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DEALING WITH LIABILITY OF FOREIGNNESS: THE CASE OF PHILIPS IN AUSTRALIA, 1945-1980

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Dealing with Liability of Foreignness: The Case of Philips in Australia, 1945-1980

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Abstract

How do multinational enterprises (MNE) respond to the 'liability of foreignness' (LoF) they experience in foreign markets? The case study in this paper demonstrates that firms develop dynamic, interactive strategies to minimise the LoF risks they perceive. The Australian subsidiary of Dutch MNE Philips Electronics experienced a significant LoF during 1939-1943, when it came close to being nationalised. In response, Philips Australia set out to build 'FDI legitimacy' after 1945 in order to maximise both its 'national embeddedness' in the host country and its influence on government policy that guided the rapid development of Australia's postwar electronics industry. This strategy aimed to minimise risk and maximise commercial opportunities for the firm. Philips Australia localised senior management, maximised local procurement and local manufacturing, took a leading role in industry associations, engaged politically influential board members and used marketing tools to build a strong brand and a positive public profile in Australia. The firm became aware of the limitations of this strategy in 1973, when a new Labor government reduced trade protection. Increasing competition from Japanese electronics firms forced Philips Australia to restructure and downsize its production operations. Despite increasing reliance on imports from the parent company's regional supply centres and efforts to specialise production on high-value added products, the firm saw its profitability and market share in Australia decrease. The case demonstrates that the success of strategic responses to minimise LoF and maximise 'FDI legitimacy' is highly context-dependent.

Keywords: liability of foreignness, FDI legitimacy, Philips, Australia, electronics industry
JEL codes: F23, L68, M16, N87
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1. Introduction

Towards the end of World War II, the Australian subsidiary of Dutch multinational enterprise (MNE) Philips Electronics had to find ways to overcome its 'liability of foreignness' (LoF). By Australian standards, it had established significant production operations during the 1930s for radio and communications equipment and incandescent lamps. Together with local rival Amalgamated Wireless Australia (AWA), it produced key components such as radio receiver valves for a rapidly growing domestic industry of radio set producers (Given 2017). Nevertheless, it experienced a major threat of nationalisation during the war in 1942 and 1943 and its reputation in the electronics industry and in Australian markets was tainted by rumours and innuendo (Van der Eng 2017a). The purpose of this paper is to analyse the strategic responses of the company that constituted its effort to overcome the LoF it experienced.

A growing number of international business studies has analysed the issue of LoF (*e.g.* Luo and Mezias 2002; Yildiz and Fey 2012). In essence, these studies postulate that MNEs and their subsidiaries wishing to succeed in foreign markets need to overcome any disadvantages they experience or perceive through committing resources and, and its deploying dynamic capabilities in order to collect information on the business environment that local firms have already absorbed as a matter of course. MNEs then have to generate ownership-specific advantages that are superior to those of local firms. There are multiple sources of LoF. They generally stem from an incomplete understanding by MNEs and their subsidiaries of the multifaceted aspects of the business systems of host countries, particularly the regulatory and legal systems, and the tacit social and cultural norms. Depending on those aspects and the strategic objectives of the firms, MNEs and their local subsidiaries have to use options to adjust the market entry, local operations and integration strategies in order to minimise the host-country risk they experience or perceive.

Theorising about these strategic responses to LoF caused the literature to be tangential to two other strands of international business studies. One is the study of how MNEs pursue 'legitimacy' of their Foreign Direct Investment (FDI) by embedding themselves in the business environment of host countries, for example by seeking to live up to local formal and informal expectations regarding issues like expatriate staffing and/or corporate social responsibility (*e.g.* Turcan et al. 2010; Reimann et al. 2012; Peng 2012). In essence, the argument is that foreign subsidiaries of MNEs set out to find ways to create 'legitimacy' in the eyes of society and business in the host country. Another way to phrase this strategy is that MNEs seek to create 'social capital' and achieve a higher degree of 'embeddedness' in the host country for the purpose of minimising the perceived costs of LoF (*e.g.* Oviatt and McDougall 2005; Rodrigues and Child 2012; Santangelo 2012). A second group of relevant studies focuses on ‘political activism’ or ‘corporate political activity’ (CPA) by MNEs. It effectively argues that MNEs use a variety of political activities in host countries, including building policy networks to pursue ‘embeddedness’ to suit their objectives (*e.g.* Hillman *et al.* 2004; Rizopoulos and Sergakis 2010; Lawton *et al.* 2013).

Most studies of the LoF, FDI legitimacy, or CPA of MNEs are conceptual and theoretical. Some empirical studies tend to use a variance method, based on analysing benchmark quantitative data for a large number of companies and/or a large number of host and home countries in an effort to test related hypotheses. The problem with such studies is that their outcomes depend crucially on the variables for which data are available, and the aptness of proxy variables. Even then, empirical studies find it hard to come to terms with the heterogeneity of firms and host-country business environments, which they generally seek to capture in the analysis through proxies and imperfect control variables (*e.g.* Wan and Hillman 2006). By their nature, such studies are not able to consider the non-quantifiable aspects of firm behaviour and/or the context of host countries. Few studies have subsequently sought to test these hypotheses on the basis of qualitative case studies, possibly due to the significant limitations on the availability of relevant private, firm-specific data in the public domain.

Studies using unpublished archival records are able to overcome such data limitations. Business history offers abundant opportunities to test and augment theory in management and international business (Jones and Khanna 2006; Godley 2009; O’Sullivan and Graham 2010). There are already several relevant historical studies that speak to the three bodies of literature above. For example, they have analysed the time-honoured practice of foreign firms to use intermediaries to establish and maintain beneficial contacts in host country business systems (Jones 2005: 1554). Several historical studies analysed how MNEs and their subsidiaries responded to potential threats from economic nationalism in newly decolonised countries after World War II (*e.g.* Abdelrehim *et al.* 2011; Butler, 2008; Decker 2008, 2011; White 2012). These studies are relevant to the theoretical strands discussed above. They essentially found that successful firms developed flexible, interactive, and dynamic responses in order to manage the risks and opportunities they perceived in host countries. Nevertheless, apart from Decker (2010), they did not seek to articulate their relevance to literature on LoF, FDI legitimacy and CPA.

This paper analyses a business history case study, in order to reflect on the literature mentioned above. The case is Philips Australia, a local subsidiary of Dutch electronics MNE Philips.[1] As mentioned, it experienced a major threat to its assets. The

[1] For convenience, the paper refers to ‘Philips Australia’ as the subsidiary and ‘Philips’ as the parent company. Since 1943, the subsidiary company was known as Philips Electrical Industries of Australia, and since 1953 as Philips Electrical Industries Pty Ltd. It diversified by establishing and acquiring other companies, and in 1965 some key companies in the group were consolidated as Philips Industries Pty Ltd, whose shares were 100% owned by Philips Industries Holdings Pty Ltd. The holding company also held controlling interests in a range of other companies, and was renamed Philips Electronics

Australian government refrained from putting Philips Australia under the management of the Comptroller of Enemy Property, because the capacity of the Philips works in Australia was required to produce radio valves and communications equipment that was needed during the war effort. Nevertheless, for the company, the turnaround was slow. When Australia prepared for post-war economic development in 1944, and war-related austerity gave way for expanding domestic markets in the late-1940s, the company still faced an uphill battle to clear its tarnished reputation in a business environment in which foreign investment was dominated by Anglo-American MNEs. In 1944, its new Managing Director (MD) started to plan ways to overcome this LoF, and to maximise the opportunities that the Australian market offered after war-related austerity came to an end. By the mid-1960s, the company was one of the largest foreign-owned industrial companies in Australia. It had a leading role in the country's electronics industry, and pursued ambitions to lead the regional operations of Philips Electronics in the Asia-Pacific region.[2]

This paper seeks to analyse the strategic responses of the company to overcome the adversity it faced during the war years, build a strong reputation and role in the Australian electronics industry, and thus explain how Philips Australia overcame LoF, built FDI legitimacy, and engaged in CPA during the 1940s-1960s. The findings underline the common understanding that firms undergo a process of organisational learning that helps them to overcome LoF. However, the paper also explains that the success of this strategy was context-dependent. Its benefits could not be taken for granted when during the 1970s Australia's business environment underwent major institutional changes.

