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SEVENTH SENIOR SEMINAR IN FOREIGN POLICY

HIDDEN PITFALLS FOR AMERICAN PRIVATE INVESTMENT IN SELECTED WESTERN EUROPEAN COUNTRIES

BY
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HIDDEN PITFALLS FOR PRIVATE U.S. INVESTMENT IN SELECTED WESTERN EUROPEAN COUNTRIES

This is the inside story of the problems faced by selected American firms in getting into the Western European markets and once established, the variety of operating obstacles encountered. It is based largely on personal interviews with American businessmen and bankers in New York, Brussels, The Hague, Paris, Rome, Bonn, Frankfurt and London. The paper also contains observations, comments and evaluations on the climate for American investment -- the political pitfalls as well as the non-official attitudes -- especially those related to the so-called "American invasion" or "Americanization" of Europe and the fear of American domination.

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I. PREFACE

The idea for this study evolved from a desire to understand more fully the political, economic and other aspects of the concern in Europe with the heavy U. S. inflow of direct private investments. There had been a spate of news reports from various European capitols and elsewhere indicating real fear among political leaders, businessmen, newspapermen and others that U. S. giant firms had already overpowered some sectors of their economies, were threatening others and indeed, according to some, threatening their sovereignty as nations.

These were not the only reasons for the interest in the subject. There was also a desire to compare and contrast the "investment climate" in selected Western European countries with that in Japan, although not in the proposed study. This latter interest results from long professional association with Japanese economic and commercial activities in the Department of Commerce and during 1952-1955 in the Commercial Section, American Embassy, Tokyo. As a matter of fact during 1955 while at the Embassy I made a study of various aspects of Japan's economy and investment climate which was published in early 1956 by the Department of Commerce under the title Investment in Japan.

The original conception was modified following several discussions with the Coordinator of the Seventh Seminar in Foreign Policy, Ambassador G. Lewis Jones. Thus, the focus was sharpened. It evolved into a study of some of the sub-surface problems, or if you will, the hidden pitfalls for American manufacturing operations in selected countries in Western Europe.

Actually the modifications helped in the development of a better understanding of the prevailing criticisms against U. S. investment in Western Europe. It also provided the opportunity to become familiar, to a limited extent to be sure, with some aspects of the changing economies and ways of doing business in Europe, the role of

American business in effecting such changes, the influences which "going into Europe" are having viz-a-viz the executives of American companies at home and in Europe and the increasingly important inter-relationship of American business presence and foreign policy.

This report is based largely on views and comments obtained from 85 interviews with American businessmen and Government officials. Discussions were also held with some European businessmen and Government officials. The countries visited were Belgium, France, Federal Republic of Germany, Italy, The Netherlands and the United Kingdom. Prior to the trip to Western Europe, several days were devoted to interviews with American businessmen, U. S. bank officials, a representative of a prominent American management consulting firm and officials in U. S. business organizations in New York City.

This report would not have been possible without the cooperation of the many economic and commercial officers in our Embassies, and in our Consulate General in Frankfurt, who not only provided information but also significant insights into the various aspects of American business operations in each of the countries visited. They also were invaluable in suggesting Americans and foreigners to interview and they assisted in arranging for the appointments. I am deeply indebted to all of them for their help. Appropriate assistance was also given by officers in the Departments of State and Commerce. Finally, I am indebted to the many businessmen, American and European, and European government officials who gave so much of their time and shared some of their thoughts concerning other aspects of U. S.-European relations.

II. SUMMARY AND CONCLUSIONS

1. It is not the least surprising to discover enormous and significant differences between business thought and practices in Western Europe and the United States. Equally, it is no great revelation to find that these differences have resulted in many pitfalls for Americans desirous of investing in Western Europe. Although difficult to substantiate, perhaps many of these can be avoided, or at least their impact mitigated, if Americans have a better understanding and appreciation of these differences. It would undoubtedly require adaptation of business policies and practices which, in many instances, have long been considered sacrosant. However, these adaptations are likely to have less adverse effect on the uniqueness of American business élan than is often feared.

2. Basically, Americans will need to understand that management in Europe is not considered in the same favorable

light as in the U. S. The status and prestige of European executives are not so much determined by success in business as in other attainments. And, although this is undergoing change throughout Europe and especially in the Federal Republic of Germany, it is nonetheless a fact of life that must be taken seriously.

3. Similarly, the concept and appreciation of change is different in Western Europe. For American businessmen change is a way of life. It worked so well in developing our business society and there is a strong tendency to try to transplant this concept rapidly without realizing that European business executives all too often are resentful of those who wish to upset the traditional methods. Americans find it difficult to understand European executives who apparently derive real satisfaction from the continuation of well established, time honored ways of doing business which provide sufficient returns, in their terms, for the pursuit of their really

more satisfying nonbusiness activites. However, much the woe, the conclusion can be reached that this suggests the desirability, indeed often the necessity, of assigning broadly based generalists as executives to Western Europe.

4. Moreover, the more important role of governments in business affairs in Western Europe also suggests the need for such generalists since it is almost essential to maintain effective contacts with government officials, often those at senior levels.

5. Indeed, there are many other important reasons for American firms to assign good generalists for executive positions to Western Europe. Labor relations are more complex and delicate. European markets are not an extension of the U. S. They are unique in many respects and it takes special talents to formulate and conduct programs to effectively meet the unique requirements.

6. Finally, the alarm is ringing in Western Europe for all American business. It is essential for Americans to listen and understand the apprehensions -- and in some instances the fear -- expressed by Europeans regarding their future because of American investment. It may well be true that they have little to be apprehensive about or to fear but it will take Americans with considerable talent and skill to so conduct themselves as to be convincing to their European hosts.

7. It is reassuring to find growing awareness of the differences among established American firms between doing business in Western Europe and the United States. There is also greater appreciation among European based American businessmen and American business organizations on both sides of the Atlantic of the need for increased efforts to improve the political business climate for Americans operating in Europe. Thus, there is good reason for optimism, especially for the long run, particularly

with the further trend toward multinationalization of business. However, it would be surprising if, in the short term there were not to develop additional outcries against the American giants for one reason or another, especially if there were to be another surge in the flow of American investment following any relaxation of the current voluntary restraints against the outflow of dollars which were instituted in early 1965 for balance of payments reasons.

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III. THE YANKS HAVE LANDED - A PROFILE OF AMERICAN INVESTMENTS IN WESTERN EUROPE

Fifteen years ago total U. S. direct investments abroad amounted to $11,788 million, with all of Europe accounting for only 14.7%. Of this $1,733 million, more than half ($847 million) was invested in the United Kingdom, compared with $637 million in what is now the Common Market (Belgium, Luxembourg, France, Germany, Italy and the Netherlands). Canada that same year had a total of $3,579 million.

A little less than a decade later (1959) the purchases of existing firms and the establishment of new enterprises by American firms in Europe increased to $5,300 million, a phenomenal rise of 306 percent. The percentage rise for all U. S. investment over the same period was 252 percent and for Canada 283 percent. The $3,567 million gain for Europe was paced by the almost 350 percent growth in the investments made by American businessmen in a wide variety of industries in the

Common Market countries. However, a very sharp spurt -- almost 300 percent -- also was recorded for the United Kingdom.

The 1960's has seen an acceleration of the rapid pace of the 1950's. By 1963 the value of American investments in Europe was double the 1959 level. The total stood at $10,351 million, about 25 percent of the world total. Europe had become a major rival of Canada, which historically had been in the forefront as the market for U. S. investment. That year the Canadian total of $13,016 million exceeded Europe's $2,665 million whereas only four years earlier the difference was almost $5 billion.1/

Comparable official U. S. Department of Commerce data for 1964 and 1965 are not available. However, according to a Department of Commerce survey of foreign investment plans of American firms for 1964, " ... further substantial step-up in European investment of U. S.

firms is already evident in 1964, continuing the pace of rapid expansion which began in the late 1950's."2/ A later study suggests this prediction to have materialized into reality. The Chase Manhattan Bank in its annual sample survey of U. S. investment activity in Western Europe noted that a record number of U. S. manufacturing firms either established new facilities, expanded existing ones, or acquired interests in European firms during 1964. The survey further noted that in part this continued spurt was due to the continued rapid pace of economic advance in most of Western Europe. But it was also due, according to Chase Manhattan Bank, to such special circumstances as the gas and oil exploration boom in the North Sea area, the reorganizations of Europe's emerging computer industry, and the apparent effort of many U. S. firms to follow the example of competitors who had made European investments in earlier years. Moreover, as in the automobile industry, already established American subsidiaries had seemingly increased their facilities in Europe during 1964.3/

