



INTERNATIONALISATION

The Netherlands as host and home country for multinational companies: The challenge of working in different business environments

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The study of multinational companies is relevant to our major theme of changing national business systems in two important ways. Firstly, multinational companies reflect the strengths and weaknesses of their own country. By comparing the inward and outward investment patterns we can obtain useful information on opportunities and capabilities of Dutch and foreign companies and their international strategies. Thus we will learn more about their respective national economies. Second, multinational companies work in at least two different national business systems, in their home and host countries. To what extent do multinational companies adapt to the foreign business system they are working in or change it by their very presence? We want to explore how the national specificity of business systems is affected by the growth of international companies. Are multinational companies instrumental in converging national business systems?

Within business history the history of multinational companies has been one of the key interests, resulting in a regular stream of publications. Leading authors are Mira Wilkins and Geoffrey Jones, who both have encouraged other historians to contribute to this field. In many of the publications since the 1980s the authors have sought to combine history and theory. This historical research has been particularly enhanced by the application of theories and concepts from international business economics. Though outward direct investments traditionally received the main attention, there is a growing interest in inward investments. Also foreign direct investment in the form of the so-called free standing company (with investments abroad but no activities at home apart for headquarters) has been subject of international comparative research. The US and UK are still the most researched countries, but European countries as well as Japan have been drawn into the picture. This means there will be ample opportunity to compare the Dutch results with those elsewhere.

Theoretical framework

This research programme is intended as a contribution to business history. As is usual in this discipline, it will seek to create a new synthesis by bringing together theoretical concepts from different social sciences. In this case, the research will be mainly informed by Richard Whitley's framework of national business systems, by Michael Porter's model of the competitive advantages of nations and John Dunning's eclectic paradigm to explain foreign direct investment patterns.¹

¹ R. Whitley, 'Societies, firms and markets: the social structuring of business systems', in: *European business systems. Firms and markets in their national contexts*, ed. R. Whitley (London etc.: Sage

The study of business systems deals with the different ways of organising economic activities in a market economy. Over the years business people have developed a wide range of arrangements to co-ordinate their economic activities. On the two opposite ends we can distinguish between hierarchies with subordination and long-lived relationships and markets with day to day contacts without any ongoing connection. In between are the networks with long-time relationships among otherwise independent economic actors. We want to understand what distinctive patterns of economic organisation became established in the Netherlands and how these changed in relation to their institutional context.

The business system is characterised by the nature of the firm, the market organisation and co-ordination and control systems. Essential elements in the nature of the firm are ownership structures, managerial hierarchy, capabilities, and employment and reward systems. An important variable affecting the boundaries between firms and markets is corporate strategy and the ways in which companies choose between internalising activities or using arm's length contracts or networks. The market organisation deals with matters such as co-operative relations between firms, the significance of intermediaries, and the functioning of business groups. The systems of co-ordination and control within and between the companies can be personal or impersonal, authoritarian or democratic, close or at arm's length, company based or market based.

Business systems develop within in a particular institutional context. Important elements of this context are intangibles such as trust, loyalty, co-operation and attitudes towards authority, risk and innovation. But the context becomes concrete in political and legal systems, the capital market, the role of the state, the structure of the labour market and education. In our research project we are particularly interested in the national characteristics of business systems, their economic success and their changes over time.

Some countries bring forth more successful companies in certain sectors than other countries. Porter's model explores the national characteristics that create and sustain successful companies. He distinguishes four interrelated sets of determinants. First, the quantity and quality of the home demand for goods and services, second, the level and composition of its natural resources and even more its created factor capabilities, third, firm strategy and the nature and extent of inter-firm competition and lastly the way firms are spatially grouped in clusters of related activities. The role of government and chance events are considered additional factors. Though Porter takes export performance as measure of competitiveness, the influence of multinational business activity is not explicitly included in his model. However, Dunning demonstrated that it could easily be included in his framework