Section 2 introduces the parent company, Philips Electronics, and its relations with its Australian subsidiary. Section 3 sketches Australia's business environment, particularly the high tariffs and industrial protection that impacted on company behaviour. Section 4 discusses the various ways in which Philips Australia sought to 'embed' itself in the Australian business environment. Section 5 explains that this policy of 'embedding' was possibly insufficient to protect the company when the institutional foundations of Australia's business environment changed in the 1970s. Section 6 concludes.

2. International structure and strategy of Philips, 1890s-1970s

The Philips MNE was established in The Netherlands in 1891 to produce electric incandescent lamps. It started to internationalise its operations during World War I and it also expanded its operations through diversification. In the 1920s, Philips dispensed

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Australia Ltd in 1994. The name of the parent company was Philips Gloeilampenfabrieken NV, which was changed in 1991 to Philips Electronics NV.

[2] This paper can be read together with Van der Eng (2017b), which covers a similar time period but focuses on the relations between parent company and subsidiary in developing the strategic direction of the Australian subsidiary.

with its foreign agents and established fully-owned sales companies around the world in order to exercise greater control over the international marketing of its products. It commenced production of radio valves for the growing global market for radio receivers, followed by diversification into radio receivers, and during the 1930s into the production of a growing range of electrical products, including telegraph and telephone equipment, welding tools and production of X-ray tubes.

In response to the 1929 international crisis, countries used trade barriers to foster local production. In response, Philips decentralised production through the establishment of manufacturing plants in a growing number of countries. Consequently, Philips' foreign subsidiaries expanded their activities in increasingly insulated national business environments. The growth of subsidiaries was often dependent on the personal initiative and local connections that their individual MDs maintained. This model of international expansion through foreign subsidiaries that were firmly embedded in host countries continued after World War II. The expansion was supported by further diversification of products, including electric shavers, vacuum cleaners, records and record players, TV sets, tape recorders, pharmaceuticals, medical systems, to name a few. Philips considered its structure to be a 'federation' of relatively autonomous 'national organisations' and product divisions, of which there were 13 in 1954 (Blanken 2002: 18).

Since the 1930s, commercial power in Philips was decentralised and vested in the national organisations which each carried responsibility for sales and profits. The product divisions in The Netherlands looked after the development of new technologies and products. The MDs largely decided what products would be sold and produced in host countries, and also what international exchanges of semi-manufactured products would take place. This structure suited the international expansion of Philips in the 1950s and 1960s. Trade restrictions forced a large MNE like Philips to replicate production facilities in different countries and to produce products in relatively small production plants for local markets to suit local tastes, even though new technology came from the product divisions located in The Netherlands. Philips called this 'local-for-local' production, which was how many European multinational enterprises commonly structured their international operations (Franko 1976: 94).

This arrangement worked well during the 1950s and 1960s, when Philips expanded rapidly in terms of employment, assets, sales, product diversification, and subsidiaries in a growing number of countries. However, by the late-1960s, it experienced a range of difficulties, which were related to the process of trade liberalisation in a growing range of countries, starting in the European Economic Community (Van der Eng 2017b). This process was supported by growing multilateral commitments to lower trade barriers under the General Agreement on Tariffs and Trade, which during the 1970s enhanced market access for Philips' competitors, particularly Japanese companies. Philips' profitability decreased to a mediocre average of 2.4% in the 1970s. In response, the firm sought to 'tilt the matrix' in order to reduce the autonomy of national organisations in favour of the product divisions, with greater control by the Board in setting the firm's global strategy (Blanken 2002:302-303). This was a gradual process, as MDs of national organisations found ways to resist. It was not completed until the late-1980s.

3. Australia's business environment 1940s-1970s

Australia emerged from the global crisis of the 1930s and World War II with a significantly expanded manufacturing sector, and with a greater acceptance of government policy aimed at fostering manufacturing industries for the purpose of diversifying the economy and reducing dependence on primary exports (Robertson and Trace 1983: 109-111). Protective trade policy in the form of high tariffs against imports was part and parcel of that strategy. The policy had been in place since Australia became a federation in 1901. Australia's government had increased trade protection since the 1920s, particularly during the 1930s in response to the impact of the crisis after 1929 (Leigh 2002: 490-491). Increasing protection during the interwar years contributed to a significant increase of foreign direct investment in manufacturing industry, albeit mainly by UK- and US-based companies (Merrett 2015: 325-327). Philips was the only continental European firm to commit FDI to the production of electrical and electric consumer goods in Australia, starting in 1933.

Trade protection was stepped up a notch in the 1950s, when Australian authorities used foreign exchange controls; until 1960 also quantitative import restrictions and import licenses to foster domestic production. Increasing prosperity during the post-war years, as well as a large inflow of migrants from Europe, implied a rapid expansion of markets for manufactured products. This expansion largely benefited manufacturing firms in Australia. Most increased their production capacity and diversified their operations. The number of companies and total sales in the sector producing electrical equipment and electronics, including a growing range of household goods, expanded significantly. The high levels of protection allowed a relatively large number of firms to vie for market share in the small Australian market. By the early 1970s markets for radio and TV sets were saturated and further market growth was in line with population growth and the rate of replacement, including replacement of black and white with colour televisions (CTVs) after 1975.

The growing manufacturing sector employed increasing numbers of people, but the cost of trade protection was borne by Australian end-users of manufactured products, including consumers. Australian firms became increasingly inward-looking and technological development in Australia's manufacturing industry lagged behind international best practice (Robertson and Trace 1983: 112-113; Meredith and Dyster 1999: 199-200). In addition, the prospect of losing access to the UK market after the United Kingdom entered the European Community, and the opportunity to build new markets for Australian export commodities in Japan, as well as calls from the Tariff Board's chairman for a review of trade policy (in return for increasing access of Japanese exports in Australian markets), added momentum to growing domestic calls for a review of trade policy, despite opposition from associations of manufacturing companies (Rattigan 1986).

Nevertheless, the Australian government deciding in July 1973 to start tariff reductions took many by surprise (Leigh 2002: 491-493). As a consequence of lower trade barriers, Australian manufacturers lost competitiveness, and manufacturing output decreased starting in 1973–1974. (Butlin 1984: 70). Companies closed plants, and the share of manufacturing in GDP and employment declined. Unlike the automotive industry, Australia's electronics industry was not exempted from this process.

4. Overcoming LoF and growing rapidly: Philips Australia 1950s-1960s

Since the 1920s, support for inward-looking industrialisation policies since the 1920s was widely shared in Australian society. Governments led by politicians of different persuasions supported it, as did trade unions and business and industry associations. It was understood that protection came at a price in the form of higher prices than would be the case if products could be imported. By the 1950s, the generally accepted reasons to sustain trade protection were that in an economy that depended highly on exports of primary commodities, trade protection redistributed income and secured high living standards, prevented a deterioration of the terms of trade, and led to what were seen as 'external economies' that promoted economic growth (Reitsma 1960). Ongoing support for the tariff was brought out by regular inquiries by the Tariff Board. It was also generally understood that the small Australian market could sustain only a small number of firms in industries that depended on economies of scale. This contributed to the high degree of concentration of production in those industries, as well as a degree of collusion between companies that was generally regarded as 'normal business behaviour' (Karmel and Brunt 1963: 88 and 94).

