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EUROPEAN INTEGRATION AND AUSTRALIAN MANUFACTURING INDUSTRY
THE CASE OF PHILIPS ELECTRONICS, 1960S-1970S

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European Integration and Australian Manufacturing Industry: The Case of Philips Electronics, 1960s-1970s

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Abstract

The creation of the Common Market in the European Community required electronics multinational Philips to integrate production operations across European countries. This effort had consequences for its Australian subsidiary. Rather than become a regional Philips hub with the support of its parent, as intended in the 1960s, it was absorbed by addressing changes in Australian trade policy and increased Japanese imports. The parent company's establishment of regional supply centres in Europe and Asia left no role for the small Australian production facilities in the company's global structure. Production and employment at Philips Australia were scaled back drastically during the 1970s.

Keywords: European integration, Australia, electronics industry, Philips, institutional change, co-evolution

JEL codes: L20, L63, M19, N47, N87

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1. Introduction

Philips Australia, the local subsidiary of Dutch giant Philips Electronics was one of Australia's largest manufacturing companies during the 1960s and 1970s, employing 13,000 people in 1970. In the 1960s, its position in the Australian economy seemed secure, because the parent company allowed its subsidiaries to exercise a significant degree of strategic autonomy, and the firm operated in markets shielded by Australian trade policy. Nevertheless, by the late-1970s, the certainties of the 1960s had disappeared and Philips Australia was engaged in a painful process of downsizing and restructuring.

Arguably, this development simply exemplifies the impact of lower import tariffs in Australia after mid-1973 and the possibility that Australian manufacturing firms were generally not internationally competitive. The purpose of this paper is to explain, on the basis of the case of Philips Electronics and Philips Australia, that other factors were relevant in this process. Specifically, the paper explains how European economic integration impacted on the development of Australian manufacturing. The mechanism was not the typical direct one, i.e. trade policy changes in Australia causing an increase in competition from European firms, rather European integration in the 1960s and 1970s required Europe-based multinational enterprises (MNEs) to focus on consolidating their operations in Europe, before considering the operations of their subsidiaries elsewhere.

It is unlikely that the case of Philips and its Australian subsidiary was unique. Firstly, European MNEs commonly structured their manufacturing operations in host countries, including in Australia, as 'local-for-local' production until the 1970s.¹ All would have had to respond strategically to European integration, as their Australian subsidiaries had to respond to Australia's changing trade policies in the 1970s. Secondly, while American and British firms dominated foreign investment in Australian manufacturing industry, several other European MNEs had manufacturing interests in Australia in the early-1970s: *e.g.* Volkswagen, Siemens, Robert Bosch, BASF, MAN, Hella and Hoechst from Germany, Renault, Liquid Air and Bic from France, Agfa-Gevaert and Bekaert from Belgium, and Heuga and Océ from The Netherlands.²

Business history offers abundant opportunities to analyse the efficacy of theoretical conceptualisations in management and international business.³ Arguably,

¹ Most European MNEs operated at the time on this basis, see: Franko, *The origins*; Franko, *Patterns*.

² DIC, *Directory of Overseas Investment*.

³ O'Sullivan and Graham, *Moving forward*; Jones and Khanna, *Bringing history (back)*.

both Philips Electronics and Philips Australia had to respond to significant institutional changes in their respective business environments during the 1960s and 1970s. European integration, and changes in Australian trade policy altered the institutional foundations of key markets in which both firms operated, *i.e.* the markets for electronic and electrical goods in Europe and Australia. Cantwell *et al.* conceptualised situations like this, maintaining that the activities of multinational enterprises (MNEs) and the institutions external and internal to the firm may co-evolve.⁴

With reference to historical changes in the global business environment, Cantwell *et al.* argued that modifications in the institutional environment had an impact on the character of MNE activities, enhancing firm-level creativity and institutional entrepreneurship in the process. They linked institutional change in the business environment to the process of creative firm-level institutional change. As substantiation, they pointed to a few empirical studies of MNE responses to changes in the business environment, particularly adaptive and co-evolutionary responses. Drawing on the historical cases of Royal Dutch Shell and Sara Lee, Sluyterman and Wubs demonstrated that institutional change within MNEs interacts with the direction of institutional change in international markets, but that adaptive and co-evolution responses co-existed.⁵ This paper probes the efficacy of the conceptualisation of Cantwell *et al.*, as both Philips firms had to reconsider their internal institutions in response to external institutional change. The questions it seeks to answer are (a) whether the external and internal institutional changes indeed co-evolved in both firms, and (b) whether this led to an increased degree of firm-level creativity and institutional entrepreneurship.

Section 2 sets the scene by describing the development of the Philips parent company and its Australian subsidiary. It also explains the relationship between both companies in the 1960s, and the dominant position of Philips Australia in the Australian market for consumer electronics and particularly components by the end of the 1960s. Section 3 describes how changes in the business environment of the European Community – the predecessor of the European Union – required the Philips parent company to start integrating its operations across European countries, and later across the world. Section 4 explains the significant changes in the Australian business environment in the 1970s to indicate that the process of European integration absorbed so much of the Philips parent company's attention that the Australian subsidiary was forced to address issues without sufficient guidance from the parent company, which left it vulnerable. Section 5 concludes.

⁴ Cantwell, Dunning and Lundan, An evolutionary approach.

⁵ Sluyterman and Wubs, Multinationals.

2. Philips and Its Australian Subsidiary

The Philips parent company was established in Eindhoven in the Southern part of The Netherlands in 1891 to produce electric incandescent lamps.⁶ The small domestic market required it to internationalise and diversify in order to grow. Lamp production and exports increased quickly during World War I. In the 1920s the firm diversified into radio valves, and in the 1930s into other components, radio receivers and a growing range of electronic products, including telegraph and telephone equipment, welding tools and X-ray tubes. Expansion occurred in the context of increasingly compartmentalised international markets as a result of rising post-1929 trade barriers that aimed to foster local production. These barriers forced Philips to duplicate manufacturing facilities in a growing number of countries, also within Europe.

The firm's expansion during the 1930s established the model for Philips' rapid global expansion after World War II. The international economy remained fragmented due to country-specific restrictions on international trade and payments. These restrictions forced Philips to continue production in relatively small production plants, producing goods that suited the local tastes in host countries markets. As a consequence of decentralised 'local-for-local' production, the company's foreign subsidiaries were firmly embedded in host countries.

The global expansion of the company was sustained by increasing diversification of the product range, including electric shavers, vacuum cleaners, records and record players, TV sets, tape recorders, pharmaceuticals, and medical systems. However, an important source of income for the company was the production of components that were sold to competing makers of final products. This strategy allowed Philips to achieve economies of scale in component production, as well as maintain an advantage over competitors through high investments in R&D, strict maintenance of patents and regulation of markets through selective licensing. For example, around 1960, 60% of all television sets sold in Europe may have had a Philips picture tube.⁷

Philips considered its multi-domestic corporate structure to be a 'federation' of relatively autonomous 'national organisations' and product divisions, of which there were 11 in 1954, more in later years.⁸ Commercial authority in the company was decentralised and vested in the national organisations which each carried responsibility for sales and profits, while the product divisions in The Netherlands were responsible for the development of new technologies and products. Supervision

⁶ For convenience, the paper refers to 'Philips' or 'Philips Electronics' as the parent company. Its name was Philips Gloeilampenfabrieken NV, which became Philips Electronics NV in 1991.