A further analysis of the profile of U. S. investments in Western Europe reveals that the bulk of such activity has been concentrated in manufacturing. Again according to the Department of Commerce, of the $10,351 million in U. S. investment in Europe by 1963, the Common Market countries and the U. K. accounted for $4,471 million and $4,216 million of this total. The Common Market division was as follows: Belgium and Luxembourg $351 million; France $1,235 million; Germany $1,772 million; Italy $668 million; and the Netherlands $445 million. With the Common Market a total of $4,471 million, better than half ($2,515 million) represented investment in manufacturing, with almost half in Germany ($1,116 million) followed by France ($759 million), Italy ($260 million), Belgium and Luxembourg ($225 million), and the Netherlands ($154 million). The U. K. led all the Common Market countries with a total of $2,735 million in the same year. The bulk of the difference between total American investment in Western Europe (Common Market and the U. K.) in 1963 and that invested in manufacturing activities was accounted for by investment in petroleum exploration, refining and distribution. 4/

The Department of Commerce noted in October 1964 that "American industry is now engaged in raising both domestic and foreign capital expenditures by large amounts. For all industries the 16 percent increase in foreign outlays projected for 1964 may be compared with an expected domestic increase of 13 percent. For manufacturing operations alone (excluding petroleum refining) there is a marked difference in investment ratios: foreign expenditures are scheduled to rise 26 percent ... 5/ Another indication of the extent of American business interest in manufacturing activities in Europe is demonstrated by the intentions expressed by the sample of U. S. firms covered by the Department of Commerce survey of plant and equipment expenditures planned for 1964 and 1965. For all of Europe this revealed that of a total of such expenditures contemplated for 1964 and 1965 of $2,102 million and $2,045 million, respectively, outlays for manufacturing facilities were expected to represent $1,214 million and $1,888 million. And, of the $1,214 total outlay for plant and equipment for manufacturing, better than one-third ($415 million) was intended for transportation equipment, $196 million for machinery, excluding electrical with the remainder distributed over a variety of manufacturing fields, i.e., food products ($74 million), paper products ($11 million), chemicals ($180 million), rubber products ($34 million), primary and fabricated metals ($85 million), electrical machinery ($87 million) and all other manufacturing ($132 million). This same survey indicated that the expectations for plant and equipment expenditures in 1965, although somewhat lower in over-all value compared with 1964 would follow the same general pattern of distribution among industrial sectors as in 1964. 6/

Returning to the Chase Manhattan Bank survey for 1964, the sample used of 3,070 new U. S. business ventures undertaken in Europe during the period January 1950 through January 1965 shows that 2,762 firms out of the total of 3,070 were involved in various aspects of manufacturing (exclusive of research and engineering and petroleum and other fuels). Interestingly, France led the list with 500 operations followed by Germany with 427, Belgium-Luxembourg 380, Italy 371, the United Kingdom 272, the Netherlands 237, with the remainder distributed between Switzerland and EFTA countries other than the United Kingdom. The profile by industry group is set forth in the table that follows:

NEW OPERATIONS OF U.S. COMPANIES IN EUROPE
JANUARY 1958-JANUARY 1965

	Bel-Lux.	Fr.	Ger.	Italy	Neth.	EEC	U.K.	Switz.	EFTA	Western Europe
Textiles & Clothing	24	20	17	19	19	99	14	14	32	134
Paper	11	21	12	9	5	58	8	11	27	88
Transportation Equip.	18	39	10	21	11	99	12	17	31	131
Electrical Machinery	44	77	43	61	27	252	43	37	85	343
Machinery, Non-electrical	71	92	74	64	38	339	69	52	132	381
Chemicals & Products	90	79	74	79	61	383	30	33	72	474
Petroleum & Other Fuels	15	17	26	20	12	90	13	4	24	117
Heavy Equipment	11	20	11	5	5	52	11	5	17	70
Household Appliances	3	19	12	10	4	48	9	9	19	69
Basic Metals & Metal Products	39	32	42	29	16	158	16	12	32	197
Rubber	8	13	6	10	4	41	3	4	7	50
Food, Beverage & Tobacco	19	31	30	21	19	120	18	17	37	160
Glass	7	2	5	7	2	23	1	1	5	28
Instruments & Watches	7	20	34	16	20	97	17	19	38	136
Office Machinery	8	14	16	4	6	48	9	15	28	79
Research & Engineering	14	24	11	11	11	71	8	10	19	91
Other Industries	20	19	26	16	8	89	12	12	32	123
Services:	53	77	40	30	23	223	20	39	67	299
Finance	13	28	14	9	6	70	5	13	19	94
Retail & Wholesale Trade	3	7	2	--	1	13	3	1	6	19
Hotels	6	5	3	1	1	16	1	3	4	22
Marketing & Publicity	10	16	8	10	5	49	6	9	18	68
Other Services	21	21	13	10	10	75	5	13	20	96
TOTAL	462	616	489	432	291	2290	313	311	704	3070

Moreover, according to the Chase Manhattan Bank most new U. S. manufacturing investments in Western Europe involved the establishment of new facilities -- at least this was so during the years 1961-1964 -- for the large sample used in the survey. This same source indicates that in this same period about 50 percent of all new U. S. investments were made in partnership with European firms and, during 1964, joint ventures by American firms were made to the greatest extent in Italy and France.

From this profile it is evident that a rather substantial number of American companies have already established themselves, especially during the past few years, in a wide variety of manufacturing industries (some key ones) and other activities in the EEC and the U. K., the countries visited (except Luxembourg) for the firsthand investigation of the hidden pitfalls encountered by American investors.

This large and rapid influx of American companies into Western Europe has raised fear of "domination," "satellization," and "colonization." Charges are also made that the disproportionate size between U. S. firms and European businesses is so great that the latter are put at a serious competitive disadvantage. The fear of industrial colonization -- and threat as some see it to political sovereignty -- stems from the fact that American companies have indeed become significant factors in key industries such as automobile, electronics, oil, foods and pharmaceuticals. Thus has developed the fear of U. S. dominance over so-called sensitive sectors of the economy and the possible loss of control by national governments over decisions in areas vital to a country's economy since, it is contended, such American-owned or dominated European companies are controlled from the U. S. and decisions often, if not always, are made without regard to the impact in the host country. These are indeed serious questions -- they will be examined in a subsequent section of this report. It is sufficient at this point to note that accurate data on the degree of participation by American firms in key industries in countries of Western Europe were unavailable to the author and there is a serious question whether such exists.[7] According to one prominent French source significant foreign participation exists in the following industries in France: synthetic rubber (90 percent of production); margarine (90 percent of production); ball bearings (80 percent of production); agricultural machinery (70 percent of production); petroleum (65 percent of distribution); telecommunication equipment (65 percent of the French market); elevators (60 percent of production); and 50 percent of production of office equipment, plumbing fixtures and light bulbs. It should be noted that these figures are the extent of foreign not necessarily American participation. There is little question but that wholly

European companies such as Unilever, Shell, Francarse, Dunlop, Phillips, etc. play very important roles in some of the industries cited.8/

That the importance of U. S. investment in Europe would appear to be exaggerated or at the least, over-estimated, in order to make the point that "America is dominating Europe" is suggested by Mr. Pierre Uri, an eminent French economist who stated in Le Monde ". . . that American capital represents only one percent of the total capital invested in Europe."9/ Another source notes " . . . in no one country in Europe do all the American companies there, when lumped together, account for more than a few percentage points of total industry investment or employment".10/ However, none of these sources takes issue with the contention that foreign (and probably largely American) firms have leading positions in certain key industries in Western European countries, especially the United Kingdom and France.

IV. PITFALLS ACROSS BORDERS

"Remember Italy is an old civilization and Italians are proud of many of their traditions -- and rightfully so. I came over to Italy without fully realizing the wide range of cultural differences. I have learned something about these differences since I have been here and I appreciate the need to move with understanding and appreciation." 11/

This observation by an American executive in Italy pithily summarized a range of pitfalls -- many hidden, others closer to the surface and some quite obvious but nonetheless often overlooked by Americans in their business activities in Europe, and probably elsewhere in the world as well.

These have variously been characterized as "Cultural differences" and the "Cultural gap." Actually they are a combination of these plus philosophical and sociological differences. Some of these appear to be of general applicability -- they are pitfalls without specific nationality as such, although there are variations which do indeed have unique characteristics. Such, together with others particularly applicable to specific countries, will be treated in a separate section.

From more than one American company executive at home and abroad -- and from different manufacturing fields -- came the observation: "European businessmen are less interested in business as a way of life than Americans." French executives of family-owned firms are more interested in devoting time to the pursuit of the arts in its various forms than involving themselves in the pursuit of scientific management and marketing techniques which may lead to lower production costs, higher volume and higher profits. Given reasonable returns from operations using traditional patterns of doing business, the tendency is to be satisfied with present methods. Departures may mean departures from a way of life which places value on the business executive not so much on his success as a businessman as on his social standing, and this is related to his cultural and other attainments. Generally, the European executive is more interested in the non-business aspects of life and is representative of that sector of society which places great emphasis on such values. Several long-time American observors of the European business scene summarized these attitudes. Americans get satisfaction out of the job whereas Europeans are not in business for the élan of business. They go at it perfunctorily - they are unwilling to take steps which might increase their business substantially because this would complicate their way of life, which they find satisfying. They (especially the French) love to live - they do not wish to undertake programs which might interfere. This is changing in Europe - and American businessmen are helping to bring about the change - but the change is being made with discomforts for the Europeans and also for the Americans.