MNEs that were able to operate in this club-like atmosphere were generally of British and American origin (Meredith and Dyster 1999: 136, 188-189). British MNEs may have found it easy to overcome LoF, because the Australian business environment was in many ways similar to that in the UK. They also benefited from the favourable tariff for imports from members of the British Commonwealth, particularly the UK, as per the 1932 Ottawa Agreement. American MNEs most likely overcame LoF on the basis of their ownership-specific advantages, particularly the superior technology of production and products.

A relatively small number of continental European MNEs created subsidiaries in Australia. One was Philips, which in 1926 established a fully-owned subsidiary Philips Lamps (Australasia) Ltd, in line with the company's global strategy. The subsidiary company imported Philips products from The Netherlands.[3] It started local production of radio sets in 1933, radio valves in 1937, and it gradually diversified into

[3] *Mingay's*, (30 November 1951: 30); Blanken (1999: 267).

the production of other componentry and communications equipment, particularly during World War II. It also had operational responsibility for a factory producing incandescent lamps. This joint-venture involved the Philips parent company and other major international producers, and had a near-monopoly in the Australian lamps market (Blanken 1999: 124-26).

Based on rumours that were spread in 1939 by executives of Australian firm AWA, the company's major competitor in the radio valve industry, the Australian secret service started to suspect Philips Australia of being a hotbed of German spies (Van der Eng 2017a). These allegations remained unproven, and the company escaped nationalisation under the *Trading with the Enemy Act 1939*. However, it missed out on government orders for communications equipment for the armed forces. The newly appointed MD, Frank N. Leddy, set out to mend relations with government agencies in 1942 (Overberg 2013). The company received orders to supply the armed forces, particularly in 1944, but non-light operations remained loss-making.

When the company's financial performance and the Australian war effort took a positive turn in 1944, Leddy started planning its future. Together with the visiting MD of parent company Philips, Othon M.E. Loupart, he met with politicians, senior public servants and industry representatives in August 1944 to discuss how the company could contribute to Australia's post-war employment program.[4]

One senior official was Samuel O. Jones, the Head of the Directorate of Radio and Signal Supplies in the Commonwealth Department of Munitions, with whom Leddy had regular interactions during 1943 and 1944. In July 1944, Jones had submitted an influential report on the further development of the communications engineering industry in Australia after the war. He foresaw significant growth of civilian radio production, and made a case for continued trade protection in support of further development of the communications equipment industry in Australia.[5] By early 1945 this became the government's view of the post-war industry. It seems very likely that Leddy and Jones shared this vision, because in May 1945 Jones accepted the position of Chief Engineer at Philips Australia. He was confident that the global Philips company would make their resources available 'to contribute to the technological development of Australia'.[6]

In August 1945, Jones and Leddy travelled to The Netherlands to discuss the expansion of the company's activities in Australia, in particular the opportunity to amalgamate and expand the production capacity of the company into a single factory, rather than several small factories scattered throughout Sydney. There was a significant backlog in civilian demand for radio sets. As the Australian government continued trade protection to create job opportunities and encourage migration to the country, Philips

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4 *The Argus* (22 and 26 August 1944).

5 NLA MS4786, S.O. Jones to the Secretary of the Secondary Industries Commission (6 July 1944).

6 NAA A463 1966-2043 Jones 'Notes Re S.O. Jones', 3; *Mingay's* (26 April 1945) 3-4; Numan (1954: 230).

Australia was expected to expand quickly. Table 1 shows that this was indeed the case. For example, employment more than tripled from the late 1940s into the 1960s.

Table 1: Expansion, Consolidation and Performance of Philips Australia, 1942-1984

	Turn-over	Profit		Assets	Em-ployees	Consolidated subsidiary companies	Returns on assets (%)		After-tax profit as % of turnover
		pre-tax	after-tax				pre-tax	after-tax	
	(million A$)								
1942-44	1.15	0.12	0.07	2.11	1,243	3	5.7	3.4	6.2
1945-49	2.19	0.07	-0.01	2.68	*1,500*	0	2.5	-0.5	-0.7
1950-54	6.93	0.42	0.12	7.29	1,874	11	5.7	1.7	1.8
1955-59	19.29	1.80	0.95	22.59	3,128	12	8.0	4.2	4.9
1960-64	24.62	3.33	1.88	34.88	*5,000*	24	9.6	5.4	7.6
1965-69	53.67	3.54	1.93	49.16	4,961	37	7.2	3.9	3.6
1970-74	183.63	1.47	0.74	159.96	9,263	61	0.9	0.5	0.4
1975-79	348.58	-1.70	-1.96	264.14	7,453	42	-0.6	-0.7	-0.6
1980-84	465.57	1.11	2.32	283.33	4,573	23	0.4	0.8	0.5

Notes: Five-year averages for financial years. No data available for 1952-53, and 1950-54 is a three-year average. No account is taken of changes in the configuration of the company nor changes in accounting definitions. Employment for 1945-49 and 1960-64 are rough estimates. Increase to 1970-74 was due to the 1970 acquisition of Electronic Industries Ltd.
Sources: Van der Eng (2017a: 659); Philips Australia annual reports (1951, 1955-1985).

Building good relations in among politicians

The search for a new factory building turned into a major opportunity for Leddy to mend bridges with the Australian Labor government. Unable to find a suitable site in Sydney in 1945, he seized the opportunity of purchasing obsolete munitions factory facilities in Hendon (South Australia) from the Secondary Industries Commission in the Ministry of Post-war Reconstruction.[7] The commission informed him that it was keen to see the communications equipment industry move away from the congested and strategically vulnerable Sydney area.

This opportunity coincided with the government of South Australia, particularly its Premier Thomas Playford, seeking to diversify the state's economy by offering incentives to manufacturing companies willing to establish themselves in the State (Stutchbury 1984). Consequently, the State government paid A£45,000 to the company, or one-third of the estimated cost of the transfer from Sydney to Adelaide.

[7] NAA 1946/3387 PART 1, F.N. Leddy to J.K. Jensen (Secondary Industries Committee) (21 July 1945); *Mingay's* (14 February 1946) 7 and 10.

Leddy was keen to seize this opportunity in order to shed the stigma of the company, having been told that the purchase would put the company 'in the favour of the Federal Government, achieve an adequate share of Government work'.[8] Following negotiations in 1945, Philips Australia purchased the factory complex in 1946. It would bring together the various Sydney factories and was expected to employ 2,000 people.[9]

Playford opened the factory in 1947 in a blaze of publicity. But Philips Australia soon discovered that the purchase was less fortuitous than it had publicly declared. Despite the benefit of securing a single site, the 1,400 kilometre distance between Adelaide and Sydney impeded communications between the production and commercial operations of the company. It also turned out that Philips Australia had paid too much for the factory. Leddy had significantly underestimated the cost, the duration and the loss of production involved in the move from Sydney to Adelaide, which contributed to the losses the company recorded during 1947/48 and 1948/49.[10] An investigation by the Commonwealth Treasury found that in hindsight the move to Hendon had not been in the best interest of the company.[11] Philips Australia put its case to the governments of South Australia and the Commonwealth and received an *ex-gratia* government payment of A£45,000 in 1950. However, an increase in government contracts had not materialised by 1949. By 1952 the company still had not received the defence orders it had expected, and Leddy had to ask Premier Playford to support his approach to the Commonwealth government in this matter.[12]

In 1945-1946, Leddy found it difficult to convince the Philips parent company in The Netherlands of the 'intangible' merits of the purchase of the Hendon facilities, with which he meant the 'social capital' that Philips Australia would generate by purchasing redundant assets from the Commonwealth government and by contributing to the regional development of Australia by moving to Adelaide. He believed in 1949 that they had been achieved and that Philips Australia had overcome the 'political difficulties' of the 1940s.[13] It is difficult to substantiate the benefits that the company had generated, but it seems likely that they existed.