⁷ Blanken, *De Geschiedenis*, 53 and 59.

⁸ *Philips Gloeilampenfabrieken NV Jaarverslag 1954*: 27; *New York Times* (7 January 1970) 23.

by the Board of Directors⁹ in Eindhoven was necessarily a matter of consultation and compromises with the Managing Directors (MDs) of the national organisations. Within limits, they decided what products would be sold and produced in host countries, and also what international exchanges of semi-manufactured products would take place. This structure limited the degree of coordination that the product divisions could exert across national organisations, in terms of sales and production, exchanges of semi-manufactures, as well as marketing strategies and even R&D.

This arrangement worked well during the 1950s and 1960s, when nationally segmented markets for the kind of products Philips produced grew quickly. The firm expanded rapidly in terms of employment, assets, sales, product diversification, and foreign subsidiaries in an increasing number of countries. Much of the expansion took the form of vertical integration and horizontal diversification in individual host countries to accommodate new products generated by the product divisions, as well as through acquisitions. By the 1970s Philips had 1,800 subsidiary companies in 80 countries. Its global employment increased from 90,000 in 1950 to a maximum of 412,000 in 1974. Although the firm was highly diversified, the growth of its profits was largely driven by consumer electronics and electrical equipment.

Philips Australia

Philips established its own sales office in Australia in 1925, which a year later became the fully-owned subsidiary Philips Lamps (Australasia) Ltd.¹⁰ The company imported Philips products from The Netherlands, including lamps for household and industrial use, radio valves, radio sets, audio transformers, speakers, battery chargers and X-ray tubes. It distributed these products to local agents through its state-based distribution network. In the 1930s, the Australian government increased import tariffs, which made it commercially viable for Philips Australia to diversify into manufacturing through investments in factories producing incandescent lamps in Newcastle (1930), and radio sets and valves in Sydney (1933 and 1936, respectively). With World War II looming, the company diversified into producing radio communication equipment, loudspeakers and associated sound systems, as well as a growing range of components.

The company's production and sales expanded rapidly after the 1940s. Imports remained subject to government restrictions, but increasing prosperity during

⁹ Actually, Philips had a 2-tiered board; a Board of Management with the company's top fulltime executive directors, and a supervisory Board of Directors with external board members and non-executive directors associated with the company.

¹⁰ Since 1953, the company was actually known as Philips Electrical Industries Pty Ltd. It diversified by establishing and acquiring other companies. In 1965 some key companies in the group were consolidated as Philips Industries Pty Ltd, whose shares were 100% owned by Philips Industries Holdings Pty Ltd. The holding company also held controlling interests in a range of other companies, and changed its name to Philips Electronics Australia Ltd in 1994.

the post-war years, as well as a massive inflow of migrants from Europe implied a rapid expansion of markets for manufactured products in Australia.¹¹ Like other companies, Philips Australia increased its production capacity and diversified its operations. A major boost to the market for electronic products was the introduction of television in Australia in 1955. Employment at the company increased from around 1,000 in 1942 to 5,000 by the early-1960s, of which 75% worked in its production plant in Hendon (Adelaide) where the company had concentrated most manufacturing operations after 1946.

Philips products were known in Australia for their high quality and relatively high price. Consequently, their market share was generally modest. Instead, the company's strategy focused on the production of semi-manufactures; initially valves, but later a wide range of components that it sold profitably to the large number of radio and, after 1956, television set makers in Australia. The Hendon plant produced valves, picture tubes, coils, tuners, ferrites, aerials, electric motors, fans, condensers, metal and plastic mouldings, radio and television cabinets, and parts (such as chassis mountings, washers, screws, nuts, and bolts). In 1959 it also started production of semiconductors such as transistors and diodes. Philips Australia dominated the local market for valves and other componentry for radio and television sets, which was the company's most profitable business in the 1950s. For example, it produced over 7 million valves per year in 1959/60, capturing 65 to 70% of the Australian market.¹²

The Hendon plant also produced final consumer products, such as radio sets, car and portable radios, radio-gramophones, shavers, record players and a variety of TV sets. And it produced customised industrial, scientific and defence-related equipment, particularly communication equipment and television broadcasting equipment. Many other products were imported from sister companies in other countries. But for radio and television sets, Philips Australia made around 95% of the value of those receivers entirely in Australia in the early-1960s.¹³

Apart from product diversification, the expansion of the company was also sustained through acquisitions of companies that produced related products.¹⁴ Examples are electric blanket producer E.A. Hopkinson Pty Ltd in Sydney, Philips-Stanford Pty Ltd in Melbourne, which produced and imported medical X-ray equipment, and Lenora Glass Industries Pty Ltd in Newcastle which produced light fittings for industrial and office buildings. Other companies were purchased for the purpose of forward integration, such as Melbourne-based electrical appliance retail

¹¹ Meredith and Dyster, *Australia in the Global Economy*, 199.

¹² Van der Eng, Strategic responses, 18.

¹³ PEI, *Philips in Australia*.

¹⁴ Related and unrelated diversification through mergers and acquisitions was a common patterns of expansion among Australian firms. See Fleming *et al.*, *Big End of Town*, 93-100 and 113-199.

chain Eric Anderson.¹⁵ In 1951 Philips Australia had 6 subsidiaries, rising to 13 in 1958 and 38 by 1965.¹⁶

The main expansion of the company took the form of the acquisition in 1970 of Electronic Industries Ltd (EIL) in Melbourne, which was a large and diversified industrial conglomerate. Also known as the Astor group, it produced electronic products such as radios; television sets; whitegoods, including washing machines, refrigerators, freezers and laundry dryers; cassette players; clock radios; and records. By the 1960s EIL was larger than Philips Australia and also much more diversified, with a series of non-core subsidiary companies, including electrical retailers, and producers of furniture, mattresses, vending machines, bicycles, machine tools, etc.¹⁷ Philips Australia acquired EIL for two reasons. Firstly, Pye of Cambridge Ltd in the UK had a controlling interest in EIL since 1959. When Pye ran into financial difficulties it was taken over by Philips in The Netherlands in 1967, which gave Philips an indirect stake in EIL.¹⁸ Secondly, under an 8-year contract signed in 1967, EIL was a major buyer of componentry from Philips Australia, particularly television picture tubes. Philips Australia could not afford to forego EIL's unresolved payment obligations and also EIL's future purchases by driving its major customer into receivership. When EIL suffered significant losses in 1969, parent company Philips decided that Philips Australia had to absorb EIL in 1970.

