged foundation to recent theoretical treatments of cross-border dumping, strategic trade theory, and foreign investment as signalling commitment"

Starting from this theoretical background, and considering the characteristics of the Swedish economy versus those of the U.S. economy, it is not too difficult to develop the hypothesis that one major explanation for the relatively weak performance of Swedish investors in the U.S., lies in the local industry structure. Swedish MNEs are small by U.S. standards, and their experience in operating outside Sweden, although considerable, has by and large been gained in markets smaller and less competitive than the American one.

Given the crucial importance of the U.S. market for many industries, it is reasonable to expect that, in addition to domestic companies, a large number of the non-American competitors of any Swedish MNE will be represented in the U.S., adding to the competitive pressure, and also contributing to create unusually demanding customers. Among the barriers to entry (for an extensive discussion of the concept, see Sölvell, 1987) that can be hypothesized to be of relevance for Swedish investors in the U. S. are thus:

- Domestic firms much larger than Swedish entrants.
- Domestic firms commanding very significant economies of scale.
- Domestic firms with strong brand names and large installed bases.
- Distribution and service networks tied up by domestic competitors.

It should be noted that one problem encountered in almost any discussion of the influence of industry structure is to define industries meaningfully. Two companies producing products that, to the layman, look exactly alike need not be competitors, even if they operate within the same geographical area. This issue will not be further developed here, but will be subject to more detailed treatment in chapter 4 of this thesis (for an extensive discussion of the issue see Abell, 1980).

The second purpose of this thesis is thus to describe the industry structure facing Swedish firms entering the U.S., as well to evaluate, at a basic level, the influence of the local industry structure on the performance of Swedish investors in the U.S.

Industry structure is expected to influence not only the performance of firms active in, or trying to enter, a specific industry. It is also expected to have a strong influence on the strategic behaviour of firms, for example, in terms of whether, how, where and when a direct investment is made. The influence of industry structure on the entry strategies chosen by Swedish firms entering the U.S. market, as well as on certain aspects of their post-entry strategies, is discussed in the following section.

1.4 Strategies Followed by Swedish Firms Investing in the U.S.

As an effect of the growing flows of direct investments between nations and, directly related to this, the growing importance of multinational enterprises (MNEs), a large proportion of the literature in the field of strategy has been devoted to strategies for international competition. Mirroring the ascent of new industrial powers, i. e. Japan, and the development of theories recommending a more integrated approach to the management of MNE's, the concept of international competition has gradually been superseded by the that of "global competition" (see for example; Hood and Vahlne (eds.), 1988, Hout, Porter & Rudden, 1982, Ohmae, 1985, Simmonds, 1985, and Porter (ed.), 1986).

Although the body of literature devoted to the issue of strategies for international and global competition, and to the related subject of (strategic) management of multinational companies, is very large, it is still only a part of all the literature in the area of strategy. Given the widespread use of the concept, it is important to realize, as noted by Kogut (1987 b, p. 1); "that the unique aspects of international competition are fewer than suggested" and that (op cit, p. 2);

"In order to address what is distinctive about international competition, the fact of being located in, or exporting to, multiple countries should be separated from the incremental value of multinationality."

This line of reasoning suggests, firstly, a healthy scepticism when selecting aspects of strategy for treatment in the context of FDI and, secondly, that strategies of MNE's cannot be treated in isolation from issues of organizational structure and management systems (as these are fundamental for the realization of the "incremental value of multinationality"). Two classes of strategic decisions come into focus, namely:

1) Strategic decisions that are relevant only for firms operating internationally; for example, when and how should a particular national market be entered.

2) Strategic decisions that are relevant for firms trying to enter a particular national market, in this case the U.S. market, but which would be of equal importance for a domestic firm. An example would be; should the company distribute its product nationwide or only in a certain region of the country.

The borderline between these two classes of decisions is, admittedly, far from easy to establish; perhaps the two categories should better be regarded as end points of a continuum. To distinguish between them is, however, not unimportant. The distinction has, as indicated above, relevance for the development of theory and also for the practicing manager. The second category of decisions should, ideally, include only those with few or no implications for the global strategy of a firm. (Obviously the outcome of any strategic decision regarding one national market made by a MNE will have effects on the activities of this firm in other markets. If, for example, the decision leads to large financial losses this will affect the total maneuvering room of the corporation everywhere else in the world. What is implied here is a strategic decision, e. g. the choice of market channel in one market, that does not directly affect the corresponding decision in other markets.)

One strategic decision relevant only for companies having, or planning for international operations is the choice of entry strategy in previously untapped national markets. There are a number of different methods a firm could choose for marketing its products in a new national market, ranging all the way from occasional exports to the establishment of a wholly owned subsidiary, with its own manufacturing and product development

capabilities (for a discussion of the internationalization process of the firm, see Hörnell et al, 1973, Vahlne, 1974, Johanson & Vahlne, 1977, and Nordström & Vahlne, 1985). As this thesis is confined to the study of direct investments, the choice of entry mode is limited to, essentially, either green-field investments, acquisitions or joint-ventures. For practical reasons the investigations performed when preparing this thesis were, however, almost exclusively limited to wholly-owned subsidiaries. It should, in this connection, be noted that in this thesis, unless otherwise indicated, no distinction is made between subsidiaries that operate as sales companies only, and manufacturing subsidiaries.

A large number of studies have been devoted to describing the behaviour of firms as regards the choice between green-field entries and acquisitions, as well as analyzing the relative merits of the the two options (see, for example, Buckley, 1981, Caves & Mehra, 1986, Dubin, 1975, and Wilson, 1980). Industry structure is usually advanced as one important explanatory factor influencing the choice of entry mode. Both the size of the investing company and the relative size of its competitors in the relevant national market are expected to be of importance. Generally speaking, firms entering concentrated national markets, or active in industries characterized by global competition, have been expected to prefer the acquisition route. This as acquisitions are quicker and enable the investor rapidly to reach a significant market share. As regards the influence of firm-level variables, such as size of the investing firm, the evidence is less conclusive.

An important reason underlying the search for factors explaining firm choice of entry mode, is the expectation that the choice will eventually affect corporate success, as measured by rate of return. The issue of the relative merits of green-field entries, as opposed to acquisitions, takes on a special significance given the often very large sums involved in acquisitions. Quite a few studies have partly, or wholly, been devoted to the study of foreign acquisitions in the U.S. (For two recent examples, see Hamill, 1988, and McKinsey & Co, 1987).

For any firm planning to invest in the U.S. (or already having done so), it is important to consider not only the entry strategy but also the strategy for the post-entry phase. Having left the relatively straightforward discussion of the relative merits of greenfields and acquisitions behind, it is more difficult to find aspects of post-entry strategy that could be expected to be of relevance for investors in general. There are, however, a few questions that can be expected to be of interest for most firms investing in the U.S. One of them is whether the company should market its products nationwide or only in selected regions of the U.S. The decision becomes particularly relevant

when U.S. investments are considered, due to the very large size of this market.

Another issue, which can be expected to be relevant for a large proportion of firms investing in the U.S., is to what degree the firm should adapt its products to fit the American market. This decision bears very much on the international/global strategy of the firm, as adaptation of the product can be expected to diminish those economies of scale that are normally regarded as one important benefit of international expansion.

The third purpose of this thesis, thus is to describe and evaluate the entry strategies chosen by Swedish firms entering the U.S. market. As an addendum to this purpose, the thesis also aims at identifying and discussing a few select aspects of strategy relevant for the post-entry phase.

1.5 Managing Swedish FDI in the U.S.

A number of studies undertaken during the 1970's revealed great differences in the way that European and American multinationals were organized. Among the findings was, that European multinationals, to a much larger degree than U.S. multinationals, tended to retain the "mother-daughter structure" in preference to global structures like, for example, global product divisions (see Stopford and Wells, 1972, and Franko, 1976). Looking at Swedish MNE's, Hedlund (1978, 1980, 1981 and 1984) has shown that Swedish multinationals constitute what could be termed an extreme case of this European model.

The differences between the ways that MNE's are organized obviously do not stop at the choice of one structural form over another. They extend all the way down to the most minute aspects of how information is passed through the organization, both in terms of who is reporting to whom, and in terms of how the reporting is done, i. e. the choice between, say, an oral communication, and a written report according to a previously specified format. A number of studies suggest that that European multinationals differ from American ones also along these dimensions of organizational structure. It has furthermore been suggested that differences of this kind may influence the performance of European firms entering the U.S.-market (see, for example, Franko, 1976, p. 185 and p. 208).

It should be underlined that, as discussed by Egelhoff (1984), the differences indicated above do not necessarily mean that the normally more

formal control systems used by American MNE's are "tighter" than the ones used by European MNE's. According to Egelhoff (ibid, p. 81), it is rather a question of difference in "type of control than of volume or level of control". This, nevertheless, has very clear consequences. As argued by Egelhoff (ibid, p. 81):

"Control in European MNC's, on the other hand, requires a higher level of company-wide understanding and agreement about what constitutes appropriate behavior and about how such behavior supports the goals of the subsidiary and parent. The latter is probably best conveyed through a strong company culture and long careers in the same company."

Judging from earlier studies (see, for example, Hedlund, 1981, 1984, and Hedlund and Åman, 1983), it seems as if Swedish multinationals also tend to the extreme in regard to aspects of organizational structure and management such as reporting systems, means of communicating corporate strategy, etc. To an unusual degree, Swedish MNE's, at least historically, have relied on informal, personalized information both when giving instructions to a subsidiary, and when following up on the performance of the instructions given. In addition to being informal, instructions tend to be relatively vague, reflecting a tradition of expecting subsidiary managers to be well informed about corporate strategy anyway, and a reluctance to bloc the formation of consensus on strategic issues by being too explicit. Starting from the same sources as used above, a typical U.S. multinational stands out as vastly different from the Swedish case. The American MNE tends to be much bigger, and organized so that the subsidiaries report, not to corporate headquarters, but to a divisional HQ. Instructions and reporting tend to be formal, frequent and non-personal.

With these differences in organizational structure (1) and management style between Swedish and American multinationals, it is not unreasonable to expect that one explanation for the problems encountered by Swedish firms entering the U.S. market could be difficulties in communicating strategies and goals, and in following up on them.

Differences in management style of the kind discussed above can probably be interpreted as at least partly reflecting differences in national culture (cf Laurent, 1985, p. 42). It thus becomes tempting to ask whether there generally exist cultural differences between Swedes and Americans, differences that may be hypothesized to affect corporate success. Considering the literature within the field of cross-cultural management

(see, for example, Hofstede, 1980, and Laurent, 1986), this hypothesis does not seem unwarranted.

Going back to the second and third purposes of this thesis, it is obviously not enough for a Swedish firm contemplating entry into the U.S. market to assess correctly the relevant aspects of industry structure and to choose a strategy adapted to the American market conditions. It is also necessary to find means of communicating the chosen strategy, and of following up on it, that are understood and accepted by Americans. (Likewise it is of importance that the lines of communication are organized in such a way that relevant information, especially market-related information, is channeled from the American subsidiary to corporate headquarters.)

The fourth purpose of this thesis, is thus to investigate the existence of different expectations among Swedes and Americans in terms of the communication of strategies and goals, and the reporting of results achieved, as well as in a more general sense of cultural differences between Swedes and Americans. The intention is also to clarify the extent to which such differences are regarded as constituting a problem. An additional aim is to discuss, at an explorative level, strategies for handling the problems identified.

1.6 Brief History of a Research Project

As this thesis is one of several reports to come out of a larger study, it may be of interest to give a brief overview of this project. (A more extensive discussion of the methodology used in the project, as it relates to this thesis, is provided in chapter 2).

The project, subsequently named "Swedish Investment in the U.S.", was initiated in the late fall of 1984 when three organizations sharing an interest in studying Swedish investment in the U.S. came together in order to discuss a possible co-operation. The three organizations involved were; the Institute of International Business (IIB) at the Stockholm School of Economics, the Swedish Council for Management and Work Life Issues (FA rådet), also located in Stockholm, and the Project on Technology, Work, and Character (PTWC), Washington, D. C. IIB contributed a tradition of studying Swedish FDI in selected markets and, in particular, of investigating headquarter-subsidary relations in Swedish multinationals (see for example Leksell, 1981, Hedlund & Åman, 1983, and Hedlund & Kverneland, 1984). FA rådet and PTWC contributed experience gained from studies regarding leadership

issues and cross-cultural relations in Swedish MNE's. The initial meetings in the group resulted in the construction of an extensive questionnaire, which was subsequently administered late fall 1985/early Spring 1986. Recipients were top managers at the headquarters of Swedish firms that had invested in the U.S., and top managers in the U.S. subsidiaries of these firms.

In parallel with the first preliminary analyses of the survey study, (mainly performed by IIB), two case studies were initiated; Ericsson Telecom and Volvo White Truck Corporation. Preliminary results of the project were reported at a seminar held in Princeton, New Jersey, in October 1986. During 1987/88 further analyses of the survey material were made, and the cases were refined. (Apart from this thesis, the main source of the results of the project will be Maccoby, (ed.), 1990.) In terms of the four purposes of this thesis, the survey study was the main source of information for descriptive data, and for evaluating hypotheses regarding the possible influence of the American market structure on the results achieved by Swedish investors. It also provided information used for analyzing the strategies, particularly entry strategies, chosen by Swedish firms, and gave a large amount of information on headquarter-subsidiary relations and cross-cultural differences. The role of the Volvo White and Ericsson cases was to provide a deeper understanding of the survey findings, and thus to help in interpreting and further developing them.

1.7 The Structure of the Book

Apart from this introductory chapter, this thesis is structured in the following manner:

Chapter 2 presents the research methods used in this thesis and discusses their problems and relative merits, while also relating the methods used to the four puposes of the thesis.

Chapter 3 relates the descriptive survey data about Swedish firms that have made direct investments in the U.S., and about their investments there. A perspective on this information is provided by a discussion of other studies on FDI in the U.S., as well as of relevant macrostatistics. (*Purpose 1*).

Chapter 4 provides descriptive data regarding the industry structure facing Swedish investors in the U.S. and, with a theoretical background, discusses the possible influence of the local industry structure on the results achieved by Swedish investors in the U.S. Hypotheses are generated and evaluated, using survey data. (*Purpose 2*). The chapter further contains descriptive data regarding selected aspects of the strategies, particularly entry

strategies, followed by Swedish investors in the U.S. Existing theory is used to develop hypotheses, and the hypotheses generated are evaluated using survey data. (*Purpose 3*).

Chapter 5 provides descriptive data on the management of Swedish subsidiaries in the U.S., and on the way Swedes and Americans view each other as well as themselves. Existing theory is used to develop hypotheses regarding the management of Swedish subsidiaries in the U.S., and regarding the effects of cultural differences in this context. The hypotheses generated are evaluated using survey data. (*Purpose 4*).

Chapter 6 contains the case-study "Volvo White Truck Corporation" and a summary of the case-study "Ericsson Telecom", as well as a comparative discussion of the two cases.

Chapter 7 summarizes the conclusions from the previous chapters, and discuss their theoretical implications. The implications of the findings for practicing managers are likewise discussed and suggestions for future research are made.

Notes to Chapter 1

1) One intriguing aspect of corporate structure which deserves to be noted in this context is that the linkage between the strategy and the structure of a company can be expected to be double-edged. Thus, on the one hand, a certain strategy can be expected to be associated with a certain structure, as developed by Chandler (1962). On the other hand, once a certain structure has been adopted, this can be expected to influence the range of strategic alternatives open to the firm (for a development of this view on the strategy-structure linkage see Hall & Saias, 1980, Hedlund, 1978 & 1985, Hedlund & Rolander, 1987 and Kogut, 1988). An interesting discussion of the importance of corporate structure for the development and preservation of company-specific advantages associated with technological development can be found in Kogut and Zander (1988). The strategy-structure link as seen from the perspective of the industry analysis tradition is discussed by Porter (1986).

2 Research Method

The design of this study was conceived within the framework of a larger project, involving three different organizations (cf section 1.6). In this chapter, only those aspects of the larger study that have relevance for the research findings presented in this thesis will be discussed.

2.1 The Chosen Research Design and its Relation to the Four Purposes of the Thesis

In any scientific undertaking, the choice of research method is dependent on the purpose of the investigation. The aim of this section is to relate the four purposes of the thesis, as described in chapter one, to the two methods used to fulfill them; the mailed survey and the case study.

The first purpose of this thesis is to describe Swedish investments in the U.S. Although it is possible to discuss what variables should be included in such a description, this purpose can be characterized as relatively uncomplicated. To provide the desired description of Swedish investments, it was necessary to gather data from a large number of companies, either a representative sample of the total population or the total population itself. Here a natural choice of research method was the mailed survey. (An alternative, but prohibitively costly, method would have been telephone interviews.)

The second purpose of this thesis is more complicated. The intention here is to describe the industry structure facing Swedish investors in the U.S., as well as to investigate the relationship between the local industry structure and the performance of Swedish investors in the U.S. The mailed survey was here used to provide data for a relatively simplified description of the industry structure facing Swedish investors in the U.S., as well as for an investigation of the relationship between the local industry structure thus described, and the performance of the Swedish investors.

There are, however, considerable methodological problems involved in any investigation of variables related to industry structure and firm performance. Firstly, the variables are both difficult to define and difficult to measure. Secondly, information of this type is often sensitive, and thus difficult to collect. Thirdly, such information is often hard to interpret. The

role of the case studies in this context was therefore twofold. One, the cases were used to provide a richer description of the local (and global) industry structure facing two Swedish multinationals that had invested in the U.S. Two, the cases, particularly that case of Volvo Truck Corporation, provided the foundation for a more in-depth discussion of the relationship between the observed industry structure and firm performance.

The third purpose of this thesis is to describe and evaluate selected aspects of the strategies chosen by Swedish investors in the U.S. This purpose is, again, fairly complicated. Firstly, it is difficult to find good indicators of strategy, particularly in a survey study. Secondly, it is difficult to isolate aspects of strategy that are of general interest, as opposed to those relevant only to a small group of firms (for example, firms belonging to one particular industry). There are, however, a few aspects of strategy that overcome the two hurdles indicated. The choice between green-field investments and acquisitions is, for example, readily susceptible to investigation also by a mailed survey, and it is of relevance for most investors. The role of the survey study here became to provide data for a description of a select number of strategic decisions made by Swedish firms that had made direct investments in the U.S., as well as to provide data for an evaluation of these strategic decisions.

The role of the case studies was to provide a more detailed description, and to allow a more complete analysis of strategic choices made. In particular, the case studies allowed a longitudinal perspective of the strategic choices made by two firms, and thereby an analysis of the process that led to their present strategies.

The fourth purpose of this thesis, could be described as investigating the existence of cultural differences (in a broad sense) between Swedes and Americans, as well gauging the extent to which these differences are regarded as problematical (in terms of successfully managing Swedish subsidiaries in the U.S.) and, finally, exploring strategies for the handling of these problems.

As related to this purpose, the role of the survey study was as follows: firstly, to gather data related to the organization and the management systems of Swedish firms that had invested in the U.S; secondly, to investigate the views of Swedes and Americans regarding the characteristics both of their own national group and of the opposite one; thirdly, to provide answers to a few questions regarding the influence of cultural differences on the success of Swedish investors in the U.S.

The case studies allowed a more in-depth analysis of the issues at hand. In particular, the cases provided material for a discussion of strategies for the handling of cultural differences.

2.2 The Survey Study

Involving more than one organization in a research project tends to create some special difficulties. In the "Swedish Investment in the U.S." project, the majority of these problems focused on the design of the survey study. In particular, it proved difficult to agree on a list of questions brief enough to allow the construction of a reasonably limited survey instrument. The survey study, however, also involved a number of other difficulties. The following three subsections provide a more in-depth discussion of the design and administration of the survey study. Issues related to the validity and the reliability of the survey findings are considered in sections 2.2.1 (construct validity and reliability, as well as the internal validity of the survey findings) and 2.2.3 (external validity of survey findings).

2.2.1 Constructing the Questionnaire

"Swedish Investment in the U.S." was initiated in the late fall of 1984. The first months of the project's existence were spent on focusing the research questions brought to the project by the three participating organizations, the primary aim being to produce one coherent survey instrument. By the spring of 1985, a first rough draft of the questionnaire was ready. During late spring/early summer of 1985, the author, together with a colleague from PTWC, spent some two weeks testing this instrument. The test involved semi-structured interviews with, in total, 13 executives from 6 Swedish multinationals. Interviews were made both at HQ- and subsidiary levels (for a complete list of the companies involved in this phase of the study, as well as of those executives interviewed, see appendix 1). The purpose of this series of interviews primarily was to test the relevance of the questions underlying the survey instrument, as seen from the perspective of practicing managers.

In conjunction with the interviews, a number of the executives involved were also asked to complete the first rough draft of the survey instrument, this in order to test the technical quality of the survey instrument. (For a general discussion of the technical problems involved in the construction of survey instruments, see Converse & Presser, 1986.) Furthermore, in late

June, 1985, a meeting was held with representatives of the advisory board set up to monitor the project (for a complete list of the members of the advisory board, see appendix 2). This meeting provided another opportunity to discuss the overall design and focus of the study. By September, 1985, the survey instrument was ready. The questionnaire had by then been divided into three parts: HQ section, subsidiary data section, and subsidiary interpretative section. The reason for dividing the subsidiary section into two parts was that the length of the survey would otherwise have become completely prohibitive. By dividing it, it was possible to single out those questions that were of a judgmental nature and which should, preferably, be answered by Chief Executive Officers. (The three parts of the questionnaire are presented in appendices 3 through 5.)

Despite the efforts made to simplify and test the survey instrument, a few of the questions included in it proved to be too difficult or too sensitive to provide meaningful answers. One question clearly belonging to the "too difficult" category is question 10 in the subsidiary data section. The purpose of this question was to establish a chain of events in the process of establishing operations in the U.S., this both to provide descriptive data, and to allow analyses of changes in the process over time. Most respondents answered this question. The answers given, however, in several cases clearly showed that the question had been misunderstood.

The category "too sensitive" probably can be exemplified by questions 2.1-2.5 in the subsidiary data section. Here respondents were, for example, noticeably more unwilling to answer the question regarding the total capital of their company than the question regarding its number of employees. (The subsidiary data section also included a question regarding the share of the U.S. market controlled by the respondent's company. This question was expected to be sensitive and, predictably, item nonresponse was high. However, telephone interviews made to collect missing answers indicated that the reason for nonresponses more often was that the respondents simply did not have the desired information.)

The above description provides a natural background for a discussion of the construct validity of the survey questions, and of the reliability of the survey data; i.e. do the questions included in the survey instrument really provide measures of the variables they are supposed to measure, and are the measures provided accurate and stable?

Given the length of the survey, it is impossible to consider the questions one by one. Instead, some general comments will be made, indicating what steps were taken in order to increase the validity and the reliability of the measures used. In brief, these efforts could be described as follows:

- Testing the survey instrument (as described above)
- Using multiple measures. For example, measuring performance of U.S. investors both at the HQ- and at the subsidiary level, as well as using both a subjective measure and absolute figures (at the subsidiary level only).
- Providing reference points (for example, question 11 in the HQ section) and definitions (for example, question 15 in the subsidiary data section.)
- Manually checking answers given, this in order to spot extreme values and other indications of answers based on misunderstandings (a case in point is, again, question 10 in the subsidiary data section, where entirely illogical answers indicated that a large number of respondents had misunderstood the question).

As the survey was used not only to provide descriptive data, but also to provide data for evaluations (albeit simplified) of proposed causal relationships, the internal validity of these findings needs to be discussed as well. Are the causal relationships uncovered real, or just spurious, emanating from a faulty research design? At this point, the existence of this particular problem will only be noted. In the following chapters, more detailed discussions will be provided in direct connection with the analyses made.

2.2.2 Defining the Population

There exists no complete list of Swedish companies that have invested in the U.S. The closest approximations are 1) the Swedish-American Chamber of Commerce (SACC) membership directory and 2) the Bank of Sweden list of companies that have applied for permission to undertake investments in the U.S. Both these lists suffer from limitations. The SACC directory is not complete, and the Bank of Sweden list is actually not a list of companies that have invested in the U.S., but only of those that have applied for a permission to do so. Furthermore, the Bank of Sweden list only gives the addresses of parent companies; thus it is only an indirect means of reaching Swedish subsidiaries in the U.S.

A further problem is caused by the often very complicated organizational structure of multinational companies, i. e. with many levels of subsidiary companies. Figure 2.1 provides a hypothetical example.

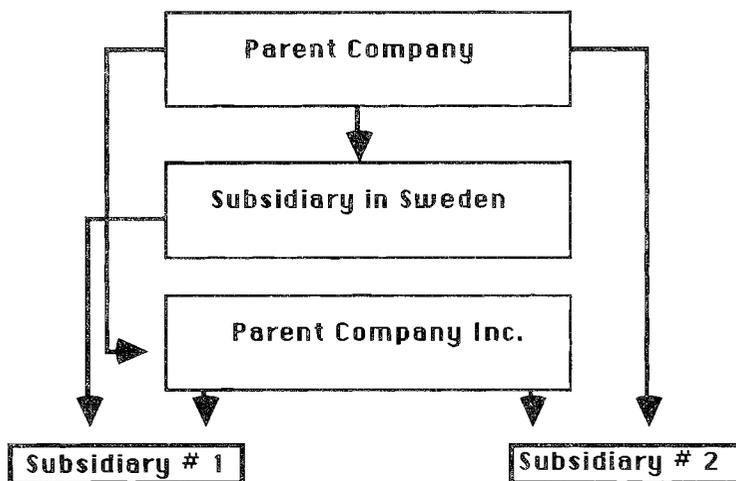


Figure 2.1 Hypothetical Organization of Swedish Firm with U.S. Subsidiaries

A number of Swedish firms have more than one subsidiary in the U.S. This may be either because, as in the example above, the parent company in Sweden has subsidiaries which, in their turn, have their own subsidiaries in the U.S., or because different divisions within the parent company have been given the possibility to form their own subsidiaries. Generally speaking, there seems to be a trend in Swedish multinationals, toward giving the divisions this freedom, the aim being to create clearer lines of communication and clearer objectives for subsidiary managers. The picture is further complicated by the fact that many corporations have formed single holding companies for all subsidiaries located in one particular national market. The purpose for this arrangement being to minimize taxes by netting profits and losses. From the researcher's point of view, this means that a decision to study only the largest subsidiary, in terms of sales, of any one multinational corporation could mean studying only "paper-companies", with no sales or manufacturing activities.

The problem presented by the existence of more than one list of Swedish investors in the U.S. was partially resolved by the fact that it proved difficult and time-consuming to effect a release of the Bank of Sweden list. As a consequence, a decision was made to start the data collection by using the SACC directory and to complete the data base later on by using the Bank of Sweden list, if this should prove to be necessary. A further argument for using the SACC directory was the fact that it, as mentioned, includes addresses both of parent companies and of subsidiaries.

The issue of what to do with multi-layer corporations and multiple subsidiaries was resolved in the following manner: A decision was made to send the HQ section to all parent companies in the SACC directory. The fact that some of the companies listed were subsidiaries of other parent companies included in the directory was disregarded. For example, this meant that the HQ section was sent both to ASEA and to Stal Laval (a subsidiary of ASEA). In some cases both parties answered the survey (as in the case of ASEA and Stal Laval), in other cases one or the other organization restrained from answering, often referring to the fact that that the operational contacts with the U.S. subsidiary rested with the other party.

A similar non-decision was made regarding the subsidiary level, i.e. regarding which subsidiary to include for those companies having more than one U.S. subsidiary. The subsidiary section of the survey was thus sent to all subsidiaries listed by SACC. (A case in point is Sandvik which, although it has recently reorganized its activities in the U.S., and thereby drastically decreased the number of its subsidiaries there, still has a total of eight subsidiaries located in the U.S.) In practice, this decision meant that considerable efforts were made to collect at least one subsidiary survey per parent company and that all additional subsidiary surveys were welcomed but no extra efforts spent on collecting them.

2.2.3 Collecting the Survey Data

The "Swedish Investment in the U.S." survey was sent out in late October, 1985. The survey was accompanied by letters of recommendation from the chairmen of IIB and FA rådet, the late Dr. Hans Stahle (then Chairman of Alfa Laval) and Mr. Björn Svedberg (at the time CEO of Ericsson), as well as by a letter of recommendation from the Swedish Ambassador to the United States (appendices 6 and 7).

In spite of these efforts to ensure a high response rate, the result of the first round of surveys sent out turned out to be disappointing. Among the factors that can be hypothesized to explain this is the large interest in Swedish investments in the U.S., particularly among members of the research community. A number of studies of this phenomenon have been undertaken and are being undertaken by researchers, students, consultants, etc., and it is understandable if practicing managers sometimes find the demands put on them in this context to be too taxing. It is probably also safe to say that the relatively large number of questions included in the survey instrument was detrimental to the response rate.

In order to increase the response rate the following measures were undertaken:

- 1) A second round of surveys was sent to all companies not having answered the survey by mid November.
- 2) All companies in which either the parent company or the U.S. subsidiary had answered the survey were approached with letters describing the situation and underlining the importance of having complete pairs of HQ and subsidiary surveys. This procedure was later repeated twice.
- 3) During early 1986, all companies still not having answered the survey were contacted by telephone.
- 4) Finally, an abbreviated version of the survey (appendices 8 & 9) was sent to all companies not having answered the survey after the completion of steps 1 through 3 outlined above. Most of these companies were also contacted by telephone a second time.

In the late spring of 1986, a decision was made to end the efforts to increase the response rate. Meanwhile, a clearer picture of the population, as defined by the SACC directory, had emerged. Of the 246 parent companies listed by SACC, 84 turned out to be not relevant for our study (for details see table 1). Of the 352 subsidiaries listed by SACC only 212 remained (table 2).

Table 2.1 Defining the Population of Parent Companies

No. of parent companies listed by SACC	246
<i>less</i> companies listed twice	14
<i>less</i> U.S. subsidiaries sold to non-Swedish investors or no longer in business	66
<i>less</i> parent company, not Swedish	3
<i>less</i> subsidiary located outside of the U.S.	1
= No. of parent companies to include	162

Table 2.2 Defining the Population of U.S. Subsidiaries

No. of subsidiaries listed by SACC	352
<i>less</i> subsidiaries listed twice	26
<i>less</i> subsidiaries sold to non-Swedish investors or no longer in business	86
<i>less</i> parent company, not Swedish	3
<i>less</i> subsidiary located outside of the U.S.	1
<i>less</i> representative office only	24
= No. of subsidiaries to include	212

Using the definitions provided in tables 2.1 and 2.2, the response rate among parent companies can be calculated at 70%, the corresponding figure for subsidiaries being 68% (tables 2.3 and 2.4).

Table 2.3 Response Rate, Parent Companies

Completed surveys received (full version)	60
Completed surveys received (abbr. version)	<u>53</u>
	113

Response rate: $113/162 = 70\%$

Table 2.4 Response Rate, Subsidiaries

Completed surveys received (full version)	82
Completed surveys received (abbr. version)	<u>28</u>
	110

Response rate 1: 110/162 (total no. of parent co's) = 68%

Response rate 2: 110/212 (total no. of subsidiaries) = 52%

Counting the number of companies having sent in either the parent or the subsidiary section of the survey, a total of 130 companies had answered the survey (80%).

Meanwhile, release had been obtained of the Bank of Sweden list of companies that had applied for permission to invest in the U.S. Surprisingly, this list turned out to contain no less than 376 companies not listed in the SACC directory. Although almost all of these companies could easily be judged to be very small, a number of measures were undertaken to ensure that no major Swedish investment in the U.S. should be left out of the investigation.

1) A letter, addressed to the CEO, was sent to all the 376 companies concerned. The letter contained a form (appendix 10) and the abbreviated versions of the survey instruments. The form included a few questions aimed at establishing the magnitude of the investment in question. All companies having U.S. subsidiaries with sales of less than SEK 10 million and fewer than 10 employees were told to disregard the survey. Every other firms was asked to complete the parent company survey and to forward the subsidiary section of the survey to its U.S. subsidiary.

2) A second letter, aimed only at finding out the magnitude of the investment concerned, was sent to all non-respondents.

3) All companies not having responded to the survey after the completion of step one and two described above, and all companies having previously indicated investments exceeding the size limit specified, but not having completed the survey, received a third letter and a new set of surveys.

The results of these measures were as follows:

A total number of 183 companies (49%) declared themselves not to be part of the intended population by using the form described in appendix 10. The reasons given were;

- Sales of less than SEK 10 million and less than 10 employees	131
- Never made any investment in the U.S.	19
- U.S. subsidiary no longer being in business	21
- U.S. subsidiary sold to non-Swedish investors	10
-The investment is a minority share	2

A small number of companies (14) answered by using the questionnaire. Half of these turned out to fall outside the intended range (i.e. being too small). The remaining 7 surveys were added to those gathered with the help of the SACC directory. Another 14 companies answered that they did have subsidiaries in the U.S. that fulfilled the size criteria, but never sent in the questionnaire. A closer investigation showed that 3 of these companies fell outside the intended range. The remaining 11 should ideally have been included in the analysis but had to be left out.

A list of all the companies participating in the survey is provided in appendix 11. Appendix 12 further lists the types of products sold by the participating companies. Considering appendix 11, it should be noted that the fact that a company is listed as having completed the full version of the questionnaire does not mean that it has answered every single question in the survey instrument. Quite often, a few questions have been left out, or answered in such a way as to make a meaningful interpretation impossible. Consequently, the response rate for all questions analyzed is given separately in the following chapters.

In this context, it is natural to consider the external validity of the survey findings. The external validity of the survey findings hinges on the assumption that the firms participating in the survey constitute a representative sample of Swedish investors in the U.S., and indicates to what extent the survey findings are generalizable to other populations, e. g. those Swedish firms not participating in the survey. As described in section 2.2.2, considerable efforts were made to base the investigation on as complete a list of Swedish investors in the U.S. as possible. The listing that came out of

this process probably is fairly complete, in the sense of including the vast majority, as measured by value, of Swedish investments in the U.S. existing at the time of the investigation. However, the difficulties met in accessing investors listed only by the Bank of Sweden may have led to the exclusion of a relatively large number of minor investments.

Based on the list established, the survey investigation was, as described above, designed with the intention of undertaking a total investigation. Thus no prespecification of subsamples on which to concentrate the research effort was made. Despite the support provided by well-recognized Swedish industrialists, and very major efforts to collect missing surveys, the response rate achieved, as indicated, fell short of expectations. Contrary to expectations, the survey thus did not provide a total investigation of Swedish investment in the U.S. When interpreting the survey findings, allowance must therefore be made for possible sample bias. For this reason, analyses of the survey data, to the extent possible, were made to include controls for suspected confounding variables (such as age, size and experience of investors). These efforts will be described in more detail in direct connection with the various analyses discussed in the following chapters.

The results arrived at are thus expected to have a fairly high external validity, in the sense of being generalizable to the entire population of Swedish investors in the U.S. The possibilities of stretching this generalization further, i.e. to make it also include U.S. investors emanating from countries other than Sweden, is obviously another matter. Here a judgment must be made on a case-by-case basis, including an estimate of the similarity of the population in question to the group of Swedish firms investigated here. The relatively detailed description of the investigated population that forms an integral part of this thesis should, hopefully, facilitate such comparisons.

2.3 The Case Studies

In this thesis two case studies are presented, i. e. Volvo Truck Corporation and Ericsson Telecom. Both these cases were prepared within the framework of the Swedish Investment in the U.S. project. However, as the author of this thesis was directly involved only in the preparation of the Volvo Truck Corporation case, the following discussion, particularly as it regards the technical aspects of the investigation, is fully applicable to this case only.

2.3.1 Considering the Case Method

In this thesis both the survey method and case studies are used. Considering the strength of the research design employed, it may be argued that the relevant unit of analysis is neither the survey nor the cases, but the combination of the two. However, as it is probably fair to say that the case method is more controversial than quantitative analyses of survey data, it may be relevant to comment, at a more general level, on the case method. (For an extensive discussion of the case method, see; Lindgren, 1982, and Yin, 1984. A brief discussion of the methodological issues involved is provided in Hägg & Hedlund, 1978.)

Among the arguments against the case method discussed by Yin (1984, p. 21), two stand out as particularly relevant in the context of this thesis, namely that case studies lack in rigor, and that they "provide very little basis for scientific generalization". The lack of rigor associated with the case method to a large extent relates to the question of whether findings based on a case study are inherently more biased than findings based on, say, a survey study. Essentially, it is the internal validity of the case that is at issue. Here, Yin (*ibid*) notes that biased findings certainly can result also from experiments and surveys. However, he cautions that great care must be exercised in the design of case studies in order to avoid the introduction of bias, and he notes that the case method, historically, has thereby suffered from a lack of clearly developed and documented methodology.

Bias may be introduced into a case study primarily on two levels. Firstly, bias may occur in the process of constructing a case. The handling of this issue, in the context of this thesis, is discussed in subsection 2.3.3. Secondly, bias may occur in the process of interpreting the survey data. Several models for the analysis of case data are suggested in the literature (cf, for example, Yin, 1984, pp. 99-120 and Lindgren 1982, pp. 25-89). The interpretation of the cases presented in this thesis may, essentially, be described as following four themes, developed from existing theory, cf sections 6C.1.1-6C.1.4.

Considering the argument that case studies "provide very little basis for scientific generalization", an issue very much related to the external validity of case findings, Yin (1984, p. 21) argues:

"The short answer is that case studies, like experiments, are generalizable to theoretical propositions and not to populations and universes. In this sense, the case study, like the experiment, does not represent a "sample", and the investigator's goal is to expand and generalize theories (analytical generalization) and not to enumerate frequencies (statistical generalization)."

The issue at hand is double-edged. On the one hand, it is a question of whether cases can be used to develop theoretical propositions. On the other hand, it is a question of whether cases can also be used to test theories (cf Hägg & Hedlund pp. 7-13). In a sense, the question is whether the results of a case study, in addition to being internally valid (and thus a sound basis for theoretical propositions) can also be externally valid (thus providing a sound basis for generalizations applying to larger populations). Further considering this problem, Yin (pp. 35-40) concludes that, under certain circumstances, case studies can, indeed, also be used to develop externally valid results. However, as the cases discussed in this thesis are primarily used to develop theory, this issue will not be subject to any further discussion.

2.3.2 Selecting the Cases

As underlined by Yin (1984, p. 20) the strength of the case method can be said to lie in its ability to answer questions of the type "how" and "why". The interpretative role assigned to the cases in this thesis is very much a matter of answering precisely this type of questions. For example; how did the local industry structure affect Volvo Truck Corporation as it entered the U.S. market, how did the strategy used by Volvo develop over time, and what were the main reasons, i.e. the "whys", behind this development? As discussed above, the cases are hereby of interest particularly as they, in a sense, provide the longitudinal perspective that is absent in the survey data. As argued by Hägg and Hedlund (1978, p. 6):

"Perhaps the only "laws" worth looking for in social science are laws of change and development, rather than of static structure. This notion leads to an emphasis on the history of existing social phenomena, on their development - and possibly reproduction - through interaction with other phenomena and processes."

With this background, the selection of Volvo and Ericsson as objects for the two case studies was based on the following considerations:

-Previously established contacts with the companies made it possible to gather sufficiently extensive sets of data, also including sensitive information.

-Both companies were active in industries undergoing further concentration, a process in which the U.S. market could be judged to be of crucial importance.

-Both companies had undertaken major U.S. investments that could be regarded as strategically motivated.

-Both companies had been active in the U.S. market for a sufficiently long period to allow a study of the process of entering and penetrating the U.S. market over time. At the same time the investments were of a sufficiently recent origin to allow the collection of rich and reasonably reliable data.

2.3.3 Collecting the Case Study Data

Apart from a preliminary study based on written material, the investigation of Volvo White Truck Corporation (VWTC) may be said to have started on January 23, 1986. On that date, two extensive interviews were conducted, involving the CEO of Volvo Truck Corporation, and its Director of Marketing for Overseas Sales. The interviews were conducted by the author, together with Professor Gunnar Hedlund. With a few exceptions, all the ensuing interviews concerning the Volvo case were conducted by the author, together with the co-author of the case, Dr. Jan Forslin, FA rådet. The majority of the interviews involving personnel at the Volvo Truck Corporation HQ in Gothenburg were held during spring 1986. Interviews at the VWTC HQ in the U.S. were made during June, 1986, and repeat interviews in October, 1986. (A complete list of the interviews is provided in appendix 20.)

The January 23 interviews were conducted with the help of a comprehensive interview guide (appendix 21). Parts of this interview guide were used also in the following interviews. Before each interview, however, the two authors jointly prepared questions to guide that particular interview. Thereby all interviews were made to include both a relatively standardized set of questions, and a group of questions designed according

to the background and the particular field of knowledge of the interviewee. Specially designed questions often involved clarifications of issues not fully resolved during earlier interviews. For example, a technical expert might be asked to clarify (or verify) a statement made by an interviewee from the marketing function.

Written notes were taken during all interviews, and all interviews were followed by a discussion between the two authors, thus allowing an opportunity to compare notes, to relate the findings to earlier interviews and to plan further interviews. The written notes and the post-interview discussions between the authors also contributed to a partial control for interviewer bias. (In this context, the fact that the two authors approached the case from two radically different traditions, i. e. business administration and psychology, probably constituted an advantage.) During the parallel investigations of Volvo White and Ericsson Telecom, the two research teams involved furthermore met on several occasions in order to compare findings and discuss interpretations made. These meetings provided another opportunity to uncover tendencies of interviewer bias.

Most key decision makers interviewed in the Volvo White organization were subjected to at least one repeat interview, the aim being both to collect additional information and to discuss more overriding aspects of the case as it developed. The final version of the case was prepared following discussions with the CEO of Volvo White (Mr. Thage Berggren) and the Vice President of Corporate Development at Volvo Truck Corporation (Mr. Torsten Dahlberg).

3 The Magnitude and Type of Swedish Investment in the U.S.

3.1 Putting Swedish FDI in the U.S. into Perspective

As noted in chapter one, the tide of FDI has changed over time. Whereas the 1960's and early 1970's were characterized by European fears of an oncoming dominance by American multinationals, the late 1980's have seen growing fears among Americans that the U.S. is being "taken over by the foreigners" (particularly the Japanese). How quickly this change has taken place can be illustrated by a quotation from Tugendhat (1973, p. 64):

"Whenever Europeans express concern about the rapid rate at which American-owned companies are buying up their industry the standard American answer is that European companies should invest more in the U.S....President Nixon himself argues this case, summoning history to his support."

Going back in history, it is obvious that the Europeans are, what McClain (1986, p. 309) terms, "the aboriginal direct investors". McClain notes (ibid):

"This preeminence has extended from pre-Revolutionary times to the present day; as of year end 1982, European firms accounted for two-thirds of the FDI position in the United States. Until the 1970s, in fact, the story of FDI in the United States has been largely a recounting of European, primarily British, activities, with a few paragraphs given over to Canadian investments and a footnote or two for initiatives from Japan and elsewhere."

Looking at somewhat more recent figures, the dominance of European investors continue, although the Japanese share of total FDI in the U.S. is growing rapidly. At the same time, it should be underlined that the U.S. itself remain the single largest *source* of FDI. In 1987, the stock of U.S. direct investment abroad stood at USD 309 billion. The corresponding foreign direct investment position in the U.S. was USD 262 billion. It should, however, also be noted that these positions are reversed when

financial investment is included. By the end of 1987, the U.S. net international indebtedness was USD 368 billion (The Conference Board, 1988a).

On the average, foreign investment in the U.S., in the 1980's has been growing at a faster rate than American investment abroad. In 1987, American outbound investment in the manufacturing sector (mainly machinery, chemicals and food products) was equalled, for the first time, by inbound direct investment in the same sector, this at a level of approximately USD 20 billion (The Conference Board, 1988a). Tables 3.1 and 3.2 provide some further details on the flow of in-, and outbound direct investment in the U.S.

Table 3.1 Trends in U.S. Direct Investment Abroad (Excluding the Netherlands Antilles Finance Industry)

<u>Stock at Yearend</u>	<u>Billions USD</u>	<u>Average Annual Growth Rate (%)</u>	
1950	11.8		
1977	147.2	1950-77	9.8
1980	220.2	1977-80	14.4
1986	276.1	1980-86	3.8

Source: U.S. Department of Commerce, 1988, "International Direct Investment - Global Trends and the U.S. Role", p. 18.

Table 3.2 Trends in Foreign Direct Investment in the U.S.

<u>Stock at Yearend</u>	<u>Billions USD</u>	<u>Average Annual Growth Rate (%)</u>	
1950	2.2		
1974	25.0	1950-74	8.7
1980	83.0	1974-80	22.0
1986	209.3	1980-86	16.7

Source: U.S. Department of Commerce, 1988, "International Direct Investment - Global Trends and the U.S. Role", p. 37.

Given the history of the U.S. as a dominating source of FDI, it is not surprising that American FDI is financed in a manner very different from non-American FDI. Of the total American FDI made in 1987, 80% consisted of reinvested earnings. The corresponding figure for foreign direct investment made in the U.S. was 6% (The Conference Board, 1988a).

The UK remains the largest source of FDI in the U.S. Between 1982 and 1987, UK direct investment in the U.S. totaled about USD 50 billion, the stock of UK FDI in the U.S. reaching a total of USD 75 billion. The Netherlands, during the same period, added some USD 25 billion to its stock of U.S. FDI, reaching a total of USD 47 billion. The Netherlands was followed by Japan, which added USD 25 billion to its U.S. holdings, reaching a stock position of USD 33 billion.

The Japanese direct investment position in the U.S. has, as is evident from the above figures, been growing very quickly. Between 1982 and 1987, Japan was, in fact, outgrown only by Australia, which increased its American FDI position by more than 800%. The total Australian FDI position, however, remained relatively marginal (The Conference Board, 1988a). Swedish FDI in the U.S. grew, during the 1980-86 period, at an average annual rate of 13.9%. In spite of the fact that U.S. investment has formed a very prominent part of total Swedish FDI during this period (see also Swedenborg, 1988, p. 73), the Swedish share of the total FDI position in the U.S. has declined, from 2% of the total stock in 1980 to 1.7% in 1986 (U.S. Department of Commerce, 1988a, p. 40). Table 3.3 gives more detailed information about the origins of FDI made in the U.S.

Table 3.3 FDI in the U.S., Position at Year-end 1986 of Major Investing Countries (USD Billion)

<u>Country</u>	<u>Position</u>	<u>Position %</u>	<u>(Position % 1980)</u>
All Countries	209.3	100.0	100.0
UK	51.4	24.6	17.0
Netherlands	42.9	20.5	23.0
Japan	23.4	11.2	5.7
Canada	18.3	8.7	14.6
West Germany	17.4	8.3	9.1
Switzerland	12.1	5.8	6.1
France	7.4	3.5	4.5
Sweden	3.6	1.7	2.0

Source: U.S. Department of Commerce, 1988, "International Direct Investment - Global Trends and the U.S. Role", pp. 40 & 116.

Investment in the manufacturing sector provides the largest part of both inbound and outbound American FDI, claiming some 32% of the *stock* of inbound, and some 40% of the *stock* of outbound investment (U.S. Department of Commerce, 1988a, pp. 25 & 40). Table 3.4 provides more detailed information on the composition of FDI made in the U.S. It should be noted that the heading "Trade" includes sales of imported cars.

Table 3.4 FDI Position in the U.S. by Industry

<u>Industry</u>	<u>% of Total Stock in 1986</u>	<u>Average Annual Growth 1980-86</u>
All Industries	100.0	16.7
Manufacturing	32.5	12.8
Trade	19.9	18.3
Petroleum	14.2	15.9
Real Estate	10.1	23.0
Insurance	6.5	14.4
Banking	5.9	17.9
Finance	2.3	24.5
Mining	2.2	23.4
Other Industries	6.3	26.9

Source: U.S. Department of Commerce, 1988, "International Direct Investment - Global Trends and the U.S. Role", p. 40.

The location of FDI within the U.S. is an issue that has been given notable consideration, particularly by state and local governments that, naturally, are interested in creating new employment in their own regions. The topic has been studied by, among others, Little (1986, p. 19). Table 3.5 provides a relatively detailed picture of the location of FDI in the U.S.

The massive foreign direct investment in the U.S. notwithstanding, foreign companies' share of total U.S. employment is small, or approximately 3.5% (1986). In manufacturing, where the largest part of total FDI is concentrated, the ratio is noticeably higher, or 8.8% (U.S. Department of Commerce, 1988a, p. 40). More detailed information regarding the importance of foreign owned firms for total U.S. employment in various industries is given in table 3.6.

Table 3.5 Major Host States of Foreign Direct Investment, 1985.

<u>State</u>	<u>% Assets</u>	<u>% Employment</u>
Texas	12.9	7.4
California	11.8	10.5
New York	5.2	8.4
Alaska	4.9	0.3
Louisiana	4.4	1.8
Florida	3.3	3.3
New Jersey	3.2	5.4
Illinois	3.1	5.1
Ohio	3.0	4.8
Pennsylvania	2.9	5.3
Georgia	2.7	3.7
North Carolina	2.6	4.1
Michigan	2.1	2.9
South Carolina	2.0	2.3

Source: U.S. Department of Commerce, 1988, "International Direct Investment - Global Trends and the U.S. Role", p. 41.

Table 3.6 Total U.S. Employment by Foreign-Owned or Controlled U.S. Affiliates, 1986, Percentage Share

<u>Industry</u>	<u>Share (%)</u>
All Industries	3.8
Manufacturing	8.8
Mining	6.6
Wholesale Trade	5.5
Retail Trade	3.2
Other Industries (except banking)	1.3

Source: U.S. Department of Commerce, 1988, "International Direct Investment - Global Trends and the U.S. Role", p. 40.

Looking at the mode of entering the U.S. chosen by foreign investors, Little (1986, p. 17) noted that acquisitions accounted for almost 40% of the number of new foreign investments made in the U.S. during 1981.

Measured by value, however, acquisitions accounted for almost 90% of the FDI made in 1981 (ibid). This trend has not changed over the last few years. In 1987, 41% of all completed FDI transactions identified by the U.S. Department of Commerce were acquisitions (U.S. Dept. of Commerce, 1988b, p. 30). By value, acquisitions accounted for some 84% of the total FDI made in the U.S. (The Conference Board, 1988a).

Acquisitions, naturally, tend to be much larger than green-field investments. In the 1988 edition of "International Direct Investment" (U.S. Department of Commerce, 1988b, p. 38) it is noted: "Recent transactions have included some very large acquisitions....In 1987 there were 29 transactions of \$500 million or more with a combined transaction value of nearly \$36 billion." 1985 saw 9 such transactions, up from 6 in 1984 (ibid).

Considering the entry mode chosen by investors from the UK, so far the dominant U.S. investor, Hamill (1988, p. 4) notes: "The establishment of green-field plants has been a relatively unimportant mode of entry into the U.S., accounting for less than 10% of total investments." Japanese investors have, on the other hand, traditionally preferred greenfield entries (see, for example, Wheeler, 1986, p. 365).

In our survey of Swedish investments in the U.S., green-fields were somewhat more common than acquisitions, claiming some 55% of the total number of entries. The popularity of green-fields has decreased over time, however. Among Swedish subsidiaries established before 1975, 62% were green-fields. This should be compared with 51% among those established in 1975 or later. The survey data, unfortunately, does not allow a reliable calculation of the division of acquisitions and green-fields among the Swedish investments in the U.S. when measured by value. According to Swedenborg (1988, p. 64), 71% of all Swedish subsidiaries with manufacturing that were established abroad during the 1979-86 period were acquisitions.

A large majority of Swedish subsidiaries in the U.S. are owned 100% by their Swedish parent companies. In our survey, 87% of the subsidiaries were wholly-owned (n=109). Among the joint-ventures, numbering in total only 14 entries, 3 were owned to 50% by the Swedish partner. In the other 11 cases, the Swedish partner was by far the largest owner. This finding is in line with investigations of FDI stemming from nations other than Sweden. Franko noted (1976, p. 182): "In 1971....two thirds of the continentals' U.S. subsidiaries were wholly owned, compared to 46% of all Continental foreign manufacturing operations." The explanation for this observation offered by Franko (op cit) is worth noting:

"The Continental preference of 100% ownership of operations in the United States largely stemmed from the need to respond quickly to competitor's moves....the speed of competitive play made meetings and discussions aimed at harmonizing partners' interests an expensive luxury."

Looking at more recent figures, some 7% of the entries registered in 1987 were joint ventures. Measured by value, the share of joint-ventures was less than 2% (U.S. Department of Commerce, 1988b, pp. 30-31).

It has been argued by some authors (notably Kojima, 1978, see also Rugman (ed.), 1982, p. 64) that Japanese FDI are different from those of other countries. Given the rapid expansion of Japanese investment in the U.S., the activities of Japanese firms in the U.S. merit some extra attention. Wheeler notes (1986, p. 358):

"The importance of wholesale trade in Japanese investment is the most striking characteristic of recent investment patterns....The share of employers engaged in manufacturing is the lowest of the major investing countries (32.2% in contrast to a 48.7% average)....the Japanese appear to be more interested in acquiring establishments that can help distribute goods produced in Japan than in actually manufacturing in the United States."