As symbols of this change all too often Americans fail to understand and give sufficient recognition to the underlying strengths which exist in European business and businessmen. This is precisely what the same U. S. Steel executive in Italy had in mind. "In Italy it has been important, and has been our policy to learn from our Italian partner, to appreciate the reasons behind their ways of doing things. After all they have been making steel for a long time; they may not be aware of the latest techniques of producing stainless steel products as well and as competitively as we can. This is what we can contribute and they realize it. However, with their well established methods, of which they are proud, perhaps it will be possible, and certainly it would be desirable, if we could adopt or adapt to meet the requirements. In any event, whatever may be the outcome we have learned to proceed carefully, and to the maximum extent possible avoid causing too great a shock to them." 12/

Change is not a way of life among Europenas -- at least not to the extent the concept is part of the American businessman's approach to business. For Americans, change has worked well and the tendency is to effect change rapidly -- particularly in marketing techniques. After all, this approach proved successful in creating the mass market in the United States. European business executives are reluctant to make changes rapidly. As noted earlier, this would necessitate departures from, or at the minimum important modifications in, traditional modes of activity. And, if current ways of doing business are providing returns sufficient to satisfy the desire to live graciously in accordance with the time honored tradions -- why invite change?

Ask an American manager in Europe: "How do you deal with this attitude and yet maintain your élan - the very fiber that has made you what you are?" It is a difficult problem and one which has perplexed many American businessmen. Perhaps the answer lies in the approach of an apparently very successful American steel fabricating manager in France. Explains this executive, "We have taken the posture of backing into the industry." This contrasts sharply with those who have the understandable tendency to rush in and, either consciously or unconsciously to ignore the different philosophical, cultural and sociological heritage and the resultant different patterns of business behavior. Resistance rather than cooperation is likely in such circumstances and on occasion has resulted in counterproductive rather than productive activity.

Flexibility and adaptability are essential. The products selling well in Memphis may not do well in Mannheim. What is most suitable for Mannheim, on the other hand, could well be a "lead balloon" in Manchester. Belgium is not Britain -- Brussels is not Birmingham (neither the one in the United Kingdom nor in Alabama).

Many American companies learned -- some the hard way. Pfizer did adapt early -- and apparently successfully. Take for example its careful analysis of the color preferences of Belgium consumers in the purchase of proprietary drugs. Thus, with a relatively minor change from the products produced for the U. S. market, products were readily accepted in the Belgian market. Another example is the success Pfizer achieved in competing against another U. S. firm for the diet food market in the U.K. "Meade Johnson's Metrecal, a runaway success in the U. S. and Canada, is something else again in the U.K., where it was introduced as Metrecal . . . Chas. Pfizer . . . took away the bulk of the market Metrecal built up at some cost. Americans, who are weight conscious and malt-drinks indoctrinated, took to Metrecal quickly and easily. The British responded slowly. But when Pfizer introduced a Metrecal-type product, Limmits, in tea biscuit form, the British chewed them down." 13/

An American banker in London emphasized the importance of thorough market research. As he put it, "one of the biggest problems faced by American companies in entering the U.K. is missing the market." 14/ New products can be introduced but this requires a carefully planned, specially oriented program to develop consumer acceptance and eventually consumer preference. Knowledge of the market is essential - if people do not drink cold water it does not make good business sense to expend large sums of money on a large-scale promotion campaign for water cooling equipment -- at least not right off. Although there is great interest in things American, it is better to concentrate on related products and introduce cooling of other liquids with high consumer preference and gradually introduce the water coolers.

"Know whereof thou speakest." This biblical admonition might well be broadened to include "know how they speak". Throughout the Common Market it was common to hear complaints that many American businessmen sent as managers, or in other executive capacities, do not speak the local language. Not only is it important to have the language skill for the good image it creates, as one apparently bilingual American in a key EEC capital stated, but it definitely helps in establishing and maintaining more effective business relationships and thus enhances opportunities for business success. 15/

But it is usually important to go further in staffing the investment project, if at all possible. Choose the family as well as the man. It can often be the difference between success and failure if the family is interested in the opportunities the overseas assignment affords - and not only financially. In any event, an unhappy family can and all too often does have an adverse affect on the man's performance and effectiveness. Also, on the assumption that the American firm is interested in the long-term development of the market and that its European investments are an important aspect of its overall operation rather than a mere appendage, then it should give even greater attention to the selection of the type of employees who will bring credit to the company than is used in selecting employees for domestic operations. The top manager should be a generalist in the best sense of the word -- this will give him greater entree with senior executives in the host country and with key government officials. This is good business, quite apart from the consideration that such a man is likely to become a better "local citizen" and consequently a better representative of his company and his country. Related to this is the all too frequent transfer. Retaining good and seasoned employees for reasonably long assignments makes good sense -- and dollars.

It also makes good sense -- and dollars -- for American business representatives in Europe to identify to the maximum extent possible with local business organizations. As the Pfizer executive in Brussels pointed out -- and he was talking of Western Europe in general -- it is not only desirable but important to associate with the key business groups in the particular industry but associated industries as well. These associations are far more influential than comparable U. S. groups in affecting government policies significant for the industry, conducting negotiations with labor, formulating standards for products and setting business operations guidelines. As allies, these business organizations can be useful to American firms by helping them avoid serious and costly pitfalls and indeed contribute to an American subsidiary's or U. S.-local joint venture's ability to share in the market.

Thus early in its history -- in Brussels, for example -- Pfizer men -- local and American -- joined the key pharmaceutical associations, assuming an active but not ostentatious role. Before too long they won the respect of their associates and were called upon to act as advisors in the development of new technological standards in the industry -- which did no harm at all to Pfizer's position in the market! And they went beyond that; they established close association with local medical societies and joined the feed millers association. Pfizer was anxious to develop a market for various products useful in agricultural production. A Pfizer man is currently President of that association and contributing importantly to the improvement of agricultural practices and to Pfizer's participation in that sector of the Belgian market. The ability to attain such status and influence in key business organizations and professional societies (as appropriate for the particular industry) suggests once again the need to assign Americans of stature, and to the most practicable extent possible the employment of nationals with status and influence in their professions and among key members in the industry.

Labor-management relations in Europe are still different from the U. S. Although European unions are now placing increased emphasis on economic issues, there is still a considerable degree of dealing with business through political action. The degree of shift from political to business type unionism varies a good deal from country to country. Pressures are mounting for increases in wages. However, it is all too common for labor to be inappreciative, and misunderstand the motives, of management in reducing the work force during downturns in business activity. This is not to suggest it is well received in the U. S. but rather that it is extremely resented in Europe. The ability to handle the new American-type trends in unionism, together with the vast array of labor and social legislation and practices in Europe which are, in many respects, different from that found in the U.S. is a real challenge.

American business executives face real pitfalls in labor-management relations. On the other hand, they have an unusual opportunity to develop in Europe policies and programs which during the past twenty years and more have become one of our great strengths. They can contribute to the creation of the mass consumer market with benefits to labor and management. This once again suggests the need for the assignment of American executives with broad backgrounds in business management, including knowledge and understanding of the particular European environment or, at a minimum, men with the capabilities to learn and appreciate differences, ability to adopt and adapt without losing the special business élan of the firms and indeed the system they represent.

It takes more than a first-rate production specialist to operate a business successfully in America -- and even more so in Europe. American executives are not only required to develop specially tailored market development programs but to establish and maintain effective relations with government officials. Governments in Europe are generally more involved in business both directly and indirectly and thus such skill is essential. Government involvement is broad, ranging from the enforcement or direct dispensing of a wide variety of social services (which constitute a very significant element of cost), to representing, rather than acting, as an arbiter in labor matters, or between different sectors of the business community and in some countries, and to exercising control over credit, the kinds of businesses which can be established or expanded and the area of location. Moreover, the mixed economy is more significant in Europe with the government ingredient generally greater than in the U. S. 16/

V. THE DIFFERENCES ARE STILL THERE

Forces leading to a broad European-wide market that will replace the present scatter of small national markets are in evidence throughout Europe. There are still many formidable obstacles -- political, economic and social -- but the trend seems to be in the direction of an era of mass marketing on a broad scale. American companies will need to base their future plans on an integrated Common market. However, it is essential to realize that near-term decisions regarding entry into Europe must be made in terms of individual and separate entities with unique characteristics. This section will treat with those pitfalls peculiar to each Western European country.

Belgium

Belgians, according to a number of American businessmen interviewed, are easy to work with both at the Government and the business levels. One American businessman observed that they are "interesting" to do business with, but he cautioned it is necessary to be extremely careful in drafting contracts -- they should be made as specific as possible. The Belgians prefer to leave things vague. This could result in severe strain and perhaps damaged in future relations. To avoid this, contracts drafted by Belgians for joint ventures, or for that matter acquisitions, should be examined as much for what is not specifically contained as for what is spelled out. More generally, caution needs to be exercised to avoid being "painted" into a corner.