While post-war employment in Australia's manufacturing sector increased, the cost of protectionist measures was borne by end-users of manufactured products, particularly consumers. There were few policy-related incentives for manufacturing companies to increase their international competitiveness and exports. The Australian market was booming but small, which meant that any production found ready demand, despite the fact that the productive capacity of individual producers was relatively small. There were therefore also few incentives for firms to increase their domestic competitiveness. Consequently, Australian firms became increasingly inward-looking. Technological development in Australia's manufacturing industry lagged behind international best practice.¹⁹

To an extent Philips Australia was an exception. In an effort to preserve its position in the Australian markets, particularly the componentry market, it established R&D facilities in the form of its Menzies Research Laboratory in Hendon. In 1962 the company believed that these facilities would become the company's stepping stone to develop exports in the Southern hemisphere.²⁰ Some exports occurred, such as the delivery of specialised communications equipment to Singapore and Malaysia in 1968

¹⁵ *The Age* (23 March 1967).

¹⁶ Annual reports of Philips Electrical Industries Pty Ltd, Philips Industries Pty Ltd, Philips Industries Holdings Pty Ltd.

¹⁷ Electronic Industries, *The Vast Resources*.

¹⁸ *The Times* (24 November 1966) 18 and (18 February 1967) 15.

¹⁹ Meredith and Dyster, *Australia in the Global Economy*, 199-200.

²⁰ PCA, 882 Australië, no.3 (1956-65), B.P.M. Windsant, 'Report of Visit to Australia' (25 July 1962).

and exports of radio telephones to Hong Kong, New Guinea and Taiwan.²¹ However, a major obstacle to exporting was that the parent company had to give Philips Australia permission for exports of items that would compete directly with its exports from The Netherlands.²² After 1967, the Australian government also maintained incentive schemes to foster R&D in Australia. Australian companies in the ‘electric and electronic apparatus’ sector such as Radio Corporation and Philips Electrical (both subsidiaries of Philips Australia), Ericsson and Pye were major recipients.²³

3. Philips and European Integration

Around 1970 the tide started to turn for Philips, when its international operations became affected by the processes of trade liberalisation and European integration. The conclusion of the 1964-67 GATT Kennedy round of multilateral discussions resulted in a reduction of tariffs on manufactured goods by one-third across the board. This enhanced access to the segmented European markets for Philips’ global competitors in electronics from the US and particularly Japan. In contrast to European electronics firms, Japanese firms did not have decentralised and diversified production facilities, but had production plants that were located in low-wage Japan and that focused on limited product lines.

The Kennedy Round effect was compounded in 1968 by the creation of the EC with zero tariffs among its six member countries, and in 1969 by the prospect that the UK, Ireland and Denmark would join the EC in 1973. Consequently, Philips had to consider ways to integrate its decentralised international activities, particularly across key EC member countries such as The Netherlands, Germany, France, Italy and the UK. This was urgent, because Philips was still very much a European company. Until the 1980s, 60 to 65% of its global turnover was in Western Europe, and – except in the US – its activities in other countries around the world were comparatively small.²⁴

Philips had been an outspoken supporter of the process of European economic integration, largely because of its experience with the expansion of the company in the 1920s. Based in the small Dutch economy, it was forced to grow through internationalisation and absorb the costs of restrictions on international trade and payments in the 1930s. These took the form of forgone opportunities to achieve economies of scale in production, and increased transaction costs between the company’s foreign subsidiary firms. CEO Anton Philips was a member of the Pan-Europe League since 1927 and supported the League’s aim to rally support for a

²¹ *The Straits Times* (26 July 1968); *Philips Reporter* (July 1971).

²² PA, Box 136, PIHL Electrical Industries Directors’ Minutes, meeting 7 September 1966, p.195.

²³ Tisdell, Australian research subsidy.

²⁴ Annual reports of Philips Gloeilampenfabrieken NV.

United States of Europe and a European customs union.²⁵ Top managers and board members of Philips remained involved in international discussions about European integration in the late-1940s and 1950s.

Underlying the support of Philips for the process of European integration was the belief that the company would benefit from the creation of a single European market. It expected that lifting of import restrictions would lower transaction costs, and allow it to achieve scale economies by restructuring production operations across European countries, thus improving competitiveness.²⁶ In 1956, Philips estimated the net benefit of European integration for just its operations in France, Germany and Italy to be significant, because these countries had higher tariffs than The Netherlands. Lifting European import restrictions would enable Philips subsidiaries to import semi-manufactures duty-free from The Netherlands, while their competitors were importing largely from non-EC countries. In 1957 and 1958, Philips established several 'integration committees' tasked with coordinating financial, technical, and commercial issues related to the integration of production operations across the EC countries.²⁷ These culminated in a 1960 restructuring plan.

During 1960s, Philips achieved mixed success with the restructuring and integration of production operations across EC countries. The main reason for slow progress was that so many sections of the company were involved in restructuring; each of the national organisations that were led by powerful MDs, and all the different product divisions in The Netherlands. Their interests did not align easily. And with continued strong business growth and sustained profitability, it was difficult for central management in The Netherlands to impose its will. For example, many national organisations obtained key technology from the relevant product divisions in The Netherlands, but they then designed products to suit the different host country markets, while continuing to be answerable to the MD in the host country, rather than the relevant product division in The Netherlands.

In effect, the lack of centralised technical and commercial policies in Europe obstructed the process of integration of the firm's activities across EC countries. At the same time, the Board was cautious about forcing changes onto national organisations, fearing that compulsion would impinge on productivity and profitability.²⁸ Increasingly the Board became preoccupied with mediating compromises between national organisations in Europe and the product divisions, which limited its intra-EC restructuring achievements during the 1960s.²⁹

Given the urgency of the issues, an internal study urged the Board to 'tilt the matrix' representing its organisational structure, break the autonomy of national

²⁵ Blanken, *De Geschiedenis*, 234-7.

²⁶ Dai, *Corporate Strategy*, 95-96.

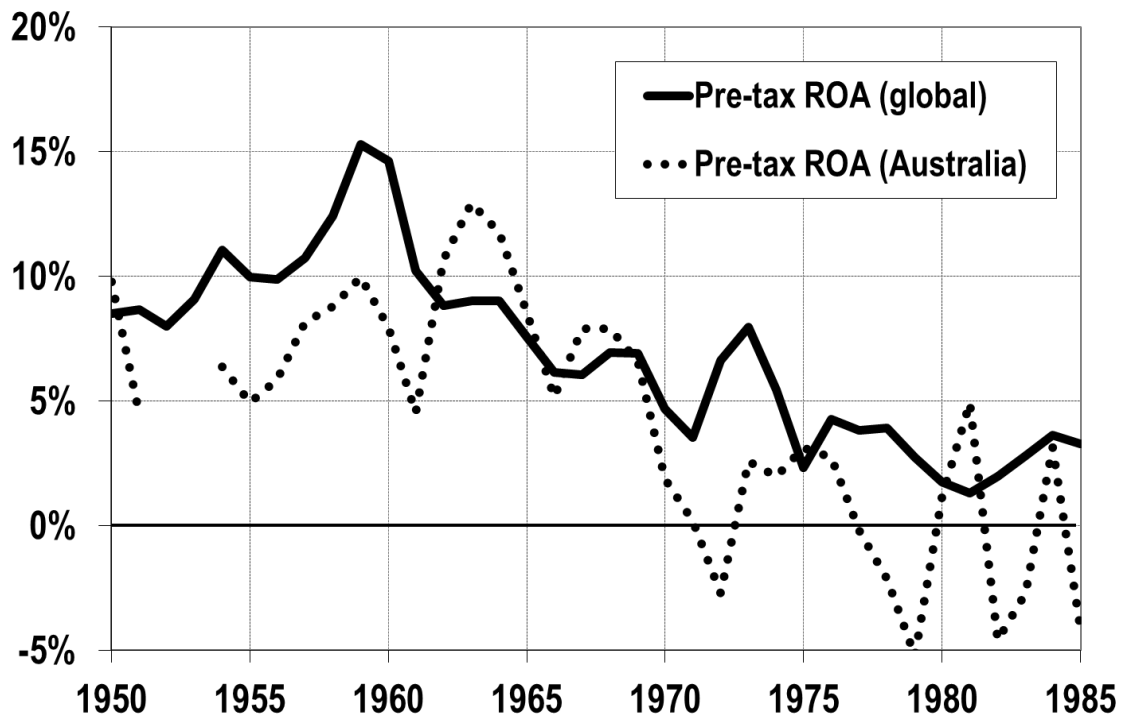
²⁷ Blanken, *De Geschiedenis*, 260-2.