In his seminal work on internationalisation Dunning seeks to explain why companies go abroad and why they choose certain countries as their destination. For explaining the level and patterns of direct inward and outward investment Dunning's eclectic paradigm has proven to be of considerable use. This theory analyses three kinds of possible advantages, the ownership-specific advantages of the firm of one nationality over those of another, location specific advantages of home or host countries and the internalisation incentive advantage resulting from internalising markets. This flexible and comprehensive theory is well suited for historical research. Not surprisingly, this framework has been used frequently in studies of multinational

companies in both manufacturing and services. This will allow us to compare our results with those of other countries. Recently, Mark Casson set out a new research agenda for the economics of international business.² One of his desiderata is to embed the theories of international business within a broader social and political context. He argues that the theory of multinational companies can and should be integrated with the national business system approach. Our research proposal is a step in this direction.

Our research will be based on a mix of literature study and archival research. Taking the theoretical literature as starting point, we will collect information from numerous published sources, such as contemporary literature particularly from economists and geographers, social science journals, investment magazines and annual reports. To the published sources we will add information from various archives, including the archives of the Ministry of Economic Affairs and relevant company archives. For the most recent years we will also make use of interviews.

Coherence between the projects and added value of the combination

Our research programme on multinational companies consists of three projects: one broad general overview, to be researched and written by a post doc and senior researcher, and two case studies by PhD students, supervised by Jan Luiten van Zanden and Keetie E. Sluyterman. The two case studies explore two important aspects of our research programme: the rise of multinationals in the service sector and the specific problems of cross border mergers. The case studies strengthen the general overview, while the overview creates context for the case studies. Work on both will proceed simultaneously to reap the benefits of this interaction.

Three projects

1. The Netherlands as host and home country for multinational companies: general trends during the 20th century

The Netherlands is a significant player in the world economy through its large multinational companies, yet a major study on the history of Dutch multinational companies during the 20th century is still lacking. Even less is known about the Netherlands as home for foreign multinational companies, though the Netherlands seems to be the only important small country that has a large number of sizeable home-based as well as sizeable foreign-owned multinationals in the national economy. Some work on comparing inward and outward investments for the Netherlands has been done, but only for a limited number of years and without descending to the level of individual companies. We think such comparison will throw important new light on the strengths and weaknesses of the Dutch economy and its business system.

We want to analyse what Dutch companies had to offer and what they were hoping to get from the countries in which they invested, which countries they chose for their direct investment and how they shaped their foreign investment. In the same way, we want to look at the foreign companies that came to the Netherlands: which countries did they come from, what were they bringing and why did they choose the

² M. Casson, *Economics of international business, a new research agenda* (Cheltenham: Edward Elgar, 2000), pp. 284-306.

Netherlands as their destination? Essential in many internationalisation theories is the assumption that companies need to possess certain advantages to overcome the disadvantages of working abroad. Our hypothesis is that foreign companies invested in the Netherlands in sectors where the Dutch were relatively weak or relatively slow to see new possibilities, thus primarily in technologically advanced sectors. On the other hand, we suppose that superior understanding of marketing opportunities rather than technological advantages were at the heart of Dutch foreign investment. Whether this is indeed true and remained true for the whole century we want to find out by examining the existing literature, particularly from economists and geographers, as well as information from disparate sources such as stock market directories, government reports, annual reports of De Nederlandsche Bank, annual reports of Dutch and foreign companies, and company histories, in order to create a comprehensive picture.

We intend to increase our understanding by exploring in-depth a selection of key companies and their strategies. Particularly through case studies and archival research it is possible to study the way the companies handled the issue of working in different business systems: their relationship with their workers, their suppliers, their customers, their colleagues and their governments. For the Dutch multinationals we can to some extent fall back on a number of company histories, but for the foreign multinationals in the Netherlands entirely new archival research is necessary. We want to compare a number of companies from different national backgrounds, including companies from the US, UK, Germany, France and Japan, and from different sectors in the economy. The following companies are on our preliminary list: Ford, IBM, Xerox, McKinsey, BAT Industries, ICI, Siemens, BASF, Nestlé, Michelin, St. Gobain (Glasfabriek Sas van Gent), Solvay, Sony, Fuji Photo, Bank of Tokyo. The ultimate choice will also be guided by the richness of the archival sources and the permission to consult them. At the moment we are in the midst of inspecting archives and gaining permission for research. Many foreign multinationals came to the Netherlands by establishing a subsidiary of their own. Some, however, took over an existing Dutch company. One sector, the Dutch paper industry, has even become entirely foreign owned through take-overs during the last quarter of the 20th century. We are fortunate that one of our PhD-students has written a dissertation on the Dutch paper industry. We are able to include the results of this study in our overview.