One benefit was that wages in South Australia were lower than elsewhere in the country due to the Playford government compensating lower wages in the State with relatively good public facilities, low-cost housing and price controls on consumer items

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[8] NAA A571 1946/3387 PART 2, F.N. Leddy to B.W. Hartnell (Director Division of Industrial Development, Ministry of Post-war Reconstruction) (20 August 1949).

[9] *The Advertiser* (2 February 1946) 1 and (20 March 1947) 13; *Mingay's* (14 February 1946) 7 and 10.

[10] NAA A3995 66/1946 SUPPLEMENT 2, J.J. Dedman (Minister for Postwar Reconstruction), Cabinet Subcommittee (Secondary Industries), Decision 417 (19 February 1948); NAA A571 1946 3387 part 2 F.N. Leddy and S.O. Jones to B.W. Hartnell (Director Division of Industrial Development, Ministry of Post-war Reconstruction) (20 August 1949).

[11] NAA A571 1946/3387 PART2, L.R. Kentwell to P.W. Nette (Assistant Secretary Treasury) (17 January 1950). See also Stutchbury(1984: 17-18).

[12] SRSA GRG24/8 570-1945 F.N. Leddy to T. Playford (15 February 1952).

[13] PCA 882 Australië, 2, F.N. Leddy to O.M.E. Loupart (16 August 1949).

(Stutchbury 1984: 3-5). Lower labour costs partly helped Philips Australia to offset the cost of supplying the main markets in the Eastern states from Hendon. This 'Playford strategy' also contributed to relatively stable industrial relations in South Australia. In addition, the State became the most industrialised state in the country, which meant that Adelaide was a hub of companies that could supply goods and services that the Hendon factory required.

Leddy soon found himself on first-name terms with Playford, indicative of a congenial relationship.[14] For example, in support of Leddy's quest for defence orders, Playford approached Prime Minister Robert Menzies in 1952, who subsequently raised the issue with the Minister for Defence Orders, which in turn met with Leddy to pursue the case.[15] However, Playford was not a pushover. For example, when Leddy could not get the South Australian government to agree to a transfer of some land from the neighbouring State railway yard in Hendon 1955, Playford professed that he could not intervene. Nevertheless, when Leddy threatened 4 year later that Philips would consider leaving Hendon, Playford approached the railway Commissioner who agreed to settle the issue.[16]

At Commonwealth level, Leddy found himself on good terms with the government when Liberal Party leader Menzies was Prime Minister during 1949-1966. The good relations between Philips and Menzies dated back to 1936 when then Attorney General Menzies visited the Philips parent company in Eindhoven, most likely to encourage the company to establish a radio valve factory in Australia that was opened a year later.[17] Leddy maintained good relations with Menzies and other politicians (Numann 1954: 236). In particular, with John McEwen who was long-time Minister of Trade during 1949-1971. In 1962 Leddy invited McEwen to visit Eindhoven and explained to Philips CEO Frits Philips: 'On behalf of our Industry I have had some important dealings with him in the past [1959], one of which resulted in a protective tariff being placed on imported transistor receivers which saved our day against Japanese competition.'[18] The relevance of good political relations to the company's operations manifested itself in several ways (see below). They benefited the rapid expansion of the company, and contributed to Leddy being nominated for an OBE in 1958 and 1961 by Liberal Party stalwarts.[19]

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[14] SRSA GRG24/8 570-1945 F.N. Leddy to T. Playford (27 February 1948) and (4 November 1955).

[15] SRSA GRG24/8 162-1952 T. Playford to R. Menzies (19 February 1952), R. Menzies to T. Playford (29 April 1952), F. Leddy to T. Playford (9 May 1952).

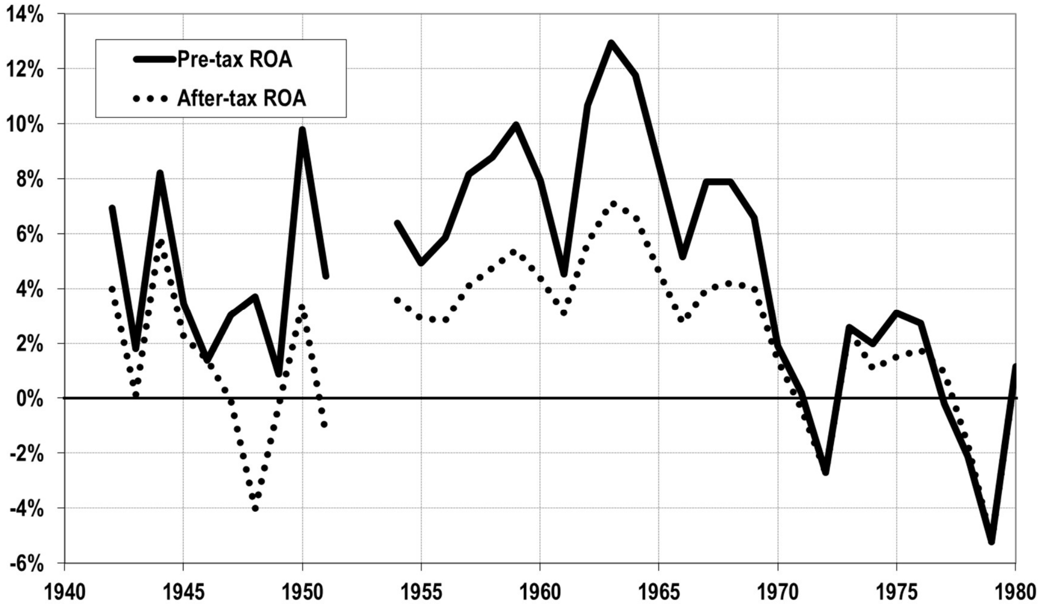
[16] SRSA GRG24/6 570-1945 F.N. Leddy to T. Playford (4 November 1955) and (16 March 1959), T. Playford to F.N. Leddy (7 July 1959).

[17] NAA A981 NETH 3, S.M. Bruce to R. de Marees van Swinderen (4 June 1936); *Het Vaderland* (18 June 1936); *Sydney Morning Herald* (23 June 1936).

[18] PCA 882 Australië, 3, F.N. Leddy to F.J. Philips (5 March 1962); PCA 882 Australië, Components, 58, 2 'Minute of discussion' (17 November 1959).

[19] NAA A463 1958-4340 Leddy.

Figure 1: Returns on Assets of Philips Australia, 1942-1980



Note: No data available for 1952-1953.
Sources: Van der Eng (2017a: 659); Philips Australia annual reports (1951, 1955-80).

Expansion during the 1950s and 1960s

Leddy presided over a rapid expansion of employment at the company from around 1,000 in 1942 to 5,000 by the early-1960s, while pre-tax profits were on average a healthy 8% during the 1950s and 1960s, as Figure 1 shows. Meeting the rapidly growing post-war demand in Australia for a diverse range of products was a major challenge in the context of shortages of labour, raw materials and key components. Particularly when Philips Australia considered the production of television sets in the lead-up to the start of regular broadcasts in Australia in 1956, the main difficulty was sourcing of components, particularly valves and TV picture tubes.[20] Importing was difficult due to tariffs, distance and a shortage of components internationally. Glass manufacturers around the world either did not have the technology to produce the tubes or, if they did, were booked with orders from other television set producers (Blanken 2002: 61).