²⁸ Blanken, *De Geschiedenis*, 290-922.

²⁹ Blanken, *De Geschiedenis*, 276-279 and 300-301.

organisations in favour of the product divisions, centralise product development and production planning, amalgamate production facilities into international production centres or establish new international production centres, and have the Board assume greater control in setting the firm's global strategy.³⁰ Spurred by the economic crisis of 1973-74, restructuring focused on Europe. Nevertheless, MDs of national organisations found ways to resist the consolidation of production operations across countries. By the early-1980s Philips still had about 275 plants across Europe. During the 1970s, the urgency of change was masked by the fact that sales revenues and turnover continued to grow, although profitability decreased significantly as Figure 1 shows.

Figure 1: Pre-Tax Returns on Assets, Philips and Philips Australia, 1950-1985



Note: 1952-1953 nor available for Philips Electrical Industries of Australia.

Sources: Annual reports of Philips Gloeilampenfabrieken NV, Philips Electrical Industries of Australia Pty Ltd, Philips Electrical Industries Pty Ltd, Philips Industries Pty Ltd and Philips Industries Holdings Pty Ltd.

Increasing competition in European markets from Japanese imports was a major reason for declining performance. By the late-1970s the firm was forced to respond to the strategies of Japanese competitors such as Sony, Toshiba, Matsushita,

³⁰ Metze, *Kortsluiting*, 69; Bartlett, *Philips and Matsushita*, 169; Blanken, *De Geschiedenis*, 302-303.

and Sanyo in Europe. Japanese firms no longer had the advantage of low labour costs in Japan, but they had the advantage of centralised production capacity. Together with investment in the latest production technology used in their much larger, consolidated plants, they could generate the scale economies needed to compete in European markets. They also succeeded in standardising their products for different countries, as well as establishing good distribution networks.³¹

All this contrasted with the operations of Philips, which had a relatively large number of small production plants that were less able to generate scale economies at a time when the development and application of new semi-conductor and integrated circuit (IC)-based technologies required greater production runs. Philips also continued a large number of different brand names to which customers in different countries had become accustomed. Hence, while Philips succeeded in restructuring its operations across European countries during the 1970s and also keeping market share in the growing global competition with Japanese firms, its profit margins decreased.

By the early 1980s Philips still had its main operating strength in Europe.³² In the face of sustained Japanese competition it announced in 1981 that it would embark on a global process of cutting back expenditure, employment and capacity particularly in Western Europe, restructuring international operations and relocating production capacity to low-cost Asia.³³ The urgency of this line of action was reinforced when returns on assets reached a historical low of 0.9% in 1981, as Figure 1 shows. Philips used its experience with restructuring in Europe in the 1970s to start a global restructure in the 1980s.³⁴

The company's profitability was restored through rationalisation of product divisions, closure of poorly performing subsidiary companies, vertical disintegration and sales of non-core assets to achieve greater flexibility, consolidations of production plants and research facilities across countries to achieve scale economies, further relocation of production to Asian countries in search of cost advantages and markets, and increased collaboration with competitors. In the course of the 1980s Philips completed 'tilting the matrix'. Product divisions were put in charge of the company's international production centres, and national organisations had to contract with the product divisions for deliveries.³⁵

³¹ OTA, *International Competitiveness*, 119-122; Metze, *Kortsluiting*, 90.

³² Fox, *Has European industry*; Jeelof, *Global strategies*, 87.

³³ *NV Philips Gloeilampenfabrieken Jaarverslag 1980*, 5; *New York Times* (13 December 1981) 8; Metze *Kortsluiting*, 94-96 and 114-116.

³⁴ *The Financial Times* (26 October 1982) 20; OTA, *International Competitiveness*, 124-125.

³⁵ Jeelof, *Global strategies*; Atzema *et al.*, *Philips*, 193-194. However, Philips was not out of the woods by the late-1980s. When competition in the IT industry heated up in the late-1980s, Philips found that remnants of its national organisations were still a problem.

4. Philips Australia in the 1970s

Already in the early-1960s, Philips Australia learned that the Board of Management in The Netherlands would be preoccupied with European integration. In 1963, the directors of the subsidiary considered this preoccupation to be an opportunity, noting that the firm ‘must look within itself for its development and further expansion’ rather than depend on the parent firm.³⁶ Philips Australia looked to exports as a path towards expansion. In 1964, MD Pieter Vink articulated the expectation that the company would become ‘a supply centre for South-East Asia, including Japan’ and would start to develop export experience.³⁷ Regular interactions with the parent company confirmed these expectations.³⁸ On a visit to Sydney in 1969, Philips CEO Frits Philips also reconfirmed that Philips Australia ‘will be called on to play a big role in this part of the world ... When the Australian Concern is strong it could spread its field of activities to Indonesia, the Philippines, Malaysia and the Islands of the Pacific. ... The Australian personnel resources are such that it should be possible to send highly trained and capable executives to various countries from Australia and not from Holland.’³⁹

But five years later the intentions had not progressed much. In 1974 the Philips Australia board tried to remind the new Philips CEO Henk A.C. van Riemsdijk that Australia could become the ‘know-how centre for the Far East region’. But Van Riemsdijk’s response was lukewarm, noting that without a proper plan there would be no point discussing the idea.⁴⁰ The idea had not progressed much because both the Philips parent company and its subsidiary had become far too preoccupied with other matters. The parent company became even more preoccupied with the need to integrate its operations in Europe, as discussed in the previous section, and Philips Australia was largely left to its own devices to deal with a multitude of issues in Australia during the 1970s.

A major issue Philips Australia faced was the absorption of EIL in 1970 and later the Pye Australia group of companies in 1976-77. In all, the number of subsidiary companies doubled in 1970 to an unwieldy 90, of which 16 were liquidated that year. Philips Australia arranged the remaining 74 in a multi-divisional structure.⁴¹ In order to enhance synergies between group companies, new MD Herman D. Huyer energetically set out to improve communications between management and staff in all companies in the group, starting with regular meetings of top managers of all

³⁶ PA, Box 136, PIHL Electrical Industries Directors Minutes, 8 July 1963, p.107 and 28 August 1964, p.137.