The last few years have, however, seen very considerable Japanese investments in automobile manufacturing located to the United States, and an assessment of the total Japanese FDI position in the U.S. made today would perhaps lead to somewhat different conclusions (a development forecasted by Wheeler, 1986, p. 369). The trend of large Japanese FDI in manufacturing activities is expected to continue, particularly in the automobile and automobile parts industries (U.S. Department of Commerce, 1988a, p. 49).

3.2 Providing a Historical Perspective

The history of foreign direct investment in the U.S. essentially goes back to the beginning of the colonial period. McClain (1986, p. 310) comments: "The saga of European direct investment in the United States has paralleled that of American business itself".

In the colonial period, European claims on U.S. assets were almost exclusively on land. The post-Revolution era, however, saw a rapid

expansion of capital inflows into the U.S. and, as noted by McClain (*ibid*), by 1803 foreign interests owned some 33% of the stock of American corporations. Most of these investments were of the portfolio type. Although the importance of direct investment grew over time, portfolio investments still provided some 80% of the total foreign investment position in the U.S. at the time of the outbreak of the First World War (McClain, 1986, pp. 310-11).

A large proportion of the European investments in the U.S. were liquidated, voluntarily or involuntarily, during the war, a process which was repeated in connection with the Second World War. The two World Wars have thus been of fundamental importance for the development of European direct investment in the USA. Franko, in his study of Continental European FDI, underlined (1976, p. 164) that a fairly large number of Continental European firms were established in the U.S. well before the outbreak of the First World War (among them Siemens, Fiat, Bayer, Solvay, Ciba-Geigy, Nestlé, Daimler and Bosch). According to Franko (*ibid*):

"Most of these Continental European operations in the U.S. were small, yet their number seems to have been equal to the number of American enterprises active on the Continent....Indeed, one wonders how much transatlantic investment asymmetry would have arisen had not wars, and the confiscations that accompanied wars, intervened. The first six German entrants into U.S. manufacturing were confiscated during World War 1. Two of their parents re-entered in the 1920's, bought back their former subsidiaries, and were re-confiscated during World War 2."

As indicated, confiscations or near-confiscations have not been limited only to German companies. McClain (1983, p. 280) observes:

"U.S. allies in both World Wars were forced to sell off some investments to fund their military efforts....In 1941, the United States required the British to sell Cortauld's American Viscose subsidiary, the world's largest producer of Rayon, at depressed prices to "qualify" for Lend-Lease."

3.3 Some Characteristics of Swedish FDI in the U.S.

In this section a number of findings regarding Swedish firms that have made direct investments in the U.S., and about their activities there, will be discussed. Unless otherwise indicated, all the data presented in this section emanate from our own survey study.

As is evident from table 3.7, the size of the Swedish firms investing in the U.S. varies quite dramatically. Naturally, almost all large Swedish firms with international activities of any consequence are represented in the U.S. market, but present are also a surprisingly large number of very small firms.

Table 3.7 Total Sales in 1985 for Swedish Firms with U.S. Subsidiaries

<u>Total Sales (Millions SEK)</u>	<u>% of Firms</u>
0 - 20	5.9
21 - 200	27.4
201 - 1000	23.7
1001 - 10000	30.4
10001-	12.6

n = 137

The experience in operating outside of Sweden, and in the U.S. in particular, is of interest as it can be expected to influence both the choice of strategy for entering the market and the result of the investment. Experience in international operations, obviously, is a very elusive phenomenon, and to find a reasonable proxy for this variable is not easy. In tables 3.8 through 3.11 the following four variables are used as proxies for the experience variable: number of subsidiaries located outside of Sweden (at the time of the investigation), year of establishment of first foreign subsidiary, year of establishment of first subsidiary in the U.S., and percent of total sales outside of Sweden (at the time of the investigation).

Summarizing the findings from these tables, it is obvious that, just as there is a surprisingly large number of relatively small Swedish firms active in the U.S., there is also a large number of relatively inexperienced Swedish firms that are active in this market. Some 45% of all Swedish firms in our

sample had no more than five subsidiaries located outside of Sweden. Perhaps even more surprising is that 10% of the Swedish investors had only one foreign subsidiary, i.e. the American one. More than 50% of the firms established their first foreign subsidiary in or after 1970, and some 20% of the firms did so between 1980 and 1985. The percentage of recent investments is, of course, even higher when we look at U.S. subsidiaries. Of the firms included in our sample, almost 80% established their first U.S. subsidiary in or after 1970, almost 40% did so during the 1980-85 period.

Swedish industry is known for its high dependence on sales outside of Sweden, and Swedish firms that have established themselves in the U.S. conform not surprisingly to this general rule. Among the sample firms, some 70% derived more than 50% of their sales from abroad.

Table 3.8 Total Number of Foreign Subsidiaries Controlled by Swedish Firms with Investments in the U.S.

<u>No. of subs</u>	<u>% of subsidiaries</u>
1	10
2 - 5	35
6-10	22
11-50	23
51-	10

n = 116

Table 3.9 Year of Establishment of First Subsidiary Outside of Sweden

<u>Year</u>	<u>% of Subsidiaries</u>
-1920	8
1921-1938	6
1939-1959	12
1960-1969	19
1970-1979	34
1980-1985	21

n = 109

Table 3.10 Year of Establishment of First Subsidiary in the U.S.

<u>Year</u>	<u>% of Subsidiaries</u>
-1920	3
1921-1938	2
1939-1959	8
1960-1969	8
1970-1979	42
1980-1985	37

n = 142 (green-fields and acquisitions combined)

Table 3.11 % of Total Sales Outside of Sweden Among Swedish Firms with Subsidiaries in the U.S.

<u>% of Sales</u>	<u>% of Companies</u>
1 - 10	4
11 - 25	8
26 - 50	19
51 - 75	25
76-100	44

n = 118

The share of total sales to the U.S. market is of less interest as a proxy for parent-firm experience, as a recent acquisition could be the explanation for a high observed value on this variable. The share of U.S. sales is, on the other hand, highly relevant as a measure of the dependence on the U.S. market among Swedish firms. Table 3.12 provide data on three different years. Firstly, the dependence on the U.S. market among Swedish investors in 1980 is gauged using figures taken from the study by Leksell et al (1981, p. 48). Secondly, the same dependence in 1984 is described using survey data. Thirdly, and again using survey data, HQ officials views regarding the development of U.S. sales up to and including 1990 are described.

The fact that the survey findings are somewhat dated obviously becomes problematical when looking at this kind of variable. Judging from table 3.12, the dependece of Swedish investors on the U.S. market seems to have

increased between 1980 and 1984. It should, however, be underlined that the sample of firms in the Leksell study (op cit) is not the same as in the present study; therefore direct comparisons cannot be made. (Of the 82 companies included in the Leksell study, 68% are also included in this one. Part of this discrepancy can be explained by the fact that Leksell et al (op cit) did not use the SACC membership directory when planning their investigation. Other factors of importance can be hypothesized to be mergers and closures.)

Table 3.12 U.S. Sales as % of Total Sales (% of Firms)

<u>U.S. sales %</u>	<u>1980*</u>	<u>1984</u>	<u>1990 (expected)</u>
0 - 5	33	21	7
6-10	22	21	19
11-20	28	25	26
21-40	17	26	39
41	-	7	9
	n=82	n=116	n=114

* Source; Leksell et al (1981)

An increase in the importance of the U.S. market was clearly expected by the respondents at the time when the survey data was collected. Whether the projections then expressed have been fulfilled or not is, of course, impossible to say. The drop in the dollar rate that has since occurred makes it likely that, at least in terms of sales value, actual figures fall short of the projected ones. Regardless of this, it is interesting to note that in 1985/86, HQ officials, while in the majority of cases dissatisfied with the results of U.S. operations, predicted that their companies would become considerably more dependent on the U.S. market over the coming five year period. A similar finding was, incidentally, made by Leksell et al (1981). They noted (ibid, p. 101):

"In spite of unsatisfactory performance and operating problems, Swedish companies are committed to a presence in the U.S. market. In fact, no less than 82% of all firms plan to expand their U.S. operations in the 1980's."

Turning to descriptive data on the characteristics of the Swedish subsidiaries in the U.S., tables 3.13 through 3.15 provide a starting point. (Appendix 12 provides a complete list of the products sold by the firms in our sample, as stated in the Swedish-American Chamber of Commerce membership directory.)

As can be seen from the tables, a large number of the Swedish subsidiaries in the U.S. are very small. Some 20% of the subsidiaries have sales of less than USD 1 million, and nearly 55% of them do not reach a turnover of USD 10 million. Around 40% of the subsidiaries have a total capital of up to USD 1 million, and nearly 60% of them fall in the range below USD 5 million. In regard to employment figures, some 40% of the subsidiaries have up to 10 white-collar employees, the corresponding figure for blue-collar workers being 60%. About 20% of the subsidiaries have more than 100 white-collar employees, the same figure applying for blue-collar workers.

Table 3.13 Sales of Swedish Subsidiaries in 1984 (million USD)

<u>Sales</u>	<u>% of Subs</u>
0 - 1	19
2 - 9	35
10 - 50	25
51-300	15
301-	6

n = 109

Table 3.14 Total Capital of Swedish Subsidiaries in 1984 (million USD)

<u>Capital</u>	<u>% of Subs</u>
0 - 1	41
2 - 5	17
6-10	11
11-50	20
51-	11

n = 90

Table 3:15 Number of Employees of Swedish Subsidiaries in 1984
(% of Firms)

<u>Number of Employees</u>	<u>White Collar</u>	<u>Blue Collar</u>
0 - 5	20	45
6 - 10	19	13
11 - 25	18	7
26 - 100	23	14
101 - 1000	16	18
1001 -	4	3

n = 116

A relatively crude geographical division of the United States was used when trying to assess the geographical distribution of Swedish investments in the U.S. In the survey, the respondents were asked to specify the dispersion of their companies total sales over the following regions; Northeast, Southeast/Southwest, Midwest, West Coast. The basic components of the regional division of the U.S. employed in our survey have been described in more detail by Business International (1989, p. 58):

"The Northeast: All the states northeast of a line drawn between Pittsburgh and Wilmington, Delaware. Covering New York, New Jersey, Pennsylvania, Maryland, Delaware, Massachusetts, Rhode Island, Connecticut, Vermont, New Hampshire and Maine. This region comprises a major segment of the population and wealth of the U.S. Densely populated and highly unionized, these states have among the highest standards of living in the U.S. Nearly every form of infrastructure, from chemicals production to electronics, from investment banking to medicine are found here."

"The Southeast: All the states south of Pennsylvania except Maryland, but including Kentucky. This area consists of Virginia, West Virginia, Kentucky, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi and Tennessee. The South modernized greatly after WWII and educational standards are significantly higher than in the past. Race relations, which had been worse than those in the North pre-1940, are better than in most other areas in the U.S. today. Much Northeast industry heavily dependent on labor has moved to this region because of its

"right-to-work" laws and generally lower direct cost of labour."
"The Southwest: Arkansas, Louisiana, Texas, Oklahoma, New Mexico, Arizona and the Mexican border area. Like many Western states, these in the Southwest are best known for their natural resources."

"The Midwest: All of the states between Ohio and Nebraska and Minnesota to Missouri. This "heartland" of the U.S. comprises of Ohio, Michigan, Indiana, Illinois, Wisconsin, Missouri, Iowa, Minnesota, North Dakota, South Dakota, Nebraska and Kansas. The Region is known for its heavy industry - tooling, steel, earthmoving equipment and automotive production. In the late 1970's, this area became known as the rust belt."

"The West: Washington, Oregon, California, Idaho, Montana, Colorado, Wyoming, Utah and Nevada: This region is dominated by California, the most populous state in the U.S., whose GDP would rank approximately eighth in the world if the state were a separate country."

Looking at the total FDI position in the U.S. (table 3.5 and U.S. Department of Commerce, 1988a, pp. 124-25) we may note that the concentration of such investments is highest in the the Southeast/Southwest region. As can be seen from table 3.16, the sales of Swedish subsidiaries in the U.S. are spread fairly evenly over the nation, with some concentration to, in particular, the Northeast and the Midwest. The difference between the general pattern and the Swedish one can probably be explained by the composition of Swedish industry.

Table 3.16 Geographical Division of Sales Within the U.S.

	% of subsidiaries with % of sales			
	<u>0-25</u>	<u>26-50</u>	<u>51-75</u>	<u>76-100</u>
Northeast	53	34	6	6
SE/SW	75	22	2	1
Midwest	63	29	5	3
West Coast	74	21	2	3

n = 115

Considering the kinds of activities performed by Swedish subsidiaries in the U.S., table 3.17 reports the survey findings regarding the prevalence of activities such as R&D and manufacturing for group-wide distribution. Some of the findings presented in this table certainly are not very surprising. That a majority of the subsidiaries have an explicit responsibility for reporting to HQ on competitor activities and on technological development in the U.S. is only natural. More surprising, perhaps, is that 45% of the subsidiaries are involved in some kind of R&D activity and that about one third of the subsidiaries manufacture products or components for group-wide distribution.

Considering manufacturing in general (not in table), 58% of the subsidiaries in the sample report that they have some manufacturing (n=99). This finding compares well with the results presented by Swedenborg. In the investigation of Swedish manufacturing subsidiaries abroad by Swedenborg (1988, p. 104), the proportion of local production to total sales was the highest among Swedish subsidiaries in the U.S. (57%).

Table 3.17 Activities Carried out by Subsidiaries (% of subs)
(figures in brackets indicate number of answers given)

<u>Type of activity</u>	<u>% Greenf.</u>	<u>% Acq.</u>
Reporting on Competitor Activities	75 (43)	78 (18)
Reporting on Technological Development	65 (37)	65 (15)
Carrying Out R&D	46 (26)	39 (9)
Purchasing for Group Purposes	30 (17)	26 (6)
Manufacturing for Group-wide Distribution	33 (19)	26 (6)
Sales/Marketing Outside the U.S.	46 (26)	60 (14)
	n=57	n=23

The observation of a high incidence of R&D activities among the subsidiaries of Swedish firms is quite consistent with the findings from other studies. Franko (1976, p. 181) provides a comment of interest not only at the descriptive level:

"The nature of the adaptation to the U.S. milieu by European firms displayed a multiplicity of forms. Perhaps the most far-reaching adaptation occasioned by the impact of American competition on U.S. subsidiaries was the nearly universal undertaking of research and development in the United States. In 1971, nearly all the American subsidiaries of Continental European firms were undertaking some R&D activity; the few exceptions were either very recent ventures or were in some stage of financial difficulty. A number of withdrawals from U.S. manufacturing by Continental parents - including Saint-Gobain - were directly linked to parental reluctance to allow U.S. subsidiaries to do R&D."

3.4 The Results Achieved by Foreign Investors in the U.S.

In the introductory chapter it was noted that the results of investments made in the U.S. by Swedish investors have been far from satisfactory, and that the evidence at hand suggests that investors from other nations are also having problems (McClain, 1986, p. 327).

The data presented in table 3.18 confirm the impression of fairly lackluster results achieved by foreign investors. As is evident from the table, there are quite dramatic differences in the overall rates of return on FDI, depending on the country of origin. Part of these differences can be explained by the composition of the FDI. The rather better results achieved by Dutch investors are, for example, probably due to the above average importance of investments in the petroleum sector in the total Netherlands FDI portfolio. Rates of return in the petroleum sector are, as can be seen from table 3.19, unusually high.

Although there are exceptions, the rates of return achieved by foreign investors in the U.S. must nevertheless be regarded as low. The results stand out as particularly meagre when compared with the rates of return achieved on American direct investment abroad (table 3.18). Partly this can be explained by the fact that FDI made in the U.S. in general is of much more recent origin than FDI emanating from the U.S. Historical cost accounting

methods thus automatically makes outbound U.S. FDI look more profitable than inbound U.S. FDI. It is, however, noteworthy that one of the most recent investors in the U.S., i.e. Japan, is reporting the highest rate of return on investments made in the U.S.

Table 3.18 Average Annual Rate of Return* on FDI in the U.S. 1980-86 (figures within brackets represent the rate of return on American FDI abroad in the corresponding areas, during the same time period).

<u>Country</u>	<u>Rate of Return</u>	
All Countries	5.3	(13.4)
Canada	2.3	(10.0)
Japan	9.8	(16.0)
Europe	6.1	(13.3)
EC (10)	6.2	(13.3)
Belgium & Luxembourg	7.4	
France	-2.0	
West Germany	0.9	
Italy	-1.8	
Netherlands	9.4	
Denmark, Greece & Ireland	6.2	
UK	6.9	
Other Europe	4.7	(13.2)
Sweden	4.6	
Switzerland	6.4	

* Defined as income payments divided by the average of the beginning and year-end direct investment positions.

Source: U.S. Department of Commerce, 1988, "International Direct Investments - Global Trends and the U.S. Role", pp. 111 & 122.

Table 3.19 Rate of Return* on FDI in the U.S. in Selected Industries
1980-86

<u>Industry</u>	<u>Rate of Return</u>
All Industries	5.3
Mining	-3.3
Petroleum	13.0
Manufacturing	2.7
Trade	6.9
Banking	12.7
Finance	2.0
Insurance	6.5
Real Estate	1.3
Other Industries	-1.5

* Defined as income payments divided by the average of the beginning and year-end direct investment positions.

Source: U.S. Department of Commerce, 1988, "International Direct Investments - Global Trends and the U.S. Role", p. 123.

The rate of return on Japanese investments becomes especially impressive in view of the fact that Japanese investments in the petroleum sector, as reported by Wheeler (1986, p. 358) are considerably more limited than the average. Wheeler (1986, p. 365), discussing an investigation of Japanese FDI in the U.S. made by Arthur Young International, notes: "Nearly three quarters of the respondents reported that profitability was equal to or better than prior expectations". This can be contrasted with the corresponding study on Swedish FDI in the U.S. (Arthur Young International, 1984, p. 8) where 68% of the respondents judged the profitability of their U.S. investments as being equal to or worse than prior expectations. (Obviously comparisons of this kind must be made with caution. Apart from the fact that there are a number of company and industry variables that should, ideally, be controlled for, it could also be that the level of expectations may differ among companies depending on nationality.)

Interestingly, the problems experienced by many U.S. investors do not seem to be of recent date. According to Franko (1976, p. 178):

"Nearly 40% of all 78 subsidiaries ever sold or liquidated by Continental enterprises around the world were located in America. This was a wholly disproportionate number of sales and liquidations: Continental firms had established only a tenth of their manufacturing subsidiaries in the United States."

Tables 3.20 through 3.22 summarize the results of our own survey study. Before commenting on the survey findings, we should underline a few methodological problems. It is difficult to collect data on rates of return (or similar figures) by using questionnaires. Firstly, company officials are reluctant to disclose sensitive information of this kind in a survey. Secondly, absolute figures on result-related variables are difficult to compare. This has to do with a number of considerations; what constitutes a good rate of return in one industry may be a vary poor rate of return in another, and what is a good rate of return during a slump year will not be a good one during a boom year.

In addition, particularly when sales companies and manufacturing companies are lumped together, absolute rates of return reported by subsidiaries are always somewhat artificial. In order to avoid this problem, our survey included questions in which HQ officials, as well as subsidiary officials were asked to compare, subjectively, the results of their own company (in the U.S.) with those of other companies within the same industry. In addition, HQ officials were also asked about their view of the costs of entering the U.S. market, as compared with their own initial expectations.

As is evident from tables 3.20 - 3.23, HQ officials in Swedish firms with investments in the U.S. regarded the costs for doing so as considerably higher than expected. In only 12% of the cases did HQ respondents characterize the costs of entering the U.S. market as lower or much lower than expected. Almost 70% of the HQ respondents regarded the costs as being higher or much higher than expected. Nearly 55% of the HQ officials regarded the results of their U.S. operations as below or very much below the industry average. Some 30% of the HQ respondents regarded the results achieved in the U.S. as better or much better than the average. The corresponding figures in the study performed by Leksell et al (1981, p. 34) were 54.4% and 16.5%. (In the Leksell study HQ personnel were asked about their view of the results achieved during the 1976-80 period. It

should again be underlined that the sample of firms used by Leksell et al is not the same as the one used in this study.)

Subsidiary officials took a more optimistic view of the results achieved. Here, the number of respondents regarding the results as better or much better than the industry average was equally large as the group regarding the results as being below or very much below the relevant industry average. (It should, however, be underlined that for this variable answers collected at the subsidiary level are not directly comparable with HQ data. This is due to the fact that HQ respondents were asked about the results of the largest U.S. subsidiary of their company, i.e. not necessarily the same subsidiary that completed the subsidiary section of the survey.)

If we look at absolute rates of return, at the subsidiary level, almost 50% of the companies reported negative results, or rates of return between 0 and 10%. On the other hand, 25% of the companies had achieved rates of return of more than 20%. Compared with the study by Leksell et al (1981, p.33), this indicates a modest improvement. This finding must, however, be regarded as highly speculative. In addition to the problems inherent in any comparison of the two studies indicated above, a further complication is created here by the fact that the data used by Leksell et al (ibid) were collected only at the HQ level.

Table 3.20 Heaquarter Officials' Views on the Performance of U.S. Subsidiaries During 1983-1985 as Compared to Normal Rates of Return within the Industry.

<u>Performance</u>	<u>% of Companies</u>
Very Much Below Average	19
Below Average	35
Average	15
Better than Average	25
Much Better Than Average	6

n = 117

Table 3.21 Subsidiary Officials' Views on the Performance of U.S. Subsidiaries During 1983-1985 as Compared to Normal Rates of Return Within the Relevant Industry.

<u>Performance</u>	<u>% of Companies</u>
Very Much Below Average	14
Below Average	24
Average	23
Better than Average	24
Much Better Than Average	15

n = 107

Table 3.22 Return on Total Capital (profits before tax, extraordinary items, and interest payments over total capital) of Swedish Subsidiaries in the U.S., as Reported by Respondents at the Subsidiary Level.

<u>Return on Total Capital</u>	<u>% of Companies *</u>
Negative	25 (20.3)
0 - 5	12 (21.5)
6-10	12 (15.2)
11-15	14 (11.4)
16-20	12 (10.1)
21-	25 (21.0)

n = 81

*Figures within brackets indicate the corresponding findings reported by Leksell et al (1981, p.33). Note that in the study performed by Leksell et al (ibid), the question was answered by HQ officials.

Table 3.23 Headquarter Officials' View of the Costs of Entering the U.S. Market, Compared with Initial Expectations

<u>Costs</u>	<u>% of Companies</u>
Much Lower	2
Lower	10
As Expected	20
Higher	50
Much Higher	18

n = 60 (this question answered only by companies entering the U.S. in or after 1975)

The survey also asked the respondents to name the three "most important problems" encountered in the U.S. market. As this question was an open one, it is difficult to summarize the answers in a meaningful way. However, table 3.24 presents an effort to do so. Appendices 14 & 15 present in extenso answers given to this question.

Table 3.24 The Single Most Important Problem Encountered in the U.S.

<u>Type of Problem</u>	<u>% Answers (HQ)</u>	<u>% Answers (Sub)</u>
To build distribution network	33	17
To find good managers	17	11
Price level in the U.S.	14	16
Product adaptation	8	7
Shrinking U.S. market	5	4
Cultural differences	3	11
Prod. capacity in Sweden	3	4
Legal Problems	-	12
To create brand recognition	-	5
Conservative buyers	-	5
Protectionism	-	4
Other	14	9
	n = 58	n = 75

3.5 Summarizing the Findings

In view of the first purpose of this thesis, i e. to describe Swedish FDI in the U.S., as well as to provide a perspective on these investments by also discussing FDI in the U.S. emanating from other countries, it can be noted that the Swedish experience does not appear to be unique. The dominance of the U.S. as a provider of FDI has been broken during the 1980's, and FDI made in the U.S. has, on the average, been growing at a faster rate than American direct investment abroad. Swedish FDI in the U.S., following this general trend, increased dramatically during the 1980's and, during the mid-1980's, reached a peak of some 30% of total Swedish FDI. The Swedish FDI has, however, been outstripped by that of other investors, most notably the UK and Japan, and the Swedish FDI position in the U.S., measured as a percentage of the total stock, has thus declined.

Summarizing the characteristics of Swedish FDI in the U.S., it is noteworthy that the Swedish FDI also appears to resemble that of other nations in the sense that the bulk of the Swedish investments are in the form of wholly-owned subsidiaries. Franko (1976, p. 182) hypothesized that the preference for wholly-owned subsidiaries among Continental-European investors in the U.S. could be explained by the need to react quickly to the moves of competitors, prompted by the speed of the competitive game in the U.S. market. As will be discussed in the theoretical framework of this study, the U.S. market can, in general, be expected to be of crucial importance in industries characterized by international competition. This is both because of the sheer size of the U.S. market and because of its technological sophistication.

Perhaps the suggested explanation for the prevalence of wholly-owned subsidiaries in the U.S. may thus be expanded to encompass a wider perspective than the need to react quickly to the moves of competitors within the U.S. market. Companies investing in the U.S. may prefer to do so in the form of wholly-owned subsidiaries, both because U.S. subsidiaries are regarded as crucial in any strategy for international competition (cf Hamel & Prahalad, 1985, p. 146, as well as the case of Volvo Truck Corp.) and because U.S. subsidiaries are expected to be of critical importance for the build-up of future technology-related, firm specific-advantages (cf McClain, 1986, pp. 339, as well as the case of Ericsson Telecom).

Further considering the characteristics of Swedish investors in the U.S., it may be noted that, in addition to the major multinational Swedish firms, a surprisingly large number of small and, in terms of foreign operations,

relatively inexperienced Swedish firms are active in the U.S. In general, a very substantial percentage of the total number of Swedish direct investments in the U.S. appear to be of relatively recent date while at the same time representing very significant shares of the investors' total sales.

Looking at the characteristics of the Swedish subsidiaries in the U.S., a large proportion of these appear to be relatively small, in terms of sales, total capital and number of employees. In spite of their limited size, the Swedish subsidiaries are often involved in a broad range of activities, including manufacturing and R&D. The surprisingly high incidence of R&D activities in the Swedish subsidiaries may, again, be taken as an indication of the importance of the U.S. market for the development of technological advantages, as well as of the many demands for product adaptations made by U.S. customers (cf Franko, 1976, p. 181).

One important starting point for this thesis was provided by the simultaneous observation of major Swedish investments being undertaken in the U.S. and indications of weak performance by Swedish subsidiaries in the U.S. The data presented above confirm both these observations. The performance of Swedish subsidiaries in the U.S., particularly as judged by HQ officials, is often below expectations, whereas the costs of entering the U.S. market in a vast majority of cases have exceeded expectations. Interestingly, there are a number of indications suggesting that the experience of Swedish investors is the rule rather than an exception. Foreign investors in the U.S., with the possible exception of Japanese investors, generally report mediocre results, and appear to have done so for a long time. It seems as if there are special circumstances that make it difficult to succeed in the U.S.

If the results of foreign investors in the U.S. are really so disappointing, a legitimate question is why companies continue to invest there. In the following this issue will be subject to further discussion. The main topic of the following chapters, however, will be to investigate some possible explanations for the difficulties experienced by foreign investors in the U.S., as well as to generate a few suggestions regarding the handling of these difficulties.

4 The Role of Industry Structure and Strategic Choice

4.1 Introduction

The body of theory which is commonly denominated *industrial organization* (IO) was originally developed to analyze the welfare aspects of industry structure, as it influences the conduct of firms (the structure-conduct-performance paradigm). The theory evolved in a setting of American anti-trust policy, and at a time when the dominance of the giant American corporation was unquestioned. Therefore, it is not surprising that it initially did not specifically account for the role of international competition.

Arguments derived from the industrial organization paradigm were, however, later used as important building blocks in *theories of the MNE*. Theories advanced in this area are of interest for the purpose of this thesis to the extent that they consider issues such as the expected direction of FDI, the strategic behaviour of MNEs, etc.

Industrial organization theory has also been fundamental for to build-up of theory in the area of *industry and competitive analysis* (henceforth denominated strategy), where issues related to international competition and strategies for international competition are very much in focus today.

This chapter will provide an overview of the three bodies of theory indicated above. With the theory in view, the following issues will be discussed:

-Motives for FDI in general, and for FDI made in the U.S. in particular.

-The entry strategies chosen by Swedish investors in the U.S.

-Select aspects of the strategies followed by Swedish investors after having entered the U.S. market

-The industry structure facing Swedish investors in the U.S., and its influence on the performance of Swedish investors.

As this chapter is rather long and covers several different themes, a brief overview of the text may be helpful. Following this introduction, the chapter continues with a discussion of *theories of FDI and the MNE* (section 4.2). This discussion leads on to a consideration of *motives for FDI*, particularly FDI in the U.S. (section 4.3). A digression is then made, considering the question of how firms become international, i.e. the *internationalization process* (section 4.4). In this section, furthermore, survey data are used to study a small group of Swedish firms that have established their one foreign subsidiary in the U.S.

In the following section, the decision to establish a subsidiary in the U.S. is taken as given, and an investigation is made of factors deciding *the choice between green-field investments and acquisitions* (section 4.5). The focus of interest is then moved to *a description of the industry structure facing Swedish firms entering the U.S. market, as well as an investigation of the relationship between the local industry structure and the performance of Swedish investors* (section 4.6).

A further shift of interest is made, as survey data are used to consider a few select aspects of the *strategies followed by Swedish firms active in the U.S. market* (sections 4.7.1 & 4.7.2). The chapter then concludes with a discussion of the literature within the area of *strategy as it relates to issues of international competition and strategies for international competition* (section 4.7.3). The function of this part of the chapter is , primarily, to provide a background for a discussion of the two case studies presented in chapter 6.

4.2 Explaining the Existence of FDI and the MNE

Buckley and Casson, in a recent overview (Buckley and Casson, 1985, pp. 1-14), identified the following six "classes" of explanations for the existence of multinational firms:

- 1) The Hymer-Kindleberger tradition
- 2) The place of the multinational enterprise in the product cycle
- 3) The concept of internalisation
- 4) Diversification versus internationalisation
- 5) Location theory as applied to the multinational enterprise
- 6) Attempts at achieving a synthesis into a general theory

As noted, for example, by Hennart (1982, p. 5) and Kogut (1987, p. 3), MNEs were, until the 1960s, regarded as an example of movement of capital across borders. As a result of this, the theory of international factor movements was used to explain MNEs as a consequence of capital seeking positive interest rate differentials. However, this explanation turned out to be inconsistent with empirical evidence showing direct investments simultaneously flowing in and out of the same countries. In addition, explanations of international capital movements based on interest rate differentials did not distinguish between portfolio investments and direct investments.

As argued by Hymer (1960, p. 2): "Direct investment...has behaved quite differently from portfolio investment, and this suggests that they really are two different things." On both theoretical and empirical grounds, Hymer rejected interest rate differentials as an explanation for foreign direct investments. He noted (op cit, p. 23):

"The important theoretical shortcoming of the interest-rate theory is that it does not explain control. If interest rates are higher abroad than at home, an investor will do well to lend money abroad, but there is no logical necessity for him to control the enterprise he lends to."

Hymer divided the desire for control into two categories (op cit, p. 25):

"The control of the foreign enterprise is desired in order to remove competition between that foreign enterprise and enterprises in other countries. Or the control is desired in order to appropriate fully the returns on certain skills and abilities."

The notion that certain firms have specific advantages that enable them to operate successfully outside of their own home market is central to Hymer's version of the theory of the MNE. Elaborating on his own theory and building on industrial organization theory and the analysis of entry barriers provided by Bain (1956), Hymer observed (op cit, pp. 85 & 98 respectively) that international operations are normally associated with oligopolistic industries.

The oligopolistic nature of multinational enterprise and its consequences were further investigated by Knickerbocker (1973), who tried to explain, not the existence of MNEs (here he essentially adopted the product cycle model), but patterns in the geographical spread of American MNEs, as a

result of "oligopolistic reaction". Here he divided foreign direct investments into two categories - aggressive and defensive (op cit, p. 3):

"(W)hereas the first subsidiary established in a given industry, in a given country, will be regarded as an aggressive investment, all others established in the same industry, in the same country, to manufacture or sell products in competition with those of the first subsidiary will be regarded as defensive investments."

Knickerbocker carefully underlined that oligopolistic reaction should be regarded as a supplementary explanation of FDI and noted (op cit, p. 30, emphases added):

"The product cycle model provides a set of reasons why U.S. product-pioneering firms *aggressively* pursued foreign expansion. Oligopolistic reaction provides a set of reasons why these firms, once caught up in the expansion process, *defensively* countered the moves of each other to preserve the balance of competitive capabilities within each industry."

Knickerbocker's (1973) main hypothesis was thus that firms in highly concentrated industries could be expected to match the FDIs undertaken by competitors more closely than would be the case in less concentrated industries (op cit, p. 53). Among his findings were (op cit, p. 77) that firms in concentrated industries indeed do tend to bunch their FDI and that this tendency increases as industries become more oligopolistic. However, Knickerbocker also found (ibid) that beyond a certain point of industry concentration, the intensity of competitive rivalry tends to decrease. The level of concentration suggested by Knickerbocker is an eight-firm concentration ratio of over 70%. Related to this is the finding (op cit, p. 89) that the intensity of competitive rivalry can be expected to be lower in industries characterised by stability (defined as the absence of new entrants into the industry). Another factor which according to Knickerbocker (op cit, p. 111) negatively influences the intensity of competitive rivalry is the degree of diversification of a firm's overseas operations. The more diversified the firm, the less probable are "like-for-like" responses to the actions of competitors. Knickerbocker's investigation was based entirely on material regarding U.S.-based FDI, but similar results have also been obtained in investigations based on data regarding Canadian and European FDI undertaken by Flowers (1976) and Graham (1974).

The results presented by Graham (1974) also contributed to a further understanding and development of the patterns of oligopolistic reaction

described by Knickerbocker (1973). Whereas the U.S. firms in Knickerbocker's investigation showed a "follow-the-leader" type of behaviour, i.e. matching the foreign direct investments of their U.S. rivals, the European firms included in Graham's investigation were found to follow the principle of "exchange-of-threat", i.e. matching the moves of American rivals "invading" Europe.

The product-life-cycle model (PLC), associated in particular with Vernon (1966, 1971 & 1979, see also Burenstam Linder, 1961, and Wells (ed.), 1972), has as its most basic element the assumption that the characteristics of the home market, in particular its demand structure, are of fundamental importance for the birth and later development of MNE's. Essentially, Vernon explained the early dominance of U.S.-based MNE's as an effect of the great purchasing power of the American market, and its demand for technologically advanced products, especially labour-saving products. In other words, the demand structure of the U.S. market helped American firms to develop firm specific advantages in the production of technologically advanced, labour saving products.

According to the PLC-model, production could be expected to be located in the home market (i.e. the U.S.) during an initial stage when close customer contact is important for product-development purposes. Later on, changing international demand conditions and production cost aspects are predicted to drive production initially to other advanced markets and later to less advanced countries with low labour costs. Over time, the model has been extended to incorporate explanations of the rise of European MNE's and features of oligopolistic competition but, as noted by Hood & Young (1979, p. 61): "The product life cycle theory mainly provides a framework within which the early post-war expansion of U.S. investment into Europe can be explained". (See also Swedenborg, 1979, p. 27, and Lall ,1980, p. 107.)

Hymer (1960, p. 27) underlined that the theory of international operations must be regarded as part of the theory of the firm; thus the antecedents of the theory of the MNE could be traced back to Coase (1937). However, as noted by Casson (1987, p. 6), it was only much later that the work of Coase, and thereby the concept of transaction costs, was explicitly integrated into the theory of the MNE. Essentially, the fundamental argument of the transaction-cost approach is that "transaction costs in intermediate products markets can be reduced by internalizing these markets within the firm" (Casson, 1987, p. 6). Casson underlines (ibid) that, by virtue of considering intermediate products, "the internalization approach is much more general than Hymer's" As elaborated by Casson (ibid):

"The investments of European firms in colonial mining ventures could also be explained by internalization. The raw materials and semi-processed products traded within European-owned mining firms were one type of intermediate product, while the know-how traded between the research division and the manufacturing division of the U.S. high-technology firm was just another type of intermediate product."

Incidentally, it can be noted that the role of the theory of the MNE within an envisaged total theory of the firm has been given considerable attention in recent years (Buckley, 1983, and Buckley & Casson, 1985, Casson 1987). As argued by Casson (1987, p. 1):

"The modern theory of the MNE has the potential to become a general theory of the enterprise in space, and as such, to embrace theories of the multi-regional, and multi-plant firm. The theory of the uninational single plant firm under perfect competition - a theory which used to be known quite simply as "the theory of the firm" - turns out to be a quite trivial special case."

The later development of Coase's proposition is particularly associated with the work of Williamson (1975, 1981 and 1985) and his treatment of transaction costs. (Casson, 1987, p. 4, however, notes that: "the first application of the Coasian concept of internalization to the MNE....antedates Williamson's formulation of markets and hierarchies theory".) Discussing the "dual" explanation of the MNE put forward by Hymer, Williamson argues (Williamson, 1981, p. 1561):

"It is nevertheless useful to ask whether the overall character of MNE investment, in terms of its distribution among industries, is more consistent with the efficiency purposes to which Hymer refers (transfer of capital, technology, and organizational skill) or with the oligopolistic restraint hypothesis. Adopting a transaction cost orientation discloses that the observed pattern of investment is more consistent with the efficiency part of Hymer's dual explanation."

However, Kogut (1987b), discussing the literature in the area of theories of the MNE notes (op cit, p. 4): "Transaction costs in this literature are often not equivalent to Williamson's definition, since it includes strategic motivations, such as being able to price discriminate across markets". (See also Casson, 1987, p. 4.) (1)

Further considering the six "classes" of explanations for the existence of FDI defined by Buckley & Casson (1985), international trade theory, together with location theory, constitutes part of several of these theories (Buckley & Casson, 1985, p.13, Dunning, 1980, Kogut, 1983, p. 40 and Swedenborg 1979, p. 14). In this context it should, however, be underlined that the competitive advantage of a MNE may change in nature over time, and that the motive for entering a particular national market need not be the same as the motive for remaining there (Kogut, 1983, p. 42, see also Dunning, 1983, p. 134, and Swedenborg, 1985, p. 224).

Let us also consider briefly the "general theories" of the MNE: The best known example probably is the so called "eclectic theory" advanced by Dunning (1980). In the eclectic theory, three kinds of advantage are combined to form a general theory of the MNE. They are; ownership advantage, internalization advantage, and location advantage. Critics of the eclectic theory have, however, argued that this combination of advantages, although "sufficient", is not "necessary". Casson argues (1987, p. 33):

"Dunning's error arises because he underestimates the power of internalization theory. He does not realize that internalization liberates the theory of the MNE from the postulates of the Hymer-Kindleberger theory. Dunning implicitly retains the assumption that the MNE incurs additional costs of doing business abroad. But this assumption is no longer crucial because these costs are simply one component of of the overall cost of integrating activities in different countries, and it is only the overall cost that is crucial to the theory."

Casson proposes (ibid) that the assumption of ownership advantages, such as e.g. superior technology, is unnecessary, as the benefits of internalization could "in principle" be sufficient to outweigh the costs. At the same time, Casson strongly emphasizes (op cit, p. 38) that a complete general theory of the MNE would have to encompass "a synthesis of internalization and the orthodox theory of trade."

The theory of the MNE has not only developed through the growing insight gained from hypothesis-testing and refinement of original arguments; it has also developed with the object of study itself. If the MNE at first was predominantly an American phenomenon, this situation has changed dramatically causing additions to and revisions of MNE theory. The rise of Japanese MNE's has even led to a debate as to whether these firms constitute

a special category of MNE, warranting their own theory. (See, for example, Buckley & Casson, 1985, p. 15, Kojima, 1978, Rugman (ed), 1982, p. 64, and Wheeler, 1986.)

The MNE's themselves have, furthermore, "grown older" and this has given rise to speculation regarding changes in the nature of the MNE. One aspect of this is the fact that an old MNE has a level of experience entirely different from a firm just commencing its international expansion. This, again, puts into question the notion that local firms have an advantage over foreign entrants. Buckley notes (1983, p. 48):

"Developments in the dynamics of international business growth have cast doubt on the validity of a proposition which has been fundamental from at least the time of Hymer's thesis: that local firms have an advantage over foreign entrants because of local knowledge. For the case of first-time foreign investors this proposition may still have some validity. However, in the days of well established, widely diversified, efficiently managed multinational corporations we must question approaches based on such a view."

An important aspect of the changing nature of the MNE, very much related to the internalization argument developed above, is that the fact of being multinational, over time, can be expected to develop into an advantage in itself. Firstly, this advantage could take the form of a superior ability, relative to other firms, to organize and manage multinational operations (Casson 1987, p. 35, see also Hedlund's, 1989, p. 22, discussion of the MNE as a "meta-institution").

Secondly, the advantage of multinationality could take the form of a superior ability, relative to other firms, to perform specific strategic actions. An example of this would be the ability to price discriminate across markets (Horst, 1974, p. 118, Hout, Porter & Rudden, 1982, Hamel & Prahalad, 1985, Casson, 1987, p. 75). This argument also provides an important part of the explanations advanced for the gradually more "global" nature of international competition (Kogut, 1983).

4.3 Motives for FDI

There are, essentially, two ways of uncovering the motives for FDI. Statistics can be used to analyze FDI patterns, or company executives can be asked to describe the reasons for FDI decisions made. Studies that have used

statistics have often had the purpose of testing and refining theories of the MNE (the studies performed by Knickerbocker, 1973, and Graham, 1974, both belong to this tradition). Studies based on answers from decision-makers have normally started from other points of departure. For example, there has been an interest in revealing the process leading to decisions to invest abroad. Sometimes this interest has been tied-in with the normative question "how can we stimulate FDI in country X?". An example of this tradition is Aharoni (1966).

Obviously, the reasons for the decision of one particular firm to make a FDI, as expressed by company executives, need not correspond with the general determinants of FDI as discussed in the theories of the MNE. On the one hand, the motives for investments may be much more subtle than will be apparent from crude statistical data (and not all investments undertaken need necessarily fulfill the criteria of rationality that underly MNE theory). On the other hand, motives as disclosed and expressed by executives, may be strongly influenced by conditions prevailing at the time of the investigation, as opposed to the conditions at the time when the decision to invest was made. In addition, it seems reasonable to think that executives will be reluctant to disclose motives that could be regarded as in any way sensitive. (For an illuminating discussion of this problem and, in particular, the methodological problems associated with the use of surveys in collecting information about motives for FDI, see Lundgren p. 149.) In the following discussion, investigations of both types will be considered. Particular interest is focused on reasons for FDI's made in the U.S.

Aharoni (1966, pp. 54), using open ended interviews, identified the following exogenous (as seen from the potential investor's perspective) triggers for foreign investments:

- 1) An outside proposal....The most frequent sources of such proposals are foreign governments, the distributors of the company's products, and its clients.
- 2) Fear of losing a (export) market.
- 3) The "band-wagon" effect: very successful operations abroad of a competing firm in the same line of business, or a general belief that investment in some area is a "must"
- 4) Strong competition from abroad in the home market.

The third motive described by Aharoni, i.e. the band wagon effect, obviously is related to the "follow-the-leader" behaviour described by Knickerbocker (1973, p. 25). Likewise there is a connection between Aharoni's fourth motive and the "exchange-of-threat" discussed by Graham (1974). It is interesting to note that Aharoni (op cit), writing from an American perspective, regards the decision to invest abroad as largely optional. For many Swedish firms, the very limited size of the home market has meant that foreign investments have indeed been a "must" and not a matter of choice (cf Swedenborg, 1979, p. 70). Hedlund and Kverneland (1984, p. 48) provide the following classification of motives for FDI:

- 1) Advantage exploiting investments.
- 2) Advantage seeking investments.
- 3) Strategically motivated investments.
- 4) Trial or opportunistic investments.

Advantage exploiting investments can be defined as those investments that are undertaken to exploit firm-specific advantages. Here home-country characteristics become important to the extent that they contribute to the creation of such advantages. Host-country characteristics play an important role in that they influence the potential for exploiting them. The Hymer-Kindleberger tradition (Hymer, 1960, Kindleberger, 1969) clearly belongs to this category, as does the product cycle hypothesis (Vernon, 1966, 1971 & 1979).

Advantage seeking investments, as defined by Hedlund and Kverneland (op cit, p. 48), are "motivated by a wish to get access to new technology necessary to improve the competitiveness of a company's traditional product line". Host-country characteristics are obviously of fundamental importance for this kind of investment.

Strategically motivated investments are those FDI's undertaken to match the movements of rivals. These moves could be of either the "follow-the-leader" type, as described by Knickerbocker (1973), or the "exchange-of-threat" variety discussed by Graham (1974). Opportunistic investments, in the terminology developed by Hedlund and Kverneland (op cit, p. 49), are:

"investments, quite modest in terms of invested capital, but often numerous....often carried out by smaller companies.....(they) support local agents with product and marketing knowledge, collect information about the development of the market, and keep an eye on competitors".

4.3.1 Motives for FDI in the U.S.

The empirical evidence on motives for FDI in the U.S., yields a far from clear picture. From a management perspective, it is quite obvious that the U.S., being politically stable and, for many products providing the largest single market in the world, must seem almost irresistible. Tugendhat (1971, p. 71) provides a pertinent example:

"In 1970, (Air Liquide) disclosed that its four-percent share of the U.S. market in industrial gases will add about fifteen percent to its revenues and may result in a profit increase of nearly twenty percent. Most companies do not achieve such dramatic results as Air Liquide, but *the hope of doing so persuades many managements to invest in the U.S.*" (Emphasis added.)

Turning to scientific evidence, Franko (1976), using data gathered within the framework of the Harvard Comparative Multinational Enterprise Project, made the observation that (op cit, p. 162):

"The experience of Continental enterprises suggests...that rational causes underlie most of their involvement in the United States. Innovations, not great entrepreneurial leaps, underlie trade and then investment in the United States. Exceptionally, the desire to learn from the stimuli of the high-wage, high-income U.S. market provided the motivation for some spectacular adventures (and misadventures) into American manufacturing."

With the exception of some industries, particularly chemicals and synthetic fibres, Franko (1976, p. 166) did not find "exchange-of-threat", as discussed by Graham (1974), to be an important explanation for European investment in the U.S. As the main explanation he instead suggested a desire on the part of European firms, to overcome trade barriers in order to exploit firm-specific advantages. Franko also noted (op cit, p. 178):

"Continental firms that established U.S. manufacturing operations without a clear competitive advantage based on technological innovation often ended up making unceremonious exits from the United States."

Ajami and Ricks (1981) using data from a survey directed at 39 non-American firms that had invested in the U.S. during the 1974-81 period, likewise did not find behaviour related to oligopolistic market structures to

be of primary importance in explaining European FDI in the U.S. Contrary to Franko, however, they also rejected the desire to exploit technology-related, firm-specific advantages on the American market as being of primary importance. Ajami and Ricks instead argued (op cit, p. 25):

"Although the size of the U.S. market and the attractiveness of a new market or the desire to preserve the existing U.S. market were the most frequently cited reasons for new investment in the U.S., factor analysis reveals that these reasons merely reinforce the primary motive; namely the desire to benefit from a higher level of U.S. technology and innovation."

The importance of "follow-the-leader" behaviour (Knickerbocker, 1973) as an explanation for European and Canadian investment in the U.S. was also investigated by Flowers (1976). Flowers (op cit) likewise investigated the "exchange-of-threat" hypothesis developed by Graham (1974) using data on British FDI in the U.S. He found that (op cit, p. 47):

"In highly concentrated European and Canadian industries, the FDI of the leading firms tend to come into the United States in clusters of subsidiaries, apparently in response to the actions of the first investing firm in the industry....in the United Kingdom, the cluster of oligopolistically reactive FDI also tends to follow a preceding surge of U.S. FDI into the reacting UK industry."

McClain (1983), using data from the Harvard Business School Multinational Enterprise Project, investigated 2051 foreign investments in manufacturing industries made around the world by 114 non-U.S. multinationals. This study enabled McClain to compare FDI made in the U.S. with those undertaken in other countries, testing both country- and industry-specific effects. All in all, McClain (op cit, p. 308) did not find any evidence of either "follow-the-leader" or "exchange-of-threat" behaviour among foreign investors in the U.S. Instead, the explanation for the observed pattern of FDI in the U.S. offered by McClain is largely consistent with the findings of Franko (1976): foreign firms that enter the U.S. do so in order to exploit R&D-based firm-specific advantages.

Schoenberger (1985, p. 244) conducted open-ended, in-depth interviews with managers from 21 German and UK-based firms with significant investments in the U.S. Schoenberger (op cit, p. 248) concluded that for the firms investigated, the size of the U.S. market (especially so for technologically sophisticated products) had been the "fundamental and essentially universal reason for entering the U.S. market". The decision to

also start manufacturing activities in the U.S. had been prompted by the need to understand, and respond to the particularities of the market (cf the so called "network approach" as discussed by, for example, Johanson & Mattsson, 1984). According to Schoenberger (ibid):

"In particular, for firms operating in technologically sophisticated and rapidly changing markets, marketing and product development are not separate functions....The influence of technological change on firm behaviour is reinforced by the way firms operate in industrial as opposed to mass consumer markets....This sort of ongoing customer-supplier relationship is itself heavily dependent on spatial proximity."

An early version of this argument, incidentally, was provided by Tugendhat (1971), who underscored the importance of a local manufacturing base in order to create confidence among potential customers, to provide service of a sufficiently high standard and to (op cit, p. 72) "keep pace with the constantly altering pattern of demand." (See also Franko, 1976, p. 181).

Methodological differences among the studies are probably an important reason for differences in the results obtained. As discussed at the beginning of this section, it is to be expected that inferences made from statistical data will be different from findings based on surveys or interviews directed at decision-makers. In regard to data gathered from decision-makers, it is also reasonable to assume that motives indicated by surveys will differ from those revealed through in-depth interviews. Furthermore, the sample selection can be expected to play an important role. For example, including only large companies in an investigation (as is automatically done by using data from the Harvard Multinational Enterprise Project) could lead to an overestimation of the importance of oligopolistic reaction. Finally, and as noted by Arpan, Flowers & Ricks (1981, p. 143), the choice of time period for a study may have a critical influence on the results achieved. They observed (ibid):

"In 1970, the oligopoly competition among the leading firms that had originally stimulated such large amounts of FDI had apparently exhausted itself. After 1970, FDI began to grow again, apparently spurred on this time by the investments of a much larger number of smaller investors."

Given these methodological differences, is there any way in which the different results achieved can be at least partly reconciled? The following

paragraphs, intend to show that the answer to this question may be "yes". *Oligopolistic reaction* does seem to have been an important explanation for some European investment in the U.S. (Graham, 1974, and Flowers, 1976). The fact that the findings of Ajami & Ricks (1981) do not support the "oligopoly argument" could well be due to the choice of time period for their study, as well as to other methodological differences (in particular, the inclusion/non-inclusion of small firms). Considering the findings of Franko (1976), it should be noted that, while strongly downplaying the importance of oligopolistic reaction, Franko (op cit) nevertheless found "exchange-of-threat" to be an important explanation for European FDI in certain industries, notably chemicals and synthetic fibres. (2) In this connection, it should also be noted that Graham himself (1974, pp. 161) underscored that the statistical significance of his findings was low, and that the motives for European investments in the U.S. could be more subtle than a simple "exchange-of-threat". (3)

Combining the arguments of Graham (1974), Franko (1976) and McClain (1983), brings into focus what appears to be the second main motive for European FDI in the U.S. This is the desire to exploit existing firm specific-advantages on a very large national market (often in combination with a perceived need to partake in the technological development prompted by market conditions in the U.S., cf Schoenberger, 1985).

In oligopolistic industries, where an essential objective of the competitive warfare is the preservation and development of firm specific advantages, often based on technology, it could well be argued that the oligopoly motive and the technology motive are often only different sides of the same coin. An example provided by Graham illustrates this line of reasoning (Graham, 1974, p. 176):

"The public statements of Imperial Chemical Industries regarding the 1971 acquisition of Atlas Chemical Industries sound a similar note. Although I.C.I. maintains one of the most advanced research and development programs of any firm in the world, I.C.I. apparently believed that its ability to respond to changing market conditions would not in the long run remain abreast of the abilities of its major U.S. and continental European competitors without an increase in I.C.I.'s direct market penetration in the U.S. market.

Clearly, both aggressive and defensive U.S. investments could follow from considerations of the type indicated. Interestingly, the discussion thus leads back to the overview of MNE theory provided in the preceding section. As argued by McClain (1986, p. 339):

"recent European investments in the United States aimed at exposing European firms to the innovative stimuli of the U.S. market point to an extension of the theory of direct investment that focuses on market imperfections and internalization considerations. The extension involves the *endogenization* of the source of a firm's competitive advantage.....Perhaps the most distinctive characteristic of the European direct investment process in the United States, then, is that it has made the old and new theories of direct investment come full circle by highlighting the role of market imperfections in the way corporations operate to acquire firm specific advantages."