Ford did just that in a labor contract. It concluded a five-year contract which appeared to be eminently satisfactory. Approximately one year after it went into effect the union made non-wage demands which Ford executives insisted were outside the limits of the collective agreement. Incidentally the contract was negotiated with the assistance of the Governor of the Province of Linberg in which the plant was established. The plant employs upwards of 6,000 workers producing about 500 Tannus cars per day. The Governor was actively involved in getting Ford to locate in that province.

The union alleged the agreement was concluded under political pressure and failed to provide satisfactory grievance machinery. The company was accused of arbitrary personnel decisions and unwillingness to consult with plant union delegates. An added complication resulted from the failure to include a key union -- The Christian Central of Metalworkers -- in the original negotiations.

According to the Embassy Labor Attache in Brussels, the vagueness of the agreement failed to provide adequate guidelines for mediation of the many issues so common in a plant of this size. Greater simplicity, plus closer attention to industry practices in dealing with labor matter, including establishment of appropriate mediation machinery and designation of mutually acceptable mediators might well have avoided the pitfall of a costly strike and adverse publicity inimical to the company's image.

Incentives for foreign investment have been the hallmark of Belgian Government policy during the post-war period. These incentives have proved attractive for many American companies and may, perhaps with some modifications, continue to do so for other U. S. firms interested in getting into that market and for its use as a base to penetrate other Common Market countries. 17/ However, it is desirable to obtain full understanding of the obligations which go with the incentives and evaluate carefully long-run objectives against the short term advantages. Its executives concluded that there were potential pitfalls in the long run which could well outweigh the short term financial advantages. They saw these as two-fold. To obtain the incentives the Government wished the plants to be located in a certain area and required certain reporting by the company on its organization and operations. To obtain the incentives Pfizer might have also become involved in providing housing to employees -- under certain Government established conditions.

Pfizer management was persuaded that the area designated by the Belgian authorities was not as advantageous for the long run as another site. The immediate gain from the incentives was insufficient to offset the possible longer run difficulties. Secondly, Pfizer established a wholly-owned subsidiary in Belgium; it tries to do so everywhere in order to retain full control over its patents and production processes. Also, it seeks organizational arrangements which will reduce to the minimum, government or any other interference in the formulation of business policies. On the matter of housing for employees, Pfizer recognized its importance at the suggested site and indeed at the site which it had selected independently and where the plant was ultimately established. But it did not wish to become bound, and perhaps inextricably so. Thus the decision was made not to accept special concessions and run the risk of compromising future freedom of action.

The Netherlands

Dutch Government officials and businessmen are showing apprehension toward certain aspects of American investment, although the climate generally continues to be favorable. The modification in Dutch business and other non-Government attitude appears to have been influenced, perhaps to a significant degree, by French views (see below). French propaganda has seemingly developed a fear of American competition. On the official level the change in attitude has resulted in a reduction of incentives to potential investors and the elimination of active promotion of American investment.

Thus the trend is for greater selectivity and emphasis on joint ventures. The procedure to assure entry of desired investment is exercised largely through the technique of requiring by the Ministry of Economic Affairs approval for construction of new facilities or expansion of an existing facility. It may well be that a labor shortage was in part responsible for this regulation. There is no question, however, that the requirement provides a useful, and probably a fairly effective, vehicle for selecting those investments considered "desirable."

It may be possible to overcome this increasingly formidable pitfall by using the joint venture route or, if not overcome, at least to mitigate the impact through a carefully planned and executed program. This includes obtaining the support of local government officials with significant influence not only in the local community but also among key sectors in the national government. In many instances, according to Embassy Hague, local government officials are more receptive to American investment than federal government officials. 18/

The advantages of a joint venture with a firm having relatively desirable physical facilities is obvious. Perhaps not as obvious, but nonetheless very significant, is the probability that native businessmen, particularly those with an established reputation, not only in business circles but especially among key government technocrats and bureaucrats, can be more effective in obtaining favorable consideration than foreigners -- even under very difficult circumstances. Actually the more difficult the economic, labor or political situation, the more pitfalls are likely to be present. Government fear of competition is a reality and may increase under outside (largely French) pressure. This would also suggest the desirability, for the present and for the near term future, of the joint venture route for American business, with considerable Dutch capital, managerial and technician participation.

These are not the limits of the pitfalls faced in doing business in the Netherlands despite the fact that Dutch laws, by and large, are more enlightened toward foreign participation in their economy than some other EEC countries, notable France, Italy and even Germany. After all, the Dutch have been internationally minded in their business outlook and actions for some time. The fact is that Dutch investment in the U. S. is still greater than U. S. investment in the Netherlands, despite the rapid increase in the dollar value and number of American firms entering that market in recent years.

The tight labor market, as already noted, has been partially the reason -- or the rationale -- behind the requirement of government approval for investment involving construction of either new facilities or expansion of existing plant. Another criterion in the exercise of greater selectivity is whether the proposed project may result in over-investment. Government authorities are increasingly apprehensive over this possibility, whether the expansion is from foreign or domestic sources. However, discussions with Dutch Government officials and Embassy officers suggest the real possibility, indeed probability, that these criteria may likely be used more rigorously in screening foreign investment. It could result in delay or actually in the frustration of American investment projects.

A well established domestic firm can be crucial in getting favorable receptivity. This seems to be of particular significance now, and may grow in importance in light of the shift in locus within the Government for screening and approval from a separate Office within the Ministry of Economic Affairs, established to facilitate foreign investment (including an office in New York, now abolished) to the industry divisions within the same Ministry. It can be expected, given the experience in other countries over many years, that such industry divisions will use less liberal criteria in evaluating investment applications than have heretofore been the case.

However tempting it is, and tempted Americans may be, the complex labor and social laws, regulations and practices cannot be defied -- without running the risk of falling into serious pitfalls. This is the considered conclusion of experienced American businessmen and the Embassy's Labor Attache. Almost without exception the Government Labor Courts will take action to force compliance. These may well include practices almost completely unfamiliar to most American businessmen such as labor contracts negotiated and made effective by one or more firms in a particular industry or craft becoming the established pattern for the wage and fringe benefits for all firms in the same or related crafts or industries. Also, it is not unusual for it to extend beyond the particular industry or craft, become generally applicable, and thus subject to enforcement by the Government. 19/

Termination of employment, likewise, is subject to statutory requirements and established practices which often are as important in their effect as the legal provisions. Moreover, the Netherlands social insurance system is broadly based, covering accident, health, disability, unemployment, old age, and survivors benefits, family allowances and retirement pensions. But in addition to these compulsory social charges there are a wide range of other employee benefits which are voluntary but have by widespread practice become accepted almost as an integral part of employee-employer relationships. They are frequently included in collective agreements and are subject to Government enforcement. Among the more important of these, in terms of impact on production costs, are paid holidays, the furnishing by the employer of cafeterias, recreational facilities and savings plans. It has been estimated that these social benefits can boost a company's total outlay for fringe benefits to 30 or 40 percent of wages. [20/]

Italy

The grapes can be tender and the wine have the appropriate bouquet. This does not necessarily mean that it can be used in the soup bowl, especially if it is not the wine in surplus. This the Campbell Soup Company learned -- the hard way. It might have avoided the long, costly delay in marketing a wine-type soup if it had known that there were strong political pressures within Italy to protect the local wine producing industry -- at least certain important segments of it. Perhaps then Campbell could have developed a soup formula to take account of this need to satisfy the local industry and indeed recognize and adapt to the special distribution and marketing practices unique to Italy. And it was not only wine-based soup which constituted a problem for one of America's leading soup producers.

There were oxtails! Apparently without thorough investigation of apparent and potential domestic supply, plans were made for a production program but alas -- insufficient oxtails were available in Italy for Campbell. Of course, the action to take was obvious -- supplement domestic availabilities with imports. But it was not that simple. Prior approval was not obtained from the appropriate Italian Government authorities. Campbell learned there is strict control maintained on the ingredients for soup. The bureaucratic delay in getting a decision was too much for

Campbell. It decided to phase out the production of this variety of soup in Italy. The U.K. gained by the shift. A carefully laid and executed plan involving considerable consultation, persuasion and negotiation before making firm preparations for production might, and probably would, have saved Campbell considerable resources and shortened the time involved in penetrating and developing the market.

Campbell might well have avoided another pitfall if adequate investigation and preparation had been made. It was fined one million lira, apparently for not complying fully with a law governing taxes on the use of edible oils other than olive oil. [21/] It seemed like a minor infraction, i.e. failure to maintain adequate records and reporting to the Government on the use of the oil. Seemingly Campbell was unaware of the requirement. A well qualified Italian executive on the staff might well have avoided the fine and, far more importantly, accelerated the marketing program not only in the Italian market, sufficiently significant unto itself, but also perhaps in other Western European markets.

Direct confrontation can be disastrous in situations where firms in a particular industry are very powerful -- economically -- but more particularly because of strong ties with powerful political figures. An equally, perhaps even greater pitfall in certain cases is to under-estimate the productive and marketing efficiency of a government-owned and/or controlled industrial enterprise.