³⁷ PA, Box 136, PIHL Electrical Industries Directors Minutes, 16 April 1964, p.130.

³⁸ E.g. PA, Box 136, PIHL Electrical Industries Directors Minutes, 7 September 1966, p.195.

³⁹ PCA, 882 Australië, no.5 (1967-1969), ‘Visit to Australia Mr F.J. Philips, Drs P.H. de Clercq, minutes meeting with Board of Directors’ (13 May 1969) p.14.

⁴⁰ PCA, 731 Australië – Vergaderingen Raad van Bestuur, no.3 (1974-1975), ‘Minutes of Roosterbespreking with Australian Management on 15 March 1974’.

⁴¹ *Philips Reporter* (July 1970).

companies.⁴² But he soon discovered that many former EIL companies were not commercially viable, which contributed to the firm's first loss in 1972, as Figure 1 shows. It took Philips Australia several years to identify and close or sell the unviable subsidiary companies, as well as sell surplus assets like buildings, warehouses, machine tools and land, and reduce duplication of the activities in remaining companies through amalgamations. The absorption of the Pye group of companies during 1976-77 was followed by a similar process of shedding firms that took several years.⁴³ The number of subsidiaries decreased from 74 in 1970 to 49 in 1975, 28 in 1980 and 11 in 1985.

In the 1970s, this painful, drawn-out process of closing or selling subsidiary companies took place against a backdrop of mounting labour unrest, rising wages and labour costs, as well as inflation in Australia. The uncertainty this created for Philips Australia was compounded by two further factors. Firstly, there was a quick succession of technological innovations in foreign-produced electronic products during the 1970s. Particularly the revolution in transistor and IC technology and application quickly made valve-based technology obsolete and Australian-made Philips products out of date. While Philips Australia had started IC production for the local market in Hendon in 1970, its parent company withheld permission to invest in expanding IC production, in the knowledge that Philips' foray into IC production in Europe on a much larger scale than in Australia had not been profitable.⁴⁴ Consequently, Philips Australia continued to use valve-based technology well into the 1970s.

Secondly, the drastic reduction of Australia's trade barriers and increasing of competition from Japanese imports in Australian markets for components and electrical and electronic goods were a major challenge. Lowering of trade barriers started in 1973 and was related to the weakening of Australia's trade links with the UK in the 1960s. UK preparations for EC membership since 1961 had been a first indication that Australia would be required to reconsider its position in international trade, as EC membership would imply that Australian agricultural producers would lose ready access to UK markets. Subsequently, Japan took the place of the UK as the main destination of Australian primary exports. The rapid expansion of Australia's primary exports (particularly of minerals like iron ore, oil and natural gas, coal, bauxite, etc.) in combination with large inflows of FDI into the mining sector, strengthened the Australian dollar in the 1960s and 1970s. Calls were made for lower tariffs, and in 1967 the Tariff Board started recommending a review of the tariff rates to the government, which gave voice to mounting public criticism of tariff protection.

In addition, Japanese interests lobbied the Australian government hard for greater access to Australian markets for Japanese manufactures in order to reduce

⁴² *Philips Reporter* (December 1970).

⁴³ *The Times* (14 December 1976) 19 and 21.

⁴⁴ Blanken, *De Geschiedenis*, 437.

Australia's growing trade surplus with Japan.⁴⁵ Initially, the Japanese sought Australian trade concessions on behalf of their producers for labour-intensive manufactures. But when the UK became an EC member in 1973, Japan promptly demanded greater access to the Australian market for its more technology-intensive manufactures, including electrical equipment and electronics.

The Australian government's decision in July 1973 to lower the tariff across-the-board by 25% did not take the country's manufacturing sector by surprise. For example, Philips Australia had already been convinced in 1970 and 1971 that Australia's protectionist policy would gradually break down and also that Japanese interests had been lobbying for this to happen.⁴⁶ In 1972 it still believed that it would need a 45% tariff to sustain the production of picture tubes.⁴⁷ And Philips Australia started discussions that year with rival Amalgamated Wireless Australasia (AWA) about the possibility of creating a joint venture that would pool the component production of both companies, particularly future colour television (CTV) tube production, in an effort to convince the Australian government to maintain tariff protection and withstand expected Japanese competition in the CTV market.⁴⁸

Nevertheless, manufacturers were taken off-guard by the degree and suddenness of the tariff reduction in 1973, and the fact that it came without any consideration of a possible transition period. The tariff cut was followed by further reductions of tariffs and non-tariff import restrictions that increased import competition further.⁴⁹ In all, the average effective rate of protection for the 'appliances and electrical equipment' category decreased from 49% in 1968/69 to 22% in 1977/78 and later to 15% in 1992/93.⁵⁰

These changes in trade policy aimed to help stem inflationary pressures and encourage a more competitive environment in Australian industry. But in the context of the economic uncertainties of the 1970s they caused manufacturing output to falter, as firms struggled to improve their international competitiveness at short notice. Faced with increased import competition, manufacturing companies closed plants and the share of manufacturing in employment and output decreased. The tariff revisions hit firms in Australia's electrical equipment and electronics sector particularly hard, as

⁴⁵ This and the competition posed by Japanese companies in the Australian electronic and electrical goods market are the subject of a separate paper, see Van der Eng, Trade liberalisation.

⁴⁶ PCA, 882 Australië, no.6 (1970), 'Future Coordination of Philips and Electronic Industries' (August 1970) p.21; no.7 (1971-1976), H.D. Huyer to Board of Management (Eindhoven) (6 May 1971); PCA, 773 – Vergaderingen Raad van Bestuur, no.2 (1971-1973), J.W. Goeting 'Australia: Minutes meeting held in Eindhoven 20 March 1972'; PCA, 882 Australië – Reissrapporten Doos 1596, no.3 (1970-1983) 'Bezoek aan Australië 13-16 September 1971'.

⁴⁷ PCA, 773 – Vergaderingen Raad van Bestuur, no.2 (1971-1973), J.W. Goeting 'Australia: Minutes meeting held in Eindhoven 20 March 1972'.

⁴⁸ PCA, 882 Australië – DA Components Doos 88, no.6 (1971-1976), D.H. Huyer to P.H. le Clercq (24 February 1972) and (16 May 1972); PCA, 882 Australië – DA Consumer Electronics Doos 24, no.2 (1972-1974), F.C. Rauwenhoff to A.E. van Mourik (14 July 1972).

⁴⁹ Meredith and Dyster, *Australia in the Global Economy*, 271-73.

⁵⁰ Industry Commission, Australian manufacturing industry, Table A3.

many of them were subject to export franchise arrangements that allowed them access to technology from parent firms, or other licensors, but on the condition that they would restrict their export ambitions.⁵¹

The lower Australian tariffs came at a time when Japanese producers of electronic and electrical equipment had improved the international competitiveness of their products. Japanese products were not necessarily much cheaper, but of better quality than Australian-made products, and supplied with better servicing and marketing. They also contained the latest technologies, which Philips Australia could not easily obtain, develop and apply at short notice. For commercially viable production, the company would also have required longer production runs than were possible in Australia, given the limited size of the domestic market and restrictions on export ambitions. Consequently, by the late-1970s imported Japanese products had captured a significant market share. Philips Australia found it difficult to respond, as it experienced rising labour costs and disruptions to its production due to strikes.