4.3.2 Motives for Swedish FDI in the U.S.

Specifically looking at Swedish FDI in the U.S., Leksell et al (1981, p. 29), in a survey study directed at the HQ of Swedish firms, identified the following managerial motives for such investment (in order of importance):

Table 4.1 Motives for Swedish Direct Investment in the U.S.

- 1) Penetrate new market with existing products and technologies.
- 2) Expand and protect sales of existing products in the U.S. and improve customer service and acceptance.
- 3) Avoid barriers to trade and cost disadvantages when exporting.
- 4) Exploiting new technology.
- 5) Screening of competitors and market intelligence.
- 6) Access to and improved distribution capacity.
- 7) Acquisition of related product lines.
- 8) Acquisition of new products and technologies.
- 9) Utilize existing manufacturing capacity in Sweden and elsewhere.
- 10) Bandwagon effects and the increase in firm and managerial status.

(Source: Leksell et al, 1981, p. 29)

The reasons for Swedish FDI in the U.S. were also investigated by Arthur Young International (1986, p. 11). The categories used in their survey, however, were very broad and therefore difficult to interpret. One observation that can be made from this investigation, a finding that is also in accordance with the study performed by Leksell et al (op cit), is that search for new technologies does not seem to be a primary motive for Swedish investment in the U.S. The results of the Arthur Young study (op cit) are given in table 4.2.

Table 4.2 Reasons for Establishing Operations in the U.S.

<u>Motive</u>	<u>% of Respondents</u>
To expand the market for products	82.4
To diversify financial and operating resources	16.5
To better service U.S. customers	14.3
To gain access to U.S. technology	7.7
Other	6.6

(Source: Arthur Young International, 1986, p. 11)

As has already been argued, there are a number of reasons why survey findings of the type presented in this section should be interpreted with considerable caution. Nevertheless, the surveys indicate that most Swedish firms that enter the U.S. do so in order to increase the market for already existing products, i.e. not in order to find new products or new technologies. This finding is quite consistent with those of Franko (1976) and Graham (1983). The fact that motives such as "acquisition of new products and technologies" (Leksell et al, 1981) and "to gain access to U.S. technology" (Arthur Young, 1986) are given relatively low priority by Swedish investors is counter to the findings of Ajami & Ricks (1981), but not unreasonable in view of the arguments provided by McClain (1983 & 1986) and Schoenberger (1985).

A speculative way of interpreting the survey findings on Swedish direct investment in the U.S. (particularly investments involving manufacturing and R&D) would thus be the following: Swedish firms invest in the U.S. primarily to expand the market for existing products. An important secondary motive may, however, be to increase the ability of the firm to develop new generations of existing products, sometimes involving the development of new technologies. For Swedish firms involved in oligopolistic industries, investments in the U.S. are probably undertaken

partly as moves in an ongoing process of oligopolistic actions and reactions. As argued by McClain (1986), Schoenberger (1985), and also Graham (1974), the motives for these moves are often complex, involving the long-term development of a company's internal strengths.

4.4 The Internationalization Process

The subject of this study is direct investments, i.e. wholly-owned subsidiaries or joint-ventures. Such investments are, however, often preceded by less advanced (in terms of resource commitment) forms of international operations, i.e. exports, licencing, sales through agents, etc. Aharoni notes (1966, p. 150):

"There is a strong feeling that one should begin an investment program on a very small scale, learn from one's experience, and only after much more experience and expertise is gained increase the size of operations."

Aharoni further emphasizes that the decision to consider a foreign investment is normally reached through a fairly complicated, partly irrational, process (op cit, p. 57). The process by which a firm gradually advances from exporting to the establishment of wholly-owned subsidiaries has been described by Hörnell et al (1973), Vahlne (1974) and Johanson & Vahlne (1977). In their view, the internationalization process is one of gradual commitment, both in terms of entry-mode and in terms of the geographic and "psychic distance" covered. The two most important factors in this, the so called "Uppsala Internationalization Model" are perceived risk and experience.(4) According to this line of reasoning, a company will generally choose more advanced forms of involvement and more distant locations, the more experienced it becomes (See also Davidson, 1980).

According to the investigations underlying the Uppsala model, the "psychic distance" between Sweden and a number of important Swedish trading partners can be depicted as in table 4.3 (Hörnell, Vahlne & Wiedersheim-Paul, 1973, p. 205). The data contained in this table indicate that the perceived distance between Sweden and the U.S. is relatively small. This observation was also supported by other findings presented by the Uppsala group. Few Swedish firms established their first foreign subsidiary in the U.S. Looking at second and third establishments, however, the Uppsala group found the U.S. to be a relatively common choice of location (op cit, p. 207).

Table 4.3 An Estimate of the Psychic Distance Between Sweden and a Select Number of Countries

<u>Country</u>	<u>Rank Order</u>
Denmark	1
Norway	2
Finland	3
West Germany	4
The UK	5
The Netherlands	6
Belgium	7
U.S.A	8
Switzerland	9
Canada	10
Austria	11
France	12
Italy	13
Spain	14
Portugal	15

(Source: Hörmell, Vahlne & Wiedersheim-Paul, 1973, p. 205)

The observations on the perceived psychic distance between Sweden and the U.S. confirm an impression that will be the subject of further discussion in the following chapters: namely, that Swedish managers may underestimate the cultural differences between Sweden and the U.S. A misjudgment of this nature can be hypothesized to be detrimental both to their ability to manage American employees, and to their ability to adapt correctly to the demands of American customers.

The survey study reported here included no questions specifically designed to test hypotheses derived from the Uppsala Model. However, as noted in chapter 3, the survey uncovered a relatively large number of small and, in terms of foreign operations, inexperienced Swedish firms active in the U.S. market. Specifically, it was found that twelve of the Swedish firms with investments in the U.S. had only one foreign subsidiary, i.e. the U.S. one. Given the predictions made by the "Uppsala Model" (Hörmell, Vahlne & Wiedersheim-Paul, 1973), as well as those made in later studies based on that model (e.g. Nordström & Vahlne, 1985, and Nordström, 1987), it is of interest to consider briefly this group of companies.

Ten out of the twelve companies that had located their one foreign subsidiary to the U.S. turned out to be small and selling, essentially, only one type of product. The two exceptions to this rule were one bank and one manufacturer of consumer goods. Among the ten small firms, all except one sold manufactured goods, the exception being one consultancy firm. The products sold by the remaining nine small manufacturing firms are listed in table 4.4:

Table 4.4 Products Sold by Firms Having Subsidiaries in the U.S. Only

- 1 Pharmaceuticals
- 2 Automated systems for the retail business
- 3 Data control systems
- 4 Body service tools
- 5 Rodless air cylinders, electric cylinders
- 6 Boat heaters
- 7 Submersible pumps
- 8 Hydraulics
- 9 Toroidal transformers, switching power supplies

A superficial glance at table 4.4 gives an overall impression of niche-oriented activities. However, only two out of the nine firms reported high market shares (40 and 75% respectively), the remaining seven firms having considerably more modest shares (on the average 3%). The four-firm concentration ratios in six of the nine cases exceeded 60%, the average concentration being 64%. Performance, as measured on a five-point scale and as judged by HQ respondents, varied considerably - from very much above the industry average, to very much below it (the average of the nine observations being 3.1). The two market leading firms reported average profitability. Eight of the firms derived a significant share of their total sales from the U.S. market and, on the average, the U.S. market accounted for 30% of the total sales of the firms involved. The nine firms had been active in the U.S. for an average of four years (for all figures presented in this paragraph $n = 9$).

Clearly, the quality of the data presented allows only speculative comments. In brief, the following observations seem to be warranted:

Quite a few Swedish firms active in the U.S. appear to have by-passed the investments in the Nordic Countries that, in the Uppsala model, are predicted to precede other direct investments. For these firms, the size of the U.S. market can be hypothesized to have had an important influence on the decision to invest there. It also seems likely that the "band-wagon effect" (Aharoni, 1966, p. 55) played an important role in many Swedish direct investments undertaken in the U.S. during the late 1970's and early 1980's. However, there are also indications that for some technology-intensive small firms the presence of qualified customers in the U.S. market have been an important motive behind investments there (Lindqvist, forthcoming, cf also McClain, 1986, p. 339). Given the importance of the U.S. market for those small Swedish firms having their one foreign subsidiary there, the risk level is striking. Clearly, there is need for a longitudinal study of these firms.

4.5 The Choice of Entry Mode; Green-field versus Acquisition

Having made the decision to enter a foreign market by direct investment in the form of a wholly owned subsidiary, a firm faces a crucial decision: whether to do so by green-field investment or by making an acquisition. Several arguments have been put forward for both of these two alternatives. Buckley (1981, p. 176), for example, lists the following arguments in favour of the green-field approach:

"First, for a small company this approach is likely to be cheaper. The scale of the operation can be matched to the firm's resources and to the market, and expansion can proceed in accordance with the company's progress and market penetration. Second, building a new plant means that there are no inherited problems and no danger of overpayment for a package of resources, some of which may be duplicated by the firm's own endowments...."

In favour of acquisitions, Buckley (ibid) lists the following arguments:

First, takeovers permit rapid market entry and allow quicker return on capital and learning procedures. Second, takeovers involve the assimilation of a going concern, and thus avoid cultural, legal and management problems, particularly those associated with the difficult "start-up" period. Third, and perhaps the major advantage of a successful takeover, is that the firm has

bought the most valuable and scarce resource - management. In the particular case of the U.S. this is of paramount importance, especially in the marketing area.....Finally, takeovers disturb the overall competitive structure of the industry much less than do new ventures..... "

Clearly, the weight and the validity of these arguments can be questioned (it is, for example, not self-evident that management, particularly not qualified management, will be an integral part of all acquisitions) and Buckley (op cit) makes no definite recommendation as regards the choice between the two modes of entry. (5) Looking at the empirical evidence, Dubin (1975, p. 3), studying American FDI, made the following conclusions:

"Parent size appeared to be the most important systematic influence on the rate of foreign acquisitions. In general, the larger the parent firm and the longer its accumulated experience in foreign markets, the less frequently acquisitions were used as a means of establishing foreign operations. Firms that were small and relatively inexperienced in foreign countries leaned more heavily on acquisitions, apparently as a means of reducing the high risk of entry into foreign markets."

As indicated, Dubin explained the link between firm size and experience on the one hand, and choice of mode of entry on the other, as stemming from the ability of acquisitions to (op cit, p. 47); "reduce the perceived level of risk" in foreign establishments. Clearly, large firms have a greater risk-bearing capacity than small firms. However, it is not obvious why acquisitions should be perceived to involve less risk than green-field establishments, and it is therefore worth reviewing the arguments employed by Dubin.

Oligopoly theory and the product-life-cycle model are the two basic building blocks in Dubin's line of reasoning (op cit p. 20). To a large extent, Dubin's designation of acquisitions as less "risky" is based on the contention that acquisitions provide a quicker route for exploiting parent company skills (FSA), and for providing a reaction to the actions of competitors ("follow-the-leader" and "exchange-of-threat"). Given concentrated industry structures, acquisitions can also be expected to be less disruptive than green-field establishment, since they avoid the downward pressure on prices that would result from adding capacity to the industry. Following from this argument, the reaction of industry incumbents on

acquisitions can be expected to be relatively less violent than what would be the case for green-field entries (Dubin p. 90).

Wilson (1980) investigated FDI made by American-, German-, Japanese- and UK-based firms. Among his findings were that diversified firms were more prone to follow the acquisition route, and that acquisitions also were more common among firms with only recent experience in foreign operations. Wilson (op cit, p. 63) hypothesized that the latter was due less to the lack of experience in itself, than to a desire to speed up the process on the part of firms late to internationalize.

A relatively recent and very comprehensive investigation of direct investments in the U.S. is provided by Caves and Mehra (1986). Their sample consisted of 138 first-time entries into the U.S. made by foreign multinationals during the period 1974-80. Like Dubin (1976), Caves and Mehra regarded acquisitions as a priori less risky than green-field investments. However, noting (op cit, p. 460) that the attractiveness of acquisitions must be regarded as dependent on the desired size of the investment, they formulated the hypothesis that the larger the size of the initial investment, the likelier the choice of acquisition as the mode of entry. Evaluating this hypothesis, Caves and Mehra (op cit) found not surprisingly that larger firms could be expected to choose a relatively larger scale of entry. They could also confirm the hypothesis that large initial investments are positively associated with the choice of the acquisition mode. Commenting on this finding, Caves and Mehra (op cit) pointed to the influence of variables related to industry structure. They noted (op cit, p. 474):

"Acquisition grows more probable when the entrant is claiming a large share in a concentrated market, because it avoids the depression of market price when industry capacity expands and reduces the threat of the reactions by oligopolistic rivals. Acquisition is also favoured when the entered market is growing very rapidly (probably because entry by acquisition is quicker) or very slowly (probably because the prices of in-place assets are depressed)."

Caves and Mehra (op cit, p. 468) found further that a high degree of diversification in the parent firm positively affected the propensity to use acquisitions. Contrary to their expectations, they also found that parent firms' experience in international operations was positively related to the use of acquisitions. They provided the following tentative explanation for this finding (ibid):

"A parent with high values for either or both variables (i.e. degree of diversification and experience) may have routinized the process of expanding through searching out and making acquisitions. It may also be a late entrant to the U.S. market, therefore placing a premium on speed."

Kogut and Singh (1988), likewise investigated the determinants behind the choice of entry mode. However, in their study, joint-ventures were included as an alternative to wholly owned subsidiaries, and a heavy emphasis was placed on the influence of national culture on the choice of entry mode. Kogut and Singh (op cit, p. 26) found that cultural distance had the effect of increasing the probability of choosing a green-field or a joint-venture rather than an acquisition. Investor size was shown to have a positive effect on the choice of greenfields or joint-ventures over acquisitions (op cit, p. 27). However, no significant effect could be shown to follow from experience in operating internationally (ibid). Nor did Kogut and Singh find any positive correlation between the investors degree of diversification and the choice of the acquisition mode. On the contrary, the diversified firms in their sample (op cit, p. 28) showed a tendency to prefer entry by green-field or joint-venture.

Comparing the results of the four studies under discussion, it is important to remember that the studies themselves differ in many respects. Dubin (1976) used bivariate cross-tabulations, whereas Wilson (1980), Caves & Mehra (1986) and Kogut & Singh (1988) used multivariate analyses. Furthermore the samples used derive from different time periods. Dubin used a data base updated to 1967, Wilson combined data on U.S. investments up to 1967, with data on non-U.S. investments up to 1971, Caves & Mehra used data on entries made between 1974 and 1980, and Kogut & Singh analyzed data on entries undertaken between 1981 and 1985. The samples taken include companies of different nationalities and, although the variables used in the different investigations are largely the same, they are not always defined in the same way. With these provisos in mind, the findings from the studies described above will be used for developing a few hypotheses regarding the entry strategies chosen by Swedish firms.

4.5.1 Generating Hypotheses

Parent size is used as an explanatory variable in a majority of the studies discussed above. (However, it should be noted that Caves and Mehra (1986) defined the term, not as the absolute size of the parent company, but as the size of the parent relative to that of its U.S. subsidiary.) Dubin (1976) expected and found a positive correlation between parent size and the use of green-fields as the mode of entry - a result confirmed by Kogut & Singh (1988). The argument supporting this expectation is that large firms have a larger capacity to bear the greater risk that is rightly or wrongly associated with green-field investments (Dubin, op cit, p. 46).

The positive association between the size of the entrant and the choice of green-field establishment is, as has already been indicated, not self-evident. Firstly, and as noted by Caves & Mehra (op cit), the larger the initial size of entry, the more likely is the choice of acquisition as the mode of entry, and the larger the size of entry, the larger the expected size of the parent company. Secondly, and more fundamentally, both Dubin (op cit), and Caves & Mehra (op cit) present evidence that acquisitions will be the favoured mode of entry in industries characterized by oligopolistic competition. As size of entrant can be expected to be positively correlated with industry concentration, the findings of positive correlations between firm size and the choice of green-fields seem counterintuitive. (In very highly concentrated industries, however, it may be that the acquisition candidates available in any national market, particularly in a market as large as the U.S. one, are so few and/or so expensive that acquisitions are largely precluded). (6)

If we look at Swedish firms having recently entered the U.S. market, we find a number of factors indicating a positive association between parent size and the choice of the acquisition mode. Firstly, Swedish firms are, in general, small by U.S. standards; therefore it is reasonable to expect a bias toward relatively larger firms for the financially more demanding acquisitions. Secondly, Swedish multinationals have largely avoided the U.S. market until recently (cf Sölvell, 1987, p. 204). For the ones now part of the generally observed trend of increasing FDI in the U.S., it must reasonably be of interest to increase the speed of entry by using acquisitions. *Following from the above considerations, it is expected that firm size will positively affect the choice of acquisitions among Swedish firms entering the U.S.*

Parent experience in international operations, like parent size, is normally included in studies regarding the choice of entry mode. As in the case of parent size, it is not immediately obvious in what direction parent experience should be expected to influence that choice. Dubin (1976, p. 53) expected a positive correlation between experience and the use of green-fields. This hypothesis was also supported by his data, with the exception of periods characterised by strong tendencies towards oligopolistic reaction (ibid). The evidence provided by Wilson (1980) is mixed. Wilson, however, like Dubin (op cit), hypothesized that the the contradictory nature of his results could be explained by incidents of oligopolistic reaction among late entrants (Wilson, 1980, p. 63). Similar arguments were used by Caves and Mehra (1986), to explain their finding that experience (defined as the number of countries in which the parent firm had subsidiaries), contrary to their expectations favoured the choice of the acquisition mode. As noted by Kogut and Singh (1988, pp. 6 and 18) another explanation might be that acquisitions are rather more difficult, costly and thus risky, than commonly acknowledged.

The evidence is thus mixed, and there are also some methodological problems associated with the experience variable. To begin with, it is not obvious how experience in international operations should be defined. A number of different measures are possible (time elapsed since the establishment of the first foreign subsidiary, number of foreign subsidiaries, etc). As is evident from Wilson's investigation (op cit, pp. 60 and 63), the choice of measure can significantly affect the results achieved. Finally, and as already noted by Dubin (1976, p 53), parent experience can be expected to be strongly correlated with parent size, and to separate the influence of these two variables is difficult. In the case of a small country like Sweden, large firms without experience in international operations are almost an anomaly. Following Caves and Mehra (1986, p. 468), as well as Kogut and Singh (1988, p. 6 and 18), it is reasonable to assume a positive correlation between the international experience of an entrant, and the use of acquisitions. The efforts of large Swedish MNE's, active in oligopolistic markets, quickly to build positions in the U.S. could be expected to strengthen any such tendency. *In sum, a positive correlation is expected between parent-company experience in international operations and the choice of acquisition as mode of entry.*

Diversification is normally expected to favour the choice of acquisitions, and Dubin (1976), Wilson (1980) and Caves & Mehra (1986) all confirmed this hypothesis. Kogut and Singh (1988), however, found a positive, albeit statistically insignificant, correlation between degree of diversification and

the use of green-field entry. In this context, it should be underlined that the expected effect of diversification obviously depends on the assumptions made as to the strategic motives for the decision to invest abroad. If the assumption is made that: "diversified firms are competing on superior management and/or production efficiencies in mature industries" (Kogut and Singh, 1988, p. 17), i.e. if the foreign entry is made as part of a strategy seeking diversification, then diversified firms should be more likely to engage in acquisitions. If, on the other hand, it is assumed that already diversified firms enter foreign markets in order to increase the sales of their existing product portfolios, the effect on choice of entry mode becomes indeterminate. If anything, greenfield entries should be preferred. *Consequently, no prediction is made as to the effect of diversification.*

Industry concentration ratios (measured, primarily, at the host-country level) could be expected to favour the choice of acquisitions since acquisitions provide a quicker route into a market, regardless of whether the motive is to "follow-the-leader", as proposed by Knickerbocker (1973), or to achieve an "exchange-of-threat", as discussed by Graham (1974). Furthermore, as pointed out by Buckley (1981, p. 177), acquisitions have the advantage of not adding capacity to an industry and, partly as a result of this, causing relatively less violent reactions from industry incumbents. *In sum, a positive correlation is expected between industry concentration and the choice of acquisition as the mode of entry.*

4.5.2 The Evidence

In our survey of Swedish investment in the U.S., green-fields stood out as somewhat more common than acquisitions, claiming about 55% of the total number of entries. The popularity of green-fields has decreased over time, however. Among subsidiaries having been established before 1975, 62% were green-fields, compared with 51% among subsidiaries established in 1975 or later. (These figures are based on the part of the survey answered at the HQ-level, and it should be noted that non-response appears to be higher among acquired subsidiaries. This means that when analysing data generated at the subsidiary level, the ratio of greenfields to acquisitions is considerably higher than would be expected from the above figures. This should not affect the trends observed in the material, but it does call for extra caution in judging the reliability of the results.)

In discussing possible explanations for the observed entry patterns, historical strategies must not be compared with present industry conditions (cf Kogut, 1983, p. 42, Dunning, 1983, p. 134, and Swedenborg, 1985, p.

224). For this reason, only those Swedish subsidiaries established in 1975 or later are included in the following analyses of the survey data.

In order to evaluate the hypotheses developed above, a number of bivariate analyses were first performed. Thereafter all the four variables involved were subjected to a multivariate test using a logit analysis. In the next few pages, the bivariate crosstabulations are followed by a description of the results from the logit analysis. Essentially all comments on the findings are saved until the end of the section.

Looking first at the relation between firm size and the choice of entry mode, table 4.5 presents a bivariate analysis of these two variables.

Table 4.5 The Choice of Entry Mode by Size of Parent Company

<u>Entry Mode</u>	<u>Parent Size (Turnover MSEK)</u>			
	1-50	51-500	501-5000	5001-
Green-field	17	18	14	2
Acquisition	1	5	9	9

n = 75

Kendall's Tau B = 0.446 p = 0.0000

Turning to the relation between parent-firm experience in international operations (measured as the number of subsidiaries outside of Sweden controlled by the parent), and the choice of entry mode, tables 4.6 and 4.7 present the bivariate evidence. As a strong correlation is expected between parent size and parent experience the material has been divided into two size categories.

Table 4.6 The Choice of Entry Mode by Experience of Parent Company
(Turnover of Parent < 300 MSEK)

<u>Entry Mode</u>	<u>Number of Foreign Subsidiaries</u>			
	1	2-5	6-10	11-
Greenfield	10	15	6	1
Acquisition	1	3	-	-

n = 36

Kendall's Tau B = -0.06 p = 0.36

Table 4.7 The Choice of Entry Mode by Experience of Parent Company
(Turnover of Parent > 300 MSEK)

<u>Entry Mode</u>	<u>Number of Foreign Subsidiaries</u>			
	1	2-5	6-10	11-
Greenfield	1	6	8	4
Acquisition	-	5	3	12

n = 39

Kendall's Tau B = 0.30 p = 0.02

In order to investigate the influence of the parent firm's degree of diversification on the choice of entry mode, the entrants were subjectively divided into the categories of single business, dominant business, related businesses and unrelated (or conglomerate) businesses. This subjective division was made by the author on the basis of previous knowledge supplemented by data gathered from annual reports, the Swedish Export Directory and, in some cases, phone calls to the companies involved. Clearly, this method is open to criticism. It is, however, not obvious that a more rigorous method would necessarily have led to better results. As seen

from the point of view of a firm, the critical point is not whether two products are listed under the same SITC code or not, but how they are related in terms of production, marketing, etc. In order to permit a check on the decisions made, the classification of the participating companies into the four categories used is given in appendix 17. The bivariate analysis of the variables "diversification" and "mode of entry" is presented in table 4.8.

Table 4.8 The Choice of Entry Mode by Diversification of Parent Company

<u>Entry Mode</u>	<u>Degree of Diversification</u>			
	Single	Dominant	Related	Unrelated
Greenfield	35	8	5	1
Acquisition	12	2	3	4

n = 70

Kendall's Tau B = 0.18333 p = 0.0546

Last among the bivariate analyses, tables 4.9-11 present the relation between the choice of entry mode and the four-firm concentration ratio. Analyses are provided both excluding-, and including market leading Swedish firms.(13)

Table 4.9 The Use of Acquisition and Green-Field Entry by Swedish Subsidiaries in the U.S., by Market Share of the Four Largest Competitors.
Market leading Swedish firms excluded.(13)

<u>Mode of Entry</u>	<u>Share of Four Largest Competitors (%)</u>	
	1-60	61-99
Green-Field	11	20
Acquisition	4	6
n = 41		
Kendall's Tau B = -0.04 p = 0.39		

Table 4.10 The Use of Acquisitions and Green-Field Entry by Swedish Subsidiaries in the U.S., by Market Share of the Four Largest Competitors.
Market leading Swedish firms included.(13)

<u>Mode of Entry</u>	<u>Share of Four Largest Competitors (%)</u>	
	1-60	61-99
Green-Field	15	34
Acquisition	11	11
n = 71		
Kendall's Tau B = -0.19 p = 0.06		

Table 4.11 The Use of Acquisitions and Green-Field Entry by Swedish Subsidiaries in the U.S., by Market Share of the Four Largest Competitors.
Market leading Swedish firms included.(13)

<u>Mode of Entry</u>	<u>Share of Four Largest Competitors (%)</u>		
	1-60	61-80	81-
Green-Field	15	13	21
Acquisition	11	4	7

n = 71

Kendall's Tau B = -0.15 p = 0.09

Finally, all the four variables were included in a logit analysis. In this analysis the variables were defined as follows:

-*Size* of the parent firm, defined as the log of its 1984 turnover/10.

-*Experience* in international operations of the parent firm, measured as the number of foreign subsidiaries controlled by the firm.

-*Degree of Diversification* of the parent firm, as judged by the author. (See appendix 17.)

-*Concentration*, defined as the share of the total U.S. market controlled by the four largest producers of the relevant product/service, as judged by the companies participating in the survey

The results of the logit analysis are presented in table 4.12.

Table 4.12 Results of Logit Analysis
(Positive Signs Indicate an Above-average Propensity to Enter the U.S. by Acquisition.)

<u>Variable</u>	<u>Estimates</u>	<u>T-Ratios</u>
SIZE	0.5089	2.501
EXPERIENCE	0.6871	1.146
DIVERSIFICATION	-0.1929	-0.217
CONCENTRATION	-0.7066	-0.715

R-Square = 0.3324

n = 70

Correlation Matrix

	DIV	SIZE	EXP	CONC
DIV	1.000	0.508	0.328	-0.140
SIZE	0.508	1.000	0.364	-0.033
EXP	0.328	0.364	1.000	-0.008
CONC	-0.140	-0.033	-0.008	1.000

Let us consider the variables one by one: *Size* of the parent company, as expected, came out as significantly and positively influencing the choice of acquisitions as the mode of entering the U.S. This holds both for the bivariate and the multivariate analyses. In the multivariate analysis *size* was indeed the only variable to emerge as having a significant influence on the choice of entry mode (at the 0.02 level, using a two-tailed test).

In the multivariate analysis *experience*, as expected, came out with a positive sign, however, due to a strong correlation with *size*, not at a significant level. Turning to the cross-tabulations presented in tables 4.6 and 4.7, where *size* is added as a control variable, it is, firstly, evident that green-fields are overwhelmingly the most popular mode of entry among small firms. Secondly, and looking at parent companies with a turnover exceeding 300 MSEK, the analysis indicates that experience, per se, has a

significant influence on the choice of entry mode. For companies with sales of less than 300 MSEK the bivariate analysis indicates a negative correlation between experience and the use of acquisition. This finding, however, does not appear at a statistically significant level and the number of observed acquisitions here is so low as to make a meaningful interpretation almost impossible. Overall, the findings must be regarded as weakly supporting the hypothesis that experience positively influences the choice of acquisitions as the mode of entry.

The influence of the variable *diversification* was hypothesized as being indeterminate. In the logit analysis *diversification* came out with a negative sign, however, on a far from significant level. In the bivariate analysis, presented in table 4.32, *diversification* was shown to have a positive influence on the use of acquisitions at nearly the 5 % level. The reliability of this result, however, is questionable as it is influenced by a few "outlier" observations. The fact that the diversification variable is based on a subjective measure also warrants the use of special care in the interpretation of this result.

The four-firm concentration ratio was predicted to favour the choice of acquisition as the mode of entry. Nevertheless, both in the bivariate analyses and in the multivariate analysis the *concentration* variable came out with a negative sign. Statistically significant results were, however, obtained only after including those Swedish firms which had achieved a market leading position on the U.S. market, indicating a prevalence of green-field entries in narrowly defined niches.

In general, the relatively small size of Swedish MNE's, together with their tendency to concentrate on relatively narrow niches, may help to explain the results achieved regarding the concentration variable. For small and niche-oriented Swedish firms entering the U.S., acquisition candidates can be expected to be relatively few and also expensive. Moderate degrees of diversification can also be expected to cause a preference for green-field investments in that they are easier to integrate. Caves and Mehra noted (1986, p. 474):

"The choice between acquisition and green-field entry tells much about the co-ordination process in MNEs. Product-specialized parents choose green-field entry to extend their product lines into the United States, presumably because they plan a fairly high level of coordination with their overseas activities and hence prefer installing their own company culture and procedures at the outset.

Conversely, MNEs already holding far-flung networks of subsidiaries and offering diverse products are prone to enter by acquisition."

Having thus considered the choice of method for entering the U.S., the focus of the next section will be the industry structure facing Swedish firms entering the U.S.

4.6 Industrial Organization

The basis for the theories developed within the industrial organization tradition (IO) is microeconomics. However, whereas microeconomic analysis is limited to a few idealized market situations (pure competition, oligopoly, etc.), industrial organization goes further and includes, in particular, the dynamics of oligopolistic competition in detail, thereby adding a number of "industry dimensions" not used in microeconomics. As noted by Scherer (1980, p. 2):

"Microeconomic theorists thrive on simplicity and rigor; they are happiest when they can strip their models to the barest few essential assumptions and variables. Industrial organization economists are more inclined toward explanations rich in both quantitative and institutional detail."

The structure-conduct-performance paradigm (as represented by Bain, 1956, and Caves, 1971) assumes that the direction of causality is from structure (via conduct) to performance. In its extreme form, the IO paradigm completely ignores the step via conduct. However, later developments in the area have added feed-back loops (albeit often "dotted") from conduct to structure. In the industry and competitive analysis tradition, associated in particular with the work of Michael Porter (1980, 1981 & 1985) the emphasis on the influence of conduct on structure is even stronger.

4.6.1 Defining the Dimensions of Industry Structure

Various authors differ as to which aspects of industry structure they prefer to highlight, as well as how they describe the elements of structure. Scherer (1980, p. 4) lists the following dimensions of market structure:

- 1) Number of sellers and buyers
- 2) Product differentiation
- 3) Barriers to entry
- 4) Cost structures
- 5) Vertical integration
- 6) Conglomerateness

Porter (1980, pp. 3-33) presents a scheme for analyzing industries based on the identification of five "competitive forces" that simultaneously define the structure of an industry, determine the competitive climate within the industry and, thereby, also the "profit potential" of the industry. Barriers to entry, as well as barriers to exit, are of great importance in Porter's analysis (ibid pp. 7-13).

The reason for the often somewhat confusing proliferation of terms describing industry structure probably can be found in the fact that the dimensions normally used to define industry structure are related, both definitionally and causally. Barriers to entry, in particular, tend to cause confusion in that they, on the one hand, are listed as *one* dimension of industry structure and, on the other hand, as the *effect* of other dimensions of industry structure, e.g. product differentiation, cost advantages, etc. Sölvell (1987, p. 17) provides an overview of the concept, linking six dimensions of industry structure to their expected effects on barriers to entry:

<u>Structural Dimension</u>	<u>Implications for Entry Barriers</u>
Degree of concentration	Potential for collusion
Cost structure	Economies of scale, proprietary learning
Product differentiation	Brand loyalty, switching costs
R & D	Absolut cost advantages based on proprietary technology
Diversification	Economies of scope, opportunities for cross-fertilization, cost of capital advantage
Vertical Integration	Economies of joint operations, cost of capital advantage, price discrimination

Figure 4.1 Six Important Structural Dimensions and their Implications for Entry Barriers.
(Source; Sölvell, 1987, p. 37.)

4.6.2. The Industry Structure Facing Swedish Investors in the U.S.

In this section, findings from the survey study will be used to describe some aspects of the industry structure facing Swedish investors in the U.S., as well as to investigate the influence of industry structure on the results achieved by the Swedish investors. The discussion will include generation of hypotheses and testing of hypotheses generated. It should be underscored that, given the character of the data available, the tests employed must be regarded as relatively weak. Therefore a better word than "test" is perhaps "evaluation", used in the sense of a preliminary investigation of the relevance and plausibility of the hypotheses suggested.

As should be clear from the preceding discussion, industry structure is a complicated concept, and there are a number of variables that could be used when investigating a given market from an industry structure perspective. In the survey, however, only a few key variables were used to provide a rough outline of the competitive climate facing Swedish investors. Of the

six dimensions of industry structure discussed above, the survey, in particular, provides information about the first one, i.e. about the concentration of sellers. (A more detailed picture is provided by the case studies discussed later on in the thesis.)

In order to investigate aspects of industry structure, it is obviously critical to define correctly the industry, and thus the market under investigation. In the survey study, the firms participating were themselves asked to define the market, and to indicate the market share of their most important competitors, as well as their own market share, for the "in terms of sales value, most important product for (my) company" (questions no. 5, 12 and 13 in the subsidiary data section of the survey instrument, appendix 4). Great care was taken to check all market-share figures that, as judged by the author, seemed dubious (these checks were made by phoning the company and speaking to a senior member of the staff). In all cases, however, the respondent's final view as to the correct way of defining the market was followed.

Clearly, the definition of the total market is a debatable point. For practical reasons, the definitions used by the companies participating in the survey was judged to be the only realistic alternative. As indicated by table 4.13, a majority of Swedish firms operating in the U.S. reported relatively modest market shares. However, some 11% of the firms reported market shares exceeding 50%, a fact that can largely be explained by very narrow market definitions. The basis for these narrow market definitions often turned out to be technology. As a case in point, a company selling a special type of what for reasons of confidentiality will be called "quality control equipment" may be mentioned. When asked about the company's surprisingly high market share, the respondent answered; "Ah yes, of course the market for this kind of quality control is huge, but if you look at the admittedly tiny part of the market where the technology that we use is employed, then we are the market leader". It should, in this connection, furthermore be underlined that also for large Swedish firms a small share of the U.S. market may represent a very significant share of the total corporater turnover (cf table 3.12, section 4.4 and Tugendhat, 1971, p. 71).

Table 4.13 U.S. Market Share in 1985 (most important product) for Swedish Subsidiaries.

	% of sub's
0-2%	36
3-5%	9
6-10%	9
11-20%	16
21-50%	19
51- %	11

n = 118

The in many cases modest market shares controlled by the Swedish investors are mirrored by fairly concentrated local industry structures, as is evident from tables 4.14 and 4.15.

Table 4.14 Market Share of the Largest Competitor Faced by Swedish Subsidiaries in the U.S. (1985 figures).

	% of sub's	% of sub's, market-leading Swedish firms incl.(13)
0-10%	21	17
11-25%	27	19
26-50%	46	50
51-69%	5	8
70- %	2	6
	n = 74	n = 108

Table 4.15 Combined Market Share of the Four Largest Competitors Faced by Swedish Subsidiaries in the U.S. (1985 figures).

	% of sub's	% of sub's, <i>market-leading Swedish firms incl.(13)</i>
0-30%	22	15
31-69%	15	14
70-89%	42	35
90- %	23	36
	n = 74	n = 108

This picture of the local industry should be complemented by a measure of the extent to which the competitive climate is characterized by international competition. The importance of this measure lies in its expected effect on firm strategy and economic performance. If a number of foreign competitors are trying to gain a foothold on a national market, this could be expected to depress profitability, both as an effect of the foreign entrants' pricing policies as they try to gain market share, and as an effect of the local industry incumbents' reaction to the entrants.

In the survey, the problem of how to measure the influence of international competition was handled by asking the participating companies about the nationality of their four most important competitors. If one or more of these turned out to be European or Japanese, this was regarded as indicating a relatively higher degree of international competition than if all the four major competitors were American. This is a very crude measure, and it should be emphasized that it obviously measures only the existence of non-U.S. competition. Put differently, it is not possible to tell whether non-U.S. competitors behave differently from domestic ones, or whether in fact the presence of non-U.S. competition has affected the competitive climate in terms of, for example, price levels. It should also be underlined that the entry of Swedish firms into the U.S. market could, in itself, cause competitive reactions from local industry incumbents, thus obscuring the effects of international competition as here defined.

As is evident from table 4.16, the competition faced by Swedish investors in the U.S. comes predominantly from American firms; however, on the average some 25% of the leading competitors are non-U.S.

Table 4.16 Nationality of Largest Competitors (ranked in order) of Swedish Subsidiaries in the U.S. (%)

	U.S.	European	Japanese
Competitor No. 1	80	15	5
Competitor No. 2	75	18	7
Competitor No. 3	71	21	8
Competitor No. 4	69	24	7

n=81

4.6.3 The Influence of Industry Structure on the Performance of Swedish Investors in the U.S.

The information on industry structure variables gathered by the survey is, as has been emphasized, relatively limited, and the hypotheses presented below are therefore simplified. It is recognized that the hypotheses do not capture more than a fraction of the dimensions of industry structure that the practicing manager has to consider. Nevertheless, as will be further discussed below, many of the most often used strategic-planning tools are based on simplified assumptions regarding the influence of industry structure. In light of this, it can be argued that it is of considerable interest to investigate also strongly simplified hypotheses on the relation between industry structure and the financial performance of single firms. With these provisos in mind, the following hypotheses regarding the influence of industry structure on firm results are suggested.

-Seller concentration in the U.S. constitutes a barrier to entry for Swedish subsidiaries and make market-share gains difficult.(7). Counter to this hypothesis, it could be argued that oligopolies, particularly those dominated by one leading actor, should be able to uphold above-average margins ("price-umbrellas"). However, they can also be expected to react very strongly against new entrants. Anecdotal evidence from the interviews made when preparing the questionnaire and the Volvo case indicates that Swedish managers are surprised by the strength of the actions taken by American firms to ensure that new entrants are kept out. (A comment encountered on several occasions, in almost the same wording, was; "(They) are even prepared to sell below variable cost...that is something we would never do".) In total, it is thus expected that concentrated industry structures should depress the profitability of Swedish entrants.

-The existence of international competition (apart from the Swedish entrants themselves) is expected to affect the profitability of Swedish firms negatively. Firstly, foreign firms trying to establish themselves on a new market can be expected to use aggressive pricing as an important element in their marketing mix. Secondly, any tendency towards international competition should give rise to strong reactions from local industry incumbents. (It should, again, be underlined that the measure of international competition used in this investigation gives an indication of the existence of international competition only, not of any behavioural effects.)

The influence of seller concentration on the performance of Swedish subsidiaries is shown in tables 4.17 to 4.22 and 16.1-16.12 (appendix 16). Seller concentration is measured with both one-firm and four-firm concentration ratios, and firm results are measured both at the subsidiary- and at the HQ-level. As reactions from industry incumbents can be expected to be particularly strong during the first years following the entry of a new competitor, controls are made by separating Swedish firms entering the U.S. market before 1975, from those entering later. A further control is made by preparing most tables both including, and excluding those Swedish firms that define themselves as market leaders.

Judging from the tables, the existence of one dominant competitor, as measured by the one-firm concentration ratio, appears to be positively related to firm performance (thus indicating some support for the price-umbrella theory); however, this relationship is weak as well as statistically insignificant. This holds true regardless of whether performance is measured at the subsidiary- or at the HQ level, and regardless of whether market-leading Swedish firms are included or excluded (tables 4.17, 4.20, 16.1 and 16.4). Separating early and late entrants does not change this picture (tables 16.7-16.8).

As expected, the correlation between the four-firm concentration ratio, and the performance of Swedish subsidiaries, with a few exceptions turned out to be negative. Again, however, these results did not appear at a statistically significant level (tables 4.18-19, 4.21-22, 16.5-16.6, 16.9 and 16.11-12). The exceptions reflect the relationship between the four-firm concentration ratio and performance, as judged by HQ, when excluding market-leading Swedish firms (table 16.2), and also the same measure for late entrants with 60% as the dividing line between low and high concentration ratios (table 16.10).

Table 4.17 Subsidiary Subjective View of Results Achieved, by Market Share of Largest Competitor (Number of Subsidiaries.)
Market-leading Swedish firms excluded.(13)

<u>Result Comp. with Industry Average</u>	<u>Share of Largest Competitor</u>		
	1-20	21-40	41-
Much below	3	3	3
Below	6	8	3
Average	4	5	2
Better	4	7	4
Much better	2	3	1

n = 58

Kendall's Tau B = 0.01 p = 0.01

Table 4.18 Subsidiary Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.)
Market-leading Swedish firms excluded.(13)

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>	
	1-60	61-
Much below	8	1
Below	6	11
Average	4	7
Better	4	11
Much better	1	5

n = 58

Kendall's Tau B = -0.01 p = 0.47

Table 4.19 Subsidiary Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.)
Market-leading Swedish firms excluded.(13)

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>		
	1-60	61-80	81-
Much below	1	4	4
Below	6	4	7
Average	4	3	4
Better	4	6	5
Much better	1	4	1

n = 58

Kendall's Tau B = -0.08 p = 0.24

Table 4.20 Subsidiary Subjective View of Results Achieved, by Market Share of Largest Competitor. (Number of Subsidiaries.)
Market-leading Swedish firms included.(13)

<u>Result Comp. with Industry Average</u>	<u>Share of Largest Competitor</u>		
	1-20	21-40	41-
Much better	4	4	6
Below	8	9	7
Average	5	7	6
Better	4	11	8
Much better	3	5	5

n = 92

Kendall's Tau B = 0.05 p = 0.30

Table 4.21 Subsidiary Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.)
Market-leading Swedish firms included.(13)

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>	
	1-60	61-
Much Below	2	12
Below	8	16
Average	5	13
Better	10	13
Much Better	2	11

n = 58

Kendall's Tau B = -0.05 p = 0.30

Table 4.22 Subsidiary Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.)
Market-leading Swedish firms included.(13)

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>		
	1-60	61-80	81-
Much below	2	4	8
Below	8	5	11
Average	5	4	9
Better	10	7	6
Much better	7	6	5

n = 92

Kendall's Tau B = -0.11 p = 0.11

Considering the effect of international competition on the performance of Swedish investors, table 4.23 indicates that the survey data give no support for the expected relationship between this variable and firm results. This also holds true after controlling for time of entry and size of investor (the value of these controls is, however, questionable as sample sizes shrink considerably when applying them).

Table 4.23 Existence of Non-U.S. Competitors and Performance, as Judged by Subsidiary Respondents (Number of Subsidiaries.)

<u>Result Comp. with Industry Average</u>	<u>Existence of Non-US Competitors</u>		
	Top 4 all US	1 of 4 non-US	More than 1 non-U.S.
Much Below/Below	17	8	8
As Average	7	5	1
Better/Much Better	15	5	11

n = 77

Kendall's Tau B = 0.06 p = 0.28

In sum, then, the hypotheses generated were not supported by the survey data. There are several possible explanations for this result. One candidate, obviously, is the methodological limitations of the study. The number of observations is relatively limited and is here further diminished by the fact that many respondents found questions on market share data difficult, which led to high item nonresponse. In spite of the efforts made to control for certain variables, such as date of establishment, important relationships could still be hidden in the simple cross-tables used.

Another possible explanation for the lack of statistically significant confirmation of the expected negative correlation between measures of industry concentration, and the performance of Swedish subsidiaries might also be that quite a large number of the Swedish investors, although facing very large competitors, are active mainly within fairly narrow niches. As a consequence of this, they may be left relatively undisturbed by American industry incumbents.

As for the influence of international competition, one possible explanation for the observed lack of correlation between the existence of international competition, and the performance of Swedish subsidiaries, lies again at the methodological level. The crude measure of international competition used in the survey, as already cautioned, only captures structural elements. There is no way of knowing whether there are also effects on the conduct of firms. Another possible explanation for the lack of significant results, is that there simply are too few cases above the "threshold level" where international competition becomes relevant. It is interesting to note that even in the case of Volvo and the truck industry (chapter 6), where a few leading industry incumbents are clearly driving the industry towards global competition, the industry rules are still very much shaped by regional conditions and preferences.

All in all, however, it is, hard to avoid the suspicion that the influence ascribed to industry structure (particularly as measured by seller concentration) by the literature in the IO tradition is exaggerated. This may be due firstly to the fact that other variables (e.g. the competence of management) in many situations exert a major or perhaps even dominating influence. Secondly, it may be argued that even if industry structure in many cases does indeed have a decisive influence on the level of profitability attainable within an industry, this influence may be much too complicated to be captured by standard measures of industry structure. Again, looking ahead at the case of Volvo Truck Corp., it may be noted that the competitive climate in the European Truck Industry is primarily determined by a small number of integrated truck manufacturers. In the U.S., however, a very major influence is exercised by a few independent manufacturers of truck components, a force that has virtually no counterpart on the European scene.

4.7 From International to Global Competition

Any effort to find an entirely logical point of departure for an overview of the literature in the area of strategy, as applied to the multinational firm reveals the following hidden assumption: there are indeed differences between strategies applicable, respectively, to the national, the international and the global firm. If the theory of the firm is evolving in the direction of regarding the MNE as the general case, it is perhaps possible to hypothesize that a similar development is also under way in the field of strategy. As MNE's are moving in the direction of geocentrism (Perlmutter, 1969), and as competition becomes more global, it will perhaps be possible to use many of the general concepts of the strategy perspective without "filtering" them via a national/international divider. At the same time, it should be possible

to single out more clearly those issues of strategy that remain applicable only to the MNE, in particular the geocentric/global MNE.

4.7.1 Investigating the Role of Market Share

If there physically existed such a thing as the strategist's tool-box, the chances of pulling out an experience curve when first dipping a hand into it would be considerable. (Abell & Hammond, 1979, p 107, see also Yelle, 1979). Essentially, the experience curve tells us that each time the cumulated production volume in a manufacturing operation doubles, the production costs per unit will decrease at a certain, stable rate. (8)

The central role of the experience curve concept in the area of strategy lies in its implications for the effects of market share. In particular, the experience curve highlights the importance of quickly gaining market share, in order to achieve a better competitive position through higher absolute volume and thus lower cost. In the BCG-matrix, market share, together with industry growth, provide the two dimensions used for assessing the attractiveness of a firm's portfolio of business units, and for diagnosing the need for changes in it. Market share (or, more properly, relative market share) is given this fundamental role on the assumption that it strongly affects profitability, an assumption based on the experience curve. (See Allen, 1974, Brodin, 1979, Henderson, 1979, p. 16, and Hedley,1977). (9)

In the "Five Forces" Model Developed by Michael Porter (1980, p. 4) the attractiveness of an industry (defined as its long-run return on invested capital) is determined by five competitive forces: rivalry among existing firms, threat of new entrants, threat of substitutes, bargaining power of suppliers, and bargaining power of buyers. On the prescriptive level, Porter defines three "generic strategies" for coping with the five forces (op cit, p. 35); overall cost-leadership, differentiation and focus. The cost leadership alternative is inspired by the experience-curve concept and is thus very much a "market-share strategy", Porter comments (ibid):

"Its cost position gives the firm a defense against competitive rivalry.....because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry."

Differentiation, as an alternative to cost leadership, builds on the possibility of creating products that are perceived to have unique qualities motivating a higher price. Porter notes that (op cit, p. 38): "...differentiation may sometimes preclude gaining a high market share." If for no other reason, so at least due to the fact that (differentiation) requires a perception of exclusivity"(10)

Cost advantage and differentiation remain as the two basic strategic alternatives when Porter carries his analysis further to include the value-chain concept (Porter, 1985). Here, however, he strongly emphasizes the pitfalls inherent in an uncritical use of the experience curve (op cit, p. 63). In an article published in the *Economist* (May, 23, 1987), Porter maintains his basic strategic alternatives but is even more outspoken about the pitfalls inherent in an unreflected low-cost strategy: "Becoming a low-cost producer by investing to move rapidly down the experience curve is not always the way to win, as Texas Instruments found out in small computers and watches." Incidentally, Texas Instruments was presented as a success story by Porter in an earlier book (Porter, 1980, p. 36).

In spite of the recent de-emphasis of market-share-related low-cost strategies, and the corresponding ascent of other factors as explaining business success, it is probably true to say that high market share/low cost remains as one basic recommendation in the prescriptive strategy literature (Buzzell & Gale, 1987, and Porter 1985, 1987). Likewise remaining is the assumption of a positive correlation between these two variables, although tempered as of late by a more cautious stance regarding possible analytical pitfalls.

4.7.2 Considering the Swedish Firms in the U.S.

In section 4.6.2 it was noted that most of the Swedish firms that have entered the U.S. market command very modest market shares. However, it was also underscored that a few niche-oriented firms had managed to secure very significant shares of the U.S. market. In light of the models presented in section 4.7.1, it appears relevant to investigate the relationship, if any, between the market share of Swedish investors in the U.S. and their performance.

As already indicated, there are a number of pitfalls to consider when discussing the possible influence of market share on firm performance. One of the most obvious, while at the same time more subtle, of these pitfalls is the difficulty of correctly defining the total market for a product (or

service). Clearly, if a firm cannot meaningfully define its market, it will be impossible to make correct estimates of its market share. The problem of correctly defining an industry is of central importance in the industrial organization literature. Bain noted (1956, p. 124):

"The seller concentration that is directly relevant to market conduct and performance is concentration within industries defined in a certain way. Each industry should be recognizable as a group of products that are close substitutes to buyers, are available to a common group of buyers, and are relatively distant substitutes for all products not included in the industry."

As previously discussed, the focus of interest in industrial organization theory is the performance of industries, as seen in a welfare perspective. Essentially, the question asked is whether the degree of concentration in an industry is detrimental to its efficiency, as seen in a consumer perspective. In the strategy literature the focus of interest, by contrast, is managerial decision-making, and the performance of the firm - in absolute terms and relative to competitors. The two viewpoints need not necessarily conflict (for a brief discussion, see Ahlmark, 1981, p. 31), but, as seen from a prescriptive point of view, they are certainly very different.

Of particular interest in this context is the type of data used for analyzing industry concentration ratios. The use of official statistics and industry definitions based on e.g. SITC codes, which is common in investigations undertaken from an industrial-organization perspective, tends to result in very broad industry definitions. This could mean lumping together products that are not substitutes and/or firms using the same process but not manufacturing the same product (cf Bain, 1956, p. 126). As seen as from the point of view of an executive pondering a strategic decision, mistakes of this kind would obviously make market-share data useless, and reliance on them possibly even dangerous.

Discussing strategic-planning models based on market share data, i.e. portfolio analysis (cf the BCG-matrix) and the PIMS project, Abell (1980, p. 8) notes: "Paradoxically, although the methods omit business definition as a strategic decision, they require that the business be defined explicitly before the method can be used." Abell argues further (1980, p. 9):

"market-share measurement requires an explicit definition of the individual business and the market in which it competes...ignoring market segmentation can often produce the apparent conclusion that small market share companies outperform large share companies...but if the market is defined in terms of individual segments, the "small" share companies are found, in fact, to have high shares of their segments."

Abell (op cit) approaches the definitional problem thus posed by separating the problem of defining a business from that of defining a market (op cit, p. 8). He then lists three dimensions on which a business could be defined (p. 17) and goes on to introduce the concept of "served market" (op cit, p. 23) in order to provide a link between the business definition and the market definition. He then, however, adds the pragmatic as well as sobering remark that (op cit, p. 24): "In reality...If served market is then used as the basis for share measurement, it may be expected that shares will not add up to 100%."

The concepts of business (unit), served market and total market are also used in the PIMS project (Buzzell & Gale, 1987, pp. 31). Specifically, a business unit is defined as profit center that (op cit, p. 32):

"Produces and markets a well defined set of related products and/or services; serves a clearly defined set of customers in a reasonably self-contained geographic area; and competes with a well defined set of competitors."

As is evident, the definitions offered do not provide complete answers to the question of how a firm can meaningfully define its market. Indeed, it can be questioned whether some of the definitions do not increase, rather than decrease, the present state of confusion. How should, for example, the concept "reasonably self-contained geographical area" (Buzzell and Gale, 1987, p. 32) be interpreted?

With these provisos, survey data will be used to perform a rudimentary test of the market share-performance relationship among Swedish firms active in the U.S. The following simple hypothesis is suggested:

-Swedish subsidiaries in the U.S. with high market shares are expected to be relatively more profitable. This hypothesis follows directly from the strategy literature discussed above. It should be remembered that the arguments used in the strategy literature rest essentially on the assumption

of a market without national borders where full scope can be given to scale effects, experience effects, etc. What will be investigated here is thus whether these results are applicable also to subsidiaries of MNE's operating on one large national market. It may well be said that this hypothesis is grossly simplified; however, given the arguments in support of the suggested market share-performance relationship, and given the size of the U.S. market, the hypothesis is not unwarranted.