The strategic solution was for Philips to manufacture as much as possible by itself in Australia, rather than rely on imports. However, the conditions were that this had to be technically possible on the basis of the production technology that the company could import from the parent company in the Netherlands, and that trade protection would make the relatively small production volume in Australia economically feasible. Tariffs for components were subject to several Tariff Board

[20] *Sydney Morning Herald* (9 April 1953); *Canberra Times* (9 April 1953).

inquiries, particularly radio and TV equipment (1959), CRTs (1960), capacitors (1962), TV receiver components (1963), transistors (1964), and TV receivers, channel tuners, and yokes (1967). In response to the Tariff Board's recommendations, the Department of Trade revised tariffs. For example, in October 1960 the tariff on CRTs was revised down to A£6 for British preferential imports and to A£6 plus 12.5% for general imports.[21] In October 1967 the tariffs for channel tuners and deflection yokes were set at 30% for British preferential imports and at 45% for general imports. [22]

To take advantage of the tariff protection, Philips Australia had to invest in component production and expand its production capacity, particularly in Hendon, as well as invest in the design and production of a range of products that were uniquely Australian. Consequently, production at the Hendon plant increased and diversified. It produced components like radio and television valves in its so-called Miniwatt division, but also TV tubes coils, tuners, ferrites, aerials, electric motors, fans, condensers etc., and metal and plastic mouldings, radio and television cabinets etc., as well as parts like chassis mountings, and even washers, screws, nuts and bolts. This section later became the Electronics Components and Materials division (Elcoma).[23] Since 1959 it also produced semiconductors such as transistors and diodes.

The Hendon plant also produced a growing number of final consumer products such as radios (car, sets, portable), radio-gramophones, shavers, record players and a variety of TV sets. It also produced customised industrial, scientific and defence-related equipment, particularly communication equipment and television broadcasting equipment. 1958 the facilities for customised production were amalgamated into the separate Telecommunication Company of Australia Pty Ltd, also located in Hendon. By the early 1960s, Philips produced around 95% of the value of radio and television receivers by itself in Australia. The Hendon plant doubled its 6 acres of factory floor space in 1946 to 12.5 acres in 1964 (PEI 1964).

Philips Australia also diversified through acquisitions of related companies. For example, it purchased Mullard Australia Pty Ltd, a sales company of radios and valves; Steane's Sound Systems Pty Ltd, a sales company of amplifiers and sound systems; Associated Radio Finance Pty, a finance company; and Kriesler Australasia Pty Ltd in 1951. In 1951 it had 6 subsidiaries, rising to 13 in 1958 and 38 by 1965. Many of these companies produced related products, such as electric blanket producer E.A. Hopkinson Pty Ltd; Philips-Stanford Pty Ltd, which produced and imported medical X-ray equipment; Lenora Glass Industries Pty Ltd which produced light fittings for industrial and office buildings. Some subsidiaries were a consequence of the diversification of the parent company, such as Philips Roxane (Australia) Pty Ltd, which imported and distributed pharmaceuticals and pesticides from Philips Roxane (later Philips Duphar) in The Netherlands. Other subsidiaries were forward integration, such as the 50% the company took in Melbourne-based electrical appliance retailer Eric

[21] *The Age* (21 October 1960).
[22] *Sydney Morning Herald* (10 October 1967).
[23] *Philips Reporter* (July 1982).

Anderson in 1967.[24] In all, Philips Australia embedded itself in Australia's business system through this significant diversification of activities.

A major expansion was the 1970 acquisition of Electronic Industries Ltd (EIL), a large and diversified industrial conglomerate in Melbourne. EIL produced electronic products under the Astor brand, especially radios, television sets and whitegoods, including washing machines, refrigerators, freezers and laundry dryers, but also cassette players, clock radios and records. EIL also had a range of non-core companies, including electrical retailers and producers of furniture, mattresses, vending machines, bicycles, machine tools etc. (Electronic Industries, 1969). The main reasons for the acquisition were that EIL was a major customer for the componentry that Philips Australia produced in Hendon, and that it was a subsidiary of Pye of Cambridge Ltd, which the Philips parent company had acquired in 1967. When EIL suffered significant losses in 1969, Philips decided that Philips Australia would have to absorb these.

Localisation of senior management, strategic board appointments

One of the reasons Philips Australia had been investigated by the nascent Australian secret service during World War II was related to the fact that almost all senior company executives had Dutch or other continental European nationalities. As part of a 1942 agreement with the Australian government, MD Leddy had to change that, but labour shortages did not allow him to replace Europeans with Australian nationals in senior executive functions until 1945. Jones was the first appointment, becoming the company's Technical Director in 1951. A further key appointment was Geoffrey Wilfrid Bottrill as Chief Accountant (later Finance Director) and the promotion of Everard Walter Burnett and William J.R. Gluth to become Commercial Managers. The Factory Managers in Hendon and Newcastle remained Dutch nationals because of their manufacturing experience in Philips factories in The Netherlands, but by 1951, only 4 of the 2,000 employees on the payroll were Dutch nationals.[25]

During 1926-1949, the board of the company comprised the MD (Philips required him to be a Dutch national until the 1990s), two representatives of Warburton Franki Ltd and Lawrence & Hanson Electrical Pty Ltd (the main distributors of Philips products in Australia) and a senior partner of Sly & Russell (the company's legal representatives). Board membership did not increase to 6 until 1949 and it varied between 7 and 11 members during 1950-1980. The expansion allowed Leddy and his successors to make strategic board appointments. Board members were selected on the basis of their experience in the communications and electronics industries, but also on the basis of political connections. Among the very influential board members were for example:

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[24] *The Age* (23 March 1967).
[25] *Mingay's* (30 November 1951) 31.

- Sir Samuel O. Jones (board member 1949-1961), an engineer who started his career in the late-1930s in the Postmaster General's department, and was quickly promoted during the war to occupy an influential position in the communications and electronics industry as the Head of the Directorate of Radio and Signal Supplies in the Commonwealth Department of Munitions, before coming to Philips in 1945 with an extensive network of contacts in the electronics industry and in relevant government agencies (see above).[26]
- Sir John Madsen (board member 1949-1962), Professor of Electrical Engineering at the University of Sydney until 1949. His biographer notes: He 'foresaw the rapid growth of the communications industry and fostered it by providing in Australia a solid background of relevant research' (Myers 2013). After his retirement in 1949, Madsen continued to be influential in various aspects of communications engineering as advisor to the Commonwealth Scientific and Industrial Research Organisation (CSIRO). He retired from the board in 1962, but Philips Australia retained him as technical consultant.[27]
- Sir Denzil Macarthur Onslow (board member 1958-1975), a decorated career army officer who in 1958 was the highest ranking officer in the Citizen Military Forces in Australia (McCarthy 2013). He had long-term contacts in the Liberal Party as well as various business interests in Sydney.
- Sir Frank F.A. Meere (board member 1962-1975), who worked at the Import Licensing Branch of the Department of Trade and Customs in the 1940s and knew Leddy in that capacity. He had been Comptroller-General of Customs and head of the Department of Customs and Excise, until his retirement in 1960, when he became head of the Special Advisory Authority (SAA) on tariffs to Trade Minister McEwen. Meere's motto for Australian manufacturing was: 'You make it and I'll protect it.' (Glezer 1982: 71). The SAA's role was to neuter the Tariff Board's recommend-dations on manufacturing tariffs in favour of continued protection until both agencies were abolished in 1974. Leddy considered Meere's SAA appointment a key reason for his board membership and an indication of 'the esteem in which he [is] held in Government circles'.[28]
- Sir Wilfred Alan Westerman (board member 1977-1984), who had been a public servant in the Department of Trade since 1949 and a former Head of the department. Like Meere, Westerman was closely associated with McEwen. He was 'hard-line on tariffs' and 'staunchly convinced of the part preferences had played in Australia's development. This led him to be unyielding in his opposition to their progressive abolition' (Farquharson 2013). Westerman was executive chairman and later chairman of the Australian Industry Development Corporation during 1970-1983.