The impact of these developments was shrouded by the fact that Philips Australia remained a diversified company. Some areas of activity were quite successful. For example, the company and its subsidiaries were particularly successful in producing, wholesaling and retailing CTV sets, following the introduction of CTV in Australia in 1975, as well as wholesaling components to other CTV producers.⁵² On the other hand, for example, the lighting division of the company suffered due to the recession in the building industry. And although the firm initially had a significant share in the CTV market and its revenues from TV sales increased its profit margins in CTVs actually shrank in the late-1970s.

Despite the closure and sell-off of many subsidiary companies, Philips Australia continued with a large number of subsidiaries in the 1970s. Some of them were profitable and had export success, such as Telephone Manufacturing Co (Australasia) Pty Ltd, which focused on various forms of radio telephone communications.⁵³ It expanded production and moved from Erskville (Melbourne) to bigger facilities in Moorebank (Sydney) and Clayton (Melbourne) in 1972. Another example is Eclipse Retail Rental Pty Ltd, which rented out electrical and electronic goods at retail level. It was highly profitable and therefore remained a subsidiary of Philips Australia well into the 1990s. In addition, Philips Australia was optimistic about the market for whitegoods to the extent that it invested in establishing a new 'Major Domestic Appliances' plant in Clayton (Melbourne) to produce a new range of refrigerators, freezers, washing machines, dryers and microwave ovens.⁵⁴ Although

⁵¹ Industry Commission, Commercial restrictions.

⁵² *Philips Reporter* (September 1975, April 1976, November 1976).

⁵³ *Philips Reporter* (September 1971, June 1981).

⁵⁴ *Philips Reporter* (August 1976, September 1976).

the plant was not profitable during the first few years, the firm nevertheless decided to expand its capacity in 1979, and production continued to the mid-1980s.⁵⁵

Nevertheless, Philips Australia went through a difficult period during the 1970s, and much of the attention of senior management was absorbed by the need to restructure the whole local business group and find ways to accommodate the consequences of reduced tariffs and increasing competition from Japanese imports. In this context, another problem was the inability of Philips supply centres in Europe to deliver products that suited the Australian market, or deliver them without considerable delays.⁵⁶ This remained an ongoing issue throughout the 1970s, and was a consequence of the parent company tilting the matrix structure of its global operations, for example, expecting national organisations to contract with product divisions for supplies. Although there was a steady stream of visitors to Australia from the product divisions in The Netherlands, the parent company remained unresponsive to the particular difficulties faced by Philips Australia, such as the Australian market requiring types of products that could not easily be obtained from Philips sister companies. To the frustration of Philips Australia executives, their arguments found insufficient traction with the product divisions. Often the product divisions in The Netherlands downplayed their demands for specific products or components, and failed to include the interests of Philips Australia in their planning of international activities, as they appeared to have focused on dealing with company issues in The Netherlands and throughout Europe.⁵⁷ Each time this happened, it confirmed MD Huyer's belief that the Philips parent company did not fully understand or appreciate the difficulties his firm was trying to resolve, nor the immediate solutions he sought to address these difficulties.⁵⁸ This made it difficult for him to work towards immediate and longer term strategic solutions.

One of Huyer's solutions to growing competition from Japanese imports, and the difficulties of purchasing products from Philips sister companies, was to source products in Japan, arguing in 1971: 'if we cannot beat them, our alternative is to join them'.⁵⁹ Knowing that the almost 100% Australian-made Philips products could not withstand Japanese competition, Huyer explored opportunities to purchase products

⁵⁵ *Philips Reporter* (October 1978, March 1979).

⁵⁶ PA, Box 134, PIHL Group Policy Committee Minutes, meeting 3 August 1970, p.273.

⁵⁷ For example, an ongoing issue was the refusal of the relevant product division to deliver small 18 inch television sets. It argued that Australia was a 'large set country', despite the fact that Japanese companies were importing and successfully selling small sets in Australia. Later the division argued that Philips Australia had to wait with ordering small sets until the small television plant in Singapore would come on stream in 1975. When it did, this plant did not have capacity to supply the Australian market. PCA, 882, Australië – DA Consumer Electronics Doos 24, no.2-4, various correspondence. Also PA, Box 134, PIHL Group Policy Committee Minutes, meeting 9 September 1974, pp.1368-1369.

⁵⁸ Huyer, *As I Remember*, 354; PCA, 882 Australië, no.7 (1971-1976) 'Minutes of meeting of Board of Management with the Group Policy Committee of PIH Australia' (28 September 1971); PCA, 882, Australië – DA Consumer Electronics Doos 24, no.2 (1972-1974), 'Minutes of Meeting of the Group Policy Committee ... Sydney' (9 April 1973).

⁵⁹ PA, Box 134, PIHL Group Policy Committee Minutes, meeting 25 February 1971, p.356.

from Hitachi in Japan in 1971, given that previous EIL subsidiary companies continued to be Hitachi agents.⁶⁰ But obtaining supplies from an Original Equipment Manufacturer (OEM) outside the global Philips company went against the Philips tradition of producing as much as possible in-house, rather than relying on outsourcing. Some in the parent company were interested in knowing more about Huyer's initiative, but CEO Frits Philips was not enthusiastic and representatives of the Philips product divisions in The Netherlands also opposed it.⁶¹

When it appeared that Philips Japan was unwilling or unable to assist, Huyer used General Accessories, a small Japanese purchase agent in Tokyo, to arrange the purchase and production of batches of OEM products. Philips Australia ordered its first OEM supplies from Japan and Taiwan in 1972 and continued and expanded this arrangement during the rest of the 1970s.⁶² In first instance, its subsidiary company Astor Agencies Ltd imported small televisions and car radios from Hitachi and Fujitsu Ten, and sold them under the Australian brand names that Philips owned. Such imports increased later to include a range of other OEM products, such as washing machines and tumble dryers from Toshiba and digital alarm clocks from Hitachi that were sold under the Astor brand name. Apart from the fact that Philips Australia could access these products, where they could not be obtained from Philips sister companies, there were the added advantages of faster and cheaper delivery from Japan.⁶³ Huyer was able to defy the parent company, because the Philips product divisions did not assist Philips Australia in sourcing these products from Philips companies overseas, nor did the Board of the Philips parent company offer him usable guidance. In effect, the situation forced Huyer to utilise the significant degree of autonomy that he still had as a Philips MD in the 1970s.

Huyer's strategy assisted the growth of Philips Australia's sales and enhanced the company's flexibility of supply. But the downside was that more production capacity in Australia became redundant. Employment at Hendon decreased from 3,500 to only 250 by 1979. Production of large television sets was moved to the old EIL Clayton plant, radio production was wound up in 1974 as the company started importing radios from Japan, Taiwan, Hong Kong, and later Singapore. This was followed soon after by the production of small television sets and television components such as monochrome television tubes, receiver valves, and capacitors.⁶⁴

The growing import of fully-assembled radios and televisions, as well as componentry such as CTV tubes, caused the demand in Australia for locally produced

⁶⁰ PA, Box 134, PIHL Group Policy Committee Minutes, meeting 30 March 1971, pp.414-416 and 428; PCA, 882 Australië, no.7 (1971-1976), N.H. Serry 'Samenvatting van mijn bezoek in maart 1971' (15 April 1971).