Tables 4.24-25 tests the relationship between the market share achieved by Swedish firms in the U.S., and their performance, as judged by respondents at both the HQ and the subsidiary level.

Table 4.24 Performance of Subsidiaries, as Judged by HQ Respondents, by Market Share of Subsidiary. (Number of Subsidiaries.)

<u>Result Comp. with Industry Average</u>	<u>Market Share (%)</u>				
	0-1	2-5	6-15	16-40	41-100
Much worse	8	4	3	3	1
Worse	8	5	5	7	7
As Average	5	1	3	5	-
Better	4	6	2	7	6
Much better	3	1	1	1	1

n = 97

Kendall's Tau B = 0.11 p = 0.10

Table 4.25 Performance of Subsidiaries, as Judged by Subsidiary Respondents, by Market Share of Subsidiary. (Number of Subsidiaries.)

<u>Result Comp. with Industry Average</u>	<u>Market Share (%)</u>				
	0-1	2-5	6-15	16-40	41-100
Much worse	5	2	1	4	3
Worse	5	6	4	5	4
As Average	6	4	5	6	5
Better	5	4	5	6	5
Much better	2	3	1	4	4

n = 100

Kendali's Tau B = 0.08 p = 0.15

As is evident from the tables, the expected positive correlation between market share and performance of subsidiaries was established, but is very weak as well as barely significant. It must be concluded that local market share, as a single explanatory variable, is of a limited relevance in explaining the performance of Swedish subsidiaries in the U.S.

When analyzing the performance of subsidiaries in one select market, one may argue that the connection between market share and profitability should depend primarily on economies of scale in distribution rather than in manufacturing. Particularly in the case of a market as large as the U.S. one, it is reasonable to expect that the profitability of companies that spread their resources to thinly will suffer. Anecdotal evidence also highlights the fact that Swedish firms, as a rule, tend to underestimate the size of the American market. It may thus be hypothesized that Swedish firms concentrating their activities in the U.S. geographically should be more profitable than those trying to cover the entire market. To evaluate this hypothesis, a simple test was performed involving the measure of geographical concentration described in chapter three (cf table 3.16). The correlation between this measure and the performance of Swedish subsidiaries was investigated using Spearman correlation coefficients. However, regardless of whether the performance of the Swedish subsidiaries was measured at the HQ level or at the subsidiary level, no significant results were found. (11)

Clearly, this "non-result" must be interpreted with caution. It seems likely that the problems associated with an overly broad geographical focus may be less applicable to firms operating in industrial goods than for manufacturers of consumer goods. It may thus be hypothesized that for many Swedish firms, it is more relevant to focus U.S. sales efforts on a select group of customers, rather than on a select geographical area. However, as indicated by tables 4.26 and 4.27, this hypothesis too must be rejected. If anything, the effect of a concentrated customer structure appears to be negative. In this context, it may also be of interest to note that a majority both of HQ respondents (62%), and of subsidiary respondents (71%) disagreed with the statement that "activities in the U.S. should be more concentrated geographically" (appendix 18).

Table 4.26 Performance of Subsidiaries, as Judged by HQ Respondents, by Concentration of Sales. (Number of Subsidiaries.)

<u>Result Comp. with Industry Average</u>	<u>Share of Sales, 5 Largest Customers</u>			
	0-20	21-40	41-60	61-
Much worse	2	4	2	4
Worse	9	6	4	2
As Average	2	1	3	3
Better	7	6	3	2
Much better	2	-	-	1

n = 63

Kendall's 'Tau B = -0.11 p = 0.15

Table 4.27 Performance of Subsidiaries, as Judged by Subsidiary Respondents, by Concentration of Sales.
(Number of Subsidiaries.)

<u>Result Comp. with Industry Average</u>	<u>Share of Sales, 5 Largest Customers</u>			
	0-20	21-40	41-60	61-
Much worse	3	4	-	3
Worse	7	7	3	4
As Average	6	3	4	3
Better	11	3	4	5
Much better	3	5	1	2

n = 81

Kendall's Tau B = -0.03 p = 0.38

4.7.3 Strategies for the MNE

Porter (1986), in discussing a "conceptual framework" for competition in global industries, identifies two key dimensions for distinguishing domestic from international competition (op cit p. 23): "configuration" and "coordination". Configuration refers to the physical location of a firm's activities, coordination to the way that related activities in different locations are coordinated. Porter uses the two dimensions for outlining different varieties of competition, from domestic competition, via international competition, to complex global competition. Porter notes (op cit, pp. 28) that "competitors with country-centered and global strategies can coexist in an industry, but global strategies by some competitors frequently force other firms to follow suit". The essence of Porter's definition is captured in the following example (ibid):

"In automobiles...Toyota has (historically) employed a relatively simple global strategy to achieve the position of low-cost producer. General Motors has historically competed with a country-centered international strategy, with separate manufacturing units and even separate brand names in different regions, while Ford has practiced only regional coordination."

At the descriptive level, Porter's definition thus advocates that two dimensions, configuration and coordination, should be considered simultaneously in order to single out global industries (MNE's could also choose to manage their foreign units like a portfolio). On the prescriptive level, the international firm, by analogy should consider both of the two dimensions in defining their strategy, as it could (op cit, p. 29); "gain competitive advantage from its international presence through either a concentrated configuration, coordinating among dispersed activities or both."

One distinct aspect of global competition is the superior striking force, in terms of oligopolistic reaction, commanded by MNEs following global strategies. In an article on global strategy, Hout, Porter and Rudden (1982) note:

"Accepting the portfolio view of international competition can be disastrous in a global industry. The global competitor focuses instead on its ability to leverage positions in one country market against those in other markets" (For an early rendering of this argument, see Horst, 1974, p. 118.)

Similar concerns are expressed by Hamel and Prahalad (1985) in an article discussing, in particular, the notion of "cross-subsidization". This concept is defined as follows (op cit, p. 144): "When a global company uses financial resources accumulated in one part of the world to fight a competitive battle in another, it is pursuing a strategy we call cross subsidization" (cf, however, Casson, 1988, p. 75). Hamel and Prahalad (op cit) claim that global competition calls for novel ways of valuing market share, and offer the following examples (op cit p. 146):

"Worldwide cost competitiveness, which refers to the minimum world market share a company must capture to underwrite the appropriate manufacturing-scale and product-development effort."

"Retaliation, which refers to the minimum market share a company needs in a particular country to be able to influence the behavior of key global competitors."

"Home country vulnerability, which refers to the competitive risks of national market share leadership if not accompanied by international distribution."

In a similar vein, Kogut (1987b, p. 2): notes: "It is the operating side which drives the incremental value of being multinational. This operating flexibility stems from the benefits of coordinating the flows within an international network." He exemplifies (op cit p. 3):

"Ford probably thinks twice before cutting price if GM has the reputation for retaliation. But what good is GM's reputation when it has no credible way to affect Toyota's home market share and prices."

In the marketing literature, global competition has often been viewed as leading to standardisation of products and brands on a global scale. Levitt (1983, p. 92) argues:

"A powerful force drives the world towards a converging commonality, and that force is technology...The global corporation operates with resolute constancy - at low relative cost - as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere." (12)

Another perspective on marketing as an important aspect of global competition is provided by Hamel and Prahalad (1984). They note (op cit, p.8):

"...it would seem that the Japanese companies early recognised the transience of location-specific cost advantages...Japanese firms were quick to make pre-emptive investments in large-scale plants and automation...In an attempt to provide yet another buffer against the impermanence of a cost-based competitive position, many Japanese companies invested heavily to create worldwide distribution networks and global brands."

The creation of global brands is a key element in Hamel and Prahalad's interpretation of global competition. They argue (op cit, p. 9):

"Economies of scope have become as important as economies of scale; and if world brand presence is the end to which the new global competitive game is played, cross-subsidization of national market-share battles is the means by which it is played." (Economies of scope should here, in particular, be understood to indicate the possibility to expand an established global brand to encompass new product categories.)

In this connection, Sölvell (1987), investigating "the process by which national industries, characterized by high entry barriers, are penetrated by foreign firms", notes (op cit p. 208):

"Another act of product broadening...among the Japanese firms in both the United States and Europe, is the move from brown goods to white goods. With already well established brand names in the consumer electronics area, this image was moved over to the white goods sector at low costs. Thus, costs sunk by white goods manufacturers in building brand image did not constitute a barrier to entry vis-a-vis the Japanese firms established in the U.S. consumer electronics market."

The reach of global brands does not seem to be without limits, however. An empirical observation of interest is that the major Japanese automobile manufacturers have created new brand names and new dealer networks in order to support their climb into the prestige segment of the market, particularly in the U.S. However, looking at the automobile manufacturing firm from a value-chain perspective, it is also evident that Honda, Toyota, and Nissan can take advantage of their total R&D budgets when launching Acura, Lexus and Infiniti. To the extent that this strategy proves to be successful, it would, in terms of Porter's generic strategies, seem to be an example (at least up to a point) of how to combine a cost-leadership strategy with the exclusivity demanded by a differentiation strategy. (For an in-depth account of the development of the automobile industry towards global competition, see Sölvell, 1984.)

Ohmae (1985) claims that a company should be present on each of the three markets; the U.S., Europe and Japan in order to be regarded as global. As a general principle this seems sound, but in analyzing a specific industry it probably must be interpreted with some care. It is quite reasonable to expect that there are markets where differences in consumer preferences, or other factors, make the three regional markets sufficiently different to deny companies with a global "configuration" any measurable advantage. In such an industry there could conceivably be MNE's following a global strategy, but the industry itself would nevertheless not be global. The relevance of the concept thus lies to a large degree in whether, in a particular industry, there indeed are benefits, realized, or unrealized, to be gained from global configuration and coordination. As emphasized by Porter (1986), as well as by Hamel and Prahalad (1984, 1985), national, regional and global firms can coexist in many industries, but if factors such as consumer preferences,

cost dynamics in R&D, manufacturing, etc. favour global strategies, non-global firms may be an endangered species.

The transformation from national via regional to global competition can be expected to be a time-consuming process, characterized by the gradual penetration by a number of firms of one national market after the other (cf Sölvell, 1987, p. 46). Markets representing large proportions of total global demand, e.g. the U.S. market, will obviously be of key importance in this process. In chapter 6, the two case studies of Volvo Truck Corporation and Ericsson Telecom will be used as a basis for a further discussion of issues such as trends towards global competition, the significance of the U.S. market in this connection, entry barriers to the U.S. market and methods for overcoming these, etc. The next chapter, however, will introduce the issue of how to manage subsidiaries located in the U.S.

Notes to chapter 4

1) Hedlund (1989), comments on the propositions made by Williamson from a somewhat different angle, and questions the description of the MNE as one of two possible governance structures (i.e. market or hierarchy). Rather, Hedlund (op cit, p. 23) argues, the MNE should be regarded as "a mechanism for constantly selecting governance modes for its innumerable and changing transactions."

2) Franko (1976, p. 166) regarded the "skewed industry distribution of Continental manufacturing operations in the U.S." (i.e. the relative lack of cross-investment in many industries) as an indication of the absence of competitive reaction. It has, however, been argued (Little, 1984, p. 42) that this lack of cross-investment could partly be explained by the fact that the small home markets of European firms, in combination with very significant economies of scale in manufacturing, has limited the ability of European firms to make direct investments in the U.S.

3) Considering alternative, or complementary, explanations for FDI in the U.S. Graham, (op cit, pp. 174) argued:

"European firms might invest directly in the United States not so much to gain access to U.S. technology development, but more to force their organizations to become responsive to the market conditions brought on by the development....To develop within the organization a responsiveness to market conditions in the U.S. seems to have been a major motivating force behind the acquisition or the establishment of U.S. subsidiaries of many European firms."

4) The Uppsala Model has been criticized as being too rigid. In particular, it has been suggested that as firms become more experienced, markets more homogenous, and competitive pressures more intense, the gradual process of internationalization predicted by the Uppsala Model will give way to faster and more direct establishment strategies (Hedlund and Kverneland, 1984, p. 62). Nordström and Vahlne (1985), while maintaining that the "Uppsala Model" can still be expected to be valid under certain circumstances, observe (op cit, p. 14): "The more experienced the company and the more internationally structured the competition, the more competitive aspects will decide where, when and how new markets will be entered." Nordström, reporting a pilot study of the changing

internationalization patterns of Swedish firms, furthermore notes (1988, p. 101):

"Our hypotheses point in the direction of two major factors affecting the process; market potential and competitive considerations....Scandinavia is regarded as the home market, penetrated before any further markets are considered. When the home market is penetrated, markets outside Scandinavia are entered in a sequence determined by market potential....this sequence might be "disturbed" by the fact that certain nation-markets are the strongholds of major competitors." (See also Sölvell, 1987, pp. 57-59 & 220-222)

The attractiveness of the U.S. as host to FDI can, as indicated by Nordström (ibid) be expected to be strongly augmented by its size (Cf also Nordström & Vahlne, 1985, Davidson, 1980, and sections 4.3.1 - 4.3.2 above). The influence of "competitive considerations" (Nordström, 1988, p.101) is less straightforward. The U.S. is the home and "stronghold" of a large number of multinationals and, following Nordström (op cit), the U.S. could be expected to be a market to be avoided. However, there are also a number of reasons why the occurrence of oligopolistic competition can be expected to increase the attractiveness of the U.S. as a target for FDI (cf sections 4.3.1 - 4.3.2 above and chapter 7, particularly section 7.4).

5) No effort will be made to establish whether, for Swedish investors, the choice of entry mode has, in general, significantly affected the result of the investment. In order to make such a comparison meaningful a prohibitively large number of variables would have to be controlled for (e.g. the experience of the investor in operating internationally, the type of product, the structure of the industry, the size of the investment, the age of the investment, etc). At a purely descriptive level it may, however, be reported that - as measured on a five-grade scale and as perceived by HQ respondents (cf question 11, appendix 3) -the green-field investment made by Swedish firms in the U.S. appear to have been somewhat more successful than the acquisitions. For entries made in or after 1975 the average performance of green-field investments was 2.83, the corresponding figure for acquisitions being 2.44.

6) It should be emphasized in this connection that in a number of the studies cited (notably Dubin, op cit, and Wilson, 1980), the Harvard Multinational Enterprise data base was used. As this has been generated from the Fortune 500 list, it has a strong large firm bias. It could thus be argued that these investigations pertain only to the behaviour of *large* firms compared with

that of *very large* firms. In the latter category, industry concentration ratios might be so high as to render acquisitions almost impossible. It should also be noted that Dubin's investigation concerned FDI by *American* firms before 1967. For American firms making FDI during this period, the availability of suitable acquisition candidates, even in relatively less concentrated industries, may in many cases have been very limited.

7) It has been argued that there is a significant difference between *entering* a market and successfully *penetrating* a market, in the sense of becoming a "leading actor in the host industry" (Sölvell, 1987, p. 219). Here the issue, however, is the effect of the U.S. seller concentration on the ability of Swedish firms *profitably* to establish a presence in the U.S. market, regardless of the size of this establishment.

8) The experience curve played an important part in the production planning of the arms industry during World-War Two, but its effects in other industries have been widely investigated as well. The experience effect is expected to be of particular importance in manufacturing, but similar effects have also been shown to exist in other functional areas. The experience effect should not be confused with scale effects. The two concepts are, however, related in that they both indicate the desirability of high market share. The higher the market share, the larger the cumulated production volume, and also the larger the economically justifiable size of the plant.

The validity of the experience curve is not unquestioned (for a critical review, see Hall and Howell, 1985). On the one hand, it has been pointed out that the cost development predicted by the curve does not come automatically; it must be managed. On the other hand, it has been questioned to what extent it is possible to make the experience gained in one firm proprietary. Many of the factors that have been advanced to explain the experience effect (i.e., increases in the skill of workers, cheaper input materials, more efficient machinery, etc.) are of such a nature that all industry incumbents are potentially in a position to benefit from them. From a strategic-management point of view, the experience effect should preferably be most relevant at the plant or company level. However, the empirical evidence tends to indicate that the product level is the most pertinent (Hall and Howell, 1985, p. 197). As of late, it has also been argued that flexible manufacturing techniques, CAD/CAM applications, etc. have decreased the need for long series and large-scale production. Although this argument primarily has a bearing on scale effects, not experience effects, it should diminish the joint effect of experience and scale. (For a more

extensive treatment of the subject, see Hall & Howell, 1985, Spence, 1981, and Yelle, 1979.)

9) An ambitious effort to investigate further the link between strategy and profitability is represented by the PIMS project (Profit Impact of Market Strategies), initiated by General Electric, and originally based on data from the General Electric Company. Specifically, PIMS is a computer-based regression model used for identifying links between the characteristics of business units and, in particular, their return on investment and cash-flow characteristics. One of the key findings of the PIMS project is a strong, positive correlation between market share and return on investment. Given the construction of the PIMS model, where a regression model singles out 37 variables associated with variations in profitability and cash-flow, it is not clear why such a link between market share and ROI should exist. Speculative answers have been provided, and include (Buzzell et al. 1975):

- a) Economies of scale together with experience effects.
- b) Market power (i.e. arguments taken from the industrial organisation school).
- c) Quality of management.

However, the importance of pinpointing the market share-ROI connection has often been downplayed and the discussion concentrated on strategies for gaining market share (Buzzell, et al., 1974 & 1975). For more critical viewpoints on the PIMS project, see Hedlund & Åman, (1985, published in *Affärsvärlden*) and Newton (1983). In a recent treatment of the PIMS project (Buzzell & Gale, 1987), a reorientation is made, highlighting the role of quality. It is argued (op cit, p. 7, see also p. 103): "In the long run, the most important single factor affecting a business unit's performance is the quality of its products and services, relative to those of its competitors." Buzzell & Gale (op cit, p. 8 and p. 70), however, still assign a major role to market share as influencing achieved ROI. The market share-ROI linkage is explained as partly due to scale and experience effects, and partly due to a suggested, but never fully clarified, connection between market share and relative quality. The role of quality is also highlighted by Peters & Waterman (1982, p. 70) who in their investigation of "excellent companies" noted that the companies under study showed an "obsession" for quality. As in the case of Buzzell and Gale (1987), the quality approach described by Peters & Waterman (op cit) indicates a relative de-emphasis of the cost focus that has characterized much traditional strategy thinking (op cit, p. 193).

10) Focus, Porter's third generic strategy, refers to either a cost leadership or a differentiation strategy concentrating on one market segment only. Crucial to Porter's analysis is the contention that a firm must make a definite choice. To select a strategy halfway between cost leadership and differentiation, to be "stuck in the middle", spells disaster.

11) The data gathered at the HQ level, in fact, showed a negative correlation (coefficient; -0.45), the data gathered at the subsidiary level yielded a weak positive correlation (coefficient; 0.04).

12) The global marketing concept has been questioned on the following grounds (Douglas and Wind,1987):

-The assumption of increasingly homogeneous consumer preferences is probably valid only for a limited number of products and customer segments; in some areas a reverse trend towards increasing diversity can be discerned.

-The assumption that consumers worldwide are willing to sacrifice preferences in product features in order to gain the lower prices (supposedly) attainable through standardization is questionable.

-The assumption that product technology is driving strategy in the direction of standardization neglects new developments (i.e. flexible manufacturing), that make it possible to achieve economies of scale even at relatively low levels of output. It also neglects the fact that cost of production is often not the most critical component of total cost, and the fact that price (as defined by product cost) is only one component of marketing strategy.

13) When analyzing the answers given to questions 12 & 13 in the subsidiary data section (appendix 4) it became apparent that a number of Swedish firms had achieved market leading positions in the U.S. (Most of these firms turned out to provide specialized products aimed at relatively narrow niches of larger markets.) In this chapter, all analyses concerning the influence of industry concentration on the behaviour and performance of Swedish firms entering the U.S. therefore include controls for the market position of the Swedish firms themselves. The methods employed in defining the market positions of the Swedish firms participating in the survey (as well as of their main competitors) are subject to further discussion in sections 4.6.2 and 4.7.2.

5 The Role of Management and Culture

5.1 Managing the Multinational Enterprise

Just as the archetypal MNE can be said to be American, the archetypal giant corporation likewise is American. The evolution of the largest American enterprises has been described by Chandler (1962, 1977), a description that laid the groundwork for the so called strategy-structure paradigm. According to Chandler (op cit), there is a strong link between the strategy chosen by a firm and its internal structure. Changes of strategy are assumed to precede changes of structure, as expressed by Chandler (op cit, p. 383):

"The comparison emphasizes that a company's strategy in time determined its structure and that the common denominator of structure and strategy has been the application of the enterprises' resources to market demand."

The evolution of the American MNE has been investigated by Stopford and Wells (1972). Like Chandler, they found (op cit, p. 5) "a close tie between strategy and structure", while at the same time underlining that this relation is complex and that (ibid): "Once set up, the organizational structure almost certainly influences the choice of strategy of the multinational firm." (As noted by Hedlund (1978) similar effects can be expected to follow from the culture or "style" of an organization.)

Stopford and Wells (op cit) investigated 187 American enterprises, selected from the Fortune 500 list by the criterion that they held 25 % or more of the equity in manufacturing facilities in six or more foreign countries at the end of 1963. In their study, Stopford and Wells (op cit) found that the American multinationals had developed their international structures in a stepwise process with different stages. The first of these involved the formation of a number of relatively autonomous subsidiaries. The relations between these subsidiaries and HQ in the U.S. are described by Stopford and Wells (op cit, p. 20) as characterized by the fact that subsidiary managers are given "virtually unlimited powers of decision and action". The use of formal reports is in general limited and the few reports that are produced "are seldom used as the basis for decision making and action".

Stopford and Wells found the initial stage of autonomous subsidiaries to be a transitory one. The next stage in the evolution of the American MNE, typically, is the development of an "international division". The international division can be described as a structure in which the foreign subsidiaries report to a general manager or divisional vice president who in turn reports to the president of the corporation.

The international division, however, was likewise found to be only a temporary, if somewhat more stable, arrangement. The demise of the international division was explained by Stopford and Wells (op cit) as caused by increased size and complexity of foreign operations. In the firms studied by Stopford and Wells, the international division structure was replaced during the 1960's by different types of global structures. Some firms adopted global product divisions, others area divisions, and a third group "mixed" structures, including elements of both product and area responsibility. Firms with high R & D intensity were found to be more likely to adopt structures based on product considerations, whereas firms characterized by high marketing budgets, and normally relatively mature product lines, more often chose global structures based on geographic considerations.

The evolution of the typical European MNE has been very different from that of American MNE's. In his investigation of Continental European MNE's, Franko (1976) found that the so called "mother-daughter" structure, in which the foreign subsidiaries report directly to the president of the corporation was the most common, not only in the total sample, but also in all size categories, and was retained also by many very large enterprises. Franko (op cit, p. 187) noted: "Throughout the growth and spread of their multinational operations, Continental European enterprises maintained highly personalized relations with their foreign manufacturing subsidiaries." (For a condensed comparison of the studies made by Stopford & Wells and Franko, see Galbraith & Nathanson, 1978, pp. 111-112.)

In Franko's (op cit) sample, none of the firms that retained the mother-daughter structure ascribed any major role to written rules and procedures in their international operations. On the other hand, these firms, compared with the total sample, had a higher proportion of home country expatriates as presidents of foreign subsidiaries. Franko concluded (op cit, p. 190):

"The contrast could not be more complete between the management practices of the Continental-European multinationals using the mother-daughter form and the archetypal American multinational with job-descriptions, "bibles" of rules, and frequent use of local nationals as foreign subsidiary presidents."

An interesting observation made by Franko (op cit, p. 198), is that the occurrence of operations in the U.S. seems to have played an important part in moving Continental-European multinationals away from the mother-daughter structure. Franko noted (ibid):

"The competitive nature of the American market virtually ensured that the leisurely pace of personal, unsystematized mother-daughter communications would lead to frustration on both sides of the Atlantic".

There are obviously many forms such frustration could take. Specifically considering the case of Swedish MNE's (and thereby anticipating the next section of this chapter), we may reasonably hypothesize that American managers of Swedish subsidiaries might be frustrated by a lack of clarity in the goals communicated to the subsidiary from HQ in Sweden. Such a lack of clarity would, in the first place, obviously make these managers less effective in managing the subsidiary according to HQ intentions. Secondly, such a lack of clarity could affect their long term view of the company and their willingness to remain with it (cf Hedlund, 1980, p. 26, Edström & Lorange, 1984, p. 125 and, in particular, Laurent, 1986, p. 99).

5.1.1 Managing Swedish MNEs

Hedlund & Åman (1983, see also Hedlund, 1990, and Åman, 1990) found, that the structures and management practices used by Swedish MNEs were consistent with the findings provided by Franko (op cit). If anything, the Swedish way of organizing and managing multinational operations seem to be an extreme case of the European mother-daughter structure. Among the characteristics of this "Swedish model" Hedlund & Åman list the following (op cit, p. 21):

- Subsidiaries reporting directly to corporate headquarters.
- Relatively autonomous foreign subsidiaries.
- Informal, personalized relations between headquarters and foreign subsidiaries.

Hedlund & Åman (op cit, pp. 14-20) discuss a number of factors, mainly historical, that could explain the evolution of the "Swedish model". One of these is the fact that Swedish MNE's have expanded internationally, mainly through the use of green-field investments. According to Hedlund & Åman (op cit, p. 17) this has allowed a "gradual transfer of knowledge about headquarters' policies and attitudes, embodied in the choice of managers of subsidiaries."

However, a number of the factors that probably were crucial for the development of the "Swedish model" are now changing. Hedlund and Åman (op cit, p. 22) note that increased product diversity and the growth in the size of companies put considerable strain on the cognitive capacity of parent-company managers. Other important developments are the maturing of product lines, thus increasing the importance of operating efficiency, and a greater tendency to use acquisitions, thus bringing new managers into the Swedish MNE's without any knowledge about "headquarters' policies and attitudes".

Hedlund and Åman (op cit, p. 24) suggest that the developments observed also make changes in the "Swedish model" desirable. Among such changes, they implicitly suggest clearer structural arrangements, i.e. global product divisions, and more formalized planning and control systems. (Discussing the future organization of MNEs, Hedlund has, however, in more recent writings (1986, p. 33 and 1990) underlined that "the new global economic environment" may cause a "renaissance for the Swedish model". For a further discussion of this theme, see section 5.2 below.)

Investigating the organizational structure of four Swedish multinationals, Hedlund & Åman (op cit, p. 103) reached the conclusion that these firms, because of their limited size, particularly when measured at the subsidiary level, would not be able to implement any of the "pure" forms of international structure. Instead, the authors (ibid) hypothesized that these companies, as well as the majority of Swedish MNE's, would have to adopt an "in-between" type of organization i.e., in-between the mother-daughter structure and independent, global product divisions.

In a survey directed at the HQ of large Swedish industrial manufacturing companies with significant international operations, Westerberg (1987, p. 36) found that a majority of the firms investigated appeared to have adopted global product-division structures. These results need, however, not necessarily be interpreted as contradicting the findings of Hedlund and Åman (1983). As mentioned, Hedlund and Åman (op cit) suggested that the limited size of Swedish MNE's, and particularly their subsidiaries, is a

major impediment to the adoption of global product divisions. It could well be that the results discussed by Westerberg (op cit) relate to the HQ level and not the subsidiary level - an interpretation which is also supported by some recent findings described in the following paragraph.

The further spreading of the changes in the "Swedish model" first suggested by Hedlund and Åman (1983) was investigated by Rolander, Zander and Hedlund (1989). As a proxy for the completion of a process towards full divisionalization, Rolander et al (op cit, p. 17) used the "the year when performance is measured by product line within major subsidiaries." Rolander et al (ibid) summarized their findings as follows:

"In our samples, the average year for the start or the divisionalization process was 1975. In 1983 and 1989, 30% and 48% respectively, of the firms in the samples, had completed the process. This gives a first rough idea of how long it takes to reorganize a major Swedish MNC."

In view of the changes in the Swedish model suggested above, the findings presented by Rolander et al (op cit) give considerable food for thought. Firstly, it may be noted that the process of adopting divisionalized structures in Swedish MNE's appears to be very time consuming. The fact that a Swedish MNE has divided its home organization into a number of product divisions thus need not mean that a corresponding change has occurred at the subsidiary level. Secondly, divisionalization at the HQ level need not mean that each division is assigned a subsidiary organization of its own. Rather, the kind of "in-between" solutions of the matrix type suggested by Hedlund and Åman (1983) may be the most likely outcome. Thirdly, Rolander et al (op cit) also investigated the hypothesis, suggested by Hedlund and Åman (1983), that a move towards a divisionalized structure would be followed by increased formalization of planning and control systems. Interestingly, they found no evidence of such changes. If anything, the Swedish MNE's that had divisionalized appeared to attach relatively less importance to formal modes of control (Rolander, et al, 1989. p. 21).

If, as suggested by Hedlund (1986, p 33, and 1990, see also the following section) "the new global economic environment" will lead to a "renaissance" for the Swedish model, the findings presented by Rolander et al (op cit) probably should be regarded as good news. However, in considering Swedish investments in the U.S., a prolonged reliance on informal communications may, as suggested by Franko (1976, p. 198), lead to

continued problems in the relationships between parent companies in Sweden and their American subsidiaries. This latter concern will be subject to further consideration in section 5.3.

5.2 Some Recent Developments; How to Manage the "Heterarchical" MNE

An underlying theme in much recent writing on the development of the MNE (e. g. Bartlett, 1986, Doz, 1986, and Hedlund 1978, 1980 and 1986) is that the traditional models of such organizations are no longer sufficient. Hedlund argues (1980, p. 34):

"For the modern multinational corporation, control and integration has to be based on the sharing of norms and ideas rather than on hierachical issuing of commands or the invisible and supposedly benevolent hand of intra-organizational competition."

In a similar vein Bartlett underlines that (1986, pp. 384 and 388):

"Management must work to break down extremes of subsidiary independence and autonomy and replace any parochial attitudes with an identity and role in the new integrated worldwide operations....The overall objective....is to create what one manager termed "matrix organizations inside the heads of a key group of senior managers".

Doz (1986, p. 188) argues that: "Managing an integrated network therefore implies two very different tasks; managing for operating efficiency within the network, and managing for effectiveness at its margins." Doz (op cit, pp. 234, see also Doz & Prahalad, 1988, p. 350) further notes that:

"Global competition....calls for managerial capabilities unavailable in the traditional MNC which merely transferred skills and, occasionally, products abroad. Successful responses to the economic imperatives thus call not only for substantive skills, but also for managerial skills."

Discussing the build-up of a desirable "organizational psychology" in a MNE, Bartlett (op cit, p. 395) identifies three factors as especially important, namely:

- A clear shared understanding of the company's mission and objectives.
- The visible behavior and public actions of senior management.
- The company's personnel policies, practices, and systems.

Regarding the second of these factors, i.e. management behavior, Bartlett (ibid) provides an interesting example:

"When Sony Corporation founder and CEO, Akio Morita, relocated to New York to build the company's U.S. operations personally, he sent a message about Sony's commitment to its overseas businesses that could not have been conveyed as strongly by any other means."

In a speculative article "The Hypermodern MNC - A Heterarchy?", Hedlund (1986) makes the observation (op cit, p. 22): "Another attribute of heterarchy is that integration is achieved primarily through normative control, and only secondarily through calculative and coercive/bureaucratic regulations." (As noted by Åman, 1990, the heterarchy, as defined by Hedlund (op cit), share some traits with the "adhocracy" described by Mintzberg, see Mintzberg, 1979, p. 450.) Hedlund & Rolander (1987), further developing the concept of heterarchy, emphasize that (op cit, p. 2): "(Heterarchy) entails....a focus on normative control mechanisms. Such as shared corporate culture, long-term careers within the firm, systematic recruitment and rotation of personnel." (For an early discussion of the use of transfer of personnel and socialization processes as a means of integrating a network of interdependent subsidiaries, see Edström and Galbraith, 1977).

Much of the significance of the arguments discussed in this section lies in their implications for the management of cultural differences. In a MNE where communications between the HQ- and the subsidiary level predominantly consist of formal reports on financial goals and similar figures, cultural differences may be hypothesized to play a relatively minor part in causing misunderstandings in the HQ-subsidiary relation. However, in a MNE where "control and integration (is) based on the sharing of norms and ideas" (Hedlund, 1980, p. 34), and where it is essential to establish "a clear shared understanding of the company's mission and objectives" (Bartlett, 1986, p. 395) it is obviously crucial to establish effective communications of a far more advanced and complex kind. Under such

circumstances, misunderstandings caused by cultural differences may also be expected to become much more significant.

5.3 Managing Cultural Differences

An important problem inherent in managing foreign operations is overcoming cultural differences. An obvious, and often discussed, aspect of this problem is the necessity to adapt products and marketing to different national or regional cultures. However, the perhaps most important part of this process of adaptation takes place, not in the relation company-customer, but in the relation HQ-subsiary. As argued by Laurent (1985, p. 42): "the national origin of European managers significantly affects their views of what proper management should be. National culture seems to act as a strong determinant of managerial ideology."(1)

In their investigation of HQ-subsiary relationships in four Swedish multinationals, Hedlund and Åman (1983) included questions related to cultural differences and problems caused, wholly or partly, by these differences. Among their findings were that the Swedish management style can be characterized by indecisiveness. As noted by Hedlund and Åman (op cit p. 164): "Swedes prolong the decision-making process, they avoid making decisions, especially unilateral, and decisions taken might be difficult to interpret for the non-Swede." Hedlund and Åman (ibid) report the comment made by one Swedish subsidiary manager, that although his successor would no doubt be a non-Swede, he regarded it as necessary to include at least one Swede in the subsidiary management in the future this in order to have someone in the subsidiary able to "interpret the decisions taken in Sweden, memos that arrived, statements of intent etc". Hedlund and Åman (ibid) further describe the Swedish management style as "slow" and as characterized by the "avoidance of open conflict". These traits probably are related to another characteristic of the Swedish management style discussed by Hedlund and Åman (op cit), namely the importance of "consensus building".

It is probably a rule more than an exception that managers of subsidiaries, regardless of their own nationality, regard management at HQ as lacking in understanding of what it really means to "be out there", and as generally less co-operative than would be desirable. However, there are some indications that the observations of Hedlund and Åman represent something more than the traditional HQ-subsiary conflict. Hedlund (1980), in an earlier study of strategic decision-making processes in Swedish MNSs, noted (op cit, p. 26):

"The subsidiaries in no way desire policies that are "clear" in the sense of forever fixed and rigid. Rather, they want to develop an understanding of the company's future, which would enable them to act in harmony with other components of the enterprise towards a common goal. What worries the subsidiaries is a feeling of isolation and remoteness, of having to make decisions relevant to overall corporate strategy, without really knowing what that strategy is." (See also Edström and Lorange, 1984, p. 125.)

In a similar vein Laurent (1986, p. 99), notes that: "Unlike many others, the subsidiaries of Swedish multinational corporations may complain that they do not "receive enough help from Headquarters". In the large scale survey study by Hofstede (1980) on international differences in work-related values, Swedish values, again, stand out as representing a fairly extreme, although not exclusively Swedish case. In his study, Hofstede (op cit) analyzed cultural differences along four dimensions:

Power distance: "Indicates the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally."

Uncertainty avoidance: "Indicates the extent to which a society feels threatened by uncertain and ambiguous situations and tries to avoid these situations by providing greater career stability, establishing more formal rules, not tolerating deviant ideas and behaviours, and believing in absolute truths and the attainment of expertise."

Individualism-Collectivism: "Individualism implies a loosely knit social framework in which people are supposed to take care of themselves and of their immediate families only, while collectivism is characterized by a tight social framework in which people distinguish between in-groups and out-groups; they expect their in-group to look after them, and in exchange for that they feel they owe absolute loyalty to it."

Masculinity-Femininity: "Measurements in this dimension express the extent to which the dominant values in society are "masculine" - that is, assertiveness, the acquisition of money and things, and not caring for others, the quality of life, or people"

In Hofstede's (op cit) investigation, Sweden scores high on the individualism index but low on power distance, uncertainty avoidance and masculinity. Along three of the four dimensions, Sweden stands out as relatively similar to the U.S. (Hofstede's finding of a relatively large similarity between Swedish and American values is supported by Laurent (1985, 1986)). Both countries can, in Hofstede's (op cit), terminology be described as individualistic, although the U.S. more so. Both Sweden and the U.S. show low values on the power distance index and thus a relatively low acceptance of hierarchical structures, this tendency being more pronounced in Sweden than in the U.S. The tolerance of uncertainty and ambiguity is high in both countries, particularly in Sweden. However, on the masculinity index the two countries differ markedly. Hofstede found the U.S. to score high on the masculinity index, whereas the Swedish value for this variable turned out to be the lowest among the forty nations included in his investigation.

Hofstede (op cit) is careful to point out that his findings relate to national norms and not to individuals, and it should also be kept in mind that his findings relate to the relative position of a number of countries compared with each other. Thus while Sweden and the U.S. both score *relatively* low on power distance, it should be remembered that the difference between two low scoring countries still can be considerable.

Considering the dimension which, according to Hofstede (op cit), most clearly distinguishes Sweden from the U.S., i.e. the masculinity-femininity dimension, a concrete example may serve to clarify the implications. Hofstede (1980b, p. 56) identifies two main currents in the area of work organization and the humanization of work. One of these, the North American one, is grounded in masculine values and aims at restructuring individual jobs. The other, developed in Europe and applied particularly in Norway and Sweden, aims at restructuring work into group work. Hofstede argues (ibid):

"In a more masculine society like the United States, humanization takes the form of masculinization, allowing individual performance. In the more feminine societies of Sweden and Norway, humanization takes the form of feminization - it is a means toward more wholesome interpersonal relationships in its deemphasis of interindividual competition."

Hofstede's findings are not undisputed. Considering the case of Sweden, the relatively high value for the individualism variable ascribed to Sweden by Hofstede has been questioned (Forss, Hawk and Hedlund, 1984, p. 28). It

has further been pointed out that a number of characteristics of Swedish society seem to belie the low observed value on the uncertainty-avoidance index (op cit, p. 30). Considering the masculinity - femininity dimension, Forss, Hawk and Hedlund (op cit, p. 32) doubt whether this variable, in itself, is at all meaningful. Rather, they argue (op cit, p. 32) the low score on the masculinity index should be seen as a reflexion of a society with a "strong concern for conflict avoidance and consensus building", traits that could just as well be associated with the three other dimensions analyzed by Hofstede.

In general, Forss, Hawk and Hedlund (ibid) advocate a more systemic approach to the study of cultural differences, while also questioning the stability of cultural values of the kind analyzed by Hofstede. They argue (op cit, p. 37):

"Variables like Hofstede's may reflect rather temporary opinions, and not - as is intended - deep, long-lasting collective programs....Only 50 years ago or so, few would dare characterize Swedish managers as feminine....Perhaps the idea of relatively equal, and strong, men united in battle under a commander who is only "primus inter pares" has been wrongly taken as a sign of a submissive leadership style."

The complex nature of cultural traits is also underlined by Daun (1989). Comparing two samples of Swedish and American university students Daun noted (op cit, p. 254):

"Americans and Swedes are similar with respect to communication anxiety, but the cultural norms in America and in Sweden, and consequently the behavioral forms, are different. The general attitude in America towards shyness is negative. Shy people are thought of as being both less competent and less intelligent. Therefore, Americans try to hide or overcome their shyness. This is not the case in Sweden. Shyness is a positive trait rather than a negative one...Shy people...may be regarded as sensitive, reflexive, i. e. non-pushy."

Daun (op cit) further argues that the "high degree of quietness in Sweden" must be understood as following from a number of intervening circumstances. In regard to Swedes, two such intervening circumstances

mentioned by Daun (op cit, pp. 254) are "their higher degree of introversion when compared with Americans" and a tendency towards conflict avoidance - "Like the Japanese, Swedes are much in favor of harmony in social intercourse and tend to avoid delicate issues."

Pondering the fact that "the global nature of business may call for increased consistency" while, at the same time, "the variety of cultural environments may be calling for differentiation", Laurent (1986, p. 97) notes that many companies appear to "be seduced by a new and highly attractive dream called corporate culture". However, Laurent (op cit, p. 98) underscores that it is easy to overestimate the depth of penetration of corporate culture and notes (ibid):

"Under this view, organizational members would be seen as adjusting to the behavioral requirements of organizational cultures without necessarily being so deeply immersed in their ideological textures."

In a similar vein, Hofstede (1980, p. 57) argues: "Leaders cannot choose their styles at will; what is feasible depends to a large extent on the cultural conditioning of a leader's subordinates." An example provided by Laurent may illustrate this point (1986, p. 98):

"In the French subsidiary of a Swedish firm, whose corporate values include an almost religious reliance on informality, French shopfloor employees were recently observed as addressing their managers by their first names and using the intimate "tu" form within the boundaries of the firm. The same individuals immediately reverted to "Monsieur le Directeur" and the more formal "vous" form whenever meeting outside the firm."

The dilemma faced by MNE's could thus be described as, "whether to adapt to the local culture or try to change it" (Hofstede, 1980, p. 62). For a Swedish MNE entering the U.S., it may thus be a question of whether to abandon an informal, consensus-seeking management style in order to adopt a more formal style, with more clearly defined hierarchies.

5.4 Summarizing the Arguments; A Point of Departure

The theoretical background presented in this chapter may be said to follow essentially three themes:

1) There are distinct differences between the structures adopted, and management practices used by, on the one hand, American multinationals and, on the other, European multinationals (Stopford & Wells, 1972, Franko, 1976). Swedish multinationals are no exception to this rule. On the contrary, there are indications that Swedish multinationals constitute an extreme variety of the European model (Hedlund & Åman, 1983).

2) As a multinational corporation grows in size, geographic coverage and/or in terms of product diversity, the task of integrating the operations of the company becomes increasingly complex. Several authors have suggested that formal structures and systems will be increasingly unable to perform this integrative task. Instead, it has been predicted, a greater part will have to be played by informal structures, shared values and common cultures (Bartlett, 1986, Doz, 1986, Hedlund 1978, 1980, 1986, Hedlund & Rolander, 1987).

3) There are distinct differences between national cultures that translate into differences in work-related values and management style. The cultural differences between Sweden and the U.S., although probably less dramatic than those between, say, Sweden and the Latin countries, still appear to be considerable (Daun 1989, Hofstede, 1980, Hedlund & Åman, 1983 and Laurent, 1986). In fact, it may be hypothesized that the relative similarity of the Swedish and American cultures may augment those problems in the meeting between Swedes and Americans that are, in fact, culturally related. A Swedish manager taking a position with a Swedish subsidiary located in India would be aware of the dramatic differences between the Swedish and the Indian cultures. For Swedish managers entering a subsidiary located in the U.S., the same awareness would probably not exist. Mistakes may be made by managers at the HQ level, or by Swedish managers located in the U.S., simply because they do not even consider the possibility of there being a lack of understanding between Swedes and Americans.

Following the arguments discussed under 1) and 3) above, it is reasonable to assume that one explanation for the difficulties encountered by Swedish firms entering the U.S., might be differences in structural arrangements, reporting systems and management style. Such differences, in turn, may be hypothesized to be partly related to, and possibly aggravated by, differences

between the Swedish and the American culture. The arguments discussed under 2) imply that in the future it will become even more important to solve this kind of problem.(2)

Clearly, the aim of this single chapter cannot be to investigate in detail the issues under discussion. Rather it is to consider, at the level of a pilot study, the following questions:

a) How, in terms of basic structural models, are Swedish MNE's that have invested in the U.S. organized? Are there differences in the way that Swedish MNE's operate their American subsidiaries compared to their other foreign subsidiaries. Of particular interest are differences in the degree of formality of communications, problems associated with the communication of goals, and the amount of autonomy given to subsidiaries located in the U.S.

b) Can we identify differences in management style and work-related values between, on the one hand, Swedes (at HQ as well as at the subsidiary level) and, on the other hand, Americans (working in the U.S. subsidiaries of Swedish multinationals) ?

c) Do managers active in Swedish multinationals that have entered the U.S. regard the type of issues discussed under a) and b) as affecting the success of their companies?

A fourth issue of interest in this context, obviously, is whether it is also possible to find successful models for the management of Swedish subsidiaries in the U.S., and for the handling of any cultural differences identified. However, no further comments regarding this question will be made until after the presentation of the two case studies contained in chapter 6.

5.5 The Findings

The survey study included a large number of questions related to the organization and management style of Swedish MNE's active in the U.S., as well as to cultural differences perceived by the respondents. In this section, only a select number of these questions will be subject to comment. Appendix 19 and 20, however, provide a complete summary of all answers given.

Looking, firstly, at the formal organization of the Swedish firms with investments in the U.S., table 5.1 indicates that a large majority of these firms still retain the mother-daughter structure. Communications between HQ in Sweden and the subsidiaries in the U.S. are, judging from table 5.2, neither more nor less formal than what is normal in Swedish multinationals. However, from table 5.3 it appears that subsidiary managers regard the degree of informality in the HQ-subsidiary relationship as larger than would be normal in foreign subsidiaries located in the U.S. Somewhat surprisingly, this tendency is less pronounced among American respondents.

Table 5.1 The Formal Organization of Swedish Firms Active in the U.S.

<u>Type of Organization</u>	<u>Number of Firms</u>	<u>%</u>
One parent company in Sweden to which all subsidiaries report	76	64
International division	6	5
Global product divisions	20	17
Geographical divisions	6	5
Matrix	9	8
Other	1	1

n = 118

Table 5.2 Degree of Formalization of Lines of Communication, Compared with Normal Practice in the Respondent's Company, HQ perspective. (Cf question 13 appendix 4.)

<u>Degree of Formality</u>	<u>% of Companies</u>
Much more formal	1
More formal	16
No difference	65
More informal	13
Much more informal	5

n = 116

Table 5.3 Degree of Formalization of Lines of Communication, Compared with Non-Swedish Subsidiaries in the U.S, Subsidiary Perspective. (Cf. question no 5, appendix 5.)

Degree of Formality	% Companies	% Swedes	% Americans
Much more formal	3	0	8
More formal	4	4	4
No difference	21	11	38
Less formal	53	59	42
Much less formal	19	26	8
	n = 72	n = 46	n = 26

In regard to the degree of autonomy given to the American subsidiaries of Swedish MNE's, table 5.4 indicates that Swedish MNE's tend to allow their U.S. subsidiaries more autonomy than subsidiaries located in other countries. (There are a number of possible reasons for this observation. The U.S. subsidiaries might, for example, be different from other Swedish subsidiaries in terms of age, size, perceived importance for the entire corporation, or some other variable. The survey material, however, does not allow a further investigation of this issue.) Table 5.5 confirms that subsidiary managers also regard the degree of autonomy allowed to the Swedish subsidiaries in the U.S. as unusually high.

Table 5.4 Degree of Autonomy Given to the American Subsidiary Compared with Normal Practice in the Swedish Parent Company (HQ perspective).

<u>Degree of Autonomy</u>	<u>% of Companies</u>
Much less autonomy	0
Less autonomy	12
No difference	45
More autonomy	39
Much more autonomy	4

n = 117

Table 5.5 Degree of Autonomy Given to the American Subsidiary, as Perceived by Subsidiary Managers (Compared with Non-Swedish subsidiaries).

Degree of Autonomy	% of Companies	% Swedes	% Americans
Much less autonomy	0	0	0
Less autonomy	11	11	12
No difference	18	17	19
More autonomy	45	44	46
Much more autonomy	26	28	23
	n = 72	n = 46	n = 26

Further concerning the degree of autonomy allowed the U.S. subsidiaries of Swedish MNEs, table 5.6 indicates that there is a significant positive correlation between this variable and the performance of subsidiaries. Unfortunately, it is not possible to ascertain the direction of causality or, given an assumption of a reciprocal linkage, the relative influence of the two variables. The intuitively most reasonable interpretation of the observed correlation is that subsidiaries that perform well are gradually accorded greater autonomy. However, it can also be hypothesized that subsidiaries with the freedom to adapt the goals and strategies formulated by HQ to the demands of the U.S. market become more successful.(3)

Table 5.6 Autonomy of Swedish Subsidiaries in the U.S. (as Perceived by Subsidiary Managers) by Performance of Subsidiaries (as Judged by HQ).

<u>Degree of Autonomy</u>	<u>Performance Compared with Average</u>				
	Much Below	Below	Average	Above	Much Above
Less than Average	3	8	3	2	0
Average	9	18	11	13	1
Higher than average	9	15	4	17	5
Kendalls Tau B = 0.17	p = 0.016		n 116		

To judge from the indicators discussed so far, it seems as if Swedish firms active in the U.S. conform fairly well to the picture presented in the theoretical part of this chapter. To a large extent, the mother-daughter structure is retained, communications with subsidiaries are *relatively* informal, and subsidiaries are allowed a *relatively* large amount of autonomy; if anything, Swedish subsidiaries in the U.S. appear to be given more autonomy than Swedish subsidiaries located in other countries. Given the differences between the Swedish and American management styles discussed above, it is thus logical to expect a fair amount of frustration among American managers of Swedish subsidiaries (cf Franko, 1976, p. 198, Hedlund 1980, p. 26, and Laurent, 1986, p. 99). In particular, it is reasonable to expect complaints that communications from HQ lack in clarity and do not provide sufficient guidance for the subsidiary management. Table 5.7, however, creates a different impression.

Table 5.7 Subsidiary Managers' Views on Goals Set by HQ in Sweden

	% All Respondents	% Swe	% Am
Goals are clearly stated, explicit, and appropriate for the U.S. market	31	34	26
Goals are clearly stated, explicit, but not appropriate for the U.S. market	12	4	26
Goals tend to be vague and implicit, allowing us to make them relevant to the U.S. market	43	49	33
Goals tend to be vague and implicit, leaving us without sufficient guidance	14	13	15
	n = 74	n = 47	n = 27

As is evident from table 5.7, a majority of the subsidiary managers participating in the survey regard the goals set by HQ in Sweden as satisfactory. Not unexpectedly, Swedes are more satisfied than Americans in this respect (83% v. 59%). For both groups, however, the reason for being satisfied with the goals is more often that the goals set are sufficiently vague to allow flexibility, than that they are clear and explicit (as well as appropriate for the U.S. market).

Intriguingly, more Americans than Swedes find the goals set by HQ to be clear and explicit. On the other hand, Americans more often than Swedes

consider goals set by HQ as "not appropriate for the U.S. market". One way of explaining these somewhat puzzling results may be that Swedes, more often than Americans, interpret the goals given by HQ as guidelines only, i.e. as, in fact, being sufficiently vague to allow the desired flexibility. Regardless of nationality, very few respondents agreed with the statement describing the goals set by HQ as being "vague and implicit, leaving us without sufficient guidance". At the same time, the survey indicates (cf Appendix 19) agreement among HQ and subsidiary managers, Swedes as well as Americans, that short-term goals for the subsidiaries are sufficiently explicit, but that there is a need for more explicit long-term goals. In total, the findings on the setting and communication of goals may perhaps be interpreted as a call for continued autonomy in the day-to-day management of the company, coupled with clearer long-term strategic direction. To put it differently, subsidiaries may appreciate "help" from HQ (Laurent, 1986, p. 99), but not at the price of losing autonomy; they do, however, want a clearer "understanding of the company's future" (Hedlund, 1980, p. 26).

In this connection, it is hard to avoid the suspicion that on certain questions regarding goal-setting, the follow-up of performance, etc., differences in the opinions of Swedes and Americans, respectively, may be dominated by the traditional HQ-subsidary conflict. In the survey, the strongest opposition to more rapid follow-up of subsidiary performance came from Swedes at the subsidiary level. Similarly, while a majority of HQ respondents (62%) agree that HQ should take action more quickly when problems occur in the subsidiary, respondents at the subsidiary level disagree (80% among Swedes and 96% among Americans).

Considering the entire battery of questions related to organizational structure, reporting systems and management style that are summarized in appendix 19, the answers given tend otherwise to be surprisingly similar for all three groups analyzed, i.e. Swedes at HQ, Swedes at the subsidiary level and Americans at the subsidiary level. For example, all groups tend to disagree with the following statements:

- More reports from the U.S. subsidiary are needed.
- U.S.-HQ reporting relationships should be made clearer
- Product divisions (or corresponding units) should be given more influence over the subsidiaries.

On the other hand, all three groups agree that:

-The incentive structure for U.S. management should be more directly coupled to performance.

-Top jobs in the U.S. subsidiary should be more open to non-Swedes.

-Top jobs in the parent company should be more open to non-Swedes.

