Volvo Made in the Netherlands

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Transactions in many cases lead to more interactions between countries and firms.[1] Flows of goods and services are often followed by foreign direct investments (FDI). In 1977 Jan Johanson and Jan-Erik Vahlne published the now famous article which focused on the incrementally increasing commitments to host countries. Their model, based on empirical research, described an incremental process of entering foreign markets: companies progressed from exporting, to selling through local agents, to setting up of warehouse facilities, to sales facilities and selling subsidiaries, to eventually manufacturing abroad.[2]

This internationalization pattern was indeed followed by many manufacturing multinationals entering the Netherlands in the Twentieth Century, e.g. Standard Oil, Dow Chemical, Beiersdorf, Sara Lee and IBM. Nevertheless, as Geoffrey Jones rightly remarks, this pattern was not inevitable.[3] Some firms did not follow this path at all, others followed only part of the path, and divested prematurely. And as acquisition developed into probably the most important entry mode of multinationals in the late twentieth century the incrementally increasing commitments to host countries like the Netherlands became rather difficult to observe.

The Volvo case in the Netherlands, however, shows that it is possible to identify incrementally increasing commitments to host countries, but that the opposite is also possible. My paper aims to describe why and how the Swedish car manufacturer Volvo decided to increase its commitments to the Netherlands during the 1970s? Which opportunities and problems did Volvo experience with its Dutch operations during the 1980s and 1990s? Why Volvo eventually divested its Dutch operations? The paper addresses the role of the Dutch government, Volvo's own corporate strategy, the dynamics of its operations in the Netherlands, as well as the industry's international context.

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[1] Work in progress. Please do not quote without my permission.

[2] Jan Johanson and Jan-Erik Vahlne, 'The Internationalisation Process of the Firm-A Model of Knowledge Development and Increasing Foreign Market Commitments' in: *Journal of International Business Studies*, Vol. 8, No.1 (1977) pp. 23-32.

[3] Geoffrey Jones, Multinationals and Global Capitalism: From the Nineteenth to Twenty First Century (Oxford: OUP, 2005).

On the basis of Richard Whitley and Peter Hall and Daniel Soskice, and other business system or varieties of capitalism literature, it is generally assumed that the Dutch and Swedish economies represent major examples of coordinated business environments.[4] During the 1990s, under influence of a major globalisation trend, the Dutch and Swedish systems transformed themselves more and in the direction of liberal business environments, although both still kept elements of a coordinated environment as well.[5] Different institutional frameworks encourage the development of distinctive national companies with different kind of organisational capabilities and multinationals operate by definition in more than one business environment. According to Whitley home economy institutions and practices of MNCs remain largely in place even when companies undertake FDI in quite different business environments.[6] In other words, the institutional frameworks of the home economies determine the internationalisation strategy of multinationals. This hypothesis, however, needs more empirical underpinning, as Glenn Morgan states.[7] Another issue is how multinationals behave in similar business environments? During Volvo's initial investment in the Netherlands in the first half of the 1970s the Dutch business environment was expected to be in accordance with Volvo's experiences in its home economy. However, already in the second part of the 1970s these expectations were not fulfilled and conflicts between the Dutch part of the business, including the Dutch government, and the Swedish management occurred frequently. Although Volvo in the early 1980s planned to withdraw from its Dutch plant the question remains why it took more than twenty years to realize its eventual divestment.

Volvo Car Corporation

Until 1999 Volvo Car Corporation (VCC) was part of Sweden's largest industrial multi-divisional corporation, i.e. AB Volvo. Until this very day AB Volvo is the world's second

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4 Richard Whitley (ed.), *European business systems. Firms and markets in their national contexts,* (London: Saga Publications, 1992); Whitley, *Divergent capitalisms. The social structuring and change of business systems* (Oxford: OUP, 2000); Peter .A. Hall and Daniel Sockice, *Varieties of capitalism. The institutional foundations of comparative advantage* (Oxford: OUP, 2001).

5 Annette Hayden and Tony Edwards 'The Erosion of the Country of Origin Effect : A Case Study of a Swedish Multinational Company' in: *Relations industrielles/Industrial Relations*, Volume 56, no. 1, winter 2001, p. 116–140

6 Richard Whitley, 'How and Why are International Firms Different? The Consequences of Cross-Border Managerial Coordination for Firm Characteristics and Behaviour' in:Glenn Morgan, Peer Hull Kristensen and Richard Whitley *The Multinational Firm. Organising Across Institutional and National Divides* (Oxford 2001) 27-68.