⁶¹ PCA, 882 Australië, no.7 (1971-1976), N.H. Serry to H.D. Huyer (21 April 1971); 'Australië bespreking met de heer H.D. Huyer (24 May 1971).

⁶² Huyer, *As I Remember*, 355.

⁶³ PA, Box 134, PIHL Group Policy Committee Minutes, meeting 9 March 1972, p.800.

⁶⁴ *Philips Reporter* (August 1974).

Philips componentry to slump. Even the company's own monochrome TV production in Clayton increasingly used imported components, and from 1974 CTV production used almost only imported components. While Philips Australia used mainly CTV tubes produced by its sister companies overseas, poor communications between it and its parent company were underlined by the fact that the parent company in 1975 did allow Pye Australia to use Toshiba CTV picture tubes.⁶⁵

As mentioned, the production of components for electronic and electrical goods had been the main source of profits for Philips Australia since the 1930s. The drastic decline in demand for its componentry during the 1970s was a major factor in the decline of its profitability, as Figure 1 shows. Philips Australia continued production of other goods, such as whitegoods and professional equipment, but this did not compensate for the loss of profitability in componentry production. The company's sales revenues continued to grow, but its total profit margin was declining.

In addition, by the late-1970s, Philips Australia was still trying to rid itself of unviable former EIL and Pye companies. The process was slow, because the problems of many of these companies were not obvious, considering how to enhance the viability of these companies took time, the value of these companies could not easily be established, and there were no ready buyers at a time of depressed economic conditions in Australia. All this contributed to the losses that the company sustained during 1978 and 1979, as Figure 1 shows.

The senior management team of Philips Australia addressed these and other issues almost on a day-to-day basis, with little support or guidance from the parent company. MD Huyer was also frustrated by the fact that the interests of Philips Australia were not part of the parent company's strategic considerations when it developed its operations in East and Southeast Asia. For example, in 1977 he complained that Australia was only infrequently represented in 'Far East' meetings of the different product divisions in The Netherlands.⁶⁶ This became important at a time when the product divisions were gaining the upper hand in the matrix structure of the global company, when the Board in The Netherlands was reasserting its authority, and when the national organisations had started to lose autonomy.

In the light of the intentions expressed by CEO Frits Philips in 1969, Huyer had good reasons to complain, because the network of Philips companies in Asia increased during the 1970s. The Board in The Netherlands was preoccupied with the process of restructuring the company's operations in Europe in the 1960s and 1970s, but it also addressed the increasing cost pressures that its national organisations in Europe experienced. One solution was the establishment of international production centres in Asia. Philips had already engaged in the production of components and

⁶⁵ PCA, 882, Australië – DA Consumer Electronics Doos 24, no.3 (1975-1977), H.D. Huyer to H.A.C. van Riemsdijk (30 September 1975).

⁶⁶ PCA, 882 Australië, no.8 (1977-1980), 'Minutes of Roosterbespreking with the Australian Management on 8th March 1977).

lamps in Japan in a joint-venture with Matsushita in 1952. Its Asian interests increased with plants for the production of memory matrices and later ICs in Taiwan in 1966, monochrome television tubes in Taiwan in 1971, transistors and later lamps and radios in Hong Kong in 1969, and radio sets and later video and domestic appliances in Singapore in 1970.⁶⁷ By the late-1970s, Philips Taiwan was the company's main production centre in East Asia for a wide range of components, such as CTV picture tubes. By 1981 Philips had 31 companies throughout Asia.⁶⁸

Apart from the fact that Philips Australia purchased products from Philips international production centres in Asia, and notwithstanding the ambition expressed in 1969 for it to become a regional centre, Philips Australia hardly featured in discussions about the expansion of Philips operations in Asia after the mid-1960s. In essence, the production centres in Asia were established to deliver final products and componentry to Philips companies in Europe, rather than developing final products suitable for the Australian market.⁶⁹ On a visit to Australia in 1977, Wisse Dekker, the former MD of Philips Japan, confirmed Huyer's observations, and acknowledged that Australia needed to be included in the regional strategy of Philips. But not much eventuated.

Not involving Australia in discussions about issues that affected the regional integration of Philips production in East Asia left Philips Australia with few strategic options. One was to seek ways to prevent further reductions of Australia's tariffs. Indeed, in October 1980, new MD Cornelis Bossers considered the tariff policy of the Australian government to be so crucial that he established a committee to predict the effects that a 1981 government review of tariff policies would have on Philips' manufacturing base, suppliers and foreign trade.⁷⁰ However, by that time Philips Australia knew that the Australian government was under pressure from both the Japanese government and the European Commission to reduce tariffs further, and that it was not inclined to increase or maintain protection of local industry.⁷¹

Arguably, at that stage it would have been difficult to consider a role for Philips Australia in the regional architecture of Philips in Asia. Nevertheless, Philips had a Regional Bureau for Asia and Australia in the early-1980s that may have been able to coordinate a regional role for Philips Australia.⁷² Moreover, new MD Bossers had previous experience in Hong Kong and as MD in Taiwan and Japan.⁷³ In 1982 Bossers even wrote a discussion paper that explored the role of Philips Australia in the region, noting the fact that its companies had increasingly sourced products from

⁶⁷ Blanken, *De Geschiedenis*, 185-199; Van der Putten, Corporate governance; Van Slagteren, *Het Domein*, 59-115 and 184-200.

⁶⁸ *Philips Gloeilampenfabrieken NV Jaarverslag* 1981: 65.

⁶⁹ PCA, 882 Australië (reisrapporten) Doos 1596, no.3, N.H. Serry, 'Verslag van Bezoek Dr. W. Dekker en N.H. Serry aan Australië van 7 tot 11 November 1977' (25 November 1977).

⁷⁰ *Philips Reporter* (October 1980).

⁷¹ PCA, 882 Australië, no.8 (1977-1980), N.H. Serry, 'Reisverslag Australië 30 juni - 8 juli 1980'.

⁷² *Philips News* (2 April 1984).

⁷³ *Philips News* (7 October 1991).

third parties in Asia, rather than from its sister companies in the region. Apart from purchasing products from sister companies in Asia, Bossers only saw scope for the 'introduction of management capability or expertise in certain sectors such as for product development'.⁷⁴ This limp conclusion underlines that there were by then no longer any obvious and significant synergies between Philips Australia and its sister companies in Asia-Pacific that would have allowed it to sustain manufacturing facilities in Australia.⁷⁵ Due to its high labour costs and its turbulent industrial relations, Australia was not an obvious place to establish a regional supply centre for the mass-production of the consumer goods that Philips Australia had previously generated.