There are also questions to which the answers given are less clearcut. The three categories of respondents are about equally divided on the statement that "Cultural differences affect our company's success in the U.S." The reaction to the statement "Lack of understanding between Swedes and Americans in our company may slow our progress" is likewise fairly evenly balanced. All three groups, however, agree that "differences in style and way of working between Swedes and Americans create confusion and frustration".(4)

It should, however, be underlined that if 50% of a group of managers disagree with the statement "cultural differences affect our company's success in the U.S.", this also means that 50% of these managers *agree* with this statement. The survey study thus *do* indicate that a large number of managers of Swedish firms in the U.S. find that cultural differences affect the success of their company. In this connection, some further insights may be gained by considering the reactions of respondents to the statements regarding the characteristics of Swedes and Americans included in the survey (Appendix 20). Again, there is considerable agreement among the three groups. Briefly, the results can be summarized as follows:

All three groups agree that Americans share the following characteristics:

- Are not too soft
- Are individualistic
- Are good at communicating their decisions
- Do not avoid conflict and taking sides in discussions
- Answer calls, letters and telexes promptly
- Are good at developing relationships
- Are good at understanding customer needs
- Care a great deal about status
- Talk too much and don't focus on what is important
- Give optimistic rather than realistic projections
- Are too legalistic
- Do not rely too much on the team for initiatives
- Are not too cautious

- Do not study choices too long
- Are aggressive
- Are short-term results-oriented
- Play power games
- Get frustrated with hearing everyone's opinions
- Are willing to take risks
- Are too concerned with hierarchy and titles
- Are entrepreneurial

All three groups likewise agree that Swedes share the following characteristics;

- Are loyal to their company
- Avoid conflict and taking sides in discussions
- Do not talk too much
- Do not give optimistic, rather than realistic projections
- Rely too much on the team for initiatives
- Are too cautious
- Study choices too long
- Are used to and seek consensus
- Are good at requiring and using precise figures
- Are not aggressive
- Can tolerate ambiguity
- Are good at listening
- Avoid competition with others in the company
- Have long-term perspectives
- See the importance of company values
- Are slow to reverse a decision
- Avoid being direct, fear confrontation

The observations presented thus largely confirm the findings of Hofstede (1980), Hedlund & Åman (1983), Laurent (1985,1986) and Daun (1989). The conventional picture of Americans as individualistic, extrovert, optimistic, aggressive and short-term results oriented appear to be shared by both the Swedes and the Americans participating in the survey. Likewise, the three groups appear to share an image of the average Swede as relatively quiet, team-oriented and consensus seeking, as well as cautious and concerned with long-term results.

In light of these noticeable differences in character between Swedes and Americans, it easier to understand that all the three groups analyzed find

that "differences in style and way of working between Swedes and Americans create confusion and frustration." Regarding the nature of these "confusions and frustrations", it may be helpful to consider the areas where Swedes and Americans do *not* agree in their view of themselves and the opposite national group:

-Americans believe that Americans are more anxious than Swedes to "develop people within the company"; Swedes have the opposite view. One possible explanation for this finding may be the fact that Americans feel that the potential for development within a Swedish (subsidiary) company is limited for non-Swedes.

-Swedes in the U.S. think that Americans "respect and understand people who are different; Swedes at HQ are inclined to think the opposite.

-Americans think that Swedes, more than Americans, "are used to and want direct instructions". Swedes hold the opposite view.

-Americans think that Americans, more than Swedes, "will criticize authority when necessary". Swedes hold the opposite view.

-HQ respondents think that Americans "have problems relating to the opposite nationals", but they do not think that this problem occurs among Swedes.

-Swedes in the U.S. think that Americans "fear making mistakes" and that they "resist admitting that they have made a mistake". Americans hold similar views about Swedes.

-Swedes, particularly Swedes at the subsidiary level, see a difference between Swedes and Americans in terms of "care about quality", Americans do not.

Clearly, disagreements of the kind listed above can be expected to cause problems, both in HQ-subsidiary relations and in relations between Swedes and Americans within a subsidiary. To estimate the financial consequences of these difficulties is probably impossible and falls outside the scope of this chapter. It is, however, possible to formulate a few speculative hypotheses regarding the forms that these problems might take:

It can be hypothesized that cultural differences cause friction in a number of ways in the internal activities of Swedish MNEs in the U.S. Instructions and intentions are misunderstood, actions delayed and bad feelings created.

These difficulties, taken one by one, need not be more than minor, but in total they may nevertheless cause considerable negative effects, particularly in the morale of personnel at all levels in the subsidiary. Among non-Swedish managers, the combination of misunderstandings caused by cultural differences, and factors such as limited possibilities of advancement for non-Swedes, real or imagined, can be expected to be particularly disruptive. Difficulties of this kind would be likely to result in less efficient, and thus more costly, operations.

It can also be hypothesized that cultural differences cause frictions in the external activities of Swedish MNE's in the U.S. For example, communication problems in the HQ-subsubsidiary relationship caused by cultural differences may mean that it will take longer for Swedish HQ to develop a correct understanding of the American market. As result, corrective actions, e.g. product adaptations, will be delayed and the company will become less effective in serving the American market.

The two case studies presented in the following chapter provide a basis for a further development of these hypotheses, as well as for discussion of possible strategies for management of Swedish subsidiaries in the U.S.

Notes to Chapter 5

1) The concept of "cultural differences" is very-wide ranging and its influence could take many forms. On entry into a foreign nation it is easy to ascribe to "cultural differences" all aspects of life there that seem alien. However, in considering the management of cultural differences, it is essential, firstly, to separate those characteristics of a nation that are culturally related, from those that could be termed "situational". An example of the latter could be product designs based on good access to/lack of cheap labour. Secondly, it is important to specify the influence of cultural differences: i.e. where, when and how do cultural differences make themselves felt? Differences in religious practices may, for example, be expected to be relatively easy to identify and handle. Cultural differences are probably much more prone to cause problems when they are translated into, and appear in the guise of, differences in management style. It should be underlined that the distinction between "cultural differences" and "differences in management style", by necessity is somewhat arbitrary. Differences in management style may arise from a number of different factors (industry conditions, company history, etc). The main purpose of this section, however, is to elucidate those aspects of the Swedish management style that stem from deep-seated values related to the national culture.

2) There might appear to exist a conflict between, on the one hand, arguments favouring adaptation of the Swedish management model to the more formalized and hierarchical American management model, and, on the other hand, arguments likening the "Swedish model" to the "MNE of the future". Up to a point, this is probably true. However, even if, as suggested by Hedlund (1986, p. 33 and 1990), the Swedish model holds the seeds of a future "heterarchical MNE", it may well be argued that changes in the Swedish management style are still called for. Let us recall the speculative ideas about the future management of MNE's presented in section 5.2, and note that themes like "sharing of norms and ideas" (Hedlund, 1980, p. 34) and "shared understanding" (Bartlett, 1986, p.395) are recurring. To create such results, the Swedish management style probably will have to become clearer and more easy to understand for non-Swedes (cf Hedlund & Åman, 1983, p. 164), particularly if the future expansion of Swedish MNE's is going to become more dependent on acquisitions and the employment of non-Swedish managers. At the same time, changes of this kind could also be expected to prove helpful in the future management of Swedish subsidiaries in the U.S.

3) Clearly, broad concepts such as formality and autonomy must be treated with great care. In the studies by the Aston group (Pugh et al., 1968), formalization is included as one of five primary dimensions of structure. Autonomy, in turn, is regarded as a subscale of another primary dimension, i.e. centralization. Specifically, autonomy is related to the number of decisions a local firm has to refer to the HQ level. Regardless of the validity of this definition, it is obvious that in asking HQ-managers and subsidiary managers about their view on the formality of HQ-subsidiary communications, and the degree of autonomy given to subsidiaries, only a very crude characterization of the total HQ-subsidiary relationship is provided. (For a brief overview of research related to the concept of autonomy, see Garnier, 1981.) It is, furthermore, not obvious that the absence of formal rules and regulations should be interpreted as indicating a high degree of autonomy. Egelhoff (1984), studying control mechanisms in a sample of 50 European and American multinationals, noted (op cit, p. 81):

"There is a common belief that U.S. MNCs exercise tighter control over their foreign subsidiaries than do European firms. The present study suggests that the difference is more one of type of control than of volume or level of control....First, control in U.S. MNCs tends to measure more quantifiable and objective aspects of a foreign subsidiary and its environment, whereas control in European MNCs tends to measure more qualitative aspects....Second, control in U.S. MNCs requires more precise plans and budgets to generate suitable standards for comparison. Control in European MNCs, on the other hand, requires a higher level of company-wide understanding and agreement about what constitutes appropriate behaviour."

The autonomy perceived by managers of the subsidiaries of European MNE's would thus, according to this line of reasoning, be partly illusory, stemming from the fact that these managers are so conditioned by company values and practices that they will follow the intentions of the parent organization even without instructions.

4) A somewhat intriguing finding concerns the reactions to the statement that "the Swedish model of informal, consensual relationships, high employee involvement, and labor-management cooperation is also a part of our company's way of operating in the U.S.". A majority of the HQ respondents (58%) disagree with this statement, whereas a majority of the respondents at the subsidiary level agree, regardless of whether they are Swedes or Americans (63% and 58%, respectively).

6 The Cases

6.1 The Case of Volvo Truck Corporation ¹

6.1.1 Introduction

In May, 1981, Volvo bought the bankrupt American truck manufacturer White Motor Corporation and formed a new venture - Volvo White Truck Corporation (VWTC). The purchase was another attempt by Volvo to penetrate the North American truck market. Since the acquisition, VWTC has proved its capability to survive profitably, and another deal with Volvo as the main partner has evolved, this time with the giant General Motors (GM).

In this case study, the situation at the time when VWTC was formed and the actions that led to its successful operations are described and analyzed. The newly formed joint venture with GM, Volvo GM Heavy Truck Corporation, which consists of the combined heavy truck operations of VWTC and GM, will not be commented on in any detail.

The study was performed jointly by the author and Dr. Jan Forslin, FA rådet, and is based on interviews with American and Swedish staff of Volvo White Truck Corporation, both at headquarters in Greensboro, N.C., and at the New River Valley plant, Va. Interviews have also been conducted at Volvo North America, Inc., Volvo Truck Corporation HQ in Gothenburg, and AB Volvo. Apart from technical and managerial staff from the various parts of Volvo, the interview study also encompassed some dealer personnel and customers, as well as one local trade union president. (For details; see appendix 20).

6.1.2 AB Volvo and Volvo Truck Corporation

AB Volvo was founded in 1925. The first Volvo product was an automobile called Jacob, first produced in 1927. A total of 205 Jacobs were subsequently manufactured. Trucks were added to the Volvo product range in 1928, when a 28 hp delivery truck based on the Jacob passenger car was put on the market.

In 1988, the total sales of AB Volvo were USD 15,765 billion. In the 1980's, cars have been the greatest source of profits and in 1988 they

¹ Volvo Truck Corporation is a wholly-owned subsidiary of Volvo AB. In the case text, the names Volvo and Volvo Truck Corporation are used interchangeably.

accounted for 47% of the corporate total profit, while trucks came in second at 39%. The fine performance of cars can be partly explained by the upswing of the American market, in combination with the favorable exchange rate for the U.S. dollar during the first half of the 1980's. Historically, the balance between cars and trucks has been quite different, and since 1987 the tide has, in fact, again turned. Falling dollar rates and increased competition in the U.S. market have hurt sales and profits in passenger cars, whereas of Volvo's truck operations have improved markedly.

Volvo has evolved as one of the worlds leading manufacturers of heavy trucks - defined as over 16 tons gross vehicle weight (GVW) -, and in 1988 Volvo Truck Corporation, continuing an upward trend, captured 11% of the world market for heavy trucks. At the same time, the total market grew by some 17% to 466,000 units. Volvo's total truck sales, including medium-heavy trucks, were 59,500 units. Sales of trucks are heavily cyclical, and the total size of the market for trucks tends to vary dramatically. For European manufacturers the virtual disappearance of the once booming Middle East market has been particularly traumatic. The first half of the 1980's was a sustained period of losses for most manufacturers; in a few cases there were closures and mergers. During the latter half of the 1980's, increased truck sales in Western Europe has partly offset the loss of exports to the Middle East and Africa. However, total Western European truck production has still not reached the record levels of the late 1970's.

Volvo, like its major European competitors, is a totally integrated truck manufacturer; i.e, the company develops and produces all major drive-train components (engines and transmissions) in-house. The vast majority of the trucks produced by Volvo are in the heavy segment, where AB Volvo is one of the dominant manufacturers. In the medium-heavy segment, Volvo produces some 5-7000 units a year. The primary reason for entering and remaining in this segment has been the importance of being able to offer dealers a full product line.

Volvo started exporting trucks as early as the 1930's and over the years the company has established manufacturing and assembly operations in a number of different locations around the globe. The following table provides some details.

Table 6.1 Volvo Truck Production Divided Geographically
(1988 figures, all weight classes)

Sweden	14,400 units	23.8%
Belgium	17,200 units	28.4%
USA*	20,000 units	33.1%
Other countries	<u>8,900 units</u>	<u>14.7%</u>
TOTAL	60,500 units	100.0%

* Including WhiteGMC, Autocar and Volvo

The international dependence of Volvo's truck operations becomes even more evident when we look at sales (table 6.2).

Table 6.2 Volvo Truck Sales in Major Markets (1988 figures, all weight classes)

Country	Total Weight (GVW) in tons	New Registration of Volvo Trucks (1988)	Market share
USA*	>12 tons	18,540	7.4
UK	>7 tons	6,610	15.4
France	>7 tons	4,580	10.3
Sweden	>7 tons	3,030	53.7
Brazil	>15 tons	2,370	23.3
Netherlands	>7 tons	2,070	16.4
Italy	>7 tons	1,780	6.8
Spain	>7 tons	1,700	8.4
Belgium	>7 tons	1,600	20.1
Canada	>12 tons	1,490	4.8
Portugal	>7 tons	1,290	27.6
Denmark	>7 tons	1,130	33.0
Finland	>6 tons	1,120	32.4
West Germany	>7 tons	1,030	3.2
Norway	>7 tons	800	37.5

* Including White GMC, Autocar and Volvo
(Source: AB Volvo Annual Report, 1988)

As is evident from table 6.2, the domestic market, despite a market share of almost 54%, accounts for only 5.1% of the total number of Volvo trucks sold. The U.S. market is by far the biggest single market for trucks from Volvo, with 31% of the total.

6.1.3 The Heavy-Truck Industry

Western Europe constitutes about one third of the total world market for trucks and is the home of many of the largest and most aggressive players in the field. A quick glance at the "top ten" list of truck manufacturers in the heavy segment (>16 tons GVW) shows that six out of these are based in Europe (table 6.3). The top three are all European; Daimler-Benz, Volvo and Renault.

Table 6.3 World Ranking List, Producers of Heavy Trucks 1984-1988
(Production > 16 tons GVW, 1000 units)

	1984	1985	1986	1987	1988
1 Daimler-Benz	63	59	61	70	78
Mercedes-Benz	43	39	41	43	49
Freightliner	20	20	20	27	29
2 Volvo Group	45	55	57	48	55
Volvo	27	27	27	29	34
WhiteGMC	9	10	11	11	20
GMC	9	18	14	8	1
3 Renault Group	48	47	41	46	54
Renault	19	19	20	22	27
Mack	29	28	21	24	27
4 Paccar Group	32	26	24	33	41
Kenworth	16	14	13	18	21
Peterbilt	15	11	10	14	18
Foden	1	1	1	1	2
5 Navistar	36	31	33	35	40
6 Iveco (Iveco-Ford)	18	21	22	24	29
7 Scania	22	23	26	27	28
8 Hino	19	18	14	19	27
9 Daf	17	21	18	21	23
10 Mitsubishi	17	16	13	17	27

(Source: Volvo Truck Corporation)

The aggressiveness of the Western European companies is highlighted by the fact that the three leading Europeans have all made significant inroads into the American market. In all three cases, the entry ticket to the U.S. market has been acquisitions.

The American presence in the European market, on the other hand, is very limited, and the tendency is toward withdrawal rather than expansion. In 1986 both Ford and GM made significant retrenchments in their European operations. Ford relinquished effective control of its UK subsidiary, entering into a joint-venture with Italian Iveco, and GM decided to cease production in Europe entirely. In 1987, GM's European truck operations, located in the UK, were taken over by a newly formed British company, AWD. Today the only remaining U.S.- controlled truck manufacturers in Europe are UK-based Foden (owned by Paccar) and Shelvoke Dempster, a specialty vehicle manufacturer controlled by a U.S. conglomerate (Technology Incorporated). Both Foden and Shelvoke Dempster are marginal producers, with a combined total production of only about 3,000 units.

The Japanese manufacturers still command relatively modest positions in the heavy truck market. Hino and Mitsubishi are the only two significant manufacturers in this class, operating mainly in Southeast Asia. (Hino trucks are, however, assembled in Ireland.) An important explanation for the limited presence of Japanese companies in the industry is the fact that the Japanese home market for heavy trucks is fairly limited.

Sweden is one of the leading producers and exporters of heavy trucks, and the Swedish position has been further strengthened by Volvo's successful entry into the U.S. market. In fact, Sweden comes out as the leading world manufacturer of heavy trucks if the sales of Volvo and Scania are combined. Both Volvo and Scania are characterized by their extreme dependence on exports and by their concentration on heavy trucks. Historically, the two companies have been roughly equal in size, but in recent years Volvo has, very clearly taken the lead by virtue of its successful entry into the U.S. Scania still has no significant presence in the U.S., although it has started to build a market in some northeastern states. (Scania has been more successful in the Far East, where it is the leading European make.) As seen from the perspective of Volvo, Daimler-Benz is clearly the most important competitor worldwide. Not only is that company active on all European markets of importance for Volvo, often in the role of the largest import make, but Daimler-Benz is also, unlike Volvo's arch-rival Scania, successfully penetrating the U.S. market.

6.1.4 The North American Truck Market

Like Western Europe, North America accounts for about one third of the total world market for trucks. The truck market in general is very volatile,

and the American market is no exception. In the so called class 8 segment (15 tons and above), the most important part of the market for Volvo, total market size has varied in recent years from 160,000 units (1979) down to 73,000 units (1982). In 1988, total sales in class 8 were 148,400 units. The average future size of the class 8 segment is judged to be about 110,000 units/year. Table 6.4 shows the heavy-truck manufacturers which were present on the American market in 1987.

Table 6.4 Truck Manufacturers on the American Market in 1987

Class 8 market share

Navistar	22.0%
Paccar	20,3%
Freightliner	17,8%
Mack	13,9%
Ford	9,8%
VWTC	8,3%
GM	5,6%
Others	2,3%

(Source: Volvo Truck Corporation)

Two of the manufacturers listed in table 6.4 produce more than one brand of trucks: Paccar manufactures Kenworth and Peterbilt, while Volvo GM Heavy Truck Corporation produces Volvo, WhiteGMC and Autocar. Also before the joint venture with GM, Volvo sold their trucks under three distinct name-plates, i.e. Volvo, White and Autocar. Apart from Volvo GM Heavy Truck Corporation, foreign interests are present in Freightliner (100% owned by Daimler-Benz) and Mack (45% owned by Renault).

The American truck market is in many ways very different from the European one. Most of the European truck manufacturers adhere to the integrated concept. In America, on the other hand, a large number of the truck manufacturers can be described as assemblers only. However, there are significant differences between the American truck manufacturers in terms of the degree to which they fit the "American concept", i.e. act as assemblers only. Freightliner and Paccar are the most typical in that they operate only as assemblers. Ford and Navistar are both assemblers and manufacturers of drive-train components, as is the newly formed Volvo

GM Heavy Truck Corporation. Mack, finally, more or less follows the European concept in that about 95% of all Mack trucks produced are equipped with Mack engines.

The important actors when it comes to the development and production of drivetrain components, are outside suppliers like Cummins & Caterpillar (diesel engines), Fuller (gearboxes), Eaton & Rockwell (rear axles). Combinations of components are selected, not by the truck manufacturers, but by the individual buyers of the trucks, under strong influence from the component producers. The demands of the buyer can also be very clearly seen in the exterior design of American trucks. Every buyer will specify the way he wants his truck to be painted, so if you walk along the assembly line in an American truck plant, literally every truck will look different. The influence of suppliers and customers on the final design of trucks is thus much stronger in the U.S. than in Europe. U.S. dealers are also relatively more powerful, as they may carry more than one make of trucks - this in sharp contrast to Europe where dealers are normally tied closely to one manufacturer.

Apart from suppliers, manufacturers and customers, a very important influence on the market is exercised by the American government. In the 1980's, two changes having major effects on the truck industry were instituted by the government. In 1981 the trucking market was deregulated. This meant free access to the transport market and abolition of all tariff restrictions. Following deregulation, there has been a dramatic decrease in the profitability of trucking companies. For truck dealers the effect has been an increase in the number of bad debts and cancelled orders and their profitability has also plummeted. In the wake of deregulation, truck buyers have become more professional, and today they are more concerned with fuel economy, truck quality and overall cost performance. Not only are the attitudes of individual buyers changing as an effect of deregulation, but so is the whole structure of the trucking industry. (A similar trend can be discerned in Europe and is expected to continue as the EC moves towards the full liberalisation of road transports projected for January 1, 1993.)

In the U.S., the number of owner operated trucks is decreasing markedly, with a corresponding increase in the importance of the major fleet operators. The latter are huge by European standards. One of them, Roadways, bought a total of 1,000 trucks from Volvo White in 1985. The bargaining power of the big operators is obviously immense. A related development with similar implications, is the growing importance of leasing companies.

The other government-instituted change of relevance for the truck-manufacturing industry, occurred in 1980/81, when the Surface Transportation Act was changed to the effect that the length of the tractor should no longer be included in measuring the total length of a vehicle. This is in sharp contrast with the regulations prevailing in Europe, where tractor length is included in the total length of a truck, so that it is very important to make the tractor as short as possible. The effect of this change has been that the popularity of so called cabover designs (where the engine is located under the cab) has declined dramatically. In the first quarter of 1983, 45% of all class 8 trucks sold were cabovers. In the first quarter of 1986, the share of cabovers had gone down to 22%. The reasons for the greater popularity of conventional designs, with the engine placed in front of the cab, are that they are perceived to be safer by drivers and are more convenient to service. In addition, maneuverability in city centres with narrow, winding streets, which in Europe favours cabover designs, is less of a selling point in the U.S. market.

Finally, and of relevance mainly for European manufacturers, regulations in the U.S. differ from Europe regarding the maximum acceptable weight of trucks. Although prevailing regulations in Europe vary from country to country, the maximum weights allowed are almost everywhere higher than in the U.S. Since the weight of the tractor is an important selling point in the U.S. market, European trucks are put at a disadvantage. Some Volvo products, such as the N12 tractor, are virtually impossible to sell in the U.S. because of weight considerations

6.1.5 Volvo Trucks in the U.S. - Three attempts to enter the market

The U.S. is the largest single market for cars and trucks in the world and also the most important one for AB Volvo. Volvo's presence in the U.S. dates from 1955, when the first Volvo passenger car was exported there. During the years following the introduction of Volvo passenger cars, a number of other Volvo products were added to the program, and today the operations of Volvo North America are among the most wide-ranging of all Volvo companies outside Sweden. The importance of the North American market for AB Volvo can be judged from the fact that it accounts for about one fourth of the company's total sales.

The European truck manufacturers very early on started exporting to and assembling in a number of other European countries as well as a number of

African, Asian and South American markets. Their presence on the North American market, however, remained zero for a long time. There are a number of different reasons.

The presence of strong domestic manufacturers and the size of the North American continent, in combination with customer demands for a very high level of service, have certainly been important obstacles. Then there is perhaps the most formidable entry barrier of them all, namely the different nature of the North American truck market. As mentioned, the European truck market is dominated by integrated manufacturers, while American truck manufacturers tend to be assemblers of trucks built to customer specification. In other words, American trucks look different from European trucks, and American buyers put different demands on the manufacturers. In the early 1970's Volvo Truck Corporation, however, decided that being a regional manufacturer would not be enough to gain sufficient economies of scale in the development and production of critical components. In 1975, the company decided to enter the U.S. market.

In its first attempt to penetrate the American market, Volvo Truck Corporation followed essentially the same strategy as had been used when introducing passenger cars about 20 years earlier: i.e., Volvo tried to build a dealer network of its own. To a large extent, Volvo used the existing network for the distribution of Volvo passenger cars. During those first years Volvo marketed only medium-range trucks, suitable for a regional distributor, and sales were concentrated to the 13 northeastern states. Since those states are relatively densely populated, it was judged that it would be easier to build a sufficiently large service organization there. Progress was nevertheless slow. In 1975, 186 trucks were sold, two years later annual sales had grown to no more than 455.

In particular, it proved difficult to attract enough dealers (in 1978 the total number of Volvo Truck dealers was 45). Volvo was an entirely unknown force as a truck manufacturer and in addition, the company could not offer any products specifically designed to suit the American market. The prospects for a successful penetration with this marketing concept thus appeared to be bleak.

However, when the American truck manufacturer Freightliner in 1978, decided to end its sales co-operation with White Motor Corporation, a second opportunity opened up for Volvo. Freightliner had been active mainly as a manufacturer of trucks, and their distribution outlet had been White Motor Corporation. In the face of growing financial difficulties at White, Freightliner decided to go it alone. In doing so, Freightliner needed

to broaden its product range in order to become sufficiently attractive to dealers. As Volvo had not yet brought the heavy end of its product line to the U.S., Freightliner and Volvo could be regarded as a natural combination. The two companies decided to join forces. In 1978 they agreed that Freightliner would assume total responsibility for the distribution and service of Volvo trucks in the U.S. market.

In 1978, a total of 747 Volvo trucks were sold, and in 1979, when the U.S. truck market peaked, the number went up to 1,998 units. The following year the truck market sharply declined, and Volvo sales fell to 974 units. At the same time, Freightliner itself was having difficulties. The profitability of the company was low, and its owner, Consolidated Freightways, was becoming impatient. By early 1980, Freightliner was up for sale. Volvo, however, judged the price asked by Consolidated Freightways to be unacceptable and declined the offer. Instead, Freightliner was acquired by Daimler-Benz. After more than five years in the American market, the situation thus looked more than gloomy for Volvo Truck Corporation. Essentially, the company was left with three alternatives:

- To leave the US market, a strategy deemed untenable in the long-term.
- To build its own distribution network, a strategy that had already failed once.
- To acquire a domestic manufacturer with its own distribution network.

A fourth alternative would have been to form another co-operative venture. At this point, however, there was no evident partner. The stage was set for the acquisition of White Motor Corporation.

6.1.6 White Motor Corporation

White Motor Corporation (WMC), established in 1902, was one of the oldest and best known truck manufacturers in the U.S. White had also been one of the industry leaders with a market share that had reached some 20% in the 1950's.

Up to around 1960, American trucks had been equipped with gasoline engines, and the subsequent shift towards diesel engines had caught WMC

by surprise. The company had tried to develop its own diesel, but by the time it was ready, the market had changed, and the White engine was too small. During the 1960's, White also made a number of capital-consuming diversifications, and the company's debt reached high levels. Moreover, the diversification into farm implements turned out to be an unfortunate one.

In 1970, White reported a major financial loss and decided to change its strategy. The company would concentrate on truck production and develop a new product program (the New Family). Manufacturing would be located at a new plant in New River Valley, Dublin, Virginia. The construction of the plant started in 1973, and production there began two years later. The energy crisis of 1973 coincided with the culmination of the investments in the new site and the new truck family. Meanwhile, White's market share in trucks had shrunk from 15,9% in 1970 to 8,6% in 1974.

As a consequence of the rise in energy costs during 1973/74, the truck industry worldwide was hit by a deep recession, and it was during this period that the first products in the New Family program were introduced. This was a very modern truck program characterized by a high degree of standardization of components in cabs and chassis. However, in an effort order to improve its flagging sales, White Motor Corporation introduced the new program prematurely, and for several years had to fight a number of weaknesses in the design which were highly detrimental to the company's reputation.

Production of construction vehicles and of farm implements was mothballed in 1975, and the number of employees decreased from 17,900 in 1974 to 9,700 in 1977. In 1979, high interest rates caused a further deterioration in corporate performance despite a very strong revival in the truck market. The White share of the total market was 8-9% of 160,000 vehicles.

The problems that had accumulated during the second half of the 1970's were compounded in 1980 by another decline in the demand for trucks. In 1980 White's losses amounted to USD 32.5 million. Costs of terminating unprofitable operations accounted alone for USD 19.5 million. In September, 1980, White Motor Corporation submitted its application for bankruptcy according to Chapter 11 of the Bankruptcy Act. By the beginning of 1981, White Motor Corporation was for sale.

At the time when White came up for sale, Daimler-Benz was just finalizing its acquisition of Freightliner. Daimler-Benz was also bidding for White, but the price offered by Daimler was considered too low by the bankruptcy court that administered White's affairs. When the purchase of Freightliner

had been finalized, Daimler-Benz also became a domestic producer, and any further acquisitions would be subject to investigation by the Department of Justice for antitrust reasons. This was a critical period for Volvo. If the opportunity to buy White had been lost, Volvo would have had great difficulties remaining in the American market.

6.1.7 The Acquisition

There were initially two options for a potential buyer of White. Firstly, the company could be bought as a going concern. This would have meant taking over liabilities, all personnel and, not least important, pension obligations along with the assets. Volvo decided that because of the huge, and also insufficiently specified pension commitments, it could not afford this alternative. A second alternative would have been to wait until the various parts of the company were sold by auction. In that case, one would run the risk of losing attractive personnel. The White reputation and the goodwill of the product would also become further tarnished. During 1981, White's market share went down to 3,9%, and the threat of White being completely wiped out of the market was immediate.

The most favorable alternative would obviously have been to buy only those assets that were deemed necessary for the future operation of the company, but this opportunity was not initially available. However, as soon as the bankruptcy court that administered the affairs of White had decided to accept a selective sell-off of assets, Volvo made a thorough investigation of the company which resulted in a plan for its reconstruction. The Volvo delegation participating in the negotiations that followed consisted of top managerial staff at AB Volvo and Volvo Truck Corporation. The negotiations proceeded rapidly and have been characterized as uncomplicated. At first, the parties were very far apart, but by the beginning of May, 1981, White had changed its position considerably, and a letter of understanding was signed. A final agreement was ready in July of that year.

According to Chapter 11, all strategic decisions made by the White management had to be accepted by the bankruptcy court. Before the agreement with Volvo became valid, it thus had to be endorsed by the court, a process which made the agreement - including the price offered - official. This was a very sensitive period, since meanwhile anyone could make a bid for the company. The time for a new bid elapsed at the end of August. Before then, there were rumours that Daimler-Benz was going to offer a

higher price, but nothing of the kind happened. The deal has been described as favourable for Volvo and the price, of approximately USD 70 million, as quite low.

6.1.8 The Assets of White Motor Corporation

The new White product line was quite advanced and included three types of trucks: trucks for long haul or construction transports with conventional cabs, long distance trucks with cabover, and trucks for medium range distances and delivery transports. The New Family program was designed to allow mass production of custom-made products. Standardization of parts and components - other than drive-train components - had made it possible to reduce the number of articles in inventory from 160,000 to 16,000. In addition to the White program there was also a separate brand: "Autocar", a conventional model for off-road transports, also suitable for timber and construction transports, as a heavy refuse truck and for normal road transports.

After the production of trucks at the Cleveland factory, which dated from 1910 and was in a very poor condition, had ended all the remaining White assembly facilities (located in Utah and Virginia) were up-to-date. The production of cabs, however, was located in Orville, Ohio, at a site in need of modernization. The company's staff functions were distributed among several locations. Apart from the three production sites and several stores for spare parts, there were offices in Detroit, Cleveland and Chicago.

A number of measures had been undertaken by White to improve earnings. Non-profitable and non-competitive operations and plants had been closed. Contracts with a number of poorly performing dealers were terminated before the agreement with Volvo was completed.

6.1.9 The Reconstruction

6.1.9.1 Improving Dealer Relations

The first strategic decision by the management of the newly formed Volvo White Truck Corporation (VWTC) was to improve dealer and customer relations. The President and CEO of Volvo Truck Corporation spent one full year in the U.S. during this period. Together with the newly appointed CEO of Volvo White, he held meetings with all former White dealers and informed them about Volvo, the reasons for its interest in White, and plans

for the future. They also listened to the opinions of the dealers and their views on how to rescue White.

Traditionally the relations between manufacturers and dealers had been quite adversarial. In order to strengthen its position, a dealer would typically represent two different manufacturers. The dealers who had survived the crisis of White were those with a second brand and this experience, of course, strengthened their belief in dual dealership. Volvo was now trying to establish a closer relationship in a European manner. The fact that the CEO of Volvo Truck Corporation spent one year in the U.S. in direct contact with dealers and customers was an exceptional and appreciated move which helped to convince them that Volvo had a serious, long term commitment

6.1.9.2 Rationalizations and Improved Systems

Production capacity did not present a problem at the time of the acquisition, and the capacity of the New River Valley and Ogden plants could, with minor investments, be increased by almost 50%. Instead Volvo continued the efforts previously initiated by the former White management to lower the breakeven level. Furthermore, engineering services had to be upgraded in order to develop the new product concept and to minimize lead times. Much of this work was done by Volvo specialists. By co-ordinating procurements with Volvo Truck Corporation, some savings were achieved, and the selection of new suppliers for components further reduced costs, in some cases up to 50%. An effort was also made to upgrade vendor quality. Multiyear contracts made it possible for vendors to commit necessary resources and to cut prices.

The White spare-parts inventory contained a large proportion of unsalable parts and the service level was low as a result of poor systems support - down to a fill rate of 60% compared to the 94% which is considered normal in the industry. White's spare parts operation had been running at a loss, something virtually unheard of in an industry in which sales of parts are normally the most profitable portion of the business.

A new spare parts center and a new order-and-delivery system, together with more efficient inventory control, improved the service level. At the same time, a new ordering system for the dealers was developed. In other areas, too, there was a very definite need to improve the existing management systems. One such area was the reporting of sales. At the time

of the acquisition, there was no system in place showing profitability either by product group or by customer category. A comprehensive systems redesign became one of the major tasks for the first Volvo staff that came over to the U.S.

6.1.9.3 Improving Product Quality

The New Family program had good potential, but at the time of the acquisition it still suffered from several weaknesses, some of which were quite severe. It thus became of prime importance to improve the product program and to secure its quality. Likewise, there was a need to continue the development of the new product program, a process which had been halted by White's mounting financial difficulties.

In 1981, Volvo White was able to introduce the "Integral Sleeper" (combined driving and sleeping compartments) developed by White. The "Integral Sleeper" became an instant success and has since been one of VWTC's best selling products. It has also been very important in supporting the VWTC climb into the prestige end of the truck market. An upgraded version of the Autocar tractor with a new hood and a shorter wheel base was introduced in 1982. The following year the New Family program was upgraded. For the conventionals this involved a new hood, an improved frame and a new front in Volvo style. In 1984, an adjustment of Volvo-engines to the White program was made, and in 1985 the new version of the Volvo twelve-liter engine was introduced.

6.1.9.4 Marketing

Volvo hesitated to change name plates, and only minor changes in the exterior of the trucks to underline the Volvo connection were made. After an internal debate, it was decided to include the Volvo diagonal line in the new front. An intensive drive was initiated to resurrect the image of White products and to make it include Volvo. The value of having the "best of two cultures" in the products was stressed. There was also an emphasis on the advanced technical level of the products and, above all, on product quality. Volvo made a very conscious effort to communicate, not only to dealers and customers, but also to the employees and other important stakeholders, that the "bad old White days" were over. The introduction of the Volvo "slash" on the White front in 1983 was a subtle way of signaling both the changed ownership of White and the fact that the quality of White trucks was now up to Volvo standards. An interesting sign of the thoroughness of this "cultural

revolution" is the story, told by an American at VWTC headquarters, that after the acquisition, all pictures and other mementoes of the old White company were removed "from headquarters down to the dealer level".

All in all, there was a systematic shift of emphasis to the more prestigious segment of the truck market. The White customer base had been very heavily geared towards fleet sales. White trucks were regarded as low-quality, low price products competing mainly with GM, Ford and to a lesser extent, Navistar. To improve profits, VWTC management decided very early on to move towards the high quality, high-margin end of the market. In doing so, VWTC was helped by the new regulations on vehicle length, which gave the conventionals a new chance, while suddenly rendering cabovers obsolete. This change in the prevailing regulations suited VWTC extremely well, as the company was on the verge of introducing an entirely new conventional with attractive features (i.e. the Integral Sleeper). As expressed by one VWTC employee: "In 1982/83 it would have been unheard of a Peterbilt/Kenworth owner trading it in for a White. Today this often happens with White Integral Sleepers"

6.1.9.5 Product Acceptance

The balance between an American and a Swedish image is sensitive in customer relations. Observers, both inside and outside the VWTC organization, underscore the conservatism and nationalistic values in the American trucking industry. "Buy American" sentiment is strong, particularly, in an industry that has been undergoing severe economic strain and rapid structural change.

Cultural values, as well as assumptions about user behavior are built into a product. When first entering the American market, Volvo did not realize that American drivers have another approach to driving and to the truck itself than European drivers. This caused some problems with the introduction of Volvo components, in particular the Volvo engine and gear box. The American driver tends to put more strain on the engine, which causes poor fuel economy and excessive wear.

A basic problem for an unknown foreign make is that in the U.S. fleet drivers do not normally use one specific, and thus personal, vehicle, but alternate among various trucks in the fleet. This means that a driver may occasionally drive a truck which, like the Volvo, requires a different technique, but he will never get properly used to it. American trucks

traditionally have unsynchronized gear-boxes that not only can take rougher treatment - they in fact demand it. A fully synchronized Volvo gear-box will thus seem alien, and will wear out a lot quicker than what would be normal in Europe.

Such examples can, with hindsight, be regarded as minor nuisances, easy to correct. But during the introduction of an entirely new product, the first image that is created with the users might be crucial for product reputation and future success. With a well established brand the tolerance of shortcomings is higher. For a foreign make with unproven performance, there might be no second chance.

Another condition that tilts the field against a foreign producer is the intensely competitive nature of the trucking industry. As profit margins have become very small, there is less room for experiments with purchases from new producers. Not only does the introduction of a new kind of vehicle involve extra costs and potential technical failure, but its value in the second-hand market is uncertain. A salesman has to be quite convincing under such circumstances when presenting cost estimates and arguing the long-term benefits of the purchase.

6.1.9.6 Creating a New Corporate Headquarters

A problematic feature of White Motor Corporation had been the widely spread corporate office. An early step undertaken by the new management was therefore to concentrate its managerial functions in one place. The Detroit area, where the old headquarters had been located, was associated with the long crisis of the past. Since production in the area had been terminated, there was no reason for keeping the headquarters there. Detroit and Cleveland had also become unattractive parts of the country with a bad crime record, unemployment and decaying industries. A transfer from Detroit would give Volvo White a fresh start, a symbolic act showing that a new era had begun.

The choice of Greensboro, North Carolina, was primarily made because of its closeness to the main production facility in New River Valley, two hours' ride into Virginia. It was a courageous choice in terms of the unproven willingness of key people to follow the move. Very few, however, turned down the offer of renewed employment. In retrospect, Greensboro turned out to be a fortunate choice and more of a plus in the recruitment process than a drawback. The city is now considered as having good qualities. The Atlantic ocean, as well as the Appalachian mountains,

are only a few hours' drive away. The climate is pleasant, and the community has attractive residential areas.

6.1.10 Intercultural Relations

The White staff seems to have been psychologically prepared to be taken over by Volvo. For many, the deal probably came as a relief after a long period of uncertainty. White's main factory in Virginia had been closed 30% of the time during the year before Volvo took over. In connection with the acquisition, the total number of employees was reduced from 4,800 to 2,300. However, in spite of a large number of people not being offered new employment, there do not seem to have been any hard feelings toward Volvo, but rather toward the old White management. Nevertheless, the running of a business in a foreign setting always raises issues of cultural differences. In this case the new headquarters turned out to be a truly multicultural environment where everyone, regardless of background, was expected to contribute in a highly strenuous and uncertain situation. One major uncertainty was whether it would be possible to create a co-operative climate between Swedes and Americans.

In this context, it is important to stress the differences between Swedes and Americans in terms of employment conditions at Volvo White. (While Americans typically are employed in production and marketing, the Swedes are found in technical staff positions in design. The total number of Swedes with the company has hardly ever exceeded twenty.) For the Swedes, a period with Volvo White almost invariably means a step forward in a secure career in the Volvo corporation. It is different for the American nationals. From a practical point of view, they are employed by Volvo White (today Volvo GM Heavy Truck Corporation) as if it were any other American company. The fate of this company thus affects the future of its American staff very directly. Given language problems and the high Swedish taxes, career prospects for Americans are in Volvo White, a small organization with a limited number of openings. The stronger emphasis on career opportunities, grades, and titles attributed to the Americans should be understood with this in mind.

The combination of being an ethnic minority among the staff and of representing the owner puts the Swedes in a delicate position. The national pride of both parties may be offended. Particularly when a small corporation from a small country is making its way into a mature and self-confident industry with a well established national image: trucking is as

American as apple-pie. The mutual perceptions of Swedes and Americans at Volvo White, however, seem to be very positive. Cultural differences are appreciated rather considered obstacles to co-operation. The two groups joke about each other's particularities, but there seems to be a mutual respect and fondness. Politicizing is reportedly non-existent. This has been interpreted as a result of the management style of the present CEO. During the initial phases of the reconstruction, the work load and the unusual emotional climate from participating in the creation of a new company probably also helped to reduce any tendency towards the conspiracy and power games more associated with the routine existence of mature organizations: "During the first one and a half years no one had time to be particular about jurisdiction".

The fact that most professional employees of the new company have spent considerable time in the truck industry is another uniting element. One value that stands out as bridging cultural differences is the high regard for professional competence. Knowledge and ability displayed by a newcomer, national or foreign, facilitate his acceptance. The Swedish CEO himself has a reputation as a competent truck manufacturer and a skilled technician. Likewise, newcomers have expressed their respect for the technical competence of the old White staff.

6.1.11 Management by Consensus

The situation outlined above was in many respects difficult and full of potential conflict. Management's response has been an open and flexible leadership. It has been a Volvo policy to have a Swede as CEO in its foreign operations. All other staff positions are open to other nationalities. The CEO of Volvo White, Thage Berggren, has been with the company since the acquisition, coming from a ten year stint in a similar position with Volvo Truck Corporation in Belgium.

He has personally advocated and practiced a communicative and informal leadership style. Openness, shared information, and decision-making by consensus have been the vehicles both for avoiding and solving conflicts and for creating a commitment to a common cause. Initially, this model met with some resistance and feelings of discomfort and insecurity - the American tradition being described as much more of the boss telling you what to do. One of the first Volvo managers to enter the White organization commented on the American "habit" of not questioning a superior. Before he could convince his subordinates that he was earnest in soliciting their opinions, information was withheld and some bad decisions were made.

From the start, Thage Berggren encouraged the management group to participate actively in decision making and to become a team. Meetings were continued late into the evenings until consensus was achieved. One American manager remarked that he had been used to holding his cards close to his chest. Thage Berggren, however, would not allow members of the group to keep their views to themselves. He made them sit together until all had expressed their opinions. Supporting the claim that the Volvo White top managers do function as a team is the fact that the view on priorities and the analyses of the company situation are very much the same, whether one talks to a production, design or marketing manager.

The Americans interviewed sometimes objected to the slow decision making process that goes with the consensus approach. Related to this is the American view, that Swedes have a longer time horizon, while they themselves are more action oriented. Paradoxically, Swedes report that they find the American administrative tradition bureaucratic, with much more checking and signing and little freedom to make even minute decisions like trivial purchases within the limits of one's budget.

The policy of open sharing of information and the distribution of financial data, for example, to all levels of the organization is seen as contributing to trust in management and commitment to the company. "If people get to hear about the good news, they will also accept bad news". This feeling of being involved is not limited to the top management team. An open and egalitarian climate also reaches the operational level. In the New River Valley plant, a Quality Circle program has been initiated by the plant manager. Initially the attitudes of union and workers were skeptical. During the White era there was a similar Round Table program, which the union claims was not taken seriously by the management. This time, however, workers have become gradually convinced that management is sincere. All suggestions receive at least a written reply with a copy to the supervisor. Other support for a belief in the system is the concerted stress on quality issues, which is reflected in a bonus system based on quality. The local president of the United Automobile Workers (UAW) is included in management meetings and trips to meet important customers. The previously strained industrial relations can be illustrated by the large number of grievances filed, which at the Cleveland plant could amount to 100 in a single week. This has changed dramatically; the grievances have almost disappeared, and there has never been a work stoppage during the Volvo era.

A number of visible symbolic deviations from what has been customary in the industry underscores the more egalitarian policy. Thage Berggren

insisted on open offices, which were installed against some resistance. He seldom wears a jacket in the office, and an act of strong symbolic value is his driving a huge White truck daily to and from work. The union leader contrasts Berggren's tours of the plant, stopping to ask questions of workers, with those of a former CEO who marched through the factory, eyes straight ahead, followed by a retinue of subordinates. The egalitarian spirit is supported by the formal organization which, compared with the old White organization features few layers and absence of titles.

6.1.12 Personnel Policy

Volvo has a reputation for advanced personnel policy and responsiveness to changing social forces. Volvo is, above all, known for practical action to improve conditions at the bottom of the organizational hierarchy and at the same time increase production efficiency. The pioneering and controversial break with the assembly-line tradition, such as at the Kalmar plant, has become an inspirational model for the automotive industry.

There have been no lay-offs at VWTC during the Volvo era. White reacted very directly to the market, which meant hirings one day and lay-offs the next. Volvo White has not continued this policy. At the time when interviews were held, production at the New River Valley plant had been within 37-39 vehicles/day for two years. This stability has been appreciated by the production personnel and has helped to strengthen their trust in Volvo and their willingness to attack quality problems and improve efficiency.

The wages of production personnel are considered good. Volvo White was admittedly the first company in the industry to dispose of the automatic "cost of living allowance" (COLA). Nevertheless, the wage level is higher than for other jobs in the region, which is illustrated by the fact that for 65 advertised jobs at the New River Valley plant, there were 3,000 applicants. Volvo White has not - in contrast to other companies in the automotive industry - pleaded for wage concessions in critical situations. This along with the "no-layoff policy" has strengthened union and worker trust in the company.

6.1.13 Summary and Concluding Remarks

Volvo Truck Corporation in the mid 70's made the decision that the company had to enter the U.S. market in order to attain sales volume large

enough to secure long-term profitability, especially in the development and manufacture of engines. The first attempt to enter the U.S. market had failed, it was believed, because of the difficulties in establishing a sufficiently large dealer network. With hindsight, one can question whether Volvo would ever have succeeded in the U.S. market, regardless of the size of the dealer network, given that the company had no products designed for that market. This hypothesis is also supported by the very limited results achieved during Volvo's co-operation with Freightliner.

During 1980, it became more and more apparent that Consolidated Freightways had lost patience with Freightliner, and Volvo was offered the opportunity to buy the company. The price asked, however, was judged to be 2-3 times too high, and Volvo declined the offer. Instead, Freightliner was acquired by Daimler-Benz at a price of roughly U.S. \$ 260 million.

This case study does not allow any detailed comparison of the two acquisitions. At a superficial level it can be noted that Daimler-Benz in Freightliner, compared with White Motor Corporation, got a company with a strong dealer network, a much larger market share (9.5% in 1981 as opposed to 3.9% for White at the time of the Volvo acquisition) and a much better name. In a longer-term perspective, Daimler-Benz also acquired a company with an obsolete product program and partly-run down production facilities.

Volvo's acquisition of White can be described in exactly the opposite terms. The market share of White was low, and the reputation of the company in terms of product quality was one of the worst in the industry. On the other hand, White had clearly the most modern product line of all American manufacturers, and its main production plant was the most up-to-date in the U.S. This is not to say that the difficulties faced by Volvo were not formidable. Given the shape White was in, most industry observers probably regarded the company as beyond rescue.

In many ways the Volvo White venture has been a success. By mid-1985 the company had recouped both the initial investment of approximately USD 70 million and the losses of about USD 60 million suffered during the first years of the company's existence. On one very essential point, however, this third attempt of Volvo to gain a significant presence on the U.S. market has failed - so far. The number of Volvo trucks sold remains disappointingly low. As can be seen from the table below, the success of Volvo White Truck Corporation is almost entirely due to sales of White and Autocar products, while Volvo trucks continue to sell in very small quantities.

Table 6.5 Registration and Market Share (Class 8)

	1985		1986		1987	
	No	% share	No	% share	No	% share
Volvo CL 8	1009	0.7	1057	0.9	750	0.6
White	9170	6.7	8626	7.7	8660	6.6
Autocar	1739	1.3	1678	1.5	1430	1.1
Total CL 8	11918	8.7	11361	10.1	10840	8.3

(Source: Volvo Truck Corporation)

The number of Volvo engines and other components sold to date is also low. So far only some one hundred White trucks have been equipped with Volvo engines. To some extent this is a deliberate strategy. The American component manufacturers are very strong and a head-on attack against them could prove disastrous. According to several Volvo sources, the strategy is slowly to make the market demand Volvo engines instead of overtly pushing them on to the market. To do so will not be an easy task, however. The ability to provide service remains of prime importance in a market where the survival of truck operators hinges on the "uptime" they get out of their vehicles. Volvo's network of some 200 dealers should be compared with the approximately 2000 service points provided by the leading U.S. engine manufacturer, Cummins.

It should be noted that Daimler-Benz so far has found it at least as difficult to introduce its own truck designs and components into the U.S. market as has Volvo. The progress of Daimler-Benz has been further slowed by the fact that the Daimler-Benz engines are built according to the V-concept, which is generally not accepted by American customers.

The turn-around of Volvo White has been an impressive achievement. It is somewhat ironic, though, that the market share of Volvo White in 1987 was about the same as that of the old White Motor Corporation the year before its bankruptcy. As very few Volvo trucks contribute to that share one could, pressing the case somewhat, argue that what has been achieved so far is a resurrection of White. With the input of new capital, technical know-how and Volvo's managerial skill, the products and the facilities of White Motor Corporation are again back in business. As far as the long term strategy of

the company is concerned, a further problem can be detected. An important part of the company's strategy has been to move from the low-quality end of the market to the high-quality end, the obvious reason being that profit margins tend to be higher in the high quality bracket. Selling low-to medium-quality trucks to the big fleet operators is at best a break-even business, and Volvo White has consciously tried to push down the percentage of its sales going to the big fleets. However, the general market development has gone in the opposite direction, and the proportion of fleet sales has also risen markedly for VWTC. This is largely a reflection of the present state of the U.S. trucking market, where the small operators tend to be pushed out by the big ones as well as by the quickly growing leasing companies. Today, full-service leasing companies command about 33% of the market for heavy trucks.

6.1.14 Forming a New Venture: Volvo GM Heavy Truck Corporation

The next chapter in the history of Volvo Truck Corporation on the American market is now about to be written. The joint venture with General Motors will be a fourth phase in Volvo's continued struggle to become firmly established in the U.S. truck market. Leading Volvo officials estimate that in order to become a real power in the industry, the company must reach a market share of some 15-20%. The joint venture with GM, in which Volvo will have a controlling share of 65%, could be the way to meet this target (in 1988 Volvo GM Heavy Truck Corporation captured a market share of about 12%).

The agreement between Volvo and General Motors forms a new company, Volvo GM Heavy Truck Corporation, which includes the assets of Volvo White Truck Corporation and the GM heavy truck operations. Volvo, as the majority shareholder, manages the company, which is headquartered in Greensboro. In addition, a separate company has been created under the name of Volvo GM Canada Heavy Truck Corporation.

One year after the formation of the new venture, our impression, based primarily on a few repeat interviews with key VWTC officials, is that most problems inherent in a merger of this kind seem to have been solved surprisingly smoothly. The joint venture has not meant any change in the managerial staff at the corporate HQ, and the established culture has remained intact. A company philosophy has been formulated and communicated to all employees. In that document, company objectives and strategic actions are stated and explained.

Similarly, the transfer of production has not caused any extraordinary disturbances. In 1988, 4,600 trucks were assembled at the GM plant at Pontiac, Michigan. According to plan all production will be centralized to the plants brought into the joint venture by VWTC. To this end, the New River Valley plant has been expanded and a new assembly plant has been built in conjunction with the cab factory in Orrville, Ohio. Unexpectedly strong demand for trucks in 1987 and 1988, however, led to problems in meeting all orders. Particularly in 1987, this had a negative effect on the market share of the company. In terms of product development, the company is dropping GM's volume truck, the Brigadier, and is presently adapting a White truck to the needs of major Brigadier customers. The first product to come out of the joint venture, the White GMC WG, was introduced in the fall of 1988.

A difficult issue is the reorganization of the dealer network. In areas with both GM and Volvo White representation, some dealers will have to be dropped. In other areas new dealerships will have to be started. As the profitability of such dealerships is still poor and the investments needed quite substantial, this will involve considerable difficulties. The new company will therefore have to develop new forms of partnerships in order to attract new people into sales of heavy trucks.