The history of Libby-Owens-Ford's entry into, and gradual penetration of, the Italian glass market might have had more the tone of an obituary were it not for the fact that the men involved in the project avoided direct confrontation. Instead of establishing a wholly-owned subsidiary in an industry long under the control of tightly organized Belgian giants with notoriety for concerted action to keep out competition, a careful assessment was made of potential non-glass producing Italian companies which might be willing, in a joint venture arrangement, to diversify operations and "take on" the Goliaths. So it was that such an arrangement was consummated not very long ago between

Libby-Owens-Ford and a powerful Italian firm which heretofore had not been in the glass business.

As already noted, a similar judgment not to confront the market directly was made by U. S. Steel. For its first foreign venture a joint arrangement involving fifty pecent ownership was arranged with Terni-Societa per l'Industria -- one of the oldest steel companies in Europe. U. S. Steel executives recognized that this Government-owned and operated steel producing and distributing organization was well organized and efficient. Moreover, it is influential in government circles where such counts -- on matters relating to industrial policy generally and especially as regards the steel industry. Thus, the new firm was born with its Italian General Director, Professor Dr. Mario Signora and its American Financial Director, Mr. Gaston T. Dallenback of U. S. Steel in the two senior positions. The Government-owned and operated Italian steel producer assured itself of financial and technical assistance

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from America's leading steel company and U. S. Steel was given a "leg up" in its ability to become an important competitor in the stainless steel field in Italy and in other Common Market countries.

Reports this resident U. S. Steel executive in Italy, "So far we have not had any real problems but they may come in the future. I don't believe that we are as likely to face difficulties of any greater seriousness than a wholly-owned Italian company. Of course, we are in a rather unique position, we have a partnership with a leading government corporation." 22/

True enough. Not all can avail themselves of such an arrangement. But this does not mean that this is the only effective vehicle for avoiding the many problems flowing from a direct confrontation in a difficult situation. Actually, however, U. S. Steel seems to have avoided the inevitable problems inherent in making adjustments to a new and unfamiliar cultural and business environment from becoming pitfalls.

The establishment of mutual respect, understanding and appreciation of the wide range of cultural and business differences early in the relationship became the archetypcal approach for U. S. Steel in its handling of everything from labor relations to the introduction of technological and financial innovations. In those areas where it was recognized the Italian partners had a clear advantage, U. S. Steel executives agreed to their assuming the widest possible assumption of power and responsibility within agreed guide-lines. This was the case in labor matters.

There were many other aspects of the adjustment process which could have degenerated into pitfalls if the U. S. Steel executives had not adopted the "conscious policy to move slowly, deliberately, and carefully taking into account local customs." 23/ This was especially important in recruitment of supervisory and managerial personnel and fixing compensation for such executives. It would probably have constituted a real problem if U. S. Steel had pressed for more American executives for the initial period which was seriously considered. The local manager advised against such a policy and equally against the recruitment of other Europeans. Rather, a program was formulated involving the hiring of promising, inexperienced Italians and training them both in Italy and the U. S.

Similarly, U. S. Steel used and is using what it terms a "confidence" approach toward marketing. This is a program to reduce resistance by consumers through sustained emphasis on producing quality products and providing quality service. To be sure, price is an important ingredient in efforts toward building the market for the products of this new Italian-American steel producer. But the key is a slow, deliberate marketing program, taking into full consideration the historical relationships and building on the solid foundations -- Italian style to be sure -- of the Government operated firm in the industry with whom it is associated in this venture. And many of the solid foundations are not on first examination or perhaps even the second or third, considered the most effective techniques by U. S. Steel executives -- even for Italy, let along the other Common Market countries. In due time changes are likely to be made. As in labor relations, so in marketing, U. S. Steel takes the business statesmanship approach -- deliberately avoiding too great a shock by insisting on rapid change from time-honored ways of doing business.

France

"The French do not dislike Americans any more than they dislike themselves." So spoke the executive of an American steel fabricating firm which has been in the French market since 1925 -- and manufacturing in that country since 1935. 24/ This is a key to an understanding of the variety of pitfalls faced by Americans in this key Common Market country. It summarizes the ambivalence among French businessmen and perhaps to an even greater extent among Government officials toward American investment.

Both French businessmen -- at least the more informed -- and French Government officials -- recognize the structural deficiencies in the French business economy. They have seen demonstrated the contribution which American capital, technology and marketing can make toward solving some of the deficiencies. But at the same time there is an almost paranoic fear of domination over the business life of France by "American giants", leading to misuse of such power and posing a threat to political soverignty.

The point has now been reached where the Government will very likely curtail American investment severely in hope of providing itself time to effect mergers among French firms and take other measures to increase the ability of French industries to compete against the "American giants." Further discussion on the political pitfalls faced by American firms in France and other selected Western European countries is included in a subsequent chapter.

Related to, and partly intertwined with, the political aspects of the climate for American investment is the growing trend toward Government exclusion of arrangements for wholly owned subsidiaries. This is not only because of Government attitude but increasingly the posture assumed by French businessmen, individually and collectively, through various business groups such as the powerful Patronat. 25/ Actually the preference of the French, and thus the arrangements having possibilities of getting receptivity, is for joint ventures with minority American participation, although a bare majority is not ruled out. Nothing is really ruled out, but requests for approval above these levels are highly suspect and are likely to die on the vine.

The atmosphere is changed and thus many minor problems are, or can currently be exaggerated into major obstacles. And, as suggested by the introductory quotation above, this emanates from the inner resentment by French businessmen, particularly the smaller, more parochially oriented, against the sophistication in technology and marketing demonstrated by American companies. Some of these French businessmen, concentrated among the family owned and controlled firms, are often anxious to sell out to American businessmen at a handsome profit. They are really not in business for the élan -- they conduct it perfunctorily, looking to government and collective arrangements with competitors to provide the business environment which will result in sufficient profits to make it possible to live "like a Frenchman in that social position."

French businessmen are not generally free marketeers. They prefer working closely with, and developing dependence on, government. Thus, the establishment of effective relations with key government officials is a "sine qua non" for entry and operation in the French market. As the manager of Ford France put it, "The bureaucracy is involved in everything," citing that it directly intervened in a proposed $2,000 investment for the establishment of an advertising agency. The American proposal was rejected because the bureaucracy "did not consider it would add anything to the French economy." 26/

Says another American executive, "It is essential to have a top flight French-speaking American manager who has the personality and ability to keep in close daily touch with government officials. We make certain to keep the bureaucracy informed and obtain either formal or informal approval, as appropriate, in almost all matters relating to labor relations, ranging all the way down to the number and location of toilets for use of employees." [27]

There are many other pitfalls -- hidden to those foreigners, and especially Americans, unfamiliar with French traditions. The prevailing attitude among French businessmen, as already noted, is to depend heavily on government to assure "a fair share" in the national product. The main tendency in France -- and indeed in Belgium and the United Kingdom -- as David Granick has noted, "is to play the game for safety.."[28] Although competition may be lively in certain sectors, by and large it is subdued. It is not unusual for a French firm to ignore a major potential customer a few miles from its manufacturing plant because this customer has traditionally been supplied by a competitor.

The class lines are still rather tightly drawn in French society despite evidences of ferment among the youth. Again, in the words of David Granick: "In France, I felt myself to be in a geographic area inhabited by various class groups. These classes, for certain limited purposes, about many of which they would disagree, were banded together to form a nation. Perhaps that is why the cry of 'La Patrie' is so strong in France. It has to be, if the interests of the country are to be remembered at all." [29/]

Thus, in relationships with French businessmen, whether for the purpose of purchasing a family firm outright, arranging a joint venture or establishing a wholly owned operation from the ground up, this fact of French life must be kept clearly in mind. It affects a wide range of relationships and practices within French business life.

There is the matter of taking over a French family firm -- or even a non-family one. Retaining certain technical and secondary level managerial employees but not making provision for the president or other higher ranking people, can be a major disaster. Another hidden pitfall is to overlook the non-monetary elements of employment. In terms of the employee's social position these are often considered as or even more important than additional salary. Careful provision must also be made for fixing responsibility for decision making below the top management level -- and such provision will likely need be different than in the U. S., thus taxing the ingenuity of American executives -- for the class structure results in a strong tendency to refer all decision making to the top, without even making a recommendation on problems. The extremes to which this can reach is exemplified by a middle management employee in G. E.- Machines Bull who was given authority to approve expenditures for certain purposes in amounts not to exceed

2,000 French francs (equivalent to about $400); requests for amounts exceeding that figure required approval from a more senior official. The less than 2,000 franc requests were accumulated until they reached that amount and then sent up the line for approval!

It is unwise to expect French firms will agree to performance contracts -- and if they do, that they will be meaningful. It is also unwise to assume that if you get labor leaders, and authorities in and out of government, to agree on a major dismissal of employees, that the act will not be seized upon as crass American disregard for the welfare of labor. And the Government is not likely to come to your defense -- as was true in the Remington Rand case. One apparently well informed and objective observer was probably correct in stating that if Renault took the same kind of action in much the same way as did Remington Rand in dismissing employees it probably would not have caused a storm -- if even a ripple.