For the relationship between the Netherlands and France we are able to rely on the expertise of John Groenewegen, who is associated with the centre for France studies at the university of Utrecht. With regard to the study of inward investments, we will enlist the help of foreign colleagues who have been working on the multinational companies in their countries, many of whom are known to us through the European Business History Association. In the third year of our programme we intend to organise an international workshop/conference on the Netherlands as home and host countries, where we will invite foreign colleagues working in this area to present papers on the Dutch experiences from their country's point of view. Mira Wilkins and Geoffrey Jones have already agreed to present papers at this conference.

2. Dutch banks and insurance companies conquering the US market

The second half of the 20th century witnessed the rise of multinational companies in the service sector. The Netherlands fully participated in this trend. The foreign presence of the Dutch banks experienced ups and downs in the last three decades. The

first efforts to create foreign subsidiaries met with mixed results. In the 1970s the foremost strategy was becoming a member of an international bank consortium. This strategy was less risky, but also less rewarding. From the 1980s onwards the Dutch banks stepped up their international activities by taking over foreign banks. Insurance companies followed the same policy. At the same time both activities, banking and insurance, became increasingly intertwined in the 1990s in countries that allowed this to happen, particularly in Europe. Banks and insurance companies are subject to national regulations, which however were constantly changing. As national regulations play an important role both in encouraging and in limiting the expansion of banks and insurance companies, the competitive positions of companies were constantly changing as well.

The Netherlands created a competitive advantage in the financial service sector over the last two decades. Dutch banks and insurance companies have built up an impressive presence in the US market, particularly through acquisitions. This development points in two directions: either the Dutch companies have been successful in selecting the right US companies to take over, or the Dutch management has been able to add value to its US subsidiaries, perhaps by applying elements of the Dutch business system to their American subsidiaries. We want to explore how the Dutch banks and insurers selected the companies they wished to take over, the criteria they used to assess the prospective companies, the contribution of US and Dutch experts/consultants, and the role of the Dutch home market. Next we want to know how the Dutch companies managed their US subsidiaries, the importance of indigenous management, the relationship with their staff, the origin of know how and technology, and the relationship with intermediaries, customers, financial markets, competitors and the government. In this way we hope to find out how they handled the differences in national business systems, whether elements of the Dutch business system provided added value that might explain the success of the Dutch subsidiaries in the US, and whether perhaps the Dutch parent companies changed their views and attitudes under influence of their closer contact with the US business system. We also are interested in a possible link between the service multinationals and the manufacturing multinationals from the Netherlands. Institutional factors to take into consideration are the American banking regulations which allowed foreign banks to work in different states while denying this opportunity to US banks and the US restrictions regarding equity participation of banks in insurance companies and vice versa.

This project will combine a broad range of literature on multinationals in the service sector with research in a number of company archives. Dutch banks as well as insurance companies commissioned company histories during the 1990s (ABN AMRO, Rabobank, MeesPierson, Aegon, AMEF, Nationale Nederlanden). These studies will provide the necessary background for the more detailed study we are going to undertake and will help to make our archival research more focused. We will make comparisons with banks and insurance companies from other countries on the basis of existing publications. We will also compare our results with another group of Dutch service-providers, the international trading companies, which for years tried to build up a presence in the US without achieving lasting success, at least in the 20th century. Recently our group made a study of the history of Dutch trading companies and archival material can be reused for this project. We will explore why Dutch banks and insurance companies succeeded where Dutch traders failed. We assume that the US business system makes it difficult for wholesale traders to penetrate.