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[26] NAA A463 1966-2043 Jones

[27] *Mingay's* (12 July 1963) 10.

[28] PA Box 136 PIHL Electrical Industries Directors' Minutes (22 February 1962) 75-76.

The board minutes of the 1960s-1970s indicate that board members were occasionally involved in lobbying politicians at State and Commonwealth levels in Australia in the interest of the Philips Australia company, whenever the need for such action arose.[29]

As part of the localisation strategy, the board supported Leddy's initiative in 1960 for Philips Australia to become a listed public company.[30] Leddy intended to create a holding company structure that would bring together Philips Australia's interests in a growing number of local subsidiaries.[31] In broad terms, Leddy also considered this an appropriate change for the purpose of building social capital in the host country. However, local part-ownership was then against the principles of the parent company, which insisted on full control. This only changed in 1970, following a share swap with shareholders in EIL, a public company. About 25% of shares in Philips Australia shares were subsequently traded on the stock exchange in Australia.

Creating a positive public profile: Publicity and national events

The 1950s and 1960s were a period of significant growth for the company. Due to the war, there was a backlog in demand for radio receivers and in 1956 a new market for TV receivers opened up. However, there was also a growing market for other consumer electronic and electrical goods, and for professional electronic equipment. To nurture its relations with stakeholders and customers, the company created an amalgam of ways to interact with them and enhance its embeddedness in Australia's society and business environment.

Apart from regular advertising campaigns in newspapers and magazines, the company also communicated with wholesalers and retailers through specialist journals such as *Philips Sales Bulletin* and *Philips Sales Promoter* which contained details of new Philips products in Australia. Where possible it sought publicity through the media to draw attention to new products that came onto the market and to reinforce the improved reputation of the company. Some examples include:

- Philips delivered lighting for national events, such as international cricket matches at the Melbourne Cricket Ground in 1954[32], the lighting of Philips main office in Sydney on the occasion of the Queen's visit to Australia in 1954[33], the lighting for the 1956 Olympic Stadium in Melbourne and the Sydney Harbour Bridge.
- Leddy was an avid gardener and in 1954 he arranged the delivery of tulip and hyacinth bulbs for the gardens of Parliament House in Canberra.[34]

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[29] PA Box 136 PIHL Electrical Industries Directors' Minutes (1960-1976); PA Box 135 PIHL Directors' Minute Book (1977-1987).

[30] PA Box 136 PIHL Electrical Industries Directors' Minutes (17 March 1960, 2 February 1961, 8 July 1963) 10, 52, 107.

[31] PCA 882 Australië, 3, F.N. Leddy to F.J. Philips (6 February 1962).

[32] *The Argus* (15 February 1954) 13.

[33] *Sydney Morning Herald* (16 February 1954) 7.

[34] *The Canberra Times* (9 September 1954) 2.

- The company used other newsworthy occasions to draw attention, such as donations to charities such as travel scholarships in 1948, and a donation of £5000 to assist the Commonwealth government in shipbuilding in 1951, as well as the delivery of new X-ray equipment to hospitals, etc.
- Some advertising campaigns reinforced the good reputation of the Philips brand name, for example 'How Philips research is changing your life' in 1960[35] (and 'Why does the name Philips crop up so often' in 1963.[36]

Executives of Philips Australia also played a role in public debate and were regarded as authorities in the field of electronics and communications. For example, they were involved in discussions leading up to the introduction of television in Australia in 1956. Discussions about this had started in the 1940s, particularly with the introduction of the 1948 Broadcasting Act. In 1952 Leddy sought to urge the government into making an announcement, arguing that television manufacturers were ready to plan production and extoling the international experience of the Philips company with television.[37] A year later, in 1953, Jones submitted evidence on behalf of Philips Australia to the Royal Commission on Television, which explained the views of the company on the establishment of television broadcasting in Australia.[38]

Prime Minister Menzies announced the introduction of television in 1954. The plan was to have television in place in time for the 1956 Melbourne Olympic Games. Philips Australia was consulted in planning the start of television broadcasting in Australia, establishing the technical standards and producing the television broadcasting equipment and television receivers. The company planned expansion of production capacity at Hendon, using the latest design advances from Philips companies in Europe and North America.[39] Broadcasting started in mid-1956, in time for the Olympics in November 1956.

This publicity reinforced the Philips brand name in Australia, as well as the public's association of the brand name with quality products. Philips products were generally more expensive than those of competitors in order to support that impression. In reality, the company had but a modest market share in final products, such as radios and TVs. The reason was that the income of the company depended largely on the sales of semi-manufactured components to other makers of radio and TV sets – of which there were many in the relatively small Australian market – rather than final products. Sales of valves and later of transistors and integrated circuits (ICs), as well as TV tubes, transformers, TV tuners, and other components, together with incandescent lamps,

35 *The Age* (13 December 1960) 14.
36 *Sydney Morning Herald* (15 July 1963) 31.
37 *Sydney Morning Herald* (24 November 1952) 1, (27 October 1953) 6,
38 NAA A13339 TV1953/244 S.O. Jones to K. Collings (Secretary Royal Commission on Television) (26 June 1953).
39 *The Advertiser* (11 May 1954) 3; *The Mail* (2 October 1954) 7.

underpinned the company's financial performance, generating around 70% of the profits of Philips Australia in the 1960s.[40]

Role in Australian business and society

Leddy played a leading role in industry associations. For example, he chaired the Electronic & Allied Industries Division of the Chamber of Manufactures in NSW. As the company expanded, Leddy's seniority in the electronics and communications industries increased. Together with executives of the company's main competitors AWA in Sydney (particularly AWA Chairman Sir Ernest Fisk and AWA Secretary Sir Lionel G.A. Hooke) and EIL in Melbourne (specifically its Chairman and MD Sir Arthur G. Warner), Leddy was a leading figure in the industry. This helped the company maintained good relations with State and Commonwealth governments as well as industry associations.[41] An indication of his status in the industry is that industry journal *Mingay's Electrical Weekly* gave him a 64-page salute when Leddy departed Australia for Italy in June 1962.

In many ways Leddy personified the commitment of Philips to the host country. Nevertheless, he remained fully aware of the potentially precarious position of the company in Australia, as it was largely dependent on trade protection for its existence in its current form. It was clear to Leddy that Philips Australia had to build ownership-specific advantages, based on firm-specific technological capabilities. Already in 1949 he appointed board member Madsen to improve the scientific and research side of the company's activities in Hendon.[42] He persisted with that goal using opportunities in public addresses to stress the need for Australian firms to engage in research and development (R&D).[43] He drove Philips Australia to establish R&D facilities in Hendon, which he also used to cement cordial relations with Prime Minister Menzies. In 1959 Menzies visited Philips in The Netherlands. The same year, he opened the A£400,000 new mass-production semiconductor factory at Hendon to produce transistors and diodes, and he laid the foundation stone for the company's research centre in Adelaide, promptly named the R.G. Menzies Research Laboratory.[44] The laboratory employed 8 physicists, chemists and engineers and was the result of Leddy's sincere interest in fostering R&D in Australia.