The options were also limited in the production of technology-intensive, high value-added components. Philips Australia had hoped that IC production could assume this role. It had been producing semiconductors such as transistors and diodes since 1959, and it had started research into ICs at its Menzies Research Laboratory in 1967.⁷⁶ By the late-1960s, these experiences supported the company's hope that it could specialise in IC production. Although it missed out to AWA on a major government contract for advanced ICs in 1968, Philips Australia continued plans to produce ICs, in the expectation of attracting large orders for use in telegraphic and telephonic switching apparatus. In 1970 it started a facility for the design and manufacturing of ICs in Hendon for the local market, but with Australian government subsidies and strong opposition from the electronic components product division in The Netherlands.⁷⁷

It was obvious that the further development of IC production was R&D-intensive and would also require large production volumes to recapture the high cost of R&D. Against continued negative advice from the product division, Philips Australia remained very keen to keep the facility going in 1972 in order to demonstrate to the Australian government that the company was committed to building an electronic industry.⁷⁸ Nevertheless, when the government stopped subsidies for IC production in 1977, Hendon's IC sales were well below production capacity, and the product division in The Netherlands refused to buy Hendon's ICs to allow the Australian factory to fully utilise its capacity. The closure of the IC facility ended the ambitions of Philips Australia to be a regional centre for ICs. As it happened, international prices of ICs dropped continuously during the 1970s. To make the IC vision work, the company would have required a much larger IC factory

⁷⁴ PA, Box 145, 'Future Policies and Strategies for the Western Pacific Areas', C. Bossers to A. Murdoch (2 September 1982).

⁷⁵ PCA, 882 Australië, no.9 (1981 -), F.M.G. Manders to W. MacLaine Pont (9 September 1983).

⁷⁶ PCA, 882 Australië – Components Doos 58, no.3 (1965-1966) A. Dros, 'Betreft: Menzies Laboratorium te Hendon' (25 March 1966), A.J.W. van Agt to Th.P. Tromp (8 September 1966).

⁷⁷ PCA, 882 Australië – DA Components Doos 88, no.6 (1971-1976), J.H. Lindenhovius to D. Noordhoff (16 February 1972).

⁷⁸ PCA, 882 Australië – DA Components Doos 88, no.6 (1971-1976), D.H. Huyer to P.H. le Clercq (24 February 1972).

to generate the scale economies needed to match the increasingly lower prices on international markets. The setup costs of such a large IC factory would have been high for the relatively small Philips Australia venture. Moreover, as the IC technology developed further and international prices continued to fall, it became clear in the 1980s that ICs would have to be produced in countries with low labour costs, due to their then labour-intensive nature.

By the late-1970s, Philips Australia's competitive advantage lay in the production of customised products, such as telecommunications and traffic management systems. The company was indeed successful with specialised radio communications equipment, such as two-way radios for taxi companies and emergency services, which it produced for local markets and for export to countries such as Hong Kong and Singapore in the 1970s. But that was insufficient to compensate for the continued loss of employment as part of restructuring of the company in a regional context. Hence, integration of the Philips ventures in Australia and Asia did take place, but the outcome was that Philips Australia increasingly used its Asian sisters as sources of final products and components for assembly operations.

Another issue that should be kept in mind is that the restructuring of Philips Australia during the 1970s and-early 1980s had not yet been very successful in terms of the company's performance. It sustained significant losses in 1982-83 and 1985-86, mainly in consumer products, despite further closures of major manufacturing subsidiary companies, including Kriesler and Pye in 1983. The losses reduced the company's equity, until it hit rock bottom in 1986, when Philips purchased the 25% of shares in Philips Australia that remained in public hands, and delisted the company.⁷⁹ In other words, by the mid-1980s the firm was no longer in a position to call for a role in the regional architecture of Philips in the Asia-Pacific. While Philips Australia continued production operations that focused on specialised high value added products in telecommunications and defence, most other production facilities were sold off or closed by the late-1980s, facilitating the transformation of the company into a sales company in the 1990s.

The process of opening up the Australian economy accelerated during the 1980s, with further reductions of tariffs and non-tariff trade barriers affecting manufacturing industries, except in automotive, textiles, clothing and footwear. The floating of the Australian dollar in 1983 was followed by a depreciation of the currency that enhanced the competitiveness of some Australian manufacturers. But many of them struggled to withstand the increased pressure of competitors in Asia. Although manufacturers in some sectors maintained their positions in later years, in others they were forced to restructure, re-focus and/or scale back their operations.

⁷⁹ *Philips News* (24 March 1986).

5. Conclusion

With reference to the 1970s, MD Huyer wrote in his memoirs: ‘Philips was no longer the great and truly international company it had been. It had become an inward looking European organisation. The evolution of the European Common Market with its tremendous consequences demanded all attention. [...] Our Australian company became increasingly isolated and self-reliant.’⁸⁰ This quote sums up how the process of European integration compounded the issues faced by one of Australia’s largest manufacturing companies faced during the 1960s and 1970s.

Admittedly, a wide range of other issues impacted on the difficulties facing Philips Australia, including its mergers with EIL and with Pye Australia, the reduction of manufacturing tariffs, and the increasing competition of imports from Japan. But the options available to the company to address these issues were limited. This was largely because it received minimal strategic guidance and support from the Philips parent company in developing and implementing strategies that could possibly have prevented it from becoming a mere sales company of Asia-produced consumer goods, as happened in the 1980s. In turn, limited guidance was a consequence of the fact that European integration in the 1960s and 1970s caused Philips to focus on considering how to restructure and integrate production operations across Western Europe for the purpose of remaining competitive in its most important market. Addressing the issues in Europe was a drawn-out process, in part due to the strong position of the MDs in national organisations. This delayed consideration on how to achieve the needed global restructuring until the 1980s. But by that time Philips Australia was no longer in a position to assert a place for itself in the global structure of the company.

Clearly, both firms had to respond to institutional changes in their respective business environments. In the case of Philips, a major change in the institutional environment took the form of European economic integration. Based on its pre-war experience with rising trade barriers impeding its international operations in Europe, the firm’s top managers and board members actively supported the integration process in anticipation of the benefits that integration would generate. However, when the opportunities to reap those benefits started to materialise in the 1960s, they found it hard to generate the co-evolution of firm-level institutions in the form of a change in its matrix structure. This was a precondition to fostering the kind of institutional entrepreneurship needed to be able to maximise the benefits from macro-level institutional change during the 1970s. This situation persisted until global competition in the 1980s left Phillips Australia with no choice but to enforce a reduction in the autonomy of its foreign subsidiaries and facilitate greater control by the central product divisions.

⁸⁰ Huyer, *As I Remember*, 353.

The main macro-level institutional change facing Philips Australia was the unilateral liberalisation of Australian trade policy from 1973. Despite its prominent position in Australian manufacturing industry, the firm was not involved in the process that led to this significant change in its macro-institutional environment and was not able to anticipate the firm-level institutional changes that were required to minimise the potentially negative consequences. The change did not come entirely as a surprise, but came at a time when Philips Australia was struggling to change its unwieldy structure following its amalgamation with EIL in 1970. The firm also found itself without the clear guidance from its parent company that it needed to work effectively towards the regional role it aspired to in the late-1960s. This also prevented it from developing the institutional entrepreneurship that might have allowed it to become the hub of the regional activities of the Philips MNE. Consequently, Philips Australia pursued a largely adaptive strategy to deal with the multitude of issues it faced, not a co-evolutionary strategy of institutional change.

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