One explicit objective of Volvo GM Heavy Truck Corporation is to become the customer's best business partner, which means a different, more integrated kind of relationship. The customer gets more support but is also involved in a dialogue, which, for example may relate to product development and adaptation. In the future, the customer relationship might develop into a leasing arrangement, in which the truck manufacturer guarantees performance and costs but is also free to choose components and design. Perhaps this strategy will eventually lead to the realization of the goal set by Volvo back in the early 1970's - i.e., large-scale sales of Volvo components in the U.S. market.

6.2 THE CASE OF ERICSSON TELECOM

The case of Ericsson Telecom was written jointly by Dr. Anders Edström, FA rådet, and Richard Margolies Ph. D., PTWC. The author of this thesis took no part in the preparation of the Ericsson case but participated in a number of discussions concerning the development of the case during the period when it was written. The Volvo White Truck Corporation case and the Ericsson Telecom case were written in parallel and were guided by the same overriding research issues. In the following sections, a brief summary of the case is provided. The complete case is published in Maccoby (1990).

6.2.1 The Ericsson Group and Ericsson Telecom

LM Ericsson was founded in 1876 by Lars Magnus Ericsson. The instrument shop started by Ericsson made its first telephone, based on the original Bell design, in 1877. Lars Magnus Ericsson managed to improve the Bell design, and his telephones soon became more reliable and durable than the original. The company started to export in the 1890's, and around the turn of the century the company had offices in Russia, England, the U.S. and elsewhere. Over the years the group's operations have diversified into a number of new areas, most of which have had technological and/or market synergies with public telecommunications.

On January 1, 1983, the activities of the Ericsson group were reorganized into seven business areas (table 6.6). The business areas were given full responsibility for overall business strategy and profitability, and a large part of the corporate-staff personnel were transferred to the new business area staffs. As far as possible, each foreign subsidiary was to report to a single business area. In the case of Ericsson Inc., however, the American subsidiary, the company was to span several business areas and report directly to the group CEO.

Table 6.6 The Ericsson Group; Sales to External Customers, by Business Area, in MSEK (1988 figures).

Public Telecommunications	13.677
Radio Communications	4.745
Business Communications	3.540
Network Engineering and Construction	2.850
Cables	2.793
Defense Systems	2.548
Components	707

(Source: Ericsson Annual Report, 1988)

In 1985 the business area of Public Telecommunications was named Ericsson Telecom. Ericsson Telecom accounts for most of the profit of the entire Ericsson group (some 70% of the total operating income in 1988) and also represents the core of its technological competence.

Since its foundation, Ericsson has been a technically oriented company. For a long time, manufacturing was the predominant activity of the company, whereas the design function employed relatively few people. Electronics and stored-program control, however, changed this situation and the design function expanded dramatically when the design of the digital AXE system was started at the beginning of the 1970's.

As a result of a continuing strength in systems development, Ericsson has secured a position as one of the leading companies in the telecommunications industry. Ericsson's traditional strength has been to handle PTT's on governmentally controlled markets, and the company has been particularly strong in the developing world and among recently industrialized countries, i.e. customers with a limited technical competence.

The introduction of the AXE digital switch in March 1977 showed that Ericsson had successfully entered the electronic age. Since then, some 19 million AXE lines have been installed. Early orders for AXE from Australia, France and Holland proved Ericsson's capability to do business with advanced customers as well, and during the 1980's Great Britain and Spain have also become important markets. Today the AXE switch is installed, or on order, in a total of 75 national markets. Table 6.7 provides a picture of the geographic distribution of the total Ericsson Telecom sales in 1988.

Table 6.7 Ericsson Telecom, Geographic Distribution of Sales in %, (1988 figures).

Europe, excl Sweden	59
Latin America	16
Sweden	7
Australia, New Zealand and Oceania	7
Asia	6
Africa	4
USA and Canada	1

(Source: Ericsson Annual Report, 1988)

6.2.2 The Telecommunications Industry

Public telecommunications are dominated by state monopolies of postal, telegraph and telecommunications services (PTT's). In the large industrial countries domestic companies, so called national champions, have been the dominating suppliers to the PTT's. The leading manufacturers of telecommunications equipment are listed in table 6.8.

Table 6.8 Global Positions of the Nine Leading Telecommunications Companies, Measured as the Number of Local Lines Installed During the Year (in millions, 1987 figures).

AT&T	6,600
Northern Telecom	5,800
Alcatel	5,100
Ericsson	3,700
Fujitsu	2,800
NEC	2,100
Siemens	1,400
GTE	1,400
Plessey	1,200

(Source: Affärsvärlden, April 6, 1989, p. 78)

Most markets have until recently had a stable structure in which changes in market shares have been regulated by the state. For a long time the rate of technological change also tended to be modest. The introduction of digital switches during the 1970's, however, marked a new period of change in the industry. The superiority of digital systems is based on higher capacity, lower operating costs, and better earnings opportunities in that new kinds of services can be offered to the market. Telephone companies and end users have responded to the new possibilities by developing new public and private networks, stimulating further technical improvements.

In addition to the changes in the predominant technology, the dynamics of the telecommunications industry have also been changed by deregulation. England and Japan have privatized their formerly nationalized phone systems. In the U.S., the dominant telephone company and equipment supplier, AT&T, has been divested of its virtual monopoly, and the Bell operating companies have been made into seven independent companies.

The introduction of digital systems has increased the cost of developing new systems dramatically and also shifted development costs from hardware to software - some 70% of the cost of developing a new digital system is attributable to software. Rapid technological change in the telecommunications industry has been accompanied by only limited growth in demand for new lines. In the industrial world the little growth there is mostly due to of replacement demand, where analog systems are replaced by digital ones. Increasing development costs in combination with slow growth has forced companies to expand abroad.

The period of restructuring that the telecommunications industry is going through has already caused some casualties. Philips gave up the development of a digital system of its own and instead went into a joint-venture with AT&T. ITT first withdrew from competition in the American market and later merged its telecommunications business with that of the French Compagnie Generale d'Electricite. Plessey, the British "national champion", has been acquired by an alliance formed by British General Electric Company and Siemens. It is expected that a smaller number of competitors, often in collaboration with one another, will account for the next generation of systems.

The forces of change are most visible and most intensely felt in the American market. All major manufacturers are active there, and deregulation has made it possible for new companies to provide long-distance services. The U.S. market has become a model for other markets that have just started on a similar path. In the telecommunications industry,

an investment in the U.S. is seen as an investment for the future. In the global arena that is now taking shape, the U.S. market is regarded as the main battle ground, both because of its size, some 30% of the world market, and because the new customer services are developed there.

6.2.3 Three Attempts to Enter the U.S. Market

The Ericsson group has done business with the United States continually since the beginning of the century. However, in relation to the size of the American market, the sales have been modest. Ericsson has made a number of attempts to establish itself in the U.S. market both in the form of green-field investments and in collaboration with others.

In 1902, Ericsson opened a sales office in New York. The customers were so called independent companies, i.e. companies outside the Bell system. In 1904, Ericsson established the Telephone Manufacturing Company, located in Buffalo, with some 200 employees. However, except for two years, the company never made a profit, and was finally dissolved in 1920.

A second effort to break into the American market was not made until after the Second World War, when Ericsson, in 1951, bought 60% of North Electric Co., Ohio. The intention behind this investment was to use the North company as a vehicle for introducing Ericsson products in the U.S. However, this turned out to be technically more complicated and financially more demanding than expected. The company lost money for more than ten years, and Ericsson's share of the business was eventually sold to United Utilities.

A third attempt at direct establishment in the American market started in 1980 with the creation of Anaconda-Ericsson, a joint-venture with equal holdings by Atlantic Richfield (ARCO) and Ericsson. In this joint-venture, the Ericsson cable investments in Mexico and South America were merged with the cable operations of ARCO. An important purpose of the venture was to finance an expansion in information systems and telecommunications with profits from the cable business.

Penetration of new markets by Ericsson has traditionally followed a pattern characterized by a cautious, step-by-step approach. Frontal attacks have been avoided, the market profile has initially been low, and operations have been directed from Sweden. Not until a bridgehead, in the form of a firm order, has been secured have any significant resources been committed to the

venture. Initially, Ericsson's third attempt to enter the U.S. market followed the traditional pattern. Customer contacts organized from Sweden resulted in offers to GTE-Sprint, Western Union and MCI, all three long-distance companies competing with AT&T. In the spring of 1983, an order for three telephone exchanges was received from MCI. The order represented a first step for Ericsson into the inter-exchange, or long-distance, market. However, Ericsson was primarily aiming for the local exchange traffic and only secondly for the inter-exchange carriers.

Before having secured any orders for local exchanges, the Ericsson corporate management, on January 16, 1984, decided to commit the necessary resources to develop a local exchange for the American market. The development efforts were estimated to require some 300,000 hours, over a period of two and a half years. In addition, it was decided to strengthen substantially the marketing organization in the U.S. In total, the investment was estimated at close to 100 million dollars. The decision was supported by the head of the public telecommunications area, although with some misgivings: this entry strategy did not follow the Ericsson tradition and, furthermore, it constituted a potential threat to his control of the business area since the CEO of the U.S. subsidiary was a member of the corporate management.

The decision to enter the U.S. market by a head-on attack was made in light of a dramatic development in the American telecommunications industry. As a result of a settlement out of court in an antitrust case, the Bell Operating Companies were to be divested from AT&T. As of January 1, 1984, seven independent regional telephone operating companies were to be created. These seven Regional Bell Operating Companies (RBOC's) would become independent of their main supplier, i.e. the AT&T-owned Western Electric Company. Jointly, they would own Bellcore, a development and service company with technical specialists.

The American market for telecommunications equipment could be roughly divided into two parts, the market for local traffic and the market for long-distance traffic. Through Western Electric, AT&T had been the principal supplier to both segments. Local exchange traffic would now be dominated by the RBOC's, which would control some 80% of the market. Significant shares of the rest of the market were held by General Telephone and Electronics (GTE) and United Utilities.

Ericsson decided to contact all the newly created RBOC's, the goal being to become one of three suppliers to four of the Bell companies. The target was yearly sales of some 700,000 lines, or about 10% of the market, by 1990.

This would make Ericsson the third largest supplier in the market after AT&T and Northern Telecom. In other words, Ericsson expected to beat competitors like West German Siemens and NEC of Japan to the market. There were no expectations catching up with AT&T or Canadian Northern Telecom, both of which were considered to be almost immovable by virtue of their large installed base of exchanges and service relationships. Ericsson Telecom considered itself to have a lead over its competitors in technology, and an important part of the strategy for entering the U.S. market on a broad scale was to invest in an evaluation of the AXE system by Bellcore in order to be approved as a supplier.

The American operations of Ericsson at this time were co-ordinated by Ericsson Inc., located in Greenwich, Connecticut. The company also had operations in other areas of the U.S., most notably Richardson, Texas, where Ericsson Network Systems was headquartered. Contrary to the Ericsson tradition of controlling entries into new markets from Sweden, the responsibility for the U.S. breakthrough was to rest with the American subsidiary, Ericsson Inc. The market strategy was to be shaped locally. Technical development was to be organized by combining local resources and additional capacity bought from the parent organization in Sweden.

About a hundred contract employees, mostly in systems design and product planning, were assigned to Ericsson Network Systems in Richardson. In the home, organization a special marketing department was created to assist the American subsidiary and to act as its representative in the home organization. In fact, this arrangement meant that most of the critical resources and the technical competence remained in Sweden, while the main responsibility for the success of the venture was allocated to the U.S.

6.2.4 Product Adaptation

With PTT's and nationalized telephone systems, particularly in the third world, it is close to reality to say that the king is the customer. In the U.S., where there are over a thousand telephone companies and dozens of equipment suppliers, the customer is king. The regional Bell companies are advanced operating companies with long experience in digital systems, and they foster competition among their suppliers. They are also independent corporations demanding yield on their capital. As such, they are more sensitive to cost and earnings flows than are the state owned companies and administrations which constitute Ericsson's traditional customers. For the same reason they demand short lead-times, quick service and a continuous flow of new revenue increasing functions.

In the summer of 1983, Ericsson started building a design office in Richardson, Texas, to complete the system-design work for the MCI order. Technology transfer took place primarily through the transfer of engineers and managers. By the end of 1984, there were about a hundred expatriates, mainly from Sweden, with the American organization. From May 1984 to the end of 1986, the number of employees in the organization increased from 64 to 575. The majority of these employees were software engineers working on the adaptation of the AXE switch to the U.S. market.

The sharp rise in the number of employees put a severe strain on the organization's ability to co-ordinate work. This strain was compounded by the fact that MCI was far from a traditional Ericsson customer. MCI was unconventional, aggressive and very demanding in terms of service level and the creation of new features. Particularly at HQ in Sweden, there was a lack of experience with this kind of customer; the result was communication problems between the subsidiary and the parent organization. The experience gained from supplying MCI showed the need for a reappraisal of the Ericsson's customer service. When the Ericsson switch had to handle MCI's heavy telephone traffic in the New York area, it revealed weaknesses at high capacity utilization. Ericsson reacted slowly to this situation causing considerable frustration at MCI.

6.2.5 Creating a Market Organization

In order to cover the American market, a field organization was created, and a locally recruited American was made responsible for this unit. Most of the other employees of the field organization also had an American background, and no previous experience with the Ericsson organization. As a consequence, there was a cultural barrier between sales and product management. In the sales organization a number of regional managers were appointed to co-ordinate contacts with the seven RBOC's and the three most important independents: i.e., MCI, United Telecom and GTE-Sprint. With a few exceptions the regional managers were former Bell employees.

It soon turned out that the regional managers were working in something resembling a vacuum. Their limited experience with the AXE system made them dependent on support from product specialists at Ericsson Network Systems. Role expectations, however, differed between these two parties. The product managers expected the regional managers to provide them with information so that they could prepare their marketing strategies. The regional managers, on the other hand, expected to play the major role in customer contacts, and wanted support and service from the product

managers. A special problem was that the regional managers were not always able to make the contacts they wanted. As former Bell employees they regarded themselves, and were regarded by others, as still holding their old positions in the Bell hierarchy. It was difficult for them to contact anyone far above their own previous level.

6.2.6 A Mounting Crisis

It soon became obvious that technical resources were going to be scarce. In particular, there was a shortage of experienced systems people with a sufficient knowledge of the architecture of the AXE system. The order from MCI called for more resources than had been estimated, and a large tender to United Telecom also required technical resources. In the autumn of 1984, the situation was further complicated when Ericsson became involved in competition for orders on the UK market. Among the competitors were AT&T-Philips and Northern Telecom. If Ericsson lost this order, it would mean a major breakthrough in Europe for one of the two established competitors in the American market. The UK tender called for substantial technical resources.

Ericsson Inc., claimed that their assessment of what the American market needed should be given greater weight. Other evaluations, however, were made by Ericsson Telecom, under the influence of the situation that had developed in the UK. At Ericsson Network systems, the anxiety gradually grew. There was a general feeling, in the beginning of 1985, that the home organization did not understand what was needed for a break-through on the American market.

In April, 1985, Ericsson received an order for local exchanges from British Telecom. The order could, within a few years, make the UK the business area's largest single national market. At about the same time it became clear that Ericsson had lost on its tenders made to US West and United Telecom. In both cases the orders went to Northern Telecom. The U.S. organization had lost a great deal of its strength in the internal competition for technical resources. In fact, as early as 1984 it was obvious that the U.S. venture was not getting the resources initially planned. Of the 125,000 hours of development work budgeted in Sweden, it received only 10,000.

By the middle of 1985, the market organization was changed and the marketing manager was given other duties. The regional managers were to report to the product managers. The differences in outlook between the two

groups, however, persisted. The lack of clear roles made it difficult to create a co-ordinated and customer-oriented strategy, as well as to maintain the necessary pressure in customer relations. Despite these problems, three field trials were contracted. Two of these were used in phase B of Bellcore's evaluation of the AXE system. Perhaps significantly, customer relations were handled in all three cases by personnel from Sweden, from Ericsson Network System HQ, or by a regional manager with previous experience in working at Ericsson.

During the spring of 1985, the mounting financial difficulties of the total Ericsson group became the focus of interest. The losses of the business area of Information Systems, particularly in the American market, began to be regarded as a threat to the entire group. The U.S. venture as a whole became the subject of reappraisal.

6.2.7 Reappraisal and a New Start

During the early summer of 1985, anxiety about the huge costs of the U.S. investment started to spread through the entire Ericsson organization. Following reappraisals of the organizational structure and of the total budget of the U.S. venture, a number of decisions were made. In accordance with suggestions by outside consultants, one policy committee was created for each one of the divisions of Ericsson Inc. The task of these committees was to operate as a liaison and co-ordinator between the business areas and their operating divisions in the U.S. Financial responsibility for technological development was assumed by the business areas. This, it was felt, would guarantee the necessary commitment on the part of the parent organization.

In the summer of 1985, a new manager was appointed for the business area of Public Telecommunications: immediately afterwards, it was announced that Ericsson Inc. would get a new president. At the same time, the CEO of the Ericsson group assumed the role of chairman of Ericsson Inc. A little later it was also made public that Ericsson was taking full control over Ericsson Inc. by buying Anaconda's 50% share. All these signals indicated a new thrust for public telecommunications, as well as a renewed commitment to the U.S. market. This could be interpreted as an indication that the investment in the U.S. was regarded as representing much more than the development of a system to fit the American market. It was a strategic reorientation, dictated by the demands of technological development and increasing international competition.

In February 1986, Peter Thomas, who had a background with ITT and Northern Telecom, assumed the presidency of Ericsson Inc. The change of CEO marked a clear americanization of Ericsson Inc., and during the following six-month period, the new president recruited a total of 17 new managers, all of them from ITT. There was no Swede left on the management team of Ericsson Inc.

Ericsson Inc. had been plagued by the lack of a consistent strategy and an absence of clear goals. Particularly among its American employees, anxiety had been caused by the lack of clear steps to measure progress along the way. The American employees felt more vulnerable than the Swedes, as they could not expect Ericsson to assign them new jobs elsewhere if the U.S. venture should fail. For Americans, titles and awards mean increased marketability and thus greater security. However, the Swedish managers in the subsidiary organization, partly because they were under considerable stress themselves, did not place much importance on the different expectations and cultural values of the Americans, and attempted to ease their anxiety by expressing their own personal confidence in the long-term success of the company.

The management style now introduced was characterized by more precise subgoals and better financial control. A definite schedule for management meetings was created, and meetings held were characterized by the definition, and follow-up, of clearly stated goals. Formal job descriptions were introduced. The new policy committees also began to function. Contact with the marketing department in Stockholm was improved and given greater substance as a result of orders for field trials. Altogether, the stability and structure which had previously been absent were now created.

6.2.8 Results Achieved and Lessons Learnt

Phase A of Bellcore's evaluation of the AXE system was ready in June, 1986. Despite certain reservations, the report was interpreted favourably both inside and outside Ericsson. Probably the Bellcore report played an important part in securing the contracts for field trials which Ericsson signed in 1986. Late in the autumn of 1986, Ericsson also received the first commercial order for limited AXE exchanges. In April, 1987, Ericsson signed a contract for 60 AXE switches with US West, and by November 1987 Ericsson had also signed contracts also with NYNEX, Bell South and Southwestern Bell. In total, the orders received accounted for 200,000 lines.

Compared with the initial market plan, Ericsson received trial orders one year later than estimated, and orders that would mean additional volume took longer to obtain than expected. The technical development project, initially budgeted at some 300,000 hours, is now expected to reach a total of some 600,000 hours. Although Ericsson is beginning to become accepted as a supplier in the American market for local switches, the market position so far built up is not commercially viable.

In terms of organizational learning from the U.S. experience, structural changes and the replacement of people have been the major means of adaptation. The U.S. experience has been important in a general restructuring of relations between the business areas and the subsidiaries. Today, the foreign subsidiaries have been divided into five geographic groups, with the United States regarded as one region. In this way resources at the parent company level are structured according to market demand. Design, marketing and installation support services provided by the Swedish organization are specialized to suit the needs of that region.

There is a clear shift toward more autonomy for the subsidiary, and in particular toward defining the role of the subsidiary and its president more clearly. The president of the subsidiary is given a definite responsibility for the total profitability of the subsidiary and for co-ordinating activities within and over different business areas. The Americanization of the U.S. subsidiary can be interpreted as the result of a decision to make the company more market oriented.

The recruitment of American managers has been guided primarily by the goal of finding individuals with experience in the telecommunications industry and in working in large organizations. The sensitivity to Swedish values and to the Ericsson culture among these newly recruited managers has been limited, and thus the different management styles of Americans and Swedes have been built into the Ericsson organization. It cannot be precluded that these differences will lead to problems in the future.

6.3 Comparing the Cases

6.3.1 The Motives

Looking, firstly, at the motives for the decision by Volvo Truck Corporation to enter the U.S. market, it is evident that they are far too complex to fit into any one category. In the terminology developed by Hedlund and Kverneland (1984, p. 48), the Volvo investment could probably best be said to fit into the "advantage-exploiting" category. However, in a dynamic perspective, "advantage-seeking" or perhaps advantage-preserving would be just as correct, since presence in the U.S. market was deemed necessary by Volvo in order to absorb the costs of developing critical components, such as engines, gear-boxes, etc. The Volvo investment would thus also fit the label "strategically motivated investments", as defined by Hedlund and Kverneland (op cit).

Given the size of the U.S. market, a significant presence there can be regarded as a must for every truck manufacturer aspiring for a leading role in the industry. The belated entry of Scania into the American market can be seen as a confirmation of this point of view. Again, a dynamic perspective is needed in order to appreciate the significance of this investment. Scania, from the "vantage point" of having followed the successes and failures of previous European entrants into the American market, cannot reasonably expect its American venture to pay off in the near future. In the terms developed by Hamel and Prahalad (1985, p. 146), Scania's entry into the U.S. market should probably be viewed instead seen as an effort to avoid the decreased "worldwide cost competitiveness" and, to a lesser extent, the increased "home market vulnerability" that would result *if* Daimler, Volvo and Renault should *eventually* manage to integrate their European and their American operations.

The Ericsson Telecom investment can be analyzed in roughly the same way. In the short term, the U.S. market could be regarded as just another market for an existing Ericsson product, i.e. the AXE switch. However, the long-term justification for the Ericsson decision to enter the U.S. was the perceived importance of this market as a driving force in the development of future telecommunications technology. In addition, the size of the American market, as in the case of Volvo, offered an opportunity to spread increasingly large development costs of over a larger volume.

Going back to the speculative interpretation of the reasons for Swedish investment in the U.S. provided in section 4.3.2, the two case studies thus

indicate a relatively more prominent position for the oligopoly-related arguments. For large Swedish multinationals the primary motive for entering the U.S. market appears to be the preservation and development of technology-related, firm-specific advantages on a global scale. This motive have to do with the technological sophistication of the U.S. market (Ericsson), but may also follow from the sheer size of this market and its potential for absorbing increasing R&D costs (Volvo and Ericsson). To put it differently, the long-term position of the firm in an evolving global oligopoly appears to be given far greater weight than short-term gains from increased sales of existing products. To the extent that this interpretation is correct, it may constitute an important part of the answer to the question that concluded chapter three: "if the results of foreign investors in the U.S. are really so disappointing, why do they continue to invest there?"

6.3.2 The Role of Industry Structure

Turning to the hypothesized influence of the American industry structure on the success of Swedish investors, the two case studies tell somewhat different stories. In the case of Ericsson, the American industry structure has not primarily constituted a hindrance. On the contrary, it was the break-up of AT&T that opened the "window of opportunity" for new entrants to the market. (It should be underlined, however, that before this event the local industry structure quite clearly constituted a major barrier to entry).

Turning to the case of Volvo and the truck industry, the American industry structure undeniably appears to have had a very significant influence on the development of this venture. However, it is equally clear that this influence has been exerted in ways both more subtle and more complex than what can be revealed by survey data or by the kind of statistical analyses discussed above.

Considering the aspects of industry structure discussed in chapter 4 (cf figure 4.1), it is obvious that differences between the American truck market and the European one have also meant differences in the way that certain structural variables operate. In Europe, the competitive climate in the heavy truck industry, aside from demand is set by the truck manufacturers. In the U.S., a critical influence is exercised by the independent component manufacturers. As previously discussed, anecdotal evidence indicates that American manufacturers react very strongly against foreign entrants. In the case of Volvo Truck Corporation, however, it is not fear of strong reactions from the incumbents in a *concentrated truck*

manufacturing industry that have caused Volvo to tread softly on American turf. Rather, it is the fear of reactions from the leading component manufacturers that has had a part in shaping the strategy of Volvo. Incidentally, the American truck component industry is markedly more concentrated than the truck manufacturing industry itself.

As for the *concentration of buyers*, this aspect of the local industry structure is no doubt of importance for the profitability of all truck manufacturers operating in the U.S. The American trucking industry is concentrated, and has undergone a rapid development toward further concentration since the deregulation of the industry. However, there does not seem to be any reason to assume that this concentration of buyer power has affected foreign truck manufacturers in a significantly different way than indigenous manufacturers. If anything, strong buyers could be expected to support new entrants in order to increase the competition among their suppliers.

Product differentiation, on the other hand, has clearly played a very important role in slowing the penetration of the American market by European Truck manufacturers. So far, no European manufacturer has succeeded in gaining anything but insignificant shares of the U.S. market without first acquiring the capacity to build trucks according to the American concept.

Looking at the importance of *established brand names* as a barrier to entry in the U.S. market, it is probably true to say that here, too, the major part has been played by the component manufacturers. The resurrection of the White nameplate has certainly been very important for the success of Volvo, and has, to a certain extent, provided a way around the problem posed by the loyalty among American truck buyers to American manufacturers of trucks and truck components. However, the continuing difficulties in introducing Volvo components in the U.S. market must be viewed in light of the very strong brand names controlled by the American component manufacturers.

Sölvell (1987, p. 219) argues that "barriers to entry are something different from barriers to penetration" and notes (ibid): "Once the firm has entered, there is a continuing stream of barriers which bar further penetration". One such sequence of entry barriers discussed by Sölvell (op cit, p. 227) is the "private label hurdle" followed by the "brand hurdle". For a firm like Volvo Truck Corporation, where the creation and preservation of a high-quality image is a crucial element of corporate strategy, it may be argued

that there is no way to avoid the "brand-hurdle". In this connection, it is interesting to compare the fate of the European truck manufacturers with that of the European automobile manufacturers, particularly so as there is a considerable overlap between these two groups. In other words, why is it that the 1980's, have been boom years in the U.S. for the automobile manufacturers Volvo and Daimler, whereas the same brand names have faced a continuous uphill struggle in the truck market?

Admittedly, the European car manufacturers have a longer history in the U.S. than the European truck manufacturers, but this could hardly be the only reason for the differences observed, especially in the case of those firms with both car and truck production. A more reasonable explanation appears to be that the European entrants have underestimated the barriers to penetration presented by the domestic manufacturers of trucks and truck components. It may be argued that the American automobile industry has facilitated the entry of import makes by neglecting both cost and quality control, e.g. by mismanaging their brand images. A similar development cannot be observed in the truck industry. Brand names like Kenworth and Peterbilt (trucks) and Cummins (engines) are still strong. (According to sources within Volvo White, the competitiveness of the American engine manufacturers has, if anything, increased during the 1980's.)

Vertical ties in distribution are another barrier to entry often hypothesized to be of importance as an explanation for the difficulties encountered by new entrants on a national market. Given the nature of the American truck market, important barriers to entry of this nature appear at two levels in the industry:

1) Vertical ties between truck manufacturers and truck dealers make it difficult for a new entrants to establish a sufficiently strong dealer network (it should be noted, however, that these ties are weaker in the U.S. than in Europe). This problem becomes of particular importance on a geographically large market like the U.S. one, especially for products which, like trucks, are bought by customers demanding a nationwide service network. Another aspect of this problem, highlighted by the Volvo case, is the importance of having a reasonably high proportion of exclusive dealers. Particularly in times of depressed demand, it is difficult for an unknown brand to reach the market if the dealers carrying the brand are also selling other, better recognized, brands.

2) Vertical ties between the makers of important components, especially engines, and the firms providing service for these components make it difficult for new entrants to introduce their own components. In the case of

Volvo, the extremely strong network of service points controlled by Cummins has provided a very important impediment to the introduction of Volvo engines.

The survey data analyzed in chapter 4 gave very little support for the hypothesis of concentrated industry structures as a major barrier to entry into the U.S. market. In section 4.6.3 it was hypothesized that the influence of industry structure could still be considerable, but in ways more complex than can be readily caught by survey questions. To a certain extent, the case of Volvo Truck Corporation substantiates this hypothesis. The structure of the American truck manufacturing industry has not been a major barrier to the Volvo entry. On the other hand, the structure of the American truck component industry, and particularly the existence of established brand names and vertical ties in distribution within this industry, very clearly has been.

6.3.3 The Choice of Strategy

The strategy initially chosen by Volvo Truck Corporation for entering the U.S. market can essentially be said to have been based on two premises, both of which were subsequently proved to be erroneous: first, that the experience gained by Volvo as a manufacturer of heavy trucks would also be relevant on the American market and, second, that Volvo's previous on the U.S. market (in the area of passenger cars) would be helpful in establishing Volvo Truck Corporation in the U.S. On the basis of these two premises, the green-field entry initially chosen by Volvo was no doubt logical.

Volvo certainly had the size and experience needed for an acquisition. Given the existence of a suitable acquisition candidate, an acquisition could also have been expected to speed-up the penetration of the market considerably. However, an acquisition would also have meant having to pay for, and integrate, product designs and production capacity alien to the Volvo system. An acquisition was probably regarded as inconsistent with the underlying strategy of introducing Volvo components in the U.S. market.

Volvo's experience in selling cars in the U.S. proved to be of very limited value in introducing Volvo trucks there. It turned out to be more difficult than expected to establish a strong truck dealer network, one reason being that Volvo car dealers did not prove to be good truck dealers. Likewise, the

prestige of the Volvo nameplate in cars did not carry over to Volvo trucks. Thus, in this case the "global brand" strategy discussed by Hamel and Prahalad (1984, p. 9, cf also the concept of "product broadening" discussed by Sölvell, 1987. p. 208) did not work.

Moreover, the experience of Volvo as a manufacturer of heavy trucks was found to be less valuable than expected. Although Volvo's experience has no doubt been of fundamental importance for the turn-around of White Motor Corporation, as well as for the subsequent joint-venture with GM, it is equally clear that Volvo has still not succeeded in introducing Swedish-designed trucks and components on any major scale in the U.S. Put differently, the need for product adaptation was vastly underestimated when Volvo Truck Corporation first entered the U.S. market.

It is probably also true to say that the strength of the local component manufacturer's was underestimated, and on two different levels. Firstly, Volvo underestimated the loyalty of the American truck-buyers to the local brands, as well as the strength of their preference for the American truck-manufacturing concept. Secondly, Volvo underestimated the fundamental strengths of the local component manufacturers. It is unlikely that the kind of loyalty shown by the American buyers of truck components is based on sentimental reasons only. Reasonably, they regard local manufacturers as providing better value for money.

Volvo's initial strategy: i.e., to sell trucks built according to the European concept, through a dealer network built by green-field investment, can thus be considered as mistaken. At least judging from present industry conditions, it can be argued that an acquisition of an American truck manufacturer was necessary in order to gain a significant presence on the U.S. market. In this connection, it is important to note that the number of potential acquisition candidates in any concentrated industry is by necessity quite limited. Very considerable first-mover advantages can thus be reaped by early entrants.

Nevertheless, the acquisition of White Motor Corporation only helped Volvo to establish a more significant presence in the U.S. market in terms of number of trucks sold. The primary goal of the Volvo investment, i.e. to create large-scale sales of Volvo components in the U.S., still appears distant. Possibly the present strategy of introducing Volvo components in vehicles for the leasing market will prove successful. In a sense, Volvo would then have back-tracked from its initial strategy of tackling the "brand-hurdle" head-on and instead found a way of entering the U.S. market via the private-label route.

Looking at the total sales figures for Daimler, Volvo and Renault in the area of heavy trucks, one is tempted to draw two conclusions: namely a) the heavy truck industry is becoming a global industry, and b) the European manufacturers have successfully taken the lead in this development by virtue of their entries into the U.S. market. The case of Volvo clearly shows that this view of reality is too simplistic. The relatively large differences in customer preferences between the European and American markets are obviously of great importance for the possibilities of realizing truly global strategies. In the terminology developed by Porter (1986, p. 23), it could be argued that the truck industry is becoming a global industry in terms of "configuration". Global "coordination" has, however, yet to follow. Likewise, and as a consequence of this, although European manufacturers are clearly leading the process of globalisation, the benefits of their strategy still remain to be realized.

Whereas for Volvo Truck Corporation the acquisition of a local manufacturer appears to have been a condition for successful penetration of the U.S. market, the case of Ericsson presents a different picture. Firstly, no acquisition candidates were available in the U.S. market. Secondly, for Ericsson, the AXE-system could in itself, be described as the strategy for entering the U.S. market. The acquisition of another manufacturer of telecommunications equipment, had such an acquisition candidate been available, would have meant insurmountable problems of integration.

The case of Ericsson thus differs from that of Volvo Truck Corporation in that the choice of method for entering the U.S. market could be regarded as given. However, in the process of further penetrating the U.S. market, the two cases turn out to share a number of characteristics. Ericsson, just like Volvo, found building a significant presence in the U.S. market to be considerably more time-consuming than expected. As in the case of Volvo, the difficulties encountered by Ericsson have not resulted primarily from actions of local industry incumbents aimed at keeping foreign entrants out of the market. Rather, what caught Ericsson by surprise, and led to costs considerably in excess of initial expectations, was the demands of American customers. As noted in section 6B.4, the regional Bell companies are independent corporations requiring a return on their capital. They are more sensitive to cost and earnings flows than the traditional customers of Ericsson and, given the attractiveness of the U.S. market to equipment suppliers, their market power is considerable

As in the case of Volvo, a major flaw of the Ericsson strategy for entering the U.S. market may thus be said to have been that the company

underestimated the need for product adaptations and, in consequence also the costs of entering the market, as well as the time necessary for establishing a commercially viable position there. In addition, the situation of Ericsson was aggravated by the simultaneous occurrence of problems with Ericsson Information Systems and the downturn in the market for cables. At Ericsson Telecom there was also a severe drain of resources caused by the need to fulfill important orders in the UK. Although the situation of Ericsson may be described as extreme, it does illustrate what is probably a relatively common problem. The requirements of the American market, particularly the demands for product adaptations voiced by American customers, may overstretch, the resources of even very large corporations.

6.3.4 Managing Swedish Investment in the U.S.

Considering the management of Swedish investment in the U.S., including the management of cultural differences, the case of Volvo Truck Corporation may represent a relatively extreme approach. To a large extent, the model used by Volvo could be described as a benevolent form of cultural imperialism (cf Forss, Hawk & Hedlund, 1984, p. 44). Volvo is a company notable for its strong corporate culture, and in the Volvo case it is difficult to separate elements of management style and culture that could be described as typically Swedish from those that are typically Volvo. Perhaps this separation is not really necessary. It may suffice to note that Volvo does have a very strong corporate culture, which to a large extent appears to be based on values commonly regarded as typically Swedish. For example, we find such elements as participative management, open sharing of information, generally egalitarian attitudes, and the seeking of consensus.

After the acquisition of White Motor Corporation, Volvo appears to have instituted a virtual cultural revolution in what up to that time had been a very traditional American corporation. Interestingly, there are many signs that the "cultural strategy" chosen by Volvo has been a success, and one may speculate on the reasons why. The following arguments may each partly explain the Volvo experience:

-The crisis that preceded the acquisition. A company having undergone a crisis ending in bankruptcy may be expected to be more open to radical change than companies with a history of solid finances.

-The fact that the Volvo management from the very beginning made it clear that their interest in White was long-term, and also took a number of

measures to prove this point. The decision by the CEO of Volvo Truck Corporation to spend one year in the U.S. during the build-up phase of Volvo White Truck Corporation was no doubt an act of great symbolic value (cf the discussion of Sony Corporation provided by Bartlett, 1986, p. 395). The long tenure of managers and the no-lay-off policy applied in the plants have probably also been important in building trust in the company and in helping to achieve a greater level of understanding between the two national groups.

-The fact that a number of programs were started in order to get employees and their families to meet also after work. An exchange program for the children of Volvo and Volvo White families was also instituted, making it possible for American children to spend a Summer in Sweden and offering the corresponding opportunity for Swedish children.

-The participative, consensus-seeking management style that, in itself, provided an opportunity for to bring out differing opinions, misunderstandings, etc. It should, however, be emphasized that the participative management style as practiced within Volvo White must be regarded as relatively paternalistic and more akin to the analysis of Swedish culture offered by Forss, Hawk & Hedlund (1984, p. 37) than the one provided by Hofstede (1980a). Thus, it has been a question not so much of allowing all participants in a meeting to express their opinions as, in fact, of requiring them to do so.

In this connection, it is important to consider situational as well cultural differences. Anecdotal evidence shows that Swedish managers often are disturbed by the career-consciousness of Americans, with the implication that Americans, as opposed to Swedes, are more interested in their own career than in the well-being of their present employer. This observation was supported by the survey findings, which showed that both Swedish and American respondents agree that "Americans are too concerned with hierarchy and titles".

However, it should also be noted that for Americans working for Swedish subsidiaries the career opportunities within the company are normally limited to the subsidiary organization. Similarly, their job-security is dependent on the fate of the subsidiary. It is thus important to create attractive positions within the subsidiary, positions that may also be regarded as stepping stones to attractive careers outside the company. Immediately after the acquisition of White, all titles were removed from the White organization chart, and the number of levels in the management

structure was cut down to a minimum. Once it was realized that these decisions would, in a long term perspective, be detrimental to the company's ability to recruit and retain talented American managers, these decisions were reversed.

Whereas the strategy employed by Volvo Truck Corporation on the American market has undergone a number of relatively dramatic changes, its management style has been stable, as has its management team. This is in sharp contrast with the experience of Ericsson, where there have been a number of dramatic changes of management as well as in organization. Considering the nationality of the top executive in the American organization, this has changed from Swedish to American and (after the completion of the case study) back to Swedish again. Clearly, this development should be viewed in the light of the extreme pressures of that decade on the Ericsson organization. The ill-fated entry into information systems put the entire group in a crisis, the effects of which were deeply at Ericsson Telecom.

The case of Ericsson nevertheless provide a number of examples of difficulties attributable to cultural differences. As noted in section 6B.8, the replacement of people has, in the case of Ericsson, been a major method of adaptation. At times when a lack of market knowledge has been judged to be the most pressing problem, experienced Americans from the Bell organization, and later from ITT, have been recruited. At other times, personnel from the Ericsson organization, experienced in the AXE-system, i.e. normally Swedes, have been given the upper hand. Without judging the relative merits of these various changes, it is hard to avoid the impression that they have hindered the build-up of competence in handling the U.S. market and in managing American operations within the Ericsson organization, as well as shaken the confidence of employees in the future of the company. It is probably fair to interpret the Ericsson case as an illustration of the dangers inherent in trying to leapfrog the build-up of a correct understanding of the U.S. market among Swedish managers, at HQ as well as at the subsidiary, by simply employing a "sufficient number" of Americans.

7 Summary and Conclusions

"There was an unforeseen difficulty to penetrate the U.S. market, although major resources were used"

Comment made by Swedish survey respondent

7.1 Introduction

The aim of this thesis has been fourfold;

1) To describe Swedish FDI made in the U.S., as well as to provide a perspective on these investments by comparing them with FDI in the U.S. emanating from countries other than Sweden.

2) To describe the industry structure facing Swedish firms entering the U.S. market, as well as to evaluate the influence of the local industry structure on the performance of Swedish investors.

3) To describe and evaluate the strategies, particularly the entry strategies, followed by Swedish firms entering the U.S. market.

4) To describe differences in management style and, in general, cultural differences between Swedes and Americans, as well as to investigate the degree to which these differences are regarded as affecting the success of Swedish investors in the U.S. Finally, and as an addendum to this purpose, to discuss possible strategies for the handling of problems identified.

Although these four purposes have been qualified by a number of limitations, they do constitute a very major undertaking. At this point, it is reasonable to ask to what extent they have been fulfilled. What has been learnt so far and which issues have been left unresolved?

7.2 Summarizing the Findings

7.2.1 Describing Swedish Direct Investment in the U.S.

In chapter 3 data from the survey study, as well as from other sources, was used to provide a description of Swedish investment in the U.S. It was noted that, following a general trend, Swedish direct investment in the U.S. increased dramatically during the 1980's. At its peak, in the mid 80's, the flow of Swedish direct investment into the U.S. reached a level of some 30% of the total Swedish FDI.

Considering the characteristics of the Swedish firms investing in the U.S., it was found that, apart from the large Swedish multinationals, also a surprisingly large number of small, and in terms of international operations, inexperienced firms were represented there. In consistency with this picture, a large part of the Swedish subsidiaries in the U.S. were shown to be small, and of relatively recent origin. In many cases, however, these subsidiaries accounted for very significant shares of the total sales of their Swedish parent companies. In spite of their often small size, the activities of the subsidiaries were shown to be wide ranging, often including manufacturing as well as R&D. A vast majority of the Swedish subsidiaries proved to be wholly-owned, possibly reflecting their strategic importance as seen from the perspective of their Swedish parent companies (cf Franko. 1976, pp. 181-82)

An important starting point for this thesis was provided by the simultaneous observation of large Swedish investments in the U.S., and indications of weak performance among Swedish subsidiaries there. The descriptive data reported in chapter 3, in a sense, provided a foundation for the following chapters by confirming that the performance of Swedish subsidiaries in the U.S., indeed, often has been disappointing, both in terms of rates of return (when compared with industry averages), and in terms of costs incurred (when compared with initial expectations).

In this context, the case studies provided what might be regarded as part of the explanation for the fact that Swedish firms, despite disappointing results, continue to show such a strong interest in the U.S. market. Both in the case of Volvo Truck Corporation, and in the case of Ericsson Telecom, the attraction of the American market appeared to lie, primarily, in its perceived importance for the long-term build-up of company-specific advantages. These advantages could stem either from the technological sophistication of the U.S. market, or from its sheer size and, related to this, its ability to absorb increasing development costs. It was suggested that, at

least for large multinationals, the long-term position of the firm within evolving global oligopolies, rather than the hope of short-term gains from the sales of existing products, may be the primary motive for investments in the U.S.

7.2.2 The Industry Structure Facing Swedish Investors

In chapter 4 the market structure facing Swedish investors in the U.S. was investigated along a limited number of variables. It was found that Swedish firms in the U.S. control in most cases relatively modest market shares, and that the vast majority of the Swedish investors are active in highly concentrated industries. However, the hypothesis that high seller concentration in the U.S. market would depress the profitability of Swedish investors was not confirmed by the survey data. Similarly, no support was found for the hypothesis that the existence of non-U.S. competition would depress the profitability of Swedish investors.

While these findings must be interpreted with caution, they nevertheless indicate the need for a certain skepticism in judging the importance of the local industry structure as a barrier to entry in a selected national market. Firstly, the influence of industry structure may, in some cases, be relatively limited. Secondly, the influence of industry structure may be exercised in a far more complex manner than is shown by simple standard measures such as, for example, seller concentration. The latter observation was given considerable support by the case studies.

In the case of Ericsson, the dominance of AT&T has, historically, no doubt constituted a very major structural impediment for new entrants into the American market. However, the break-up of AT&T provided them with a "window of opportunity", and initiated a massive effort not only by Ericsson, but also by companies such as Siemens and NEC, to enter the U.S. market. The principal barrier to penetration of the U.S. market encountered by Ericsson appears to have been not so much the actions of the local industry incumbents, as the difficulty of fulfilling the requirements of potential customers.

In the case of Volvo Truck Corporation the local industry structure has no doubt been a barrier to penetration of the U.S. market. However, the local truck manufacturers are relatively weak and, in addition to Volvo, two other European truck manufacturers have been able to establish beach-heads in the U.S. by acquiring faltering local firms. The local

manufacturers of truck components, on the other hand, are very strong and impose what appears to be a major barrier to the introduction of European-made drive-trains in the U.S. market, by virtue of both strong brand names and vertical ties in distribution.

Somewhat speculatively, it may be argued that with Volvo, as with Ericsson, the actions of local industry incumbents have not, per se, been a significant hindrance to successful penetration of the U.S. market. Rather, the major impediment has been the perception, among potential customers, that the products offered by the European entrants are not sufficiently attractive when compared with the domestic alternatives. Particularly for Swedish firms that follow strategies of a high-margin price policy supported by a high-quality image, the encounter with the U.S. market may be traumatic. Not only do potential customers require product adaptations. Before they will buy an unfamiliar brand; they may also demand very significant price concessions. To judge from the survey findings (cf table 3.24) the price levels prevailing in the U.S. are regarded a major problem by the managers, particularly subsidiary managers of Swedish firms having entered this market.

7.2.3 The Strategies Followed by the Swedish Investors

In view of the strategies followed by Swedish firms, survey data was used to investigate the choice between green-field investments and acquisitions as mode of entering the U.S. market. Four variables were hypothesized to influence this choice: the size, international experience and degree of diversification of the investing firm, and the local industry concentration. It was shown that large Swedish firms are more prone to enter the U.S. market via the acquisition route. Similarly, more experienced Swedish investors were shown to prefer acquisitions. This result, however, did not appear at a statistically significant level. Both of the results agreed with the hypotheses guiding the investigation but were contrary to previous findings, notably those of Dubin (1976).

As argued by Caves and Mehra (1986, p. 474, cf section 4.5.2), product-specialized parent companies may be expected to prefer green-field investments as being easier to integrate. The case of Volvo Truck Corporation, however, highlighted the fact that in some industries an acquisition may be a prerequisite for a successful entry into the U.S. market. While it is evident that in such industries early entrants may reap insurmountable first mover-advantages, the case of Volvo also illustrated the difficulties inherent in integrating such an acquisition with the rest of the corporation.

Further considering post-entry strategies, the hypothesis that Swedish entrants that manage to achieve a high market share in the U.S. should also be more profitable was tested. The relationship established as expected turned out to be positive but not strongly so, and not at a statistically significant level. As noted in section 4.6.2, respondents controlling significant market shares were often active in very narrowly defined niches. Possibly the boundaries of these niches have not been sufficiently strong to allow above-average price levels. To the extent that the build-up of future firm-specific advantages constitute an important reason behind the entry of niche oriented Swedish firms in the U.S. market, this could also provide part of the explanation for their often relatively meagre performance, as measured by current profitability.

The size of the U.S. market, in terms of geography, makes the build-up of a strong distribution network costly (as is also evidenced by the frequency with which survey respondents mentioned this particular problem, cf table 3.24). However, the hypotheses of a positive correlation between the profitability of subsidiaries and the geographical concentration of their sales or, alternatively, the concentration of their sales among a few select customers were not confirmed. Perhaps Volvo and Ericsson are, in this respect, relatively representative of Swedish firms in general, in that they both sell products for which a geographical concentration of sales is not a viable alternative. Significantly, a majority of survey respondents disagreed with the statement that "activities in the U.S. should be more concentrated geographically".

As noted already in the previous section, the extent to which the penetration of the U.S. market by Volvo and Ericsson has been affected by demands for product adaptations is striking. In terms of strategy, one major mistake committed by both these companies appears to have been that they overestimated the attractiveness of existing product designs. Given such mistakes, it is not unnatural that Swedish firms also underestimate the costs of successfully penetrating the U.S. market, as well as the time required for doing so.

7.2.4 Managing Swedish Investment in the U.S.

Judging from the survey findings, most Swedish firms in the U.S. use the so-called mother-daughter structure. According to HQ respondents, Swedish subsidiaries in the U.S. are given a larger degree of autonomy than Swedish subsidiaries in other countries. The degree of formality in the

HQ-subsidary relationship, however, appeared not to differ from the norm. The answers from respondents at the subsidiary level agreed with those provided by HQ respondents in that Swedish subsidiaries were regarded as unusually autonomous; the reference point here was the autonomy allowed non-Swedish subsidiaries in the U.S. By that same norm, subsidiary level respondents, as opposed to their HQ counterparts, were also shown to regard the degree of formality in the HQ-subsidary relationship as unusually low.

It was hypothesized that differences in management style between Europeans and Americans could be expected to have a negative effect on the performance of European firms investing in the U.S. (cf, for example, Franko, 1976, p. 198). In particular, it was suggested that American subsidiary managers could be expected to be frustrated by a perceived lack of clarity in HQ communications, as well as by a perceived lack of strategic guidance from HQ. However, a majority of the subsidiary respondents, Swedes as well as Americans, were shown to find the goals set by HQ as satisfactory. For both groups, the reason for this satisfaction appeared to be, not so much the clarity and explicitness of the goals set, as the fact that the goals set were sufficiently vague to allow flexibility.

At the same time, a majority of all three categories of respondents (i.e. managers at the HQ-level and subsidiary managers, Swedes and Americans) were shown to agree with the statement that long-term goals for subsidiaries should be made more explicit. In total, the survey findings were interpreted as a call for continued autonomy in the day-to-day management of subsidiary companies, coupled with clearer long-term strategic direction (cf Hedlund 1980, p. 26 and Laurent, 1986, p. 99).

With regard to cultural differences, as expressed by differences in work-related values, the survey results indicated considerable agreement among the different categories of respondents. However, disagreement was also shown to exist, and a majority of the respondents in all categories were shown to agree with the statement that "differences in style and way of working between Swedes and Americans create confusion and frustration". Similarly, it was found that a large number, although not a majority, of the survey respondents felt that cultural differences affected the success of their companies in the U.S.

Somewhat surprisingly, the case of Volvo Truck Corporation illustrated that an approach characterized by what might be termed benevolent cultural imperialism (cf Forss, Hawk and Hedlund, 1984, p. 44) is a workable strategy for the management of Swedish subsidiaries in the U.S.

(albeit reasonably not the only one). As compared with the case of Ericsson, the most important implication of the Volvo case is probably is that it highlights the importance of clarity and consistency in the management of U.S. subsidiaries (it should be, however, underscored that the situation of Ericsson has been considerably more difficult to handle than that of Volvo). Too frequent changes of management at the subsidiary negatively affects the morale of subsidiary employees, particularly the Americans, and may also short-circuit the process of adapting to the American market.

While in many ways representing a success story, the case of Volvo Truck Corporation also provided examples of areas where the level of understanding between Swedes and Americans appeared to be less than perfect, again indicating that the cultural differences between Swedes and Americans are indeed considerable. Likewise, the case illustrated the importance of not ignoring the situational differences between Swedes and Americans in terms, for example, of employment security and career prospects within the corporation.

7.3 Theoretical Implications

Internationalization Patterns and the Creation of Firm Specific Advantages

Traditional theories of FDI have emphasized how production pioneering firms have internationalized in order to exploit firm-specific advantages related to demand conditions in the home market (the product-life-cycle model associated, in particular, with Vernon, 1966, 1971, 1979). Oligopolistic reaction, in the form of "follow-the-leader" and "exchange-of-threat" moves (Knickerbocker, 1973, and Graham, 1974, respectively), in this connection, have been suggested as supplementary explanations of FDI patterns.

Already Hymer (1960, p. 25), indicated the *internalization* of company specific advantages, particularly knowledge-based advantages, as one major explanation for the existence of FDI. In more recent formulations of the theory, the benefits of internalization have been given a more explicit, as well as more fundamental role. As argued by Casson (1987, p. 34), the benefits of internalization may, in principle, suffice to explain the existence of MNE's.

The literature in the area of corporate strategy has in recent years highlighted the importance and the implications of competition on an international or even global scale (Hood & Vahlne (eds), 1988, Hout, Porter & Rudden, 1982, Ohmae, 1985, Simmonds, 1985, and Porter (ed.), 1986). As emphasized by Kogut (1987b, p. 3), this development has been founded to a large extent on arguments derived from the theory of FDI/the MNE, particularly the so called Hymer-Kindleberger tradition. At present, there appears to be an increasing parallelism in the development of these two bodies of theory.

In a sense, this development of theory may be said to mirror the development of the object of study itself. A MNE once built on a technical innovation may today base its strength on a superior ability to manage international operations, one aspect of which may be the ability to tap technological innovations from several national markets. It may thus be fruitful to think of internationalization in terms of a vehicle for the creation of firm-specific advantages, more than as an effect of such advantages. For advantage seeking investors (cf Hedlund & Kverneland, 1984, p. 48), host country-, rather than home country characteristics become of central importance (cf McClain, 1986 p. 339). In this connection, the crucial importance of a presence in the U.S. market for the creation of technology related advantages has long been noted (Tugendhat, 1971, p. 71, Graham, 1974, p. 176, Schoenberger, 1985, p. 244).

Another benefit of controlling an international network, may be a superior ability to carry out, or at least threaten, strategic actions such as price discrimination across national markets (Hout, Porter & Rudden, 1982, Hamel & Prahalad, 1985, Casson, 1987, p. 75). A presence in the U.S. market can, given its size, be expected to be of crucial importance also in this context.