Then, too, American businessmen need be on guard against "bargains" in acquisitions. Overpricing by French businessmen is not unusual, particularly in industries where the future growth potential looks promising if there were well organized, modern type technological inputs, coupled with advanced marketing techniques -- the two significant pluses of American companies. But quite apart from these factors there are other hidden cost elements. The purchaser of an existing firm purchases also the commission salesmen and other agents. And under French rules and practice it is not usually possible to dismiss summarily -- or even with short notice -- if these employees have contractual arrangements. It is not unusual, therefore, for the American company, unknowingly in many instances, to have assumed a substantial financial obligation amounting to the value of one to two years commissions over a representative recent period. Of course, all too often this means that such employees are maintained for a considerable period following acquisition whether or not considered desirable or needed, since adequate notice plus compensation are musts.

All these pitfalls suggest a possible distinct advantage for use of joint ventures. Perhaps many or most of these difficulties can be mitigated, and may even be possible to avoid, through well conceived partnership arrangements. As will be explored more fully later in this paper, this avenue may, and likely will, become more important not only for these reasons but to meet the requirements of an increasingly xenophobic climate.

Federal Republic of Germany

Germany is Western Europe's economic dynamo. The German businessman is proud of his industrial accomplishments -- and rightly. He is largely production minded, although increasingly good marketing men are moving into executive positions. Thus, a careful program is necessary to train production oriented people to bring them into the area of a vigorous consumer-based market under competitive pressures.

There is a good deal of fear among the successful production men of the advanced marketing techniques of American firms.

But it is a mistake to proceed with a marketing program without recognizing that being a "salesman" in Germany is considered undignified, thus suggesting an approach which will provide incentives -- social and economic -- for the important agents of modern marketing -- both office based and in the field. If this is achieved -- and it is achievable with perhaps less difficulty than in other Western European countries -- a sound base can be established in a country moving rapidly toward a mass consumer oriented society.

Germany has indeed become business oriented. As Mr. Granick notes, "Of all the countries studied (in Western Europe) only Germany has seen traditional relations swept away in the holocaust of two world wars. Or, at least, it is the image which some very knowledgeable Germans have of their country..." [30/] Germany has developed a business oriented society.

However, the pitfalls have not yet disappeared. Executive employees are still hard to come by, particularly in the fields of accounting, marketing and scientific management. The pitfalls of trying to "pirate" are great but can be overcome by offering long-term contracts involving not only higher cash income but prestige titles and prerequisites. Training younger people can be rewarding and less costly financially, since it is more difficult and costly to break contracts of older people if they prove unsatisfactory. Considerable financial compensation to the employee is a must and, moreover, it is likely that younger people will accept lower salaries, be more adaptable to newer techniques, and likely be more productive.

Government bureaucratism continues as an important element influencing the business life of Germany. But it is not only executive branch bureaucratism -- national and local. It is also the influence of the political leaders in the business life of the community which makes it desirable -- indeed oftimes essential -- to maintain close relations with them. Kaiser Aluminum Company officials recognized this and acted accordingly from the very inception of its investment program in the German market.

Kaiser's experience is indeed an interesting and instructive case study. It was a supplier to Germany for some years of both raw materials and semi-fabricated products. When Edgar Kaiser and other senior Kaiser officials decided to invest in Germany, the joint venture was considered the most desirable vehicle.

But after two years of unsuccessful negotiations with the two, to Kaiser, most desirable potential partners -- Kaiser decided to go it alone. In making this business decision it exposed itself to a wide variety of problems which a German partner would logically assume in a joint venture arrangement. Thus, going it alone meant getting deeply involved with bankers, local and national government officials, and political leaders. Many pitfalls later Kaiser emerged wiser in the ways of doing business in burgeoning West Germany. The expenditure of resources might have been less had they had more knowledge beforehand -- but who knows -- many, perhaps most of the pitfalls may be inevitable, given the environment.

It took Kaiser more than a year, after the decision to invest was made, to locate a satisfactory plant site. This rather lengthy period was related largely to correlating desirable physical aspects with financing considerations. Kaiser U. S. does not as a rule guarantee loans obtained abroad. Thus, Kaiser officials sought local guarantees. They learned that local (State) governments can do this and will undertake such obligations if convinced of the project's efficaciousness and, of course, thecredit worthiness of the firm.

Kaiser succeeded in convincing the officials of Westphalia on both counts. Their negotiators also learned that it was necessary to enlist the support of the Deutsche Bank -- an important banking power in the country. An account was established in this bank and close liaison maintained with its executives on all aspects of the proposed investment. Close collaboration was also obtained from state and municipal authorities. As a result, it was possible to obtain subsidized land. It became clear during the course of the protracted negotiations that if this were not obtainable, site costs would have been very high indeed. As the Kaiser manager in Germany put it, "the fragmented land pattern in Germany necessitates making arrangements with a large number of owners in order to assemble a useful site. If a U. S. firm tries to purchase several small pieces prices skyrocket. It is therefore very desirable to keep your visibility as low as possible, including the hire of a car in order to reduce possibility of publicity. Moreover, the establishment of good working relations with the local 'burgomeister' is very important in order to convince him of the over-all contribution to the community of the investment. He can then be most useful in keeping the speculative aspects under control and actually use his power to assemble land at subsidized prices." 31/

He can do much more. Kaiser found utilities can be a real pitfall. American firms may find it necessary to assume the cost of purchasing and installing transformers for adequate electric power and then be required to turn such facility over to the municipality without any, or very little, compensation. Moreover, it may be necessary to assume the cost of a survey to determine the nature and extent of power requirements for the particular plant being considered, since the local authorities may not wish to undertake such an obligation, or the American firm may find it desirable to do this to assure adequacy of facilities.

Kaiser was confronted with many construction restrictions. They were solved through the good offices of the local authorities with whom effective relations had been established. Without the burgomeister's assistance these could have resulted in costly changes in plans and delays in meeting schedules.

The German experience has convinced the Kaiser manager of the key importance for any U. S. firm considering a "go it alone" project to send one senior executive from the U. S. with solid language ability. He should have broad experience and be assigned for the full period involved, from initiation to start-up of the plant. The local manager also emphasized that he "should be imaginative, creative, know objectives fully and have the kind of personality and abilities which will enlist the cooperation of the local authorities. He should also be capable of handling details. It is often essential to follow through personally on utilities and other construction matters no matter how competent and willing to cooperate are the local authorities and the Germans employed to assume such responsibilities." 32/

And following establishment, according to this able young executive, there are many operating problems. The Germans, as we already noted, do business quite differently from Americans, despite the outward appearances of similarity. They are much more formalized in their approach and are not as likely to think in market expansion terms. Rather the more likely approach to marketing is market allocation and price arrangements -- informal or otherwise. If, as the Kaiser manager found, refusal to join the price fixing group at first incurred the displeasure through the opposition of the industry, it becomes necessary to do market research and market development work very quietly. A major American producer of automobile tires to Bonn also made this point. [33]

The United Kingdom

The British are not opposed to American investment -- as business people. But they are increasingly showing apprehension toward it as politicians. They have an inferiority complex concerning their loss of status in world affairs -- economic, political and military. This translates itself into apprehension, particularly in the older age group -- most often the leaders in the business community -- that Britain might "degenerate" for all practical purposes, into the status of a "Commonwealth" country within the American orbit. And the British know well the meaning of such status!

They are particularly sensitive about the so-called "sensitive" industries -- electronics, motor vehicles and aircraft -- to mention just three. This is not to say that it is limited to these but rather the feeling of inferiority is strongest in such fields. Perhaps the resentment is strengthened because of the recognition that the technology is needed -- and needed badly -- if Britain is to avoid falling further by the wayside in the fierce international technological competition.

Incentives continue for foreign investment in "under-developed" regions in the U.K., particularly Scotland and Ireland. American firms have responded well -- perhaps better than British companies. The incentive program could be broadened if the relatively new British government concluded that additional investment is essential to meet economic growth goals. Major new steps are unlikely, however, because of fear of further American economic domination.

A more imaginative approach toward the U.K. market is essential in light of the mounting apprehension. The dualism in attitude toward American investment can be used to advantage, especially if it is done in such manner as to reduce political opposition, or better still, build political support for the project particularly where advanced technology and/or export expansion is involved. Another important consideration is the degree of control. Here also is an opportunity for more imaginative approaches by American firms which could lead to successful penetration of the market.

It is increasingly important to identify. The most effective marketing is that which achieves the identification of a U. S. product as a British product. Sell the product -- not the firm -- might be a useful slogan to adopt early in the investment program -- and adhere to it in practice. And, although considerable progress in acceptance of American advertising techniques has been made, it is still important, in the words of the Executive Director of the American Chamber of Commerce in the U.K. "to use adroitness." 34/ This was underscored by the manager of a leading U. S. bank in

London with the admonition "go slowly" on advertising. 35/ Not to be overlooked, according to an official of a leading U. S. management consulting firm, is the acceptance of inefficiency by the British and the many frustrations resulting therefrom for American businessmen who would have thought that "they are much more like us" than any people in Europe. Actually, he contends, this inefficiency is rather closely related to the highly structured British class system which permeates deeper than many Americans realize.