Leddy frequently expressed his opinion in public that Australian companies had to do more to build their R&D capabilities in order to sustain further industrial development, reduce Australia's dependence on imported technology, improve

[40] PCA 882 Australië, 5, 'Reisdocumentatie ten behoeve van de Heer F.J. Philips: Australië' (16 October 1968).
[41] PCA 882 Australië, 3, B.P.M. Windsant 'Report of Visit to Australia 27th May till 14th June 1962' (25 July 1962).
[42] *The Advertiser* (7 January 1949) 6.
[43] *Mingay's* (15 June 1962) 3, 21, 23, 57, 59 and 60.
[44] *Philips Sales Bulletin* (November 1959) 14-15; Dunn (1959); *Mingay's* (15 June 1962) 51.

business education in order to nurture new generations of business people, and encourage export production by manufacturers. This was a welcome message in the early 1960s, when Australia experienced foreign exchange shortages. Apart from cutting imports, the government encouraged firms to consider ways to increase exports. Until then, the opportunities for Philips Australia to produce for export had been limited. Partly because its products lacked international competitiveness, but mainly because the parent company expected it to restrict any exports that competed directly with exports from The Netherlands.

Leddy used a call by the Australian government in 1962 to start discussions about the future role of Philips Australia in the global operations of the MNE. In effect, he argued that Philips Australia would have to invest more in R&D in order to develop the technological capabilities that would allow it to become a hub for the MNE's activities in the Pacific, if not the wider Asia-Pacific region.[45] However, he could not pursue this intention further, because the parent company required him to take control of the Philips operations in Italy. In his farewell speech, Leddy explicitly urged the electrical equipment industry in Australia not to be complacent about tariffs and invest in R&D with the aim of building export capabilities.[46]

Leddy's vision tied in with Australia's industry policy in the 1960s, which supported manufacturing companies to develop new technological capabilities. Since 1967, the government maintained incentive schemes to foster R&D in Australia. Local companies in the 'electric and electronic apparatus' sector such as Radio Corporation and Philips Electrical (both Philips subsidiaries), Ericsson and Pye were major recipients (Tisdell 1973). Subsequently, the Menzies laboratory focused on IC research in projects that were half funded by the government and half by Philips Australia.[47] Nevertheless, R&D by foreign-owned firms in Australia remained on the whole limited (DoTI 1972ab). Foreign and locally owned firms mainly relied on licensing arrangements with foreign patent holders to acquire new technology. And their export ambitions may also have been curtailed by export franchise arrangements that allowed them to access technology overseas, but conditional on restrictions on export ambitions (Industry Commission 1992).

Philips Australia lacked continuity in leadership during the rest of the 1960s, with 3 MDs in quick succession: Pieter C. Vink (1962-1964), Adriaan J.W. van Agt (1965-1969), and Herman D. Huyer (1969-1980). Nevertheless, the company made a serious effort to seek technological upgrading of its products through R&D in order to become a hub for the MNE's operations in the Asia-Pacific region. Some exports occurred, such as the delivery of specialised communications equipment to Singapore and Malaysia in 1968 and exports of VHF and FM mobile radio telephones to Hong

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45 PCA 882 Australië, 3, B.P.M. Windsant 'Report of Visit to Australia 27th May till 14th June 1962' (25 July 1962).
46 *Mingay's* (15 June 1962) 57-61.
47 PCA 882 Australië, Components, 58, 3 'Note April 1967'.

Kong, Singapore, Malaysia, New Guinea and Taiwan.[48] However, a major obstacle to exporting was that the parent company had to give Philips Australia permission for exports of items that would compete directly with its exports from The Netherlands.[49] The semiconductor research at Hendon was focused on the development and production of specific advanced ICs that Australia's armed forces required.[50] This research contributed to the decision in 1966 to establish an IC production facility in Hendon.[51] The plant started in 1970, producing advanced ICs for the Commonwealth Department of Supply, and was expected to become the hub of technological innovation for the company. New MD Huyer reported that year that the opening of the IC factory had made 'a good impression' in Canberra, the seat of Australia's federal government.[52]

5. The limits of political influence, 1970s

Nevertheless, the company's aspirations in the 1960s did not reach fruition. In the 1970s it was not able to capitalise on the social capital it had accumulated for the purpose of influencing the changes that unfolded in Australia's business environment and/or create new opportunities for itself. Four main issues prevented this.

Firstly, the aftermath of the amalgamation with EIL was very complicated. Huyer sought to establish clarity about the structure and the policies of the amalgamated company, as well as the responsibilities of all subsidiary firms.[53] In all, the number of subsidiary companies doubled in 1970 to an unwieldy 74, which the company arranged in a multi-divisional structure.[54] But Huyer soon discovered that many of the former EIL companies were not viable. This contributed to Philips Australia's first loss in 1972, as Figure 1 shows. It took several years to identify, restructure, or close or sell the unviable companies, sell surplus assets like buildings, warehouses, machine tools and land, and reduce duplication of the activities across remaining companies through amalgamations. The problem repeated itself after the Philips parent company required Philips Australia to absorb the Pye group of companies in Australia during 1975-1977.

Secondly, while Philips Australia, its board and MDs remained on good terms with the 1966-1972 Liberal-Country coalition governments that succeeded Menzies, it did not have the same rapport with the Labor government of Gough Whitlam that was voted into office in December 1972. While signs of macroeconomic instability had announced themselves earlier, problems of industrial unrest, rising wages and inflation,

48 *Mingay's* (22 April 1966) 49 and (12 August 1966) 4; *The Straits Times* (26 July 1968; 16 May 1969); *Philips Reporter* (July 1971).
49 PA Box 136, PIHL Electrical Industries Directors' Minutes (7 September 1966) 195.
50 PA Box 135 Philips Industries Pty Ltd Management Committee Meetings (30 March 1966) 4.
51 PCA 882 Australië, Components, 58, 4 A.J.W. van Agt to Th.P. Tromp (8 September 1966); *Mingay's* (30 August 1968) 10.
52 PA Box 136 PIHL Electrical Industries Directors' Minutes (4 December 1970) 32.
53 *Philips Reporter*, September 1969.
54 *Philips Reporter*, July 1970.

as well as significant institutional change commenced during the 1973-1975 Whitlam years. A major issue for the company was the increasing competition from imported products in Australian markets for electrical and electronic goods, after the new government embraced a program of reform of trade and industry policies, starting with a 25% tariff reduction in July 1973.

The effective rate of protection varied across products in the electrical and electronic goods sector. For 1972 and 1973, the Tariff Board found effective rates of protection for CRTs of 240%, radios of 300%, and electronic components of 130% (Rattigan 1986: 132-133, 179, 184). On average, the effective rate of protection for 'appliances and electrical equipment' decreased from 49% in 1968/69 to 22% in 1977/78 (Industry Commission 1995). This reduction came at a time when Japanese producers of electronic and electrical equipment had significantly improved the international competitiveness of their products.[55] Japanese products were not necessarily cheaper, but they were of better quality than Australian-made products, and came with better servicing and marketing. They also contained the latest technologies, which Philips Australia could not develop and apply at short notice. Consequently, imported Japanese products soon captured significant market share in the late-1970s. While Philips products withstood increased competition due to the Philips brand reputation, the more important problem was that other Australian television set producers reduced their orders for componentry such as TV tubes from Philips, at a time when the company experienced rising labour costs.