3. Cross border mergers: how to work successfully in two different business systems?

One of the most interesting aspects of the historical experience of Dutch multinational enterprises is the early appearance of cross border mergers. In the period before the Second World War three major cross border mergers took place, creating Royal Dutch/Shell, Unilever and AKU (AKZO-Nobel). This early date is all the more striking as cross border mergers were a rare phenomenon until the 1970s. Though all international business has to deal with the problem of managing within different business systems, this problem is absolutely central when it comes to cross border mergers. Cross border mergers frequently run into trouble or fail before they even have been established, which shows how difficult this kind of mergers is. This fact raises the question why the two Anglo-Dutch mergers were so successful over such a long period, despite the fact that there were considerable differences between the Dutch and British business systems.

Geert Hofstede has argued that some national cultures can be combined more easily than others. He concluded that countries differ in four main dimensions:

1. Power distance: the level of power distance between bosses and subordinates, which both parties think acceptable;
2. Uncertainty avoidance: the tolerance for accepting and coping with uncertainty;
3. Individualism as opposed to collectivism;
4. Masculinity with its opposite pole femininity: masculine stands for assertive, dominant, goal setting and feminine for caring, nurturing, valuing relationships rather than outcomes.

The two British-Dutch mergers function well, according to Hofstede, because the two cultures hardly differ on power distance and individualism, though they differ somewhat on uncertainty avoidance and strongly on masculinity. According to Hofstede's paradigm, Britain is quite masculine and the Netherlands quite feminine. The British-Dutch mergers thus represent true marriages.³ We will consider the theories of Hofstede and his followers as far as they influenced discussions on national business systems.

In our project on cross border mergers, we want to focus our attention on the experiences of Royal Dutch/Shell in working in two different national business systems. Though this company is operating in many different countries, we will concentrate on the problems of combining the Dutch and British business system, as these are the nationalities of the two parent companies.

We want to analyse the following issues:

- Decision taking process at board level (consensus seeking versus leadership)
- Long term versus short term perspectives
- Attitudes towards risk taking and innovation
- Personnel policy, the nature of managerial authority, the type of jobs Dutch and British employees hold (the stereotype being that the company is filled with Scottish accountants and Dutch engineers)
- Role of the works council in the Netherlands
- Relationship with the capital market, disclosure of financial results, balance between the interest of shareholders and other stakeholders

³ G. Hofstede, *Culture's consequences, international differences in work-related values* (London: Sage publications, 1984), pp. 273-276.

- Relationship with other companies including competitors
- Relationship with the government, lobby mechanisms

We suppose that during the course of the 20th century the company became increasingly international in its approach, taking over elements of other national business systems, making the contrast between the Dutch and British business systems less relevant. Whether this is indeed true, research will have to reveal.

For our study we will use a mix of sources. There are a number of publications on the history of Royal Dutch Shell, the trade journals provide relevant contemporary information, the company directors gave regular lectures, many of which were published, the annual reports are full of useful information, but most important will be our research in the company archives in London and The Hague.

In two ways we want to put the results of this in-dept study in perspective. First, we want to compare our outcomes with the experiences of other Anglo-Dutch mergers, including Unilever and Reed Elsevier. This will be based predominantly on existing literature, periodicals and published annual accounts. At present Geoffrey Jones, professor at Reading, Harvard and Rotterdam, is studying the history of Unilever on the basis of thorough research in the London and Rotterdam company archives. His project will provide vital information on internationalisation strategies and culture, which in due time can be used for comparison.⁴

Second, we want to compare the Anglo-Dutch mergers with three German-Dutch mergers highlighted by René Olie in his dissertation.⁵ He showed how two out of the three German-Dutch mergers he studied were a failure. Using the theories of Hofstede, he argued that the differences in business culture formed an important obstacle in forging one successful international company out of two national ones. For his historical data he relied on business archives as well as company histories.

⁴ G. Jones, 'A new history of Unilever', *Neha-bulletin voor de economische geschiedenis in Nederland* 14 (2000): 269-275.

⁵ R.L. Olie, *European transnational mergers* (Maastricht, 1996).