VI. THE ALARM IS RINGING--POLITICAL PITFALLS

Essentially the old order in Europe is in ferment and the business order is no exception. That some of this is due to American influence few will dispute. But it would have occurred in any event given the tremendous shock waves emanating from the most devastating war in history. American influence is accelerating the process of transformation and thus: "As symbols (and agents) of the new order evolving in Europe, American companies serve as emotional lightening rods. They draw political heat and emotional blame for the discomforts of change." 36/ The elite Europeans now more than ever recognize that America, with all its flaws, is inextricably part of the uncontrollable future which is casting an accusing finger at the business groups all across Western Europe regarding their ability to meet the challenge of rising consumer oriented economies.

Thus Western Europe is in the throes of trying to decide its business future. It is face-to-face with hard decisions regarding economic policy. The point has been reached where foreign capital is no longer considered as necessary as it once was. This has led to a growing awareness in Europe of U. S. investments and anxiety lest Americans dominate their economic life with possible adverse political consequences. The apprehension also has its intellectual aspect. There is real concern that Europeans are being almost woefully outpaced in scientific and technological research and development in key fields. Europeans resent this position of intellectual inferiority but it goes beyond that into the political level, suggesting American capability of influencing political decisions in vital defense matters.

U. S. investments have been a subject of concern since early 1963 -- and apparently this was centered in France. It took the form of anxiety that the rapid inflow of U. S. direct investment in Europe, and particularly of U. S. subsidiaries, controlled from abroad, would assume dominant positions in France and other Common Market countries. This became a major controversial theme in January 1963, when failure of the U.K.-E.E.C. negotiations coincided with several publicized incidents involving certain American firms in France. 37/ These and other publicized events included lay-offs by some U. S. companies, particularly the closing down of Remington Rand's plant in Caluire, a suburb of Lyon, the purchase of a controlling interest in Simca by Chrysler and a series of acquisitions in the biscuit industry and the Libby, McNeil and Libby food canning investment in an underdeveloped area of Southern France.

There is considerable variation in attitude from country to country toward American investment and indeed also within each country. The most anti-U. S. investment position is to be found among political leaders in France -- at least this is the impression one gets on a brief exposure to the investment climate in Europe. According to a well informed senior representative of an American management firm in France, DeGaulle is fanning nationalistic feelings and the senior civil service officilas are absorbing this attitude to an increasing degree. It is now difficult for them to divorce France's political yearnings from its economic interests. This had led to a politics first, economics second approach with a growing anti-U. S. business posture.

But this is tempered by their economic training. They are aware -- painfully so -- that the fundamental economic facts of life are indeed facts for France. National sovereignty may interfere with reaching sound economic decisions. The large, internationally oriented business firms in the Patronat recognize the desirable aspects of American investment particularly in affecting necessary reorganizations of the economy through the impact of healthy competition. This is not the view of the thousands of smaller firms, family-owned and controlled -- at least publicly. Many of these businessmen, in the words of Robert Lemaignen, a man of stature in the French business community, "are disturbed by the menace of competition from huge American corporations with vast financial resources and, above all, so obviously advanced in their technique and organization." 38/

Privately these same businessmen are eager to sell out to American businessmen. Thus, the French official attitude decrying acquisitions by the powerful U. S. "giants" is more political than economic. It is as much an effort to build up sympathy and support for a restrictionist policy based on political nationalism than it is to protect the weak. Some of these businessmen may now have reached the conclusion that things have gone too far and the firm Government stand on U. S. acquisitions may make it exceedingly difficult to sell when this is precisely their desire.

The increasing negative attitude of the French toward American investment has been felt throughout Europe. However, in no other country has it reached the level of restrictionism currently prevailing in France. During recent months, according to several informed Americans with whom this subject was explored, there has been a virtual halt to approvals for American investments. There appears to be developing a policy long practiced by the Japanese

Government in handling investment applications. The word is passed around among banks, management firms and business groups that acquisitions in principle are not to be approved, thus joint ventures with majority foreign participation are likely to die on the vine as will others not considered "beneficial" to the French economy. This is the time honored way the Japanese have handled investment projects considered "undesirable." Never reject, and thus expose yourself to pressure -- business and governmental -- including possible charges of violation of the U. S.-French bilateral Treaty of Friendship and Establishment.

No other country in Europe is yet ready to imitate the French in policy and practice toward American investment. To be sure there is a significant change evident from the early days of the Common Market. Most countries then set up programs of incentives to attract foreign, especially American, investments. These have decreased and become less substantial. Now, the strength of economies in Western

Europe plus a labor shortage in the EEC has reduced the need for, and the desirability of, such investments. Additionally, foreign capital is no longer needed to redress the deficit in international payments which Europe had for many years. In these countries it is also heard that foreign investments which took the form of acquisitions of weak companies were more beneficial to the European seller than to the particular industry as a whole. Moreover, there has been a feeling expressed by European bankers, government officials and others, that uncontrolled flow of American investment strains their economies by bidding for increasingly scarce labor (Germany, Belgium and The Netherlands) and scarce materials, thus putting further pressure on price levels already under great pressure. Some Europeans also are convinced that they are financing a substantial portion of American investment.

In addition to all these considerations, there is a real concern among European businessmen, as has already been noted, with the competition resulting from American business pressure. The Europeans recognize that the Americans are upsetting their traditional patterns of doing business. They consider that the danger is heightened from the relative newcomers -- the post-war type -- firms with great financial strength and with well-established well-financed research facilities. There is real fear among many a European firm that these outsiders will eventually take them over.

These factors have led to nationalistic, sometimes even chauvinistic, public attitudes against U. S. investments, particularly after such major investments as Dow Chemicals and Ladoga, Minnesota Mining and Manufacturing and Ferrania in Italy, Chrysler and Simica, General Electric and Machines Bull in France, even W. R. Grace and Van Houten in the Netherlands, and the rather recent but far reaching U. S.-German agreements in the aircraft industry.

Despite these manifestations of anxiety, Italy still feels that it needs foreign investment in its underdeveloped southern area (Mezzogiorno); the Belgium Government is still persuaded that U. S. investments will help revitalize the Borinage depressed coal mining area and will help Belgium develop in sectors such as electronics and automobile which are of utmost importance to the country -- witness the recent successful efforts in attracting a $100 million General Motors investment to Antwerp after it was rebuffed by the French. The Netherlands are not likely to pass up interesting proposals, although the Dutch are no longer actively seeking out prospective investors. In Germany there are already very substantial U. S. investments and yet German firms do not feel particularly threatened -- they feel they are fairly competitive.

This is not to suggest that there will not continue to be headlines decrying the "invasion of Europe by American giants" and real efforts by businessmen in various industries throughout Europe to seek curbs on American investment. Indeed there may even be restrictions here and there similar to the tight screening now in effect in France. But the outlook for a unified EEC policy -- which the French would like and have been pressing the EEC to adopt -- is not bright, given the difficulties to obtain agreement among the members of the community and not only on this policy issue. Of course, it is possible that the French may be willing for political reasons to trade off concessions on other issues facing the EEC for an area-wide investment policy aimed at the U. S., particularly should there be further losses of projects like the General Motors investment to other members of the EEC and the obvious disadvantages such losses would have for the French.

Perhaps those observors, like E. Russell Eggers of Chase Manhattan Bank, are right. The era for any further large-scale investment in Europe may be at an end. This would suggest that the U. S. investment problems likely to gain attention will increasingly revolve around the behavior of American firms already established in Western Europe. In part, this will be related to the impact these firms will have on forcing European business to modernize and become effective participants in the new Europe.

VII. THE BRIDGES ARE WORTH USING

American businessmen give strong evidence of awareness and understanding of the problems facing European business, businessmen and Government officials. This has led to increased emphasis on developing Ameropeans and Euroamericans -- men who can serve "as cross cultural lubricants." 39/ These are the people who are becoming equally at ease and effective in living and working in the U. S. and Europe. They make "ideal idea-bridges, serve as important information-translating centers in European and American companies (Ameropeans)." 40/

A great deal of attention is being given by individual American businessmen, on both sides of the Atlantic, to diagnosing problems, reaching agreement on measures and taking action considered best designed to improve the political-business climate. Various business and other organizations are also actively engaged in improving the psychological, economic and political climate for American firms operating in Europe. The American Chambers of Commerce in Western Europe have long been involved in this effort. The spate of publicity casting American firms in a disadvantageous light has generated more action programs by these groups in cooperation with the U. S. Chamber of Commerce. More recently the Atlantic Council has been actively involved in a project whose objective is "the development of a program by major American corporations, with the assistance of the Atlantic Council of the U. S., working with the business organizations and Government agencies concerned -- .. to improve ... the climate for corporations operating in more than one country in the Atlantic Community."