Thirdly, domestic TV producers were hoping for a one-off opportunity to improve their balance sheets when the Australian government in 1972 decided to introduce CTV broadcasts, starting in March 1975. With the support of senior management and the board of Philips Australia, MD Huyer was vocal from the outset in articulating the industry's view in Canberra and later in the Australian media that producers would only invest in CTV production in Australia and that Philips would only invest in the production of CTV picture tubes if the government guaranteed adequate tariff protection.[56] This triggered a 1973 Tariff Board inquiry into higher tariffs for CTVs and components. However, the change of government in December 1972 changed the parameters. During 1970-1972, Huyer had come to know Whitlam as an opposition leader, only to realise that Whitlam 'did not have the faintest idea of economics and business. Moreover, he did not trust any advice given to him.' (Huyer 1986: 352).[57] In other words, Huyer had no traction in Labor circles.

[55] The competition posed by Japanese companies in the Australian market for electronic and electrical goods is the subject of a separate paper (Van der Eng 2010).

[56] PA Box 134 PIHL Group Policy Committee Minutes (22 February 1972) 755-766; PA Box 135 PIHL Minutes of Directors meeting (1 March 1972); *Australian Financial Review* (5 May 1972); *Canberra Times* (18 May 1972) 23

[57] Huyer faced similar problems relating to Prime Minister Malcolm Fraser during 1975-1982, Huyer (1986) 357-359

Pre-empting the Tariff Board's report, Huyer sought to force the government's hand by announcing in April 1973 that Philips Australia would commit to CTV production and create new employment to be able to meet the March 1975 deadline.[58] Instead, a year later it became clear that the company's social capital had depreciated significantly. Its April 1974 board meeting clarified that the Tariff Board was due to recommend a zero tariff on imported electronics components and a 35% tariff on imported CTVs and that the government was due to follow this advice. Philips faced having to lay off 3,000 people and close the Hendon plant as B&W TV production would be phased out, and radios and components would have to be imported.[59] Following the public announcement of the decision in July 1974, Huyer argued publicly that the entire Australian electronics industry would be in danger of collapse due to the government's acceptance of the tariff reductions on TVs and components.[60] He predicted that TV manufacturers would use imported parts and that 12,000 employees would be retrenched during the next 18 months. He also announced that Philips Australia would start closing down its Hendon operations. The Labor Premier of South Australia, Don Dunstan, spoke on behalf of the company in an effort to stem the tide of job losses in his state, but his arguments fell on deaf ears in Canberra.[61]

In the years that followed, Philips Australia restructured itself by selling many of its non-core local subsidiaries, scaling down production operations and dismissing 1,850 workers until most of the Hendon plant was effectively closed by 1979. The company did commence production of CTVs in its Clayton plant in Melbourne. This was a relatively new factory that EIL had built in 1969 for monochrome TV assembly. However, this plant used CTV tubes and componentry imported from overseas Philips plants. It was successful in capturing a significant share in Australia's CTV market and its sales revenues increased. However, increased Japanese competition drastically reduced its profit margins on CTV sales.[62]

Fourthly, Philips Australia received limited guidance from its parent company in handling the difficulties it found itself in. In the 1960s and 1970s, 60 to 65% of the parent company's global turnover was in Western Europe, where it was absorbed by the need to defend its market position in the context of the process of European integration. Its strategy focused on a painful and involved process of consolidating production facilities across Europe and taking commercial decisions away from national organisations and placing them in the hands of the company's product divisions (Van der Eng 2017b).

The restructuring of the parent company's operations in Europe resulted in a haphazard global strategy that left nothing of the earlier intentions to encourage Philips Australia to become the hub of the company's operations in the Asia-Pacific region.

[58] *The Age* (25 April 1973).
[59] PA Box 135 PIHL Minutes of Directors meeting (19 April 1974).
[60] *Australian Financial Review* (10 July 1974); *Sydney Morning Herald* (10 July 1974).
[61] *Sydney Morning Herald* (12 July 1974); *Canberra Times* (12 July 1974) 3.
[62] *Philips Reporter* (September 1975, April 1976, November 1976).

The plan for Australia to become the company's focus for regional IC production was thwarted by the decision by the relevant product division in the parent company to concentrate IC production in Europe and Taiwan. Consequently, Philips Australia closed the Menzies Research Laboratory and most of its IC factory in Hendon. Without mass production of such advanced technology, its options became limited. At the same time, the parent company fostered the development of supply centres in Asia, starting with Taiwan (1966), Hong Kong (1969) and Singapore (1970), and Philips Australia was expected to order supplies from those subsidiaries.

Thus, it became clear during the 1970s that the social capital that Philips Australia had accumulated since the mid-1940s to mitigate its LoF had depreciated due to a series of developments that the company found nearly impossible to influence. MD Huyer and the company board had little traction in Labor Party circles or with Australia's emboldened labour unions. Its main competitor in the Australian electronics industry, AWA, endured exactly the same problems even though this company was actually part government-owned.[63] Like Philips Australia, AWA also concluded that the only remaining option was to further restructure activities by divesting unviable subsidiary companies, closing production operations, and focusing on the sales of imported products. Employment in Philips Australia decreased quickly from 18,500 immediately after the amalgamation with EIL in 1970 to 5,500 in 1980 and 2,900 in 1990, when 75% of employment in the firm was in sales rather than production.

6. Conclusion

This paper has demonstrated that Philips Australia employed a range of strategies to mitigate the LoF that it experienced in the early 1940s. As LoF theory predicted, the company actively sought to create 'FDI legitimacy' by interacting flexibly with the LoF challenges it faced. For this purpose it actively sought to 'embed' itself in the local business environment. It also engaged in the development of ownership-specific advantages as well as political activities through lobbying in the 1940s-1960s. Ownership-specific advantages took the form of leveraging technology from the parent company for the purpose of producing componentry for domestic producers of final electronic goods to the extent that its production operations were indispensable for the growing electronics industry in the 1950s and 1960s.

At the same time the firm actively accumulated social capital in several ways. It built and maintained strong relations in the domestic electronics industry and in politics at state and Commonwealth levels to influence discussion about the direction of policies impacting on the industry. Philips Australia also localised senior management, maximised local procurement and local manufacturing, took a leading role in industry associations, and used marketing tools to build a strong brand and a

[63] AWA 1974; *Canberra Times* (26 November 1975) 23.

positive public profile in Australia. The strategy helped to minimise risk and maximise commercial opportunities for the firm.

Developments during the 1970s made it clear that this ‘national embeddedness’ strategy was very context-dependent, particularly dependent on the context of trade protection and political connections with the parties and politicians that sustained this policy. As soon as a new government started to change many of the rules that defined Australia’s business environment, Philips Australia experienced that the social capital it had accumulated during the 1950s and 1960s had depreciated significantly. The company was unable to use what social capital was left to prevent or influence these policy changes. In the face of increasing competition from Japanese electronics firms, Philips Australia had to restructure and downsize its manufacturing operations in Australia. Despite increasing reliance on imports and efforts to specialise production on high-value added products, Philips Australia saw its profitability and market share decrease.

On the other hand, main domestic competitor AWA had exactly the same experience, even though it was part government-owned. Hence, the ‘embedding’ strategy of Philips Australia had been so successful that by the early 1970s there was very little that distinguished the company from its main local competitor, except its ownership structure. The MD may have been a Dutch national, but middle and higher management staff were Australians, the company served local clients, most of the value of the company’s intermediary and final products was produced in Australia, and customers often believed that Philips was a local brand.

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