In this connection, the cases of Volvo Truck Corporation and Ericsson Telecom provide illuminating examples. Although both of these companies have entered the U.S. market partly in order to exploit existing FSA, the probably most important motive behind these investments has been the build-up of future FSA. Given the very considerable difficulties encountered in the U.S. by these two firms it may, in fact, be argued that their continued efforts to penetrate this market can be understood *only* in light of such a dynamic perspective.

It becomes of interest to consider the *process* by which firms enter foreign oligopolistic markets. Sölvell (1987, p. 219) noted that there is a considerable difference between barriers to entry and barriers to

penetration. The case of Volvo Truck Corporation very clearly illustrates the validity of this observation. Despite considerable experience as an international exporter and manufacturer of trucks, despite previous experience of the U.S. market (in the area of passenger cars), and despite continuous efforts over a fifteen year period (including a major acquisition), Volvo has still not managed to penetrate the U.S. market with its own truck designs or components. Ericsson Telecom, in spite of very considerable experience from selling telecommunications systems in many and diverse markets (cf Bartlett & Ghoshal, 1990, pp. 233-240), is still struggling to make its third effort to penetrate the U.S. market commercially viable.

Although these findings need not be interpreted as indicating any flaw in the concept of strategies for global competition, they do provide an illustration of how far away the realization of the professed advantages of such strategies may be in many industries. More fundamentally, and akin to the above discussion of firm-specific advantage as following from a superior ability to identify and exploit critical sources of learning, findings of this type also signify that the advantages of global competition should, perhaps, not primarily be thought of in terms of scale effects and experience effects in the manufacture of standardized products. (cf Bartlett & Ghoshal, 1990, p. 220). The Volvo experience, in this connection, also casts some doubt on the concept of "global brands" as developed by Hamel and Prahalad (1984, p. 9, cf also Sölvell, 1987, p. 208).

Further considering, the manner in which host industry structures are penetrated by foreign entrants, Sölvell (1987, p. 219) observed:

"Host industry structure does not dictate a single superior penetration strategy. Despite tight oligopolistic structures, there seems to be room for various strategic paths or logics among foreign entrants"

The experience of Volvo, as well as that of other European manufacturers of heavy trucks that have tried to penetrate the U.S. market indicate, however, that there may be exceptions to this rule. In national markets dominated by indigenous firms selling differentiated products and controlling strong brand names an acquisition of (or, alternatively, a joint-venture with) one of the local industry incumbents may be a prerequisite for successful entry. In such cases first-movers may, obviously, be able to reap decisive advantages.

Realizing the Benefits of Global Strategies

In order to create *future* FSA's of the kind indicated above a firm will, obviously, need to already control advantages of other kinds. One obvious example is the financial resources needed to sustain often very considerable periods of only marginal results, or even losses, on operations in markets that are judged important for the development of future FSA. In a sense, this kind of activity could be regarded as akin to the concept of cross-subsidization described by Hamel and Prahalad (1985, p. 144, cf also Horst, 1974, Hout, Porter & Rudden, and Casson, 1987). In order to successfully pursue this kind of strategy a firm will, however, also have to control a more fundamental type of advantage, i.e. the ability to identify and exploit critical sources of learning (cf McClain, 1986 p. 339).

As argued by Porter (1986, p. 23) two key dimensions for separating domestic from international competition are "configuration" and "coordination". As previously indicated, the realization of the benefits of international (let alone global) competition, in terms of coordination, may in many industries still be distant. The experiences of Volvo and Ericsson, however, indicate that in order to secure their positions in future global industries, many firms may already today be facing critical decisions in terms of configuration (in some industries the critical moves may, in fact, already have been made).

Volvo, together with Daimler-Benz and possibly also RVI clearly constitute examples of what following Sölvell (1987, p. 228) may be termed "international change agents", i.e. "drivers of structural change towards international competition". Depending on its future success Ericsson Telecom may also prove to belong to this group.

In this context, the case of Volvo Truck Corporation provides an illustrative example of what has been termed "strategic intent" (Hamel & Prahalad, 1989, p. 64). The means for penetrating the U.S. market have changed dramatically over the fifteen-year period during which Volvo Truck Corporation has been active in the U.S. (from green-field entry to a coalition, and via an acquisition to yet another coalition). The strategic purpose of the investment has, however, remained the same: i.e., the large scale introduction of Volvo components on the U.S. market. As argued by Hamel and Prahalad (*ibid*):

"Strategic intent is stable over time. In battles for global leadership, one of the most critical tasks is to lengthen the organisation's attention span. Strategic intent provides consistency to short-term action, while leaving room for reinterpretation as new opportunities emerge."

To the extent that Swedish firms enter the U.S. market (or for that matter any other national market) wholly or partly in order to develop new FSA's, rather than to exploit existing ones, processes of change and learning thus come into focus. This implies a radically different HQ-subsidiary relationship. Instead of operating as a peripheral vehicle for the exploitation of FSA's developed at the core of the corporation, a subsidiary will be assigned the role of developing FSA's, as well as of funneling them back to the core (cf Hedlund & Rolander, 1987). This, in its turn, indicates a relatively more prominent role for the management of MNEs, as opposed to the development of strategy (cf Bartlett, 1986, p. 368).

Competitive Interactions

Following the Hymer-Kindleberger tradition, particularly as developed by Knickerbocker (1973) and Graham (1974) the internationalization patterns of oligopolistic industries could be expected to consist of relatively predictable sets of actions and reactions, one part of which would be the avoidance of the home markets of particularly strong industry incumbents. As argued by Sölvell (1987, 222):

"With a fear of disturbing a state of mutual accommodation, countries with strong indigenous firms (implying high entry barriers) are avoided over long periods, while other more distant countries are penetrated."

Considering the experience of Volvo, Daimler-Benz and RVI it may, however, be argued that, at least in some industries, it is not primarily the fear of retaliatory moves from local industry incumbents that deter the entry of foreign firms. Rather, the most powerful barrier to the entry of foreign firms is the existence of strong local consumers with requirements particular to this market. Put differently, in very large national markets, such as the American one, entry barriers in terms of product differentiation may be high without implying the existence of, in terms of retaliatory capacity, strong indigenous firms. In such markets, it need not necessarily be true that, as argued by Buckley (1983, p. 48): "local firms

no longer have an advantage" as compared with "well established, widely diversified, efficiently managed multinationals."

In the traditional industrial-organization literature, a very central role for the determination of the competitive climate within an industry is assigned to the seller concentration variable (cf Bain, 1956, p. 124). In the part of the literature within the area of strategy which has been founded on the IO tradition, seller concentration, similarly, is given a crucial role as determining the attractiveness of industries as well as of positions within industries (cf, for example Porter, 1980). However, to judge from the survey data, the influence of the local seller concentration on the performance of Swedish entrants in the U.S. has been very limited indeed. Interpreting this finding in light of the case of Volvo Truck Corporation leads to the tentative conclusion that the influence of industry structure may often be exercised in considerably more complex manners than what is apparent from the traditional models. Bargaining positions in the vertical chain, such as suppliers of key components and buyers, are key structural characteristics.

Further considering the American market for heavy trucks, is interesting to note the virtual absence of reactions from American manufacturers to the entries made by the Europeans. If anything, the European operations of the American truck manufacturers in the 1980's, have been characterized by further retrenchments from already weak positions. Weak global positions among the U.S. truck manufacturers precluded effective retaliatory moves in Europe. Clearly the development of this industry is not shaped by rules set by the local industry structure. Rather it is driven by a number of firms determined to change the existing order (cf the concept of international change agents as developed by Sölvell, 1987, p. 228).

The Role of Management

The call for more closely integrated strategies, inherent in the recent development of the theory of FDI/the MNE and further developed in the strategy literature, has very significant implications for the organization and management of the multinational enterprise. Combining local adaptation and responsiveness with increased world-wide integration or, as expressed by Doz (1986, p. 188), "managing for operating efficiency within the network, and managing for effectiveness at its margins" is a very complicated task indeed. As argued by a number of authors (Bartlett, 1986, Doz, 1986, and Hedlund 1978, 1980 and 1986) new models for the

organization and management of the MNE are probably called for. In these new models, such relatively elusive phenomena as shared norms and ideas (cf Hedlund, 1980, p. 34) may be expected to play an important part. This, in its turn, indicates that the management of cultural differences will become increasingly important. At a subsidiary, a primary role of which is to develop new products and new approaches to the market, a climate characterized by lack of understanding between national groups could obviously be disastrous. So would the effects of a lack of understanding between HQ and subsidiary personnel.

Going back to the judgments made by the survey respondents about their own and the opposite national group, it is striking how Swedes and Americans appear to disagree in areas which might be hypothesized to be critical for the ability of an organization to learn and to change. To think that the opposite national group "is used to and want direct instructions", "fear making mistakes", and "resist admitting that they have made a mistake" (cf section 5.5) is hardly conducive to the creation of a climate characterized by trust and the open sharing of information.

The experience of Volvo in this respect indicates that what may be termed a policy of cultural imperialism may, quite unexpectedly, be successful. Perhaps the most interesting aspect of the Volvo case, however, is that it also highlights the conditions for such a success (cf Bartlett, 1986, p. 395). Firstly, and particularly after the the acquisition of White Motor Corporation, Volvo has been careful to inform not only managers, but also blue-collar workers, as well as other important stakeholders, about the long-term intentions underlying the Volvo investment. Secondly, this message has been reinforced by, as expressed by Bartlett (ibid) "the visible behaviour and public actions of senior management". Thirdly, a number of "policies, practices and systems" have been instituted, at all levels, to promote greater trust in the company.

There are a number of indications that the consensus-seeking management style typically adopted by Swedish multinationals is often regarded as indecisive and difficult to understand by non-Swedes (Hedlund, 1980, Hedlund and Åman, 1983, and Laurent, 1986.). In the case of Volvo, however, the process of establishing consensus appears to have been used as a vehicle for the removal of misunderstandings between Swedes and Americans. It should, however, be underlined that this effect did not follow automatically, but rather as a consequence of very conscious efforts to clarify the purposes of the approach. If, as suggested by Hedlund (1986, p. 33) the future organization of the MNE should provide a "renaissance"

for the Swedish model", this will reasonably have to be a reformed or, perhaps better, more informed variety of this model (cf note 2, chapter 5).

New Internationalization Patterns?

In view of earlier research on the process by which firms become internationalized, particularly the so called "Uppsala Internationalization Model" (Hörnell et al, 1973, Vahlne 1974, Johanson & Vahlne, 1977), the observation, in the survey data, of a relatively large number of companies with no or very limited experience in operating internationally, that had established their first and only subsidiary in the U.S. merits further attention. Do these firms represent a new trend of quicker and more daring internationalization strategies, compared with established patterns (cf Hedlund & Kverneland, 1984, and Nordström, 1988) or do they only constitute an exception to the rule, created by the extremely strong bandwagon effect towards the U.S. market (cf Aharoni, 1966) that may be said to have characterized a large part of the 1980's?

Lindqvist (1990) investigating the internationalization patterns among small, technology intensive Swedish firms found that among these firms, an important motive for entry into large markets such as the U.S. one was the existence of advanced customers. To the extent that motives of this character underly rapid entries into the U.S., this would constitute a deviation not only from the "Uppsala Model" but also from the predictions made by traditional FDI theory., in particular as represented by the product-life-cycle model (Vernon, 1966, 1971 & 1979, cf also Hedlund & Kverneland 1984, p. 49).

The Special Role of the U.S. Market

As argued above, for many firms the U.S. market can be expected to be of vital importance for the development of firm-specific advantages, this by virtue of its size as well as its technological sophistication. This also suggests that subsidiaries located there should be assigned a special importance by their parent companies, a recommendation further underscored by the very demanding nature of this market. However, as noted by Bartlett & Ghoshal (1990, pp. 241-2), MNE's tend to treat all their subsidiaries in a uniform manner, disregarding the fact that the strategic importance of different subsidiaries may vary dramatically.

At an entirely speculative level, it may thus be argued that an important explanation for the fact that the performance of foreign firms in the U.S., in general, has been disappointing (section 3.4), could be that these investment have not been given sufficient attention by parent companies. In this connection, two observations from the subsidiary data not hitherto commented are of interest (cf note 1 to this chapter). First, the survey data suggest that previous experience in international operations may be of limited relevance for the performance of firms entering the U.S. market, suggesting that the conditions for success in the U.S. market are, indeed, both special and especially difficult. Second, the survey data also suggest that firms having long experience in operating in the U.S. are not significantly more successful than others. This observation has to be interpreted with caution. It may, for example, be that earlier entrants are primarily active in industries with generally lower levels of profitability than are recent entrants. It may, however, also be that a considerable number of these companies have been caught in vicious circles where insufficient resource commitments and short-circuited learning processes (cf sections 6.3.1.4 and 7.4) are causing the dream of a successful penetration of the U.S. market to remain - a dream.

7.4 The Lessons Learnt - Implications for Managers

This thesis has covered a large number of questions related to Swedish direct investment in the U.S. Some of these questions have been answered, some have been left unresolved, and a few further questions have been raised. To briefly summarize the findings from this investigation is impossible and may not even be desirable. From the point of view of the practicing manager, the text should probably be regarded more as a dictionary of the experiences of Swedish investors in the U.S. The manager whose focus of interest is the management of Swedish subsidiaries in the U.S., including the management of cultural differences would, for example, probably do well to concentrate on chapter 5 and appendices 18-19. The following comments may, however, be said to represent the key findings of the thesis:

Swedish direct investment in the U.S. has been considerable and although the importance of the U.S. market as a recipient of Swedish FDI has declined somewhat during recent years, its size and technological sophistication will make it a highly attractive target for Swedish investment in the future as well. Although attractive, the U.S. is, however, also a very difficult marketplace, as can be illustrated by the survey findings presented

in chapter three. The two case studies presented in chapter six provide what may be an even better example. Although both Volvo and Ericsson may be described as slowly approaching the realization of the strategic goals that governed their respective entries into the U.S., the full realization of these goals, after several years of concentrated efforts, still appears distant. The implications of this finding may differ considerably, depending on the situation of the potential investor.

For companies in industries in which the U.S. market is of limited importance, in terms of the relevance of strategies based on global competition, a very careful stance towards the U.S. market is recommended. It should be realized that, at least in the short run, entry into the U.S. market is not a way of solving problems (e.g. finding a market for excess capacity). Instead it is a fairly sure method of creating very significant problems. This is not to say that entry into the U.S. should not be contemplated. Rather, the implication is that *if and when* such an entry is considered, it is vitally important to reserve the resources needed to make it a success. Critical resources appear to be;

a) Management capacity (key managers may have to spend considerable amounts of time on the U.S. venture).

b) Willingness and ability to adapt products to the U.S. market, as well as to develop new generations of the product, should it prove successful (American customers are demanding, and American competitors may be soon to imitate a successful concept).

c) Capacity to absorb the costs of entering the U.S. market, and to survive a sustained period of losses by the U.S. subsidiary. In addition to product-development costs, the costs of building a sufficiently large distribution network may often be considerable. Furthermore, price is an important competitive weapon in the U.S. market. It should also be noted that for a small firm initial success in the U.S. may lead to severe difficulties. The U.S. market is huge, and even a limited success may soon overstretch the production capacity of a small firm. Market share gained may thus soon be lost to domestic competitors. The disaster sequence is represented by the small firm which makes a significant addition to its production capacity only to discover that, meanwhile, the U.S. demand for the product has disappeared. (Appendix 14 provides a number of illustrations of the points made so far.)

For large Swedish multinationals, the situation may be different. The difficulties connected with a successful entry on the U.S. market may

remain the same, but the arguments for making such an entry may also be much stronger. In any industry showing signs of developing towards global competition (the costs of developing new products may, for example, be reaching a level where even a considerable share of a regional market will not be sufficient to cover them), a presence in the U.S. market would naturally be considered. For firms belonging to this category, an entry into the U.S. market may even be regarded as a must. However, for this group, too, the pitfalls related to entry into the U.S. market are considerable.

To judge from the cases of Volvo and Ericsson, even large and internationally experienced Swedish multinationals seem to underestimate the difficulties presented by the U.S. market. Underestimation of the need to adapt products to the U.S. market appears to be particularly common. The potential for global competition is very different from its realization. Assuming that global competition is coming in the truck industry, Daimler-Benz and Volvo are certainly better positioned than their regional European competitors. However, so far neither of these two firms have managed to integrate their European and American operations, and their gains from entering the U.S. market remain marginal indeed.

Again, the above arguments should not be interpreted as recommending that U.S. investments be avoided. As illustrated by the Volvo case, acquisitions may be a prerequisite in some industries for a successful entry into the U.S. market, thus creating what might be termed absolute first-mover advantages. In other industries, the structure of distribution networks or similar circumstances may limit the number of commercially viable positions in the marketplace. For example, there seems to be an established consensus in the telecommunications industry that in addition to Western Electric and Northern Telecom, there will be room for only one more major equipment supplier in the U.S. However, the fundamental message is that successful entry into the U.S. market even for large and experienced organizations involves very substantial commitment over a long period of time. If an entry into the U.S. market is deemed desirable, or even necessary, it is imperative that this venture is given top priority. (One good illustration of such a commitment is to move the CEO of the entire company to the U.S. for an extended period of time.)

This thesis started out with the presumption that the structure of American industry, particularly as measured by seller concentration would constitute a major barrier to successful entry and penetration of the U.S. market by Swedish firms. However, at least for the companies participating in the survey, this factor appeared to be of relatively minor importance. Again,

as is evident from the case of Volvo Truck Corporation, one explanation for this non-result may well be that the effects of industry structure are too complicated to be revealed by simple single measures. One normative conclusion that can be drawn from this finding is that Swedish firms contemplating entry into the U.S. market should make sure that they have identified the critical elements of the local industry structure; e.g. who are the actors setting the competitive climate in the industry - the original equipment manufacturers, the end users or, perhaps, the component manufacturers?

More fundamentally, however, it may be argued that it is a mistake to believe that concentrated industry structures, per se, constitute a significant barrier to successful entry and penetration of the U.S. market. The most powerful force stopping new entrants from gaining a firm foothold on the market may instead be the requirements of potential customers. Perhaps the greatest strategic mistake made by Swedish firms entering the U.S. market is thus their lack of willingness to adapt their products to the American market. In a sense, this is not an unnatural approach. For a multinational firm active in many small and mid-sized national markets, excessive sensitivity to local market conditions could be disastrous in terms of production costs. What must be remembered, however, is that the U.S. is not just any market. Its size, for many products roughly equivalent to one third of the total world market, also justifies relatively major product adaptations. Furthermore, the size and general attractiveness of this market ensures that firms not willing to adapt to the local market conditions will soon be replaced by others.

Judging from the survey study (table 3.24 and appendices 14-15, cf also the case of Volvo Truck Corporation), another major mistake made by Swedish entrants is to underestimate the difficulties and the costs involved in building a sufficiently strong distribution network. Again, this is a natural consequence of an (apparently not uncommon) tendency to underestimate the actual size of the U.S. market.

Considering the area of management, it was hypothesized that differences in management style and, in general, cultural differences between Swedes and Americans would constitute another obstacle to the successful entry and penetration of the U.S market by Swedish firms. The survey study to a large extent confirmed this hypothesis. Considering the comments listed in appendices 14-15 it is, again, striking how often problems related to management and the recruitment of managers are mentioned, particularly in the comments made by subsidiary managers (cf also table 3.24).

These observations put the focus on another, probably very common, mistake made by Swedish entrants into the U.S: namely, the belief that Americans, as opposed to the French, the British, the Italians, and many other nationalities, are just like Swedes. Over time, and given a climate conducive to learning, these problems should not be too difficult to overcome. However, this statement has two important limitations. Firstly, it is not evident that the time available will allow a slow learning process. For a firm with limited financial resources initial mistakes made, may cause permanent damage to its American venture. Secondly, it is not evident that the necessary learning process will take place, even if allowed considerable time to develop.

It is relatively easy to imagine patterns of action in which Swedish subsidiaries in the U.S. end up in vicious circles, with the misfortunes of the company being blamed on either the "Swedish mentality towards U.S. marketing" (by the Americans, cf appendix 15), or on difficulties encountered in "making Americans understand the soul of our company" (by the Swedes, cf appendix 15). It is vital to avoid situations where important actions are delayed by a lack of trust and understanding between Swedes and Americans. The creation of such trust and understanding is thus a very important task. To suggest methods for its accomplishment has not been a primary aim of this thesis. The two case studies, however, provide the foundation for a few hypothetical reflections.

Consistency and clarity emerges as predominant characteristics of the management of the U.S activities of Volvo Truck Corporation. Perhaps this consistency has been a natural consequence of the management style chosen by Volvo, i.e. the forceful introduction of a relatively paternalistic variety of the Swedish management style. In total, the Volvo case may be said to illustrate that, in the area of management, adaptation to local norms and values is not necessarily the only strategy, or even the best one. Paraphrasing Forss, Hawk and Hedlund (1984, p. 44), it could be argued that the "natives" may, in fact, prefer a genuine Swede to a false American.

While "cultural imperialism" may be a workable strategy for the management of Swedish subsidiaries in the U.S. it must again be emphasized that there may often be important situational differences between the Swedes and the Americans. For Americans, the American subsidiary essentially sets the limits for future careers with the company, and it is therefore very important to give the subsidiary an organizational structure, including remuneration systems etc., that make such a continued career attractive.

In this connection it should, finally, be emphasized that the premature replacement of managers who have, in fact, just reached the stage of starting to operate effectively in the U.S. is probably one of the most effective ways of permanently short-circuiting the process of adapting a firm to the demands made by the American market. This holds true regardless of whether the manager being replaced is a Swede, who has just begun to understand the U.S. market, or an American, who has just begun to understand the organization and the culture of the Swedish parent company.

7.5 Suggestions for Future Research

This thesis cannot claim to have answered all the questions it set out to study. In some cases the data gathered has not provided the foundation for complete analyses; in others, the explorative nature of the questions asked has precluded the identification of complete answers. In addition to the unresolved issues, the research process has, in itself, generated a few further questions regarding Swedish direct investment in the U.S. The following, may be of interest as suggested directions for future research:

-In light of previous research on the internationalization process (cf section 4.3.2), it would be of great interest to study the future development of the group of small, and internationally inexperienced firms with investments in the U.S. that was uncovered by the survey study. In particular, it would be of interest to study how these companies have handled problems related to capital requirements, the build-up of distribution networks and the development of new products.

-With the large incidence of Swedish investors reporting disappointing results on their U.S. operations, it would be of interest to collect longitudinal survey data on Swedish investment in the U.S. Such an investigation might also help in part to overcome one of the more obvious methodological limitations inherent in all investigations based on cross-sectional data, i.e. the fact that the total failures, the companies that did not survive long enough to be included in the survey, are never subject to investigation. Information about the reasons for the failures observed, as well as about the repercussions of those failures on parent companies, would be of particular interest.

-It might also prove fruitful to prepare case studies of a larger number of companies and in so doing further investigate those which according to

survey data appear to represent either success stories or failures. Do the survey data really tell the full story and, if so, what appear to be the main explanations for the observed results. Areas of interest would include the initial reasons for the investment, industry conditions, choice of strategy and management style.

-More comprehensive case studies of a small number of companies could provide more data about the processes by which Swedish firms adapt to the U.S. market. To judge from the cases of Volvo Truck Corporation and Ericsson Telecom, successful entry into the U.S. market may entail very major changes of strategy and/or of organization and management. How do Swedish firms entering the U.S. handle these change processes. and can they be managed in a more efficient manner, one that make them more receptive to learning and change? In this connection, it would also be of considerable interest to further investigate the positive correlation between the autonomy allowed to subsidiaries and their performance, that was uncovered by the survey study.

-Comprehensive case studies could also lead to a more thorough understanding of the extent to which the American operations of Swedish investors really contribute to such professed objectives as the gaining of technological competence and the spread of development costs over larger production volumes. In other words, given the often relatively large product adaptations necessary for the build-up of successful operations in the U.S., can the advantages of integration still be realized?

Notes to Chapter 7

1) As is evident from table 7.1 and 7.2, the survey data fail to confirm the hypothesis that experience in itself, either in international operations in general or in operations in the US in particular, have any significant influence on the profitability of Swedish subsidiaries in the U.S.

Table 7.1 Performance of US Subsidiaries, as Judged by HQ respondents, by Year of Establishing First Wholly-Owned Subsidiary Abroad. (Number of Companies.)

Result Comp. With Industry Average	First Subsidiary			
	-1920	1921-1959	1960-1979	1980-1985
Much Worse	2	1	12	4
Worse	3	9	18	8
As Average	2	5	9	2
Better	1	4	15	6
Much Better	-	1	3	3

n = 108

Kendall's Tau B = 0.04 p = 0.29

Table 7.2 Performance of U.S. Subsidiaries, as Judged by HQ Respondents, by Year of First Green-Field Entry into the US. (Number of Companies.)

Result Comp. With Industry Average	First Entry: -1974	First Entry: 1975-1985
	Much Worse	5
Worse	14	15
As Average	5	7
Better	8	10
Much Better	1	4

n = 80

Kendall's Tau B = 0.008 p = 0.47

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Appendices

Table of Contents

Appendix	1	Interviews Made while Constructing the Questionnaire	1
Appendix	2	The Advisory Board of Swedish Investment in the U.S.	2
Appendix	3	Survey Instrument: HQ Section	3
Appendix	4	Survey Instrument: Subsidiary Data Section	18
Appendix	5	Survey Instrument: Subsidiary Interpretative Section	25
Appendix	6	Cover Letter for Survey Instrument	39
Appendix	7	Letter of Recommendation for Survey	40
Appendix	8	Survey Instrument: HQ Section, Abbreviated Version	41
Appendix	9	Survey Instrument: Subsidiary Section, Abbreviated Version	46
Appendix	10	Form Used Together with Surveys Sent to Companies Listed by the Bank of Sweden	51
Appendix	11	Companies Participating in the Survey	52
Appendix	12	Products Sold by the Companies in our Sample	56
Appendix	13	Companies Listed by SACC, but not Participating in the Survey	60
Appendix	14	Most Difficult Problems Encountered in the U.S., as Judged by HQ respondents	61

Appendix	15	Most Difficult Problems Encountered in the U.S., as Judged by Subsidiary Respondents	63
Appendix	16	Selected Tables from Chapter 4	67
Appendix	17	Subjective Division of Post 1974 Entrants into the Categories Single, Dominant, Related and Unrelated Business	73
Appendix	18	Answers to Questions on Management Style	75
Appendix	19	Answers to Questions on Cultural Differences	77
Appendix	20	Interviews Made, and Other Sources Used, when Preparing the Volvo White Truck Corporation Case	81
Appendix	21	Interview-Guide for the Volvo Truck Corporation Case	84

Interviews Made While Constructing the Questionnaire

Executives Interviewed in Sweden:

Bert-Olof Svanholm	Executive Vice President, ASEA AB
Evert Wijkander	Vice President & General Manager, ASEA Metallurgy
Hans Sandberg	Vice President & General Counsel, Atlas Copco AB
Per Wejke	President, Atlas Copco MCT AB
Olle Ulvenholm	Vice President, Ericsson Radio Systems
Lars Otterbeck	Executive Vice President, A. Johnson & Co.

Executives Interviewed in the U.S.

Åke Nyborg	President, AGA Gas, Inc.
Åke Hedvall	Vice President (Finance), AGA Gas, Inc.
Pat Murphy	Vice President (Production), AGA Gas, Inc.
John J. O'Hara	President & CEO, ASEA, Inc.
Håkan Ledin	Chairman of the Board & President, Ericsson, Inc.
Thage Berggren	President & CEO, Volvo White Truck Corp.
George Marik	Vice President, Human Resources, Volvo White Truck Corp.

The Advisory Board of "Swedish Investment in the U.S."

C. Frank De Meo	President & CEO, Atlas Copco North America, Inc.
B. John Heistein	President, Scandinavian Airlines of North America, Inc.
Berth Jönsson	Vice President, Human Resources, AB Volvo
Håkan Ledin	Chairman of the Board & President, Ericsson, Inc.
John J. O'Hara	President & CEO, ASEA Inc.
Lars Otterbeck	Executive Vice President, A. Johnson & Co.
Gunnar Hedlund	Director IIB
Michael Maccoby	Director PTWC
Lennart Strömberg	Director FA rådet

SWEDISH INVESTMENT IN THE USA

HQ SECTION

Dear Chief Executive Officer:

This questionnaire exists in three versions (subsidiary DATA section, subsidiary INTERPRETATIVE section and HQ section), whereof this is the HQ section. The first six questions of this section can be filled out by any manager with access to company statistics. The rest of the survey is best filled out by the person it is addressed to, as it requires consideration based on personal experience. Chief Executive Officers in the U.S. and Sweden have pre-tested this part of the survey, completing it in about 20 minutes.

ALL INFORMATION GATHERED BY THIS SURVEY WILL BE TREATED AS STRICTLY CONFIDENTIAL. WHEN REPORTING THIS RESEARCH, ONLY AGGREGATE NUMBERS AND ANONYMOUS QUOTES WILL BE USED.

The results of the study will be presented both in the form of written reports, which you will receive free of charge, and in the form of seminars to which you, of course, will be invited.

Please return the questionnaire, before the 25th of November, to:

Lars Ågren
Institute of International Business
Stockholm School of Economics
Box 6501
S-113 83 STOCKHOLM, Sweden

Ph. 46-(0)8-736 01 20

2. Could you please indicate in what year the following events occurred:

(1) First wholly-owned subsidiary Year
outside Sweden

(2) First greenfield investment Year
in the U.S.

(3) First acquisition in the U.S. Year

3. How many wholly-owned subsidiaries outside Sweden does your company have today?

No. of foreign subsidiaries

4. What percentage of your total sales in 1984 were outside Sweden?

%

5. What percentage of your total sales in 1984 were in the USA?

%

6. What percentage of your total sales do you expect to be in the USA in 1990?

%

PLEASE NOTE THAT QUESTIONS (7 THROUGH 13) APPLY ONLY FOR THE LARGEST OF YOUR U.S. SUBSIDIARIES.

7. In your experience, which have been the most difficult problems to tackle on the U.S. market during the last 10 years? (Please try to list the three most important issues in order of importance, 1 = most important)

- (1)
.....
.....
- (2)
.....
.....
- (3)
.....
.....

8. Which goals have you emphasized in your communication with your largest U.S. subsidiary during the last three years? (Please rank the provided alternatives from 1-6, 1 = most important)

- (1) Profits in absolute terms (US\$)
- (2) Return on investment (%)
- (3) Sales volume
- (4) Market share
- (5) Rate of growth
- (6) Other (please specify)
.....
.....

9. Compared with practice in your group of companies, how would you characterize the lines of communication between HQ in Sweden and your U.S. subsidiary?

- (1) Much more formal
- (2) More formal
- (3) No difference
- (4) More informal
- (5) Much more informal

10. Again, compared with practice in other subsidiaries, what degree of autonomy is given to your U.S. subsidiary?

- (1) Much less autonomy
- (2) Less autonomy
- (3) No difference
- (4) More autonomy
- (5) Much more autonomy

11. Considering "normal" rates of return within the industry (i.e. as compared with competitors), would you characterize the results of your U.S. subsidiary over the last three years as:

- (1) Very much below average
- (2) Below average
- (3) Average
- (4) Better than average
- (5) Much better than average

12. If your U.S. subsidiary was acquired/set up in or after 1975:

How do you perceive the costs for entering and penetrating the U.S. market when compared with your initial expectations?

- (1) Much lower than expected
- (2) Lower than expected
- (3) As expected
- (4) Higher than expected
- (5) Much higher than expected

13. How would you characterize the formal organization of your company? (Please choose the form which most closely resembles your group.)

- (1) One parent company in Sweden to which all subsidiaries report
- (2) International division (all subsidiaries report to one international division)
- (3) Global product divisions (product divisions have their "own" subsidiaries not shared with other product divisions)
- (4) Geographical divisions (like i.e. Europe, North America, etc.)
- (5) Matrix (like i.e. product/geographical dual structure or functional/product matrix)
- (6) Other (please specify)
-
-
-

Comments:
.....
.....
.....
.....

The following questions concern work, management, culture, and corporate strategy. There are no right or wrong answers. All answers are valid and necessary for an accurate study.

14. How well does each statement describe your approach to work?
(Please circle the appropriate alternatives)

- | | Very well | Somewhat | A little | Not at all |
|---|-----------|----------|----------|------------|
| (1) You approach your work as an expert. Whatever your job, you want to provide high quality work and to exercise your skill and competence. | 1 | 2 | 3 | 4 |
| (2) You approach your work as a helper. You want to help people. | 1 | 2 | 3 | 4 |
| (3) You approach your work as a defender. You want to defend against those who do harm, or who undermine the values essential to good management. | 1 | 2 | 3 | 4 |
| (4) You approach your work as a helper to those in positions of leadership. You want to strengthen your company by serving well those who have the authority to make decisions. | 1 | 2 | 3 | 4 |
| (5) You approach your work as an innovator who knows how to play the bureaucratic game. You want to win by making the company more successful. | 1 | 2 | 3 | 4 |
| (6) You approach your work as a means to a self-fulfilling life. You want your work to further your own development. | 1 | 2 | 3 | 4 |

15. Which of the above approaches to work are most important to you? Please put the letter of those items in these boxes:

1st Choice 2nd Choice

16. In your opinion, which of the above approaches to work are most important to Americans?

1st Choice 2nd Choice

17. In your opinion, which of the above approaches to work are most important to Swedes?

1st Choice 2nd Choice

18. How well does each statement describe your approach to management? (Please circle the appropriate alternatives)

	Very well	Somewhat	A little	Not at all
(1) As a manager, you are a defender. (You build a team of those who share your values and whom you can trust. Your people perform for you because they know you will defend them.)	1	2	3	4
(2) As a manager, you are helpful and care about developing subordinates. (You manage by emphasizing openness and participation in decision-making. You believe that people are motivated by stimulating work.)	1	2	3	4
(3) As a manager, you are instrumental. (You look for subordinates who are sharp, motivated and ambitious and you give them opportunities.)	1	2	3	4
(4) As a manager, you are a monitor. (You see management as essentially making sure that your subordinates follow the rules and do the work in a way you consider most appropriate.)	1	2	3	4
(5) As a manager, you are a coordinator of self-motivated experts. (You like to be a resource for a team building something of high quality or implementing policy professionally.)	1	2	3	4
(6) As a manager, you are a gamesman. (You want to win at the bureaucratic game and you tailor your management style to get results.)	1	2	3	4

19. Which of the above approaches to management are most important to you?

1st Choice 2nd Choice

20. In your opinion, which of the above approaches to management are most important to Swedes?

1st Choice 2nd Choice

21. In your opinion, which of the above approaches to management are most important to Americans?

1st Choice 2nd Choice

Please indicate the extent of your agreement or disagreement with the following statements.

	Strongly agree	Agree	Disagree	Strongly disagree
22. More reports from the U.S. subsidiary are needed	1	2	3	4
23. US-HQ reporting relationships should be made clearer	1	2	3	4
24. Product divisions (or corresponding units) should be given more influence over the subsidiaries	1	2	3	4
25. Short-term goals for the subsidiaries should be stated more explicitly by HQ	1	2	3	4
26. Long-term goals for the subsidiaries should be stated more explicitly by HQ	1	2	3	4
27. The organizational structure of the entire group should be made clearer	1	2	3	4
28. Follow-up on the subsidiaries by HQ performance should be quicker	1	2	3	4
29. The incentive structure for U.S. management should be more directly coupled to performance	1	2	3	4
30. Courses and training for non-Swedish managers is given too much attention	1	2	3	4
31. Training of Swedish managers is given too little attention	1	2	3	4
32. Rotating non-Swedish personnel internationally is given too little attention	1	2	3	4
33. HQ should take action more quickly when problems occur in the subsidiaries	1	2	3	4
34. Swedish managers' U.S. contracts are of sufficient length allowing them to become effective in the United States	1	2	3	4
35. Top jobs in the U.S. subsidiary should be more open to non-Swedes	1	2	3	4
36. Top jobs in the parent company should be more open to non-Swedes	1	2	3	4

	Strongly agree	Agree	Disagree	Strongly disagree
37. Activities in the U.S. should be more concentrated geographically	1	2	3	4
38. U.S. activities should be diversified to cover more products and services	1	2	3	4
39. Cultural differences affect our company's success in the U.S.	1	2	3	4
40. I am aware of the recent General Motors-United Auto Workers cooperative efforts	1	2	3	4
41. Differences in style and way of working between Swedes and Americans create confusion and frustration	1	2	3	4
42. I know about the Quality of Work Life and Employee Involvement programs in the U.S.	1	2	3	4
43. Our company motivates and relates to Swedes and Americans in the same way	1	2	3	4
44. Blue collar workers in the U.S. only work for money	1	2	3	4
45. Lack of understanding between Swedes and Americans in our company may slow our progress	1	2	3	4
46. I know a lot about Sweden's culture, political and economic system, and future policy choices	1	2	3	4
47. The Swedish model of informal, consensual relationships, high employee involvement, and labor-management cooperation is also a part of our companies' way of operating in the U.S.	1	2	3	4
48. I know a lot about the U.S. culture, political and economic system, and future policy choices	1	2	3	4
49. U.S. has an anti-union, "hire and fire" environment	1	2	3	4
50. Sweden has a very advanced social and political system	1	2	3	4

Please indicate below how much the following statements apply to Americans and Swedes in your company. Please score both groups on each statement. There is no need to ponder each item since these questions are not precise, but are designed to give a sense of the issues. Your first spontaneous answer is best.

This applies to

This applies to

Americans:Swedes:

	Very well	Somewhat	A little	Not at all		Very well	Somewhat	A little	Not at all
51.	1	2	3	4	are hard-working	1	2	3	4
52.	1	2	3	4	are loyal to their company	1	2	3	4
53.	1	2	3	4	make themselves available after work, want to be in touch	1	2	3	4
54.	1	2	3	4	in general are too soft	1	2	3	4
55.	1	2	3	4	are individualistic	1	2	3	4
56.	1	2	3	4	are too individualistic	1	2	3	4
57.	1	2	3	4	are good at communicating their decisions	1	2	3	4
58.	1	2	3	4	avoid conflict and taking sides in discussions	1	2	3	4
59.	1	2	3	4	answer calls, letters, telexes promptly	1	2	3	4
60.	1	2	3	4	don't stay distant enough from their subordinates	1	2	3	4
61.	1	2	3	4	are good at developing relationships	1	2	3	4
62.	1	2	3	4	are good at understanding customer needs	1	2	3	4
63.	1	2	3	4	care a great deal about status	1	2	3	4
64.	1	2	3	4	want to develop people within the company	1	2	3	4

This applies to

This applies to

Americans:Swedes:

	Very well	Somewhat	A little	Not at all		Very well	Somewhat	A little	Not at all
65.	1	2	3	4	talk too much and don't focus on what is important	1	2	3	4
66.	1	2	3	4	give optimistic, rather than realistic projections	1	2	3	4
67.	1	2	3	4	respect and understand people who are different	1	2	3	4
68.	1	2	3	4	are used to, and want, direct instructions	1	2	3	4
69.	1	2	3	4	are too legalistic	1	2	3	4
70.	1	2	3	4	are interested in understanding strangers	1	2	3	4
71.	1	2	3	4	work well in teams	1	2	3	4
72.	1	2	3	4	rely too much on the team for initiatives	1	2	3	4
73.	1	2	3	4	are too cautious	1	2	3	4
74.	1	2	3	4	study choices too long	1	2	3	4
75.	1	2	3	4	have a deep respect for individuals	1	2	3	4
76.	1	2	3	4	are used to and seek consensus	1	2	3	4
77.	1	2	3	4	are good at requiring and using precise figures	1	2	3	4
78.	1	2	3	4	are aggressive	1	2	3	4
79.	1	2	3	4	will criticize authority when necessary	1	2	3	4
80.	1	2	3	4	are short-term results oriented	1	2	3	4
81.	1	2	3	4	are too short-term results oriented	1	2	3	4
82.	1	2	3	4	often don't know when a group has reached a decision	1	2	3	4

This applies to

This applies to

Americans:

Swedes:

	Very well	Somewhat	A little	Not at all		Very well	Somewhat	A little	Not at all
83.	1	2	3	4	can tolerate ambiguity	1	2	3	4
84.	1	2	3	4	are good at listening	1	2	3	4
85.	1	2	3	4	can't tolerate criticism	1	2	3	4
86.	1	2	3	4	avoid competition with others in the company	1	2	3	4
87.	1	2	3	4	are weak decision-makers	1	2	3	4
88.	1	2	3	4	have long-term perspectives	1	2	3	4
89.	1	2	3	4	are not aggressive enough	1	2	3	4
90.	1	2	3	4	are unsure what business strategy to follow	1	2	3	4
91.	1	2	3	4	play power games	1	2	3	4
92.	1	2	3	4	see the importance of company values	1	2	3	4
93.	1	2	3	4	have problems relating to the opposite nationals	1	2	3	4
94.	1	2	3	4	fear making mistakes	1	2	3	4
95.	1	2	3	4	are good at organized presentations	1	2	3	4
96.	1	2	3	4	lack follow-through	1	2	3	4
97.	1	2	3	4	are slow to reverse a decision	1	2	3	4
98.	1	2	3	4	care about quality	1	2	3	4
99.	1	2	3	4	like to and are able to do things on their own	1	2	3	4
100.	1	2	3	4	get frustrated with hearing everyone's opinions	1	2	3	4

This applies to

This applies to

Americans:

Swedes:

	Very well	Somewhat	A little	Not at all		Very well	Somewhat	A little	Not at all
101.	1	2	3	4	are willing to take a risk	1	2	3	4
102.	1	2	3	4	fear losing control	1	2	3	4
103.	1	2	3	4	resist admitting they have made a mistake	1	2	3	4
104.	1	2	3	4	avoid being direct, fear confrontation	1	2	3	4
105.	1	2	3	4	are not flexible enough	1	2	3	4
106.	1	2	3	4	are too concerned with hierarchy and titles	1	2	3	4
107.	1	2	3	4	believe they know everything	1	2	3	4
108.	1	2	3	4	are entrepreneurial	1	2	3	4
109.	1	2	3	4	other:	1	2	3	4

110. Do you have criteria for selecting HQ managers to work in your U.S. subsidiaries in addition to their being good general managers?

Yes No

111. If yes, please list the criteria below:

- (1)
- (2)
- (3)

112. Do you provide any training or orientation to the U.S. culture, market, and way of doing business for HQ managers being placed in your U.S. operations?

Yes No

113. Please list below the problems touched on in this survey that are most important to understand more fully for your company's success in the U.S.:

- (1)
- (2)
- (3)

Comments would be very much appreciated:

.....

.....

114. Would you find it useful for your U.S. business strategy to have us do a case study in your company on some of these problems?

Yes No

If you are interested in a case study in your company, who should we speak with?

Name:

Title:

Phone:

The researchers are interested to communicate with you concerning this research, to answer questions, discuss issues, or respond to suggestions. Please do not hesitate to contact us.

Lars Ågren
 Institute of International Business
 Stockholm School of Economics
 Box 6501
 S-113 83 STOCKHOLM, Sweden
 Phone: (08)-736 01 20

Richard Margolies, Ph.D.
 Project on Technology, Work and Character
 1710 Connecticut Avenue, N.W.
 WASHINGTON, D.C. 20009
 Phone: (202) 462-3003

SWEDISH INVESTMENT IN THE USA

SUBSIDIARY DATA SECTION

Dear Chief Executive Officer:

This questionnaire exists in three versions (subsidiary DATA section, subsidiary INTERPRETATIVE section and HQ section), whereof this is the subsidiary DATA section. This section can be filled out by any senior manager with access to company statistics.

ALL INFORMATION GATHERED BY THIS SURVEY WILL BE TREATED AS STRICTLY CONFIDENTIAL. WHEN REPORTING THIS RESEARCH, ONLY AGGREGATE NUMBERS AND ANONYMOUS QUOTES WILL BE USED.

The results of the study will be presented both in the form of written reports, which you will receive free of charge, and in the form of seminars to which you, of course, will be invited.

Please return the questionnaire, before the 25th of November, to:

Lars Ågren
Institute of International Business
Stockholm School of Economics
Box 6501
S-113 83 STOCKHOLM, Sweden

Phone: 46-(0)8-736 01 20

QUESTIONNAIRE: SWEDISH INVESTMENT IN THE USA

Subsidiary DATA Section

Name of company

Name of Swedish parent company

Name of respondent

Position of respondent

Nationality of respondent

Phone

1. In order to gain correct results from this study it is very important to avoid double counting. Could you therefore please indicate whether the facts and figures you present below include those of any other company.

Name of company

.....

.....

.....

.....

2. What is the size of your company? (Please give 1984 figures)

- (1) Turnover \$
- (2) Total capital \$
- (3) Equity capital \$
- (4) Number of white collar employees (incl. management)
- (5) Number of blue collar employees

3. From the perspective of your Swedish parent company, your company is a:

(1) Wholly-owned subsidiary

(2) Joint venture

4. If your company is a joint venture, what is your Swedish parent company's share of the equity?

%

5. In terms of sales value, which are the three most important product/service categories for your company? (Please list in order of importance)

(1)

.....

..... % of sales value

(2)

.....

..... % of sales value

(3)

.....

..... % of sales value

6. For the product/service that you have defined as your most important, how large a part of your total annual sales value is (approximately) generated by your five largest customers?

(1) 0-20 %

(2) 21-40%

(3) 41-60%

(4) 61-80%

(5) 81-100%

7. How large a part of the total annual sales value of your company is generated by:

- (1) goods and services purchased from your Swedish parent company %
- (2) goods and services purchased from other subsidiaries within the group (including those located in the U.S.) %
- (3) goods and services purchased from other external suppliers %

8. How large a part of your total sales value consists of exports %

9. How did your Swedish parent company establish its position in your company?

- (1) Greenfield investment
- (2) Acquisition

10. Could you please indicate in what year the following events occurred: (Some dates may coincide)

- (1) Your company established Year
- (2) Sales agent for Swedish parent Year
- (3) Sales company owned by Swedish parent Year
- (4) Manufacturing in the U.S. Year
- (5) R&D in the U.S. Year

PLEASE NOTE THAT QUESTIONS 11 THROUGH 14 APPLY ONLY FOR THE PRODUCT/SERVICE THAT YOU HAVE DEFINED AS YOUR MOST IMPORTANT UNDER QUESTION NO 5.

11. How are the sales of your most important product/service divided by region? (Please provide rough estimates even if exact figures are not available)

	% of total sales value
(1) Northeast	<input type="text"/>
(2) Southeast/Southwest	<input type="text"/>
(3) Midwest	<input type="text"/>
(4) West coast	<input type="text"/>
	100%

12. Approximately, how large is your share of the total U.S. market for this product/service?

%

13. Approximately, what share of the total U.S. market for this product/service is controlled by:

(1) The largest supplier	<input type="text"/> %
(2) The four largest suppliers in the business	<input type="text"/> %

14. Who are the four most important competitors for your most important product/service and what nationalities do they represent? (Please list in order of importance, 1 = most important)

Name of company	Nationality
(1)
(2)
(3)
(4)

15. For 1984, what was your company's return on total capital (i.e. profits before tax, extraordinary items and interest payments over total capital)?

%

16. How much has your total sales volume in US\$ changed over the last 5 years? (Current prices, please do not adjust for inflation)

total change over the last 5 year period %

17. Considering "normal" rates of return within your industry (i.e., related to your competitors), would you characterize the results of your company during the last three years as:

- (1) Very much below average
- (2) Below average
- (3) Average
- (4) Better than average
- (5) Much better than average

18. What nationalities are represented in the management team of your company (i.e., the president of the company and those officers reporting directly to him)? Please indicate the number of persons belonging to each category.

- (1) No. of U.S. nationals
- (2) No. of Swedes
- (3) No. of third country nationals

19. If there are Swedes in the management team, what positions do they hold?

- (1) President
- (2) Controller
- (3) Other (please specify)
-

Reserved for coding

20. How long has the president been working for your
company?

Years

SWEDISH INVESTMENT IN THE USA
SUBSIDIARY INTERPRETATIVE SECTION

Dear Chief Executive Officer:

This questionnaire exists in three versions (subsidiary DATA section, subsidiary INTERPRETATIVE section and HQ section), whereof this is the subsidiary INTERPRETATIVE section. This section is best filled out by the person it is addressed to, as it requires consideration based on personal experience. Chief Executive Officers in the U.S. and Sweden have pre-tested this part of the survey, completing it in about 20 minutes.

ALL INFORMATION GATHERED BY THIS SURVEY WILL BE TREATED AS STRICTLY CONFIDENTIAL. WHEN REPORTING THIS RESEARCH, ONLY AGGREGATE NUMBERS AND ANONYMOUS QUOTES WILL BE USED.

The results of the study will be presented both in the form of written reports, which you will receive free of charge, and in the form of seminars to which you will, of course, be invited.

Please return the questionnaire, before the 25th of November, to:

Lars Ågren
Institute of International Business
Stockholm School of Economics
Box 6501
S-113 83 STOCKHOLM, Sweden

Ph. 46-(0)8-736 01 20

QUESTIONNAIRE: SWEDISH INVESTMENT IN THE USA

Subsidiary INTERPRETATIVE Section

Name of company

Name of Swedish parent company

Name of respondent

Position of respondent

Nationality of respondent

Phone

1. In order to gain correct results from this study it is very important to avoid double counting. Could you therefore please indicate whether the facts and figures you present below include those of any other company.

Name of company

.....

.....

.....

.....

2. In your experience, which have been the most difficult problems to tackle on the U.S. market during the last 10 years? (Please try to list the three most important issues in order of importance, 1 = most important).

(1)

.....

(2)

.....

(3)

.....

3. According to you, which have been the three most important strengths of your company on the U.S. market during the last 10 years? (Please try to list the three most important strengths in order of importance, 1 = most important).

- (1)
-
- (2)
-
- (3)
-

4. In addition to your U.S. market efforts, please indicate any group-wide responsibilities:

- (1) Reporting on competitor activities of significance for the total strategy of the group
- (2) Reporting on technological development
- (3) Carrying out R&D
- (4) Purchasing for group purposes
- (5) Manufacturing of certain products or components for group-wide distribution
- (6) Sales/marketing of certain products/services outside U.S.
- (7) Other (please specify)
-
-
-

5. Compared with practice in other subsidiaries of foreign companies in the U.S., how would you characterize the lines of communication between your company and HQ in Sweden?

- (1) Much more formal
- (2) More formal
- (3) No difference
- (4) More informal
- (5) Much more informal

6. Again, compared with practice in other comparable subsidiaries of foreign companies in the U.S., how much autonomy is given to your company by HQ in Sweden?

- (1) Much less autonomy
- (2) Less autonomy
- (3) No difference
- (4) More autonomy
- (5) Much more autonomy

7. How would you describe the goals set up for your company by HQ in Sweden?

- (1) Goals are clearly stated, explicit, and appropriate for the U.S. market
- (2) Goals are clearly stated, explicit, but not appropriate for the U.S. market
- (3) Goals tend to be vague and implicit, allowing us to make them relevant to the U.S. market
- (4) Goals tend to be vague and implicit, leaving us without sufficient guidance

Comments:

.....

.....

.....

The following questions concern work, management, culture, and corporate strategy. There are no right or wrong answers. All answers are valid and necessary for an accurate study.

8. How well does each statement describe your approach to work?
(Please circle the appropriate alternatives)

- | | Very well | Somewhat | A little | Not at all |
|---|-----------|----------|----------|------------|
| (1) You approach your work as an expert. Whatever your job, you want to provide high quality work and to exercise your skill and competence. | 1 | 2 | 3 | 4 |
| (2) You approach your work as a helper. You want to help people. | 1 | 2 | 3 | 4 |
| (3) You approach your work as a defender. You want to defend against those who do harm, or who undermine the values essential to good management. | 1 | 2 | 3 | 4 |
| (4) You approach your work as a helper to those in positions of leadership. You want to strengthen your company by serving well those who have the authority to make decisions. | 1 | 2 | 3 | 4 |
| (5) You approach your work as an innovator who knows how to play the bureaucratic game. You want to win by making the company more successful. | 1 | 2 | 3 | 4 |
| (6) You approach your work as a means to a self-fulfilling life. You want your work to further your own development. | 1 | 2 | 3 | 4 |

9. Which of the above approaches to work are most important to you? Please put the letter of those items in these boxes:

1st Choice 2nd Choice

10. In your opinion, which of the above approaches to work are most important to Americans?

1st Choice 2nd Choice

11. In your opinion, which of the above approaches to work are most important to Swedes?

1st Choice 2nd Choice

12. How well does each statement describe your approach to management? (Please circle the appropriate alternatives)

- | | Very well | Somewhat | A little | Not at all |
|---|-----------|----------|----------|------------|
| (1) As a manager, you are a defender. (You build a team of those who share your values and whom you can trust. Your people perform for you because they know you will defend them.) | 1 | 2 | 3 | 4 |
| (2) As a manager, you are helpful and care about developing subordinates. (You manage by emphasizing openness and participation in decision-making. You believe that people are motivated by stimulating work.) | 1 | 2 | 3 | 4 |
| (3) As a manager, you are instrumental. (You look for subordinates who are sharp, motivated and ambitious and you give them opportunities.) | 1 | 2 | 3 | 4 |
| (4) As a manager, you are a monitor. (You see management as essentially making sure that your subordinates follow the rules and do the work in a way you consider most appropriate.) | 1 | 2 | 3 | 4 |
| (5) As a manager, you are a coordinator of self-motivated experts. (You like to be a resource for a team building something of high quality or implementing policy professionally.) | 1 | 2 | 3 | 4 |
| (6) As a manager, you are a gamesman. (You want to win at the bureaucratic game and you tailor your management style to get results.) | 1 | 2 | 3 | 4 |

13. Which of the above approaches to management are most important to you?

1st Choice 2nd Choice

14. In your opinion, which of the above approaches to management are most important to Swedes?

1st Choice 2nd Choice

15. In your opinion, which of the above approaches to management are most important to Americans?

1st Choice 2nd Choice

Please indicate the extent of your agreement or disagreement with the following statements.