Various U. S. business organizations in Europe more than two years ago recognized the importance of developing ways to minimize the anxiety among Europeans toward American investment and more positively to build more effective bridges of common interests and understanding between Americans and Europeans. Thus, the various American Chambers of Commerce in Europe (Belgium, France, Germany, Italy, The Netherlands, Spain and the United Kingdom) established the Council of American Chambers of Commerce in Europe. One of its projects was a survey among members designed largely to stimulate constructive thinking on ways in which the image of American firms could be improved.

This Council reached the conclusion that the growth in criticism of American investment in Europe means that special efforts must be made to be fully aware of, and sensitive to, the local problems. To be sure, this consciousness has been rather slow in coming as a collective effort but many individual Americans representing American companies have long been working to build better bridges between European businessmen and Europeans generally and America.

American businessmen are learning that Europe is different and there are differences among countries in Europe. As individuals, and in their business organizations, they are dealing with these problems as matters of high concern. Recognition is growing that they need to conduct their business in harmony with local policies and practices.

The level of consciousness has risen. The greater attention being given to the various elements which can build better bridges of understanding cannot but lead to better business and better U. S.-European relations and thus contribute to our over-all national interest. There is much more that can be done. Some companies as a matter of business policy have modified and even changed their business practices with regard to ownership and control, the transfer of technological know-how, and the degree of autonomomy provided local management, American and foreign, in European-based companies. Those companies still to come --

and they are likely to be the smaller U. S. firms -- will find the tried and tested bridges worth using. More bridges are needed -- this is a challenge to American businessmen now in Europe and those yet to undertake the adventure. American business has thrived on meeting the challenges of the vast U. S. common market. It is already reaping benefits from the European adventure. There is more challenge ahead -- in making profits, contributing to the transformation of European economies from elite-oriented to mass consumer societies, and in building a stronger Atlantic Community.

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IX. FOOTNOTES

1/ Source: All data on U. S. direct investments from U. S. Department of Commerce, U. S. Business Investments in Foreign Countries, 1960 and Survey of Current Business, August 1964.

2/ Fred Cutler and Samuel Pizer, "U. S. Firms Accelerate Capital Expenditures Abroad," Survey of Current Business, U. S. Department of Commerce, October 1964, p.6.

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4/ Source: See footnote 1.

5/ Fred Cutler and Samuel Pizer "U. S. Firms Accelerate Capital Expenditures Abroad," Survey of Current Business, U. S. Department of Commerce, October 1964, pp. 5-6.

6/ Ibid, Table 1, page 9.

7/ It is understood that the staff of the European Economic Commission is presently making a study of this and other aspects of foreign investment in EEC countries.

8/ Source: ECBVS Airgram 4, (Unclassified) from U.S. Mission to the European Economic Communities, Brussels dated July 2, 1964, p. 11 and 12.

FOOTNOTES (Cont'd)

9/ February 23-24, 1965 issues as reported in unclassified Airgram 799 of April 9, 1965 from American Embassy, Brussels, Page 3 of Enclosure III.

10/ McCreary, Edward A., The Americanization of Europe, Doubleday and Company, Inc., New York, 1964, p. 3.

11/ Interview in Rome with Gaston T. Dallenbach, Financial Director, Terninoss Stainless Steel, Italy, May 5, 1965. This company is a 50-50 joint venture between U. S. Steel and Italy's leading government steel producing corporation.

12/ Ibid.

13/ McCreary, op. cit., p. 91, emphasis in the original.

14/ Interview with Mr. Robert O. White, Vice President, Chemical Bank New York Trust Company, London, May 19, 1965.

15/ Interview with Mr. Otto Schoeppler, Chase Manhattan Bank, Frankfurt, May 17, 1965, Mr. Schoeppler, is also President, American Chamber of Commerce in Germany.

16/ For example, at one extreme is the French Government. It owns and operates Renault, the largest manufacturer of automobiles, has a monopoly over the telecommunications systems, including radio and television broadcasts, holds nearly all the equity in Air France and controlling interests

FOOTNOTES (Cont'd)

in aircraft manufacturing firms, the leading steamship lines and in some oil companies. Then there are the two government holding companies in Italy, the E.N.I. and the I.R.I. (Ente Nazionale Idrocarburi and Institutio Ricostruzione Industria) which through various organizational arrangements owns and operates a wide variety of companies in oil, gas, chemicals, steel, shipping, shipbuilding, auto, electronics and metal fabricating. Even in Belgium and the Netherlands where the Government has never played a strong role in planning and regulating the economy, the governments are involved in a number of activities, either directly or indirectly, as for example in the Netherlands where the government is a participant in transportation and communications, blast furnaces and the ownership and management of certain utilities by provincial and municipal governments.

17/ The more important of these incentives are interest subsidies, tax exemptions or reductions, government aid to workers training and direct capital grants to enterprises investing in areas designated by the Government as "development areas."

18/ Interview with Emanuel Abrams, Economic Counselor, American Embassy, The Hague, April 28, 1965. It is interesting that the local authorities in Amsterdam were so anxious for Mobil Oil Company to establish a refinery and petrochemical plant in that city that they worked closely with Federal officials to facilitate the construction of the

FOOTNOTES (Cont'd)

facilities, including arrangements for Mobil to bring American labor into Amsterdam to lay gas pipe. According to Mr. Abrams, Mobil found that this in fact resulted in lower over-all cost for this activity despite the higher wages, the assumption of transportation costs for such employees and various fringe benefits provided by the company.

19/ Interviews with Miss Margaret Plunkett, Labor Attache, American Embassy, The Hague, April 30, 1965.

20/ In an announcement issued November 1963, for example, the following information was included on wages for the benefit of prospective investors in Guide to the Establishing of Industrial Operations in the Netherlands: "As a result of the Government's approval of the agreement reached between employers and workers in the Foundation of Labour on October 29, the authorized wage level in the Netherlands will be raised by 10 per cent in 1964. This rise is to be implemented by a general salary and wage adjustment of 5 per cent, effective from January 1, 1964, and an additional average increase of 5 per cent to take effect at the time when collective agreements expiring in the course of 1964 are renewed. Collective agreements expiring after April 1, 1964, may be revised so as to give the second increase effect at an earlier date not preceding April 1. The wage ceilings of the social insurance laws will be adapted as of April 1, 1964."

21/ Approximately \$1,600 at the official rate of 620 lira = \$1 U. S.

FOOTNOTES (Cont'd)

22/ Dallenbach. *op. cit.*

23/ Dallenbach. *op. cit.*

24/ Interview with Mr. T. Rose, Avmco, Paris, May 12, 1965.

25/ The full name of this powerful French business organization is Conseil National du Patronat Francais.

26/ Interview with Mr. Rieber, Ford-France, Paris, May 11, 1965.

27/ *Ibid.*

28/ Granick, David, *The European Executive*, Doubleday and Company, New York, 1962, p. 127.

29/ *Ibid*, p. 55.

30/ Interview with Mr. Fred Bower, Kaiser Aluminum manager in Bonn, May 14, 1965.

31/ *Ibid.*

32/ Interview with Mr. George J. Mahl, General Director, Deutsche Goodyear G.M.B.H., Bonn, May 14, 1965.

33/ Interview with Mr. Emil Kekich, Executive Director, American Chamber of Commerce in the U. K., London, May 18, 1965.

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34/ Interview with Mr. C. White, Chemical Bank Trust Company, London, May 19, 1965.

35/ McCreary, *op. cit.*, p. 41.

36/ ECBUS A-4 of July 2, 1964 from U. S. Mission to the European Economic Communities, Brussels subject: "Do American Giant Firms Threaten European Industry," p. 1 of Enclosure.

37/ As reported in *France Actuelle*, Vol. XIV, No. 8, April 15, 1965, page 2. This is a semi-monthly report on France published by the Comite France Actuelle, a private association of French businessmen. According to this source Mr. Lenaignen is President and Managing Director of the Optory Company, (described as a firm with large overseas industrial and trading interests), original members of the European Economic Community's Executive Committee....".

38/ McCreary *op. cit.* p. 7.

39/ McCreary *op. cit.* p. 7.

BIOGRAPHIC NOTE

Saul Baran was the Department of Commerce member of the Seventh Senior Seminar in Foreign Policy. His previous assignment was Director, Far Eastern Division, Bureau of International Commerce.

His association with international affairs dates from 1948 when he joined the Department of Commerce as an Economist in the then Office of International Trade. He has been in various senior level positions in international economic and commercial affairs since that time, including three years as a commercial officer at the American Embassy in Tokyo.

He has been an advisor to and a member of U. S. delegations at a number of international conferences, including the General Agreement on Tariffs and Trade (GATT) in 1957, 1959 and 1960, The United Nation's Economic Commission for Asia and the Far East (UNECAFE)

1962 and U. S. Representative and Alternative Representative, respectively, to UNECAFE Committees on Trade and Industry and Natural Resources, 1963 and 1964. He has also served as Deputy Director, U. S. Trade Mission to Japan, 1958. He is the author of various publications and articles, including the Department of Commerce Handbook "Investment in Japan."

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