	Strongly agree	Agree	Disagree	Strongly disagree
16. HQ ask for too few reports	1	2	3	4
17. US-HQ reporting relationships should be made clearer	1	2	3	4
18. Product divisions in the parent organization (or corresponding units) should be given more influence in the subsidiaries	1	2	3	4
19. Short-term goals stated by HQ should be more explicit	1	2	3	4
20. Long-term goals stated by HQ should be more explicit	1	2	3	4
21. The organizational structure of the entire group should be made clearer	1	2	3	4
22. Follow-up on subsidiary performance by HQ should be quicker	1	2	3	4
23. The incentive structure for U.S. management should be more directly coupled to performance	1	2	3	4
24. HQ focus too much on courses and training of non-Swedish managers	1	2	3	4
25. Training of Swedish managers is given too little attention	1	2	3	4
26. Rotating non-Swedish personnel internationally is given too little attention	1	2	3	4

	Strongly agree	Agree	Disagree	Strongly disagree
27. HQ take action too quickly when problems occur in the subsidiaries	1	2	3	4
28. Swedish managers' U.S. contracts are of sufficient length allowing them to become effective in the United States	1	2	3	4
29. Top jobs in the U.S. subsidiary should be more open to non-Swedes	1	2	3	4
30. Top jobs in the parent company should be more open to non-Swedes	1	2	3	4
31. Activities in the U.S. should be more concentrated geographically	1	2	3	4
32. U.S. activities should be diversified to cover more products and services	1	2	3	4
33. Cultural differences affect our company's success in the U.S.	1	2	3	4
34. I am aware of the recent General Motors-United Auto Workers cooperative efforts	1	2	3	4
35. Differences in style and way of working between Swedes and Americans create confusion and frustration	1	2	3	4
36. I know about the Quality of Work Life and Employee Involvement programs in the U.S.	1	2	3	4
37. Our company motivates and relates to Swedes and Americans in the same way	1	2	3	4
38. Blue collar workers in the U.S. only work for money	1	2	3	4

	Strongly agree	Agree	Disagree	Strongly disagree
39. Lack of understanding between Swedes and Americans in our company may slow our progress	1	2	3	4
40. I know a lot about Sweden's culture, political and economic system, and future policy choices	1	2	3	4
41. The Swedish model of informal, consensual relationships, high employee involvement, and labor-management cooperation is also a part of our company's way of operating in the U.S.	1	2	3	4
42. I know a lot about the U.S. culture, political and economic system, and future policy choices	1	2	3	4
43. Sweden looks less attractive when viewed from the U.S.	1	2	3	4
44. U.S. has an anti-union, "hire and fire" environment	1	2	3	4
45. As a Swede living in the U.S., I would like to go back to work in Sweden after a few years in the U.S.	1	2	3	4
46. As an American working in a Swedish company, I would like to work in Sweden for a few years	1	2	3	4
47. As Swedes, my family has had difficulty adapting to and feeling at home in the U.S.	1	2	3	4
48. Sweden has a very advanced social and political system	1	2	3	4

Please indicate below how much the following statements apply to Americans and Swedes in your company. Please score both groups on each statement. There is no need to ponder each item since these questions are not precise, but are designed to give a sense of the issues. Your first spontaneous answer is best.

This applies to

This applies to

Americans:

Swedes:

	Very well	Somewhat	A little	Not at all		Very well	Somewhat	A little	Not at all
49.	1	2	3	4	are hard-working	1	2	3	4
50.	1	2	3	4	are loyal to their company	1	2	3	4
51.	1	2	3	4	make themselves available after work, want to be in touch	1	2	3	4
52.	1	2	3	4	in general are too soft	1	2	3	4
53.	1	2	3	4	are individualistic	1	2	3	4
54.	1	2	3	4	are too individualistic	1	2	3	4
55.	1	2	3	4	are good at communicating their decisions	1	2	3	4
56.	1	2	3	4	avoid conflict and taking sides in discussions	1	2	3	4
57.	1	2	3	4	answer calls, letters, telexes promptly	1	2	3	4
58.	1	2	3	4	don't stay distant enough from their subordinates	1	2	3	4
59.	1	2	3	4	are good at developing relationships	1	2	3	4
60.	1	2	3	4	are good at understanding customer needs	1	2	3	4
61.	1	2	3	4	care a great deal about status	1	2	3	4
62.	1	2	3	4	want to develop people within the company	1	2	3	4

This applies to

This applies to

Americans:Swedes:

	Very well	Somewhat	A little	Not at all		Very well	Somewhat	A little	Not at all
63.	1	2	3	4	talk too much and don't focus on what is important	1	2	3	4
64.	1	2	3	4	give optimistic, rather than realistic projections	1	2	3	4
65.	1	2	3	4	respect and understand people who are different	1	2	3	4
66.	1	2	3	4	are used to, and want, direct instructions	1	2	3	4
67.	1	2	3	4	are too legalistic	1	2	3	4
68.	1	2	3	4	are interested in understanding strangers	1	2	3	4
69.	1	2	3	4	work well in teams	1	2	3	4
70.	1	2	3	4	rely too much on the team for initiatives	1	2	3	4
71.	1	2	3	4	are too cautious	1	2	3	4
72.	1	2	3	4	study choices too long	1	2	3	4
73.	1	2	3	4	have a deep respect for individuals	1	2	3	4
74.	1	2	3	4	are used to and seek consensus	1	2	3	4
75.	1	2	3	4	are good at requiring and using precise figures	1	2	3	4
76.	1	2	3	4	are aggressive	1	2	3	4
77.	1	2	3	4	will criticize authority when necessary	1	2	3	4
78.	1	2	3	4	are short-term results oriented	1	2	3	4
79.	1	2	3	4	are too short-term results oriented	1	2	3	4

This applies to

This applies to

Americans:Swedes:

	Very well	Somewhat	A little	Not at all		Very well	Somewhat	A little	Not at all
80.	1	2	3	4	often don't know when a group has reached a decision	1	2	3	4
81.	1	2	3	4	can tolerate ambiguity	1	2	3	4
82.	1	2	3	4	are good at listening	1	2	3	4
83.	1	2	3	4	can't tolerate criticism	1	2	3	4
84.	1	2	3	4	avoid competition with others in the company	1	2	3	4
85.	1	2	3	4	are weak decision-makers	1	2	3	4
86.	1	2	3	4	have long-term perspectives	1	2	3	4
87.	1	2	3	4	are not aggressive enough	1	2	3	4
88.	1	2	3	4	are unsure what business strategy to follow	1	2	3	4
89.	1	2	3	4	play power games	1	2	3	4
90.	1	2	3	4	see the importance of company values	1	2	3	4
91.	1	2	3	4	have problems relating to the opposite nationals	1	2	3	4
92.	1	2	3	4	fear making mistakes	1	2	3	4
93.	1	2	3	4	are good at organized presentations	1	2	3	4
94.	1	2	3	4	lack follow-through	1	2	3	4
95.	1	2	3	4	are slow to reverse a decision	1	2	3	4
96.	1	2	3	4	care about quality	1	2	3	4
97.	1	2	3	4	like to and are able to do things on their own	1	2	3	4
98.	1	2	3	4	get frustrated with hearing everyone's opinions	1	2	3	4

This applies to

This applies to

Americans:

Swedes:

Very well
Somewhat
A little
Not at all

Very well
Somewhat
A little
Not at all

99.	1 2 3 4	are willing to take a risk	1 2 3 4
100.	1 2 3 4	fear losing control	1 2 3 4
101.	1 2 3 4	resist admitting they have made a mistake.	1 2 3 4
102.	1 2 3 4	avoid being direct, fear confrontation	1 2 3 4
103.	1 2 3 4	are not flexible enough	1 2 3 4
104.	1 2 3 4	are too concerned with hierarchy and titles	1 2 3 4
105.	1 2 3 4	believe they know everything	1 2 3 4
106.	1 2 3 4	are entrepreneurial	1 2 3 4
107.	1 2 3 4	other:	1 2 3 4

108. Please list below the problems touched on in this survey that are most important to understand more fully for your company's success:

- (1)
- (2)
- (3)

Comments would be very much appreciated:

.....

.....

.....

.....

.....

109. Would you find it useful for your business strategy to have us do a case study in your company on some of these problems?

Yes No

If you are interested in a case study in your company, who should we speak with?

Name:

Title:

Phone:

The researchers are interested to communicate with you concerning this research, to answer questions, discuss issues, or respond to suggestions. Please do not hesitate to contact us.

Lars Ågren
 Institute of International Business
 Stockholm School of Economics
 Box 6501
 S-113 83 STOCKHOLM, Sweden

Richard Margolies, Ph.D.
 Project on Technology, Work and Character
 1710 Connecticut Avenue, N.W.
 WASHINGTON, D.C. 20009

Phone: (08)-736 01 20

Phone: (202) 462-3003

Dear Chief Executive Officer:

The USA is today the largest recipient of Swedish international investment. At the same time, experience shows that the US market is extremely difficult to master.

FA-rådet (The Swedish Council for Management and Work Life Issues), the Institute of International Business at the Stockholm School of Economics, and the Project on Technology, Work and Character have therefore initiated a thorough study of Swedish establishments in the USA. The study will focus on two main areas: entry and distribution strategies, and management and leadership issues.

Data will be gathered through the questionnaire enclosed with this letter and by in-depth case studies. (Such studies have already been initiated at Ericsson, Inc. and at Volvo White Truck Corporation.)

We believe that Swedish business may gain significant benefits from the results of the study, which aims at a deeper analysis than similar studies in the past and presently undertaken. We therefore kindly ask you to participate by returning the questionnaire before the 25th of November.

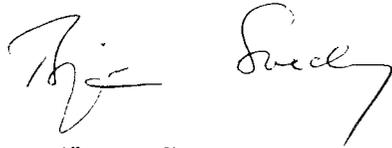
WE GUARANTEE THAT ALL INFORMATION GATHERED THROUGH THE QUESTIONNAIRE WILL BE TREATED AS STRICTLY CONFIDENTIAL. The participating organizations have longstanding academic reputation, and none of them have a commercial interest in the study.

The results of the study will be presented both in the form of written reports, which you will receive free of charge, and in the form of seminars to which you will of course be invited.

Yours sincerely,



Hans Stahle
Chairman IIB
(Institute of International Business)



Björn Svedberg
Chairman FA-rådet
(the Swedish Council for Management
and Work Life Issues)

Washington, D.C., October 11, 1985



EMBASSY OF SWEDEN
THE AMBASSADOR

Appendix 7

Dear Chief Executive Officer,

The project on "Swedish Business in the USA" has been presented to the Swedish Embassy by Dr. Maccoby and Dr. Margolies.

./.
As the results could be very interesting, I would like to encourage you to cooperate by answering the enclosed survey.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "W. Wachtmeister".

/ W Wachtmeister

SWEDISH INVESTMENT IN THE USA

HQ SECTION

Dear Chief Executive Officer:

This questionnaire exists in three versions (subsidiary DATA section, subsidiary INTERPRETATIVE section and HQ section), whereof this is the HQ section. The first six questions of this section can be filled out by any manager with access to company statistics. The rest of the survey is best filled out by the person it is addressed to, as it requires consideration based on personal experience.

ALL INFORMATION GATHERED BY THIS SURVEY WILL BE TREATED AS STRICTLY CONFIDENTIAL. WHEN REPORTING THIS RESEARCH, ONLY AGGREGATE NUMBERS AND ANONYMOUS QUOTES WILL BE USED.

The results of the study will be presented both in the form of written reports, which you will receive free of charge, and in the form of seminars.

Please return the questionnaire to:

Lars Ågren
Institute of International Business
Stockholm School of Economics
Box 6501
S-113 83 STOCKHOLM, Sweden

Phone: 46-(0)8-736 01 20

2. Could you please indicate in what year the following events occurred:

(1) First wholly-owned subsidiary outside Sweden Year

(2) First greenfield investment in the U.S. Year

(3) First acquisition in the U.S. Year

3. How many wholly-owned subsidiaries outside Sweden does your company have today?

No. of foreign subsidiaries

4. What percentage of your total sales in 1984 were outside Sweden?

%

5. What percentage of your total sales in 1984 were in the USA?

%

6. What percentage of your total sales do you expect to be in the USA in 1990?

%

PLEASE NOTE THAT QUESTIONS (7 THROUGH 9) APPLY ONLY FOR THE LARGEST OF YOUR U.S. SUBSIDIARIES.

7. Compared with practice in your group of companies, how would you characterize the lines of communication between HQ in Sweden and your U.S. subsidiary?

- | | |
|------------------------|--------------------------|
| (1) Much more formal | <input type="checkbox"/> |
| (2) More formal | <input type="checkbox"/> |
| (3) No difference | <input type="checkbox"/> |
| (4) More informal | <input type="checkbox"/> |
| (5) Much more informal | <input type="checkbox"/> |

8. Again, compared with practice in other subsidiaries, what degree of autonomy is given to your U.S. subsidiary?

- | | |
|------------------------|--------------------------|
| (1) Much less autonomy | <input type="checkbox"/> |
| (2) Less autonomy | <input type="checkbox"/> |
| (3) No difference | <input type="checkbox"/> |
| (4) More autonomy | <input type="checkbox"/> |
| (5) Much more autonomy | <input type="checkbox"/> |

9. Considering "normal" rates of return within the industry (i.e. as compared with the competitors' results in the USA), would you characterize the results of your U.S. subsidiary over the last three years as:

- | | |
|------------------------------|--------------------------|
| (1) Very much below average | <input type="checkbox"/> |
| (2) Below average | <input type="checkbox"/> |
| (3) Average | <input type="checkbox"/> |
| (4) Better than average | <input type="checkbox"/> |
| (5) Much better than average | <input type="checkbox"/> |

10. How would you characterize the formal organization of your company? (Please choose the form which most closely resembles your group.)

- (1) One parent company in Sweden to which all subsidiaries report
- (2) International division (all subsidiaries report to one international division)
- (3) Global product divisions (product divisions have their "own" subsidiaries not shared with other product divisions)
- (4) Geographical divisions (like i.e. Europe, North America, etc.)
- (5) Matrix (like i.e. product/geographical dual structure or functional/product matrix)
- (6) Other (please specify)
.....
.....
.....

Comments:
.....
.....
.....
.....

SWEDISH INVESTMENT IN THE USA

SUBSIDIARY DATA SECTION

Dear Chief Executive Officer:

This questionnaire exists in three versions (subsidiary DATA section, subsidiary INTERPRETATIVE section and HQ section), whereof this is the subsidiary DATA section. This section can be filled out by any senior manager with access to company statistics.

ALL INFORMATION GATHERED BY THIS SURVEY WILL BE TREATED AS STRICTLY CONFIDENTIAL. WHEN REPORTING THIS RESEARCH, ONLY AGGREGATE NUMBERS AND ANONYMOUS QUOTES WILL BE USED.

The results of the study will be presented both in the form of written reports, which you will receive free of charge, and in the form of seminars to which you, of course, will be invited.

Please return the questionnaire to:

Lars Ågren
Institute of International Business
Stockholm School of Economics
Box 6501
S-113 83 STOCKHOLM, Sweden

Phone: 46-(0)8-736 01 20

QUESTIONNAIRE: SWEDISH INVESTMENT IN THE USA

Subsidiary DATA Section

Name of company
Name of Swedish parent company
Name of respondent
Position of respondent
Nationality of respondent
Phone

1. In order to gain correct results from this study it is very important to avoid double counting. Could you therefore please indicate whether the facts and figures you present below include those of any other company.

Name of company
.....
.....
.....
.....

2. What is the size of your company? (Please give 1984 figures)

- (1) Turnover \$
- (2) Total capital \$
- (3) Equity capital \$
- (4) Number of white collar employees (incl. management)
- (5) Number of blue collar employees

3. From the perspective of your Swedish parent company, your company is a:

- (1) Wholly-owned subsidiary
- (2) Joint venture

4. If your company is a joint venture, what is your Swedish parent company's share of the equity?

%

5. In terms of sales value, which is the most important product/service category for your company?

.....
.....
..... % of sales value

6. How large a part of your total sales value consists of exports %

7. How did your Swedish parent company establish its position in your company?

- (1) Greenfield investment
- (2) Acquisition

8. Could you please indicate in what year the following events occurred: (Some dates may coincide)

- (1) Your company established Year
- (2) Sales agent for Swedish parent Year
- (3) Sales company owned by Swedish parent Year
- (4) Manufacturing in the U.S. Year
- (5) R&D in the U.S. Year

PLEASE NOTE THAT QUESTIONS 9 THROUGH 10 APPLY ONLY FOR THE PRODUCT/SERVICE THAT YOU HAVE DEFINED AS YOUR MOST IMPORTANT UNDER QUESTION NO 5.

9. How are the sales of your most important product/service divided by region? (Please provide rough estimates even if exact figures are not available)

	% of total sales value
(1) Northeast	<input type="text"/>
(2) Southeast/Southwest	<input type="text"/>
(3) Midwest	<input type="text"/>
(4) West coast	<input type="text"/>
	100%

10. Approximately, how large is your share of the total U.S. market for this product/service?

%

11. For 1984, what was your company's return on total capital (i.e. profits before tax, extraordinary items and interest payments over total capital)?

%

12. How much has your total sales volume in US\$ changed over the last 5 years? (Current prices, please do not adjust for inflation)

total change over the last 5 year period %

13. Considering "normal" rates of return within your industry (i.e., related to your competitors), would you characterize the results of your company during the last three years as:

- (1) Very much below average
- (2) Below average
- (3) Average
- (4) Better than average
- (5) Much better than average

14. What nationalities are represented in the management team of your company (i.e., the president of the company and those officers reporting directly to him)? Please indicate the number of persons belonging to each category.

- (1) No. of U.S. nationals
- (2) No. of Swedes
- (3) No. of third country nationals

15. If there are Swedes in the management team, what positions do they hold?

- (1) President
- (2) Controller
- (3) Other (please specify)
-

16. How long has the president been working for your company?

Years

Moderbolagets namn: _____

Vårt amerikanska dotterbolag har en omsättning understigande SEK 10 000 000 och färre än 10 anställda.

Vårt amerikanska dotterbolag har lagts ned.

Vårt amerikanska dotterbolag har sålts till utländska investerare.

Vårt amerikanska dotterbolag har en omsättning överstigande SEK 10 000 000 och/eller fler än 10 anställda.

INSÄNDES SNARAST MÖJLIGT TILL:

Handelshögskolan i Stockholm
Lars Ågren
Box 6501
113 83 STOCKHOLM

Companies Participating in the Survey

Symbols used: 0 = Completed full version of survey
 X = Completed abbr. version of survey
 - = No answer

<u>Company Name</u>	<u>Parent</u>	<u>Subsidiary</u>
B. Abrahamson	-	X
ABU	0	0
ABV	0	00
AGA	0	0
Åke Larsson	0	0
Åkerman	0	0
Albin Pump	-	0
Alfa Laval	0	0
Allergon	0	0
Anderson & Lembke	-	0
Ångpanneföreningen	0	-
Ansvar	0	0
ASEA	0	0000
ASG	0	0
Astra	X	0
Atlas Copco	0	0
Autotank	X	0
Bahco	0	0
Berol Kemi	-	0
Besam	-	0
Wilson	0	-
Nobel Industrier	X	X
Boliden	0	-
Brio	0	0
BT	X	X
Heede-Uddeman	-	0
Cea	0	0
Cementa	0	0
Consafe/Palpax	X	0
Dellnerbolagen	X	-

Duni Bilå AB	X	0
Dux	X	-
Dynapac	0	0
Ecopipe	0	-
Eldon	0	-
Elektrolux	X	X
ESAB	0	X
FFV	0	0
Finans Scandic	0	0
Fläkt	0	-
Frigoscandia	-	0
Gambro	0	0
Gunnebo	0	0
Hasselblad	0	0
Hilleshög	X	X
Husqvarna	-	X
Incentive	X	-
InterInnovation	X	X
J S Products	0	-
C E Johansson	X	-
Kabi Vitrum	0	0
Eur-Kontroll Källe	X	X
Kanthal	0	0
Kapman	0	X
KF	-	0
Ledu	X	0
(Lindén) Alimak	0	X
LKB	0	-
Mannheimer & Zetterlöf	X	X
Markaryd Metallarmatur	-	0
Rapid	X	0
Mercuri Urval	-	0
Mölnycke	X	0
Monsun Tison	0	0
Carl Munters	0	0
Netzler & Dahlgren	0	-
Nederman AB	0	0
Nicator	X	-
Nobex AB	X	-
Nordic Dispenser	0	-
Origa	X	-
Origo	0	-

Orrefors	0	0
Perstorp	X	00
Pharmacia	-	0
PK-Banken	0	-
PK-Finans	0	0
Polaris Optics	-	0
Pripps	X	X
Pumpex	0	0
Round Office	-	0
Saab-Scania	0	00
Sajo Maskin	0	-
Samefa	0	0
Sandvik	0	000
ScanCoin	0	-
Scandecor	X	-
SAS	-	0
Seco Tools AB	0	0
Skandia	X	-
Skandinaviska Enskilda Banken	X	X
Skanska	-	0
Sonesson	0	-
Stille Werner	X	X
Tour & Andersson AB	0	0
SPM Instrument	0	0
Stal Refrigeration	0	0
ASEA Stal	X	-
Kalmar Industrier	-	0
STC	X	-
Sunds Defibrator	0	0
Sunnex	0	0
Svecia	X	X
Swedish Match	0	000
System 3R	0	-
Tecator	-	0
Tranemo	X	0
Trygg-Hansa	X	X
Dinol	X	0
Turn-O-Matic	0	0
Uddeholm	-	0
Ulveco	X	-
E G Westin	-	X
Weda Pump	-	0
Berema	X	-

EKA	X	X
Independent	X	-
Ericsson	0	0
Esselte	X	0
Fermenta	-	0
Volvo	0	0
Bilspedition	-	0
SKF	X	X
Eks International	X	-
Forsheda	X	-
Solnagruppen	X	-
Morgårdshammar	X	-
Scanfreight	X	-
Studsvik	X	-
STA	X	-
Trelleborg	X	X
Garphyttan-Hesselman	X	X
Pharos	X	X
Surahammar	X	X
Wallenius	X	X
Export AB Norden	X	X
JCC	X	X

Products Sold by the Firms in Our Sample

Consulting (engineering)
Fishing tackle
Parking structures + other construction
Industrial gases
Construction management
Excavators
Pumps
Separators
Pollen
Advertising services
Consulting (engineering)
Motor insurance
HVDC systems and products
Export air freight forwarding
Pharmaceuticals
Air, gas and process compressors
Pump island terminals
Compact cell filters (air pollution control)
Process chemicals
Automatic door products
Freight forwarding
Chemicals
Mining and metal trade
Wooden toys
Internal distribution systems (forklifts, etc.)
Shipform equipment
Medical X-ray film
Cement
Offshore living quarters
Automatic couplers for railcars
Tissue napkins
Furniture
Road compaction machines
Pipes
Electrical equipment
Household appliances
Welding equipment

Jet engine test facilities/equipment
Financial services
Air pollution control systems
In line freezers
Artificial kidneys
Stainless wire
Photographic equipment
Seeds
Chain saws
Investment company
Automatic filler machines
Roof racks for cars and vans
Measuring devices
Intravenous nutritional solutions
Cargo access equipment for ships
High temperature cermet elements
Bandsaw blades
Tires
Lighting products
Heavy construction and mining equipment
Medical instruments
Consulting
Lighting products
Granulators
Pre-hire employee evaluations
Domestic sewing thread
Remote control for mobile hydraulics
Cooling tower fill media
Data control systems
Fume extraction
Car body service tools, car body shop equipment
Miter boxes, wood clamps, wood chisels, etc.
Carton and bag sealers, tape dispensers
Clamps and tubing
Stoves for boats
Crystal
Chemicals and plastic products
Pharmaceuticals
Financial services
Financial resources
Fashion eyewear
Beverages

Submersible pumps
Office furniture
Cars
Fire and heat protection equipment
Automobile collision repair equipment
Carbide cutting tools
Coin and currency handling machines
Wallpaper and posters
Air transport services
Carbide and high speed cutting tools
Insurance and reinsurance
Financial services
Construction
Railroad signal and communication equipment
Surgical instruments
Balancing valves
Instrumentation and electronic instruments for bearing condition
Refrigerator compressors and systems
Piston and screw processors, heat pumps
Heavy forklift trucks
Oil trading
Machinery for the pulp, paper and fiber board industries
Halogen work lamps
Screen printing machinery
Sheet vinyl flooring
EDM-tooling
Instruments and equipment for the analytical laboratory
Hydraulic equipment
Reinsurance
Rust proofing material
Store fixtures
Strip steel
Power electronics
Retractable awnings
Electric submersible pumps
Rock drills
Paper chemicals
Financial services
Cable
Office supply products
Pharmaceuticals
Cars and trucks
Freight forwarding

Bearings
Household balances
Industrial rubber products
Printing presses
Rolling mill equipment
Freight forwarding
Precision instruments
Pulp and paper
Industrial rubber products
Valve spring wire
Infrared camera systems
Electric transformer cores
Shipping services
Tube fillers
Construction

Companies Listed by SACC, but not Participating in the Survey

Bilsom
AB Bygg Vesta
Celleco
Diab Barracuda
Eltex of Sweden
Folksam International
Hall & Cederqvist
Hammars Trä & Rivningsfirma AB
Elof Hansson AB
Hiab-Foco AB
IKEA
Independent Finans AB
Investor AB
KF Industri AB
Kiruna Truck AB
Kosta Boda AB
KW Isolering AB
LHG Kanalfläkt AB
NTS
Nyman & Schultz
Progressus Industri AB
Safeman AB
Samarite AB
Semotex (Bind-O-Matic)
SKF Tools AB
Smedbo AB
Pullmax AB
SOS Sportswear of Sweden AB
Statsföretag
Tellus Maskin AB

Most Difficult Problems Encountered in the U.S. Market,
as Judged by HQ respondents

The size of the market makes it difficult to concentrate your marketing efforts to your niche, you get too excited

To adapt our products to the U.S. market.

Finding a president of suitable calibre

There was an unforeseen difficulty to penetrate the U.S. market, although major resources were used.

Finding the right channels for marketing. Keeping control of activities, feed-back of information.

Finding distributors.

Murderous competition.

Sales organization and management.

Coordination of product development. Mentality differences.

Complexity and size of market. Distance from Sweden. High cost of presence.

To make a distributor network accept a new brand.

Investing in marketing organization. Adapting product to market. Competition.

Recruiting good leaders. The difference between Swedish and U.S. management style. To organize a suitable distribution organization.

To improve the understanding between our American management

and our Swedish management. To recruit the right kind of sales and service staff.

Find the right persons for management positions.

Finding and developing effective sales & distribution organizations.

To continue the investment for start-up through big losses. To find management. To accept that the U.S. behaves like a ketchup bottle. First comes nothing, then nothing, and then.....

Recruitment of high quality staff.

To establish a distribution system. To employ professional and hardworking Americans.

Recruit American managers of high quality and understanding relations with HQ. Adapt to U.S. business methods (product standards, etc....). Difficulty to get good productivity and quality in U.S. manufacturing units.

Recruitment of managers. Appointing good distributors. Product design.

To cover the U.S. with a suitable sales organization. The dollar rate. The big differences in thinking between the U.S. staff and the Swedish staff.

Low market acceptance. Employment of qualified staff. Tough price competition.

Competition. Cultural differences.

Adapt to U.S. style of management. Learn to understand the U.S. market which is highly competitive and big. Labour force questions.

Find the right ways/channels to cover the market.

Combining different management cultures. Adapting our technology to U.S. standards. Building a sales organization and distribution channels for a whole continent.

Most Difficult Problems Encountered in the U.S. Market,
as Judged by Subsidiary Respondents

(Letters within brackets indicate nationality of respondent)

Recruiting and developing American managers. Competitive pricing of dumping type. Size of market and resources of competitors. (S)

Coming from a small and remote country. (S)

Making American employees understand the soul of our company and Swedish management ways and working methods. (S)

To staff the organization with proper management individuals. (S)

Not willing to study market needs first before product development. Lack of appreciation of competitiveness of market. Not willing to recognize cost of management and incentives necessary to accomplish task. (U.S.)

Find good distributors. (S)

Swedish mentality toward U.S. marketing. Swedish lack of sense of urgency re new product timing. Low profit margin philosophy of U.S. competitors. (U.S.)

Selecting people. (S)

Competitive environment with low profit margins. To introduce a new concept among established concepts. To be considered as an independent U.S. entity. (S)

Adapting the Swedish products to U.S. standards. Takes much longer time to enter the U.S. market than expected. (S)

Increase productivity and cooperate with U.S. union. To get product demand from U.S. market accepted in Sweden. Culture conflicts. (S)

Pricing competitiveness. Cultural differences. Successful Recruitments. (S)

Raising price levels to achieve acceptable profitability. Adapting Swedish machinery to local requirements. Establishing competitive remuneration plans. (U.S.)

To achieve a reasonable profitability when you are much smaller than the competitors. After the acquisition, to shape a new company profile and attitude out of two teams. The lack of understanding of the U.S. market from the side of Swedish HQ. (S)

Established American competitors. Reluctance of old line engineers to change. Erosion of market price structure. (U.S.)

Low cost competition from the Far East. Lack of funds to do good promotion job. Difficulties in getting American adapted products from Sweden. (U.S.)

Acceptance of imported products. Competition from low-price imports. Communication with parent company re marketing in the U.S. (U.S.)

Getting parent company to understand different marketing strategies and product design necessary for the U.S. market. (S)

To understand the U.S. psyche. To find the right quality staff within an acceptable salary range. To get HQ understand the U.S. market. (Third country national)

Personnel. Distribution. Logistics/Product adaptation. (S)

Finding good representatives. Competition. Personnel. (S)

Long delivery times. Technical assistance. Lack of understanding from Sweden. (S)

To realize that the business culture in the U.S. is as far removed from the European business culture as is the European business

culture from the Japanese. Develop products in Sweden that are adapted to the American market. Understand the competitiveness of the U.S. market. (S)

Hire first class people at normal rates. (S)

Delivery times from Sweden. Duplicates made in the U.S. Price (S)

Lack of understanding of the U.S. market and lack of consistency in marketing approach. Trying to manage the U.S. subsidiaries in an extreme Swedish or U.S. way. Some very bad acquisitions that totally drained the energies and profits from the other U.S. operations. (S)

To find good distributors. To get the company name established. To get used to an inch market. (S)

To increase our distributor network. (S)

Lack of parent company understanding of the U.S. market. Unwillingness of parent to invest sufficiently to explore U.S. market. (Third country national)

To get people to accept a new technology. Lack of good distributors. (S)

Corporate understanding of requirements for success in the U.S. market and implications for responsiveness. To build a management team. (S)

Price/cost/currency fluctuations. Product adaptation to meet U.S. customer preferences. (S)

Management. Lack of funds. Lack of support. (S)

Cultural differences in management. Adapt to the legal system. Create understanding in the home organization of the U.S. way to work. (S)

Introducing a new product to industries using existing, antiquated products and specifications. (U.S.)

In this age of protectionism, to try to represent ourselves as a U.S. company. (U.S.)

Introducing a foreign product not adapted to the U.S. market. The impatience of the Swedes. The indecision and lack of commitment to the program. The attitude to do it their own way without an open discussion on how to penetrate the market. (U.S.)

Foreign image. Competitors' mudslinging. Price pressures. (S)

Selected Tables from Chapter 4

Table 16.1 HQ Subjective View of Results Achieved, by Market Share of Largest Competitor. (Number of Subsidiaries.) *Market leading Swedish firms excluded.*

<u>Result Comp.</u> <u>with Industry</u> <u>Average</u>	<u>Share of Largest Competitor</u>		
	1-20	21-40	41-
Much below	9	4	3
Below	6	8	3
Average	2	4	1
Better	3	6	3
Much better	2	-	1

n = 55

Kendall's Tau B = 0.13 p = 0.12

Table 16.2 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries) *Market leading Swedish firms excluded.*

<u>Result Comp.</u> <u>with Industry</u> <u>Average</u>	<u>Share of Four Largest Competitors</u>	
	1-60	61-
Much below	6	10
Below	6	11
Average	4	3
Better	3	9
Much better	-	3

n = 55

Kendall's Tau B = 0.10 p = 0.21

Table 16.3 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.) *Market leading Swedish firms excluded.*

<u>Result Comp.</u> <u>with Industry</u> <u>Average</u>	<u>Share of Four Largest Competitors</u>		
	1-60	61-80	81-
Much below	6	4	6
Below	6	6	5
Average	4	1	2
Better	3	3	6
Much better	-	3	-

n = 55

Kendall's Tau B = 0.05 p = 0.34

Table 16.4 HQ Subjective View of Results Achieved, by Market Share of Largest Competitor. (Number of Subsidiaries.) *Market leading Swedish firms included.*

<u>Result Comp.</u> <u>with Industry</u> <u>Average</u>	<u>Share of Largest Competitor</u>		
	1-20	21-40	41-
Much Below	10	5	5
Below	8	12	10
Average	3	8	1
Better	4	9	9
Much Better	4	1	2

n = 91

Kendall's Tau B = 0.09 p = 0.15

Table 16.5 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.) *Market leading Swedish firms included.*

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>	
	1-60	61-
Much below	7	13
Below	8	22
Average	7	6
Better	7	15
Much better	2	5

n = 92

Kendall's Tau B = -0.01 p = 0.45

Table 16.6 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.) *Market leading Swedish firms included.*

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>		
	1-60	61-80	81-
Much below	7	4	9
Below	8	8	14
Average	7	2	4
Better	7	4	11
Much better	2	5	-

n = 92

Kendall's Tau B = -0.06 p = 0.24

Table 16.7 HQ Subjective View of Results Achieved, by Market Share of Largest Competitor. (Number of Subsidiaries.)
Pre-1975 entrants.
Market leading Swedish firms included.

<u>Result Comp. with Industry Average</u>	<u>Share of Largest Competitor</u>		
	1-20	21-40	41-
Much below	1	2	1
Below	2	3	2
Average	1	2	-
Better	1	5	2
Much better	-	-	1

n = 23

Kendall's Tau B = 0.15 p = 0.21

Table 16.8 HQ Subjective View of Results Achieved, by Market Share of Largest Competitor. (Number of Subsidiaries.)
1975- entrants.
Market leading Swedish firms included.

<u>Result Comp. with Industry Average</u>	<u>Share of Largest Competitor</u>		
	1-20	21-40	41-
Much below	6	3	3
Below	6	5	7
Average	2	5	-
Better	1	3	5
Much better	2	1	1

n = 50

Kendall's Tau B = 0.12 p = 0.16

Table 16.9 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.) Pre-1975 entrants.
Market leading Swedish firms included.

Share of Four Largest Competitors

<u>Result Comp. with Industry Average</u>	1-60	61-
Much below	-	4
Below	1	6
Average	2	1
Better	2	6
Much better	-	1

n = 23
 Kendall's Tau B = -0.17 p = 0.20

Table 16.10 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.) 1975- entrants.
Market leading Swedish firms included.

Share of Four Largest Competitors

<u>Result Comp. with Industry Average</u>	1-60	61-
Much below	5	7
Below	7	11
Average	5	3
Better	2	7
Much better	1	3

n = 23
 Kendall's Tau B = 0.07 p = 0.28

Table 16.11 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.) Pre-1975 entrants.
Market leading Swedish firms included.

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>	
	1-80	81-
Much below	1	3
Below	4	3
Average	3	-
Better	4	4
Much better	1	-

n = 23

Kendall's Tau B = -0.18 p = 0.17

Table 16.12 HQ Subjective View of Results Achieved, by Market Share of Four Largest Competitors. (Number of Subsidiaries.) 1975- entrants.
Market leading Swedish firms included.

<u>Result Comp. with Industry Average</u>	<u>Share of Four Largest Competitors</u>	
	1-60	61-
Much below	7	5
Below	9	9
Average	6	2
Better	4	5
Much better	4	-

n = 23

Kendall's Tau B = -0.09 p = 0.24

Subjective Division of Post 1974 Entrants into the Categories Single Business (1), Dominant Business (2), Related Business (3), and Unrelated Business (4).

ABV	1
AGA	2
Åke Larsson	1
Albin Pump	1
Allergon	3
Ångpanneföreningen	1
Försäkrings. AB Ansvar	1
ASG	1
Autotank	1
Bahco	3
Berol	2
Nobel	4
Brio	1
BT Industrier	1
Heede-Uddman	3
Ceaverken AB	1
Cementa	1
Consafe	1
AB Dellner-Malmco	1
Duni	1
Ecopipe	1
Eldon	2
FFV	3
Finansscandic	1
Hasselblad	2
Hilleshög	1
Inter Innovation AB	2
Kabi	2
Kapman	1
Lindén-Alimak	2
Mannheimer & Zetterlöf	1
AB Markaryds Metallarm.	1
Maskin AB Rapid	1

Mercuri Urval	1
Monsun-Tison AB	1
Netzler & Dahlgren AB	1
Ph. Nederman & Co.	2
Nicator	1
Nobex AB	1
Nordic Dispenser	3
Origa Cylindrar AB	2
Origoverken	1
AB Orrefors Glasbruk	1
PK Finans	1
Polaris Optic AB	1
Pripps	1
Pumpex AB	1
Round Office AB	1
AB Samefa	1
Scancoin	3
Seco Tools AB	3
AB Stille Werner	2
Tour & Andersson AB	3
SPM INstrument AB	1
Stal Refrigeration AB	1
Svecia Silkscreen	1
Swedish Match	4
System 3R Int'l AB	1
Tranemo Hydraulmask.	1
Ulveco Electronic AB	1
EKA AB	1
Esselte	4
Eks AB	1
AB Grafoprint	1
Morgårdshammar AB	1
Svenska Tobaks AB	1
Trelleborg	4
Pharos	4
Export AB Norden	1
JCC	1

Questions on Management Style

Please indicate the extent of your agreement or disagreement with the following statements.

	HQ re- spondents (n=88)		Swedes in U.S. affiliates (n=49)		Americans in U.S. affiliates (n=27)	
	Strongly agree Agree	Disagree Strongly disagree	Strongly agree Agree	Disagree Strongly disagree	Strongly agree Agree	Disagree Strongly disagree
More reports from the U.S. subsidiary are needed	29	71	2	98	12	88
US-HQ reporting relationships should be made clearer	29	71	32	68	35	65
Product divisions (or corresponding units) should be given more influence over the subsidiaries	33	67	15	85	33	67
Short-term goals for the subsidiaries should be stated more explicitly by HQ	41	59	43	57	42	58
Long-term goals for the subsidiaries should be stated more explicitly by HQ	85	14	69	31	73	27
The organizational structure of the entire group should be made clearer	41	59	50	50	42	58
Follow-up on the subsidiaries by HQ performance should be quicker	56	44	30	70	42	58
The incentive structure for U.S. management should be more directly coupled to performance	62	37	60	40	58	42
Courses and training for non-Swedish managers is given too much attention	4	96	9	91	0	100
Training of Swedish managers is given too little attention	41	59	50	50	29	71
Rotating non-Swedish personnel internationally is given too little attention	74	26	54	46	46	54
HQ should take action more quickly when problems occur in the subsidiaries	62	38	17	80	4	96
Swedish managers' U.S. contracts are of sufficient length allowing them to become effective in the United States	81	19	61	39	63	37
Top jobs in the U.S. subsidiary should be more open to non-Swedes	59	41	63	37	67	33
Top jobs in the parent company should be more open to non-Swedes	68	32	61	39	60	40

	HQ re-spondents		Swedes in U.S. affiliates		Americans in U.S. affiliates	
	Strongly agree Agree	Disagree Strongly disagree	Strongly agree Agree	Disagree Strongly disagree	Strongly agree Agree	Disagree Strongly disagree
Activities in the U.S. should be more concentrated geographically	39	62	33	67	19	81
U.S. activities should be diversified to cover more products and services	36	64	30	70	39	61
Cultural differences affect our company's success in the U.S.	54	46	49	51	46	54
I am aware of the recent General Motors-United Auto Workers cooperative efforts	51	49	74	26	79	21
Differences in style and way of working between Swedes and Americans create confusion and frustration	60	40	63	37	73	27
I know about the Quality of Work Life and Employee Involvement programs in the U.S.	49	51	55	45	83	17
Our company motivates and relates to Swedes and Americans in the same way	53	47	74	26	44	56
Blue collar workers in the U.S. only work for money	15	85	31	69	19	80
Lack of understanding between Swedes and Americans in our company may slow our progress	49	51	47	53	58	42
I know a lot about Sweden's culture, political and economic system, and future policy choices	94	6	98	2	58	42
The Swedish model of informal, consensual relationships, high employee involvement, and labor-management cooperation is also a part of our companies' way of operating in the U.S.	42	58	63	37	58	42
I know a lot about the U.S. culture, political and economic system, and future policy choices	64	36	88	12	100	0
U.S. has an anti-union, "hire and fire" environment	76	24	67	33	50	50
Sweden has a very advanced social and political system	71	29	46	54	33	67

Questions on cultural differences

Please indicate below how much the following statements apply to Americans and Swedes in your company. Please score both groups on each statement. There is no need to ponder each item since these questions are not precise, but are designed to give a sense of the issues. Your first spontaneous answer is best.

% agree 1/Americans:SWA AMA HQ

84	96	95	are hard-working
78	76	75	are loyal to their company
89	84	73	make themselves available after work, want to be in touch
13	36	9	in general are too soft
91	100	89	are individualistic
39	54	49	are too individualistic
92	84	85	are good at communicating their decisions
37	36	40	avoid conflict and taking sides in discussions
81	88	87	answer calls, letters, telexes promptly
42	58	23	don't stay distant enough from their subordinates
89	100	94	are good at developing relationships
87	100	93	are good at understanding customer needs
96	96	90	care a great deal about status
67	92	67	want to develop people within the company

% agree 1/Swedes:SWA AMA HQ

87	76	93
91	92	99
68	60	67
54	48	48
43	54	45
13	32	42
67	52	77
74	72	62
51	67	54
35	46	49
57	48	64
64	60	73
51	72	67
96	72	89

1/ Scale 1-4 (1 = very well; 2 = somewhat; 3 = a little; 4 = not at all). Percentages refer to per cent of respondents indicating 1 or 2 on each item.

SWA = Swedes in affiliates; AMA = Americans in affiliates; HQ = HQ respondents.

% agree

% agree

Americans:

Swedes:

SWA AMA HQ

SWA AMA HQ

63	72	65	talk too much and don't focus on what is important	22	24	34
85	76	77	give optimistic, rather than realistic projections	28	32	42
72	64	44	respect and understand people who are different	47	64	62
85	68	89	are used to, and want, direct instructions	32	72	55
87	52	61	are too legalistic	9	24	26
66	72	47	are interested in understanding strangers	47	64	55
60	80	73	work well in teams	87	76	97
34	17	12	rely too much on the team for initiatives	62	52	66
37	20	22	are too cautious	51	68	70
19	24	19	study choices too long	55	80	69
70	76	72	have a deep respect for individuals	66	80	72
42	52	37	are used to and seek consensus	85	88	95
60	76	75	are good at requiring and using precise figures	81	88	78
85	96	86	are aggressive	26	36	36
49	84	63	will criticize authority when necessary	79	36	75
96	72	94	are short-term results oriented	23	36	40
83	52	65	are too short-term results oriented	17	48	20
35	33	14	often don't know when a group has reached a decision	28	29	16
30	38	26	can tolerate ambiguity	53	67	46
60	60	48	are good at listening	77	78	80
56	63	52	can't tolerate criticism	40	50	48

% agree

Americans:

SWA AMA HQ

17 24 11

avoid competition with
others in the company

28 28 46

are weak decision-makers

34 56 34

have long-term perspectives

4 25 9

are not aggressive enough

30 52 22

are unsure what business strategy
to follow

60 48 72

play power games

55 76 60

see the importance of company values

37 46 71

have problems relating to the
opposite nationals

63 32 42

fear making mistakes

94 76 88

are good at organized presentations

45 36 34

lack follow-through

34 25 29

are slow to reverse a decision

53 88 79

care about quality

77 92 91

like to and are able to do things
on their own

49 56 60

get frustrated with hearing
everyone's opinions

85 100 86

are willing to take a risk

68 52 65

fear losing control

64 32 71

resist admitting they have made
a mistake.

31 16 24

avoid being direct, fear
confrontation

46 28 44

are not flexible enough

% agree

Swedes:

SWA AMA HQ

59 60 59

34 28 42

94 80 83

61 46 58

33 56 45

18 32 25

92 92 82

47 42 21

33 64 50

55 76 76

28 36 37

59 63 45

98 92 95

83 56 76

23 20 12

43 48 62

47 60 67

36 56 56

59 64 58

46 52 30

% agree

Americans:

SWA AMA HQ

75 48 55 are too concerned with hierarchy
and titles

70 44 51 believe they know everything

91 92 83 are entrepreneurial

% agree

Swedes:

SWA AMA HQ

21 52 25

49 48 28

49 32 54

Interviews Made and Other Sources Used for the Volvo White Truck Case

Interviews Made at Volvo Truck Corp. (VLAB) HQ:

Torsten Dahlberg	Vice President, Corporate Development
Ragnar Fasth	Vice President, Product Development
Kjerstin Hallberg	Director, Organizational Development
Sten Langenius	President and CEO
Anders Levin	Director of Marketing (Overseas Mkts)
Anders Svedberg	President, Volvo Parts Corp.
Åke Svensson	Director, Administrative Development

Interviews Made at Volvo White Truck Corp., Greensboro, and at other Volvo Units in the US:

Vide Andersson	Manager Product Planning, VWTC
Thage Berggren	President and CEO, VWTC
L. J. Compton	Branch Manager, VWTC, Kernersville
Albert R. Dowden	Executive Vice President, Volvo North America Corp.
Göran Gustafsson	Product Manager, VWTC
Ken Kazmarek	Vice President, Finance and Leasing Services, VWTC

M. Roy Lambeth, Jr.	District Sales Manager, VWTC
Sam Levy	Manager, Personnel and Industrial Relations, VWTC
Jan Malmqvist	Vice President, Engineering, VWTC
George Marik	Vice President, Human Resources, VWTC
G. F. McCann	Director of Sales, VWTC
Erik Pålsson	Product Manager, VWTC
Gene Tunila	Vice President, Manufacturing, VWTC
David R. Wilson	Vice President, Product Planning and Strategic Business Planning, VWTC
Tom Wood	Vice President, Retail Sales Operations, VWTC
Terry Young	Director, Marketing, VWTC

Interviews Made Outside the Volvo Organization:

Ben Lucas	President, Lucas Truck Sales, Charlotte, N.C.
Don Philyaw	General Manager, Lucas Truck Sales, Charlotte, N.C.

Other Sources Used:

Annual reports of AB Volvo for the years 1984-1988

Kinch, N., 1986, "The Emergence of Strategy in a Network Context - The Volvo Case", Working paper, University of Uppsala.

Cummins, 1986, Truck Manufacturers Executive Business Report, May.

Pearce, M. C., 1985, "The West European Truck Industry", London: The Economist Intelligence Unit.

Pearce, M. C., 1988, "The West European Truck Industry", London: The Economist Intelligence Unit.

Various internal documents and publicity material.

Interview-guide for the Volvo Truck Corporation Case

BEFORE STARTING INTERVIEW:

Give brief presentation of the "Swedish Investment in the U.S." project, including;

- Participating organizations (areas of expertise)
- Design of study
- Purpose of study
- Present position of study

QUESTIONS TO ASK RE HISTORY/GENERAL BACKGROUND:

- 1) AB Volvo entered the U.S. market in 1955, however, trucks were not added to the product program until 1975, why was this? (What were the reasons behind the Volvo Lastvagnar AB (VLAB; i.e. Volvo Truck Corp.) decision to enter the U.S./what were the envisaged advantages of entering the U.S. market?
- 2) How do you regard the results achieved by VLAB in the U.S. during 1975-81 (i.e. up to the acquisition of White Motor Corp)? Was this result better/worse than expected?
- 3) What went better than expected (unforeseen opportunities/ underestimated strengths)?
- 4) What was more difficult than expected (unforeseen threats/ underestimated weaknesses)?
- 5) To what extent could VLAB profit from the fact that AB Volvo was already present in the U.S. at the time of the VLAB entry?

6) What did the VLAB strategy for entering the U.S. market look like? (Which were the main components of the strategy, to what extent did it prove correct/not correct, critical decision points)?

7) What did the competition look like (main competitors, their strengths and weaknesses)?

8) How did the local competitors react to the Volvo entry?

9) Could the U.S. entry be described in terms of striking against one or more specific competitors/or in terms of safeguarding the Volvo position against actual/potential moves by specific competitors?

10) Most important U.S. customer groups, and strategy for approaching them?

QUESTIONS TO ASK RE DAIMLER ACQUISITION OF FREIGHTLINER :

11) How serious a blow was this acquisition to VLAB (what did it mean for the overall strategy followed by the company up to this event)?

12) How could it happen/why did VLAB let it happen?

13) How do you regard the result of the acquisition (as seen from the perspective of (Daimler)?

QUESTIONS TO ASK RE VOLVO ACQUISITION OF WHITE MOTOR CORP:

14) To what extent can this decision be described as;

-a solution/the only solution to the problem caused by the Daimler acquisition of Freightliner

-in line with the VLAB strategy, as conceived at time of entering the U.S. market

-a matter of chance only, the result of seizing an unforeseen opportunity

15) Could you describe the process leading up to the acquisition (critical decisions/critical pieces of information)?

16) Could you describe the situation directly following the acquisition (to what extent did White prove to be better/worse than expected)?

17) What actions did VLAB take after the acquisition

18) At the time of the acquisition; what did VLAB hope to gain, what difficulties did one foresee? Did these expectations prove correct in terms of;

- the quality of the White products

- the quality of the White plants

- the quality of the White management

- the quality of the White marketing organization

- synergy effects from combining the two organizations

QUESTIONS TO ASK RE PRESENT SITUATION OF VOLVO WHITE:

19) How would you, in general, describe the situation at Volvo White as of today? Against this background, how important has the acquisition of White been as regards the position of VLAB in the U.S./ the global position of VLAB?

20) To the extent that you are satisfied/dissatisfied with the present situation at Volvo White, what has been the most important factors contributing to this state of affairs in terms of;

- the White organization

- the Volvo organization

- synergy

21) How would you describe the relation between VLAB HQ and Volvo White in terms of;

- setting goals
- selection of management
- reporting systems
- communication of strategic decisions
- formality/informality
- autonomy given to the Volvo White management

22) In your opinion, is the Volvo White organization managed in a way that differs from "normal American management practice"/has a conscious choice of management style been made and, if so, how would you characterize the management style chosen?

23) In general, would you describe the VLAB approach to the U.S. market as in any way different from the ones chosen by other European truck manufacturers having entered the U.S.?

24) Looking at the present economic situation of Volvo White, would it be fair to say that this is the result of the Volvo White organization having been given a preferential treatment (compared with other VLAB subsidiaries)?

25) Apart from an "injection of capital" what has been the most important contribution of VLAB in the process of turning around White?

QUESTIONS TO ASK RE THE FUTURE OF VLAB/VOLVO WHITE IN THE U.S.

26) For the future, what is your view of the following issues;

- the share of the VLAB sales/profits to be generated in the U.S.
- the strategy of VLAB as regards the U.S. market
- expected moves of competitors (e. g. Scania)
- the risk of a Japanese expansion in the heavy truck industry
- the effects of the next recession, in particular as regards the U.S. market for heavy trucks, and the performance of Volvo White
- the chances of making American truck operators accept European designed trucks
- the future organization of Volvo White
- the development of the Volvo White dealer network
- the relation between locally manufactured and imported products in the total sales of Volvo White

QUESTIONS TO ASK RE THE FUTURE OF VLAB IN TOTAL:

27) For the future, what is your view of the following issues;

- the overall strategy of VLAB
- the strengths and weaknesses of VLAB
- future opportunities/threats as regards VLAB
- most important markets for VLAB
- most important competitors for VLAB
- the role of VLAB in the total strategy of AB Volvo