7 Glenn Morgan, Richard Whitley en Eli Moen *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization* (Oxford:OUP 2005) 16.

largest producer of heavy-duty trucks (Volvo Truck Corporation) and buses (Volvo Bus Corporation). It is also one of the major manufactures of construction equipment (Volvo Construction Equipment), as well as marine (Volvo Penta) and aircraft engines (Volvo Aero). In 1999 AB Volvo sold its passenger car division to Ford. Ever since, it focuses on heavy vehicles and equipment to industrial customers.[8] During the 1980s, however, AB Volvo had become a highly diversified company with interests both within and outside the vehicle sector. At the time it had acquired interest in trading, energy and food production. Vehicle production, however, was still the heart of the group. Besides, truck production was the profit-generating area.[9]

AB Volvo was, and still is, highly dependent on foreign markets. At the time, 85 per cent of Volvo's passenger cars were sold outside Sweden. For example, in 1985 total sales on the American market had risen in seven years time from 20 to 46 per cent of Volvo's total car sales. As a result of the introduction of a new and more prestigious model (700 series) and favourable exchange rates the United States had become the single most important market. Nevertheless, as a relatively small car manufacturer Volvo's market share in the US was only 1 per cent. Production of Volvo cars took for the greater part place in Sweden, in a plant at Torsalanda. In 1963, however, Volvo had decided to build another complete car factory, consisting of a body shop, a paint shop and a final assembly shop, in Ghent in Belgium.[10] The idea of the Swedish company was to get a foothold inside the European Union, which internal market was expected to become more and more important after the Treaty of Rome.

At the beginning of the 1970s Volvo's annual production capacity of passenger cars annually was generally assumed far too small compared to its big competitors like Volkswagen, Renault, General Motors and Ford. The extremely high cost involved in designing new models and the economies of scale of passenger car production forced the Swedes to reconsider their business strategy. In addition, the effects of the first oil crisis were felt in Gothenburg as well. Car sales of all major car manufactures collapsed after the dramatic increase of gasoline prices in 1973.[11] At the time, a passenger car

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[8] Inge Ivarsson and Claes G. Alvstam 'Global Production and Trade Systems. Volvo Case' in: Piet Pellenbarg abd Egbert Wever, *International Business Geography. Case Studies of Corporate Firms* (Abingdon and New York: Routledge 2008) pp. 61-82.

[9] Claes Alvstam and Kasja Ellegard 'Volvo. The organization of work: a determinant of the future location of manufacturing enterprises' in: Marc de Schmidt and Egbert Wever, *The Corporate Firm in a Changing World Economy* (London and New York: Routledge 1990) pp. 183-206.

[10] Ibid., 185.

[11] Wolfgang Streeck 'Industrial Relations and Industrial Change: the Restructering of the World Automobile Industry in the 1970s and 1980s' in: *Economic and Industrial Democracy,* Vol. 8 (1987), 437-462.

manufacturer in the Netherlands called DAF, who produced small quality cars, offered an important share in its factory in Born.

Van Doorne's Automobielfabrieken N.V. (DAF N.V.)

In 1965 plans were made public for the building of a passenger car factory in Born, a small town in the South of the Netherlands.[12] The Dutch State looked for new employment in the region after it had decided to close down the coal mines in South Limburg. Family firm Van Doorne's Automobielfabrieken N.V. (DAF N.V.), who owned a vehicle factory in Eindhoven needed more capacity for its growing passenger car division. Via the Dutch State Mines (DSM) the Dutch government acquired 25 per cent of DAF. The other 75 per cent remained in the hands of the Van Doorne family.[13] From both sides it was made clear that the new passenger car factory would not become a state-owned company.[14]

In 1971 sales of DAF passenger cars decreased, especially in the Netherlands, Belgium and France. According to director Wim van Doorne in a meeting with the minister of Economic Affairs Roelof Nelissen this drop in sales was a result of price-rises, growing Japanese competition, and not being able to bring out a new model.[15] The key problem, however, was the factory's capacity of only 100.000 passenger cars annually, which was far too small for the highly competitive international market. In addition, new players, in particular Japanese companies, entered the European market for small middle size cars. The extremely high cost of car designing and the subsequent economies of scale at that time implied a size for a European manufacturer of a least 300.000 cars annually.

As a consequence, Van Doorne family negotiated with various larger car manufacturers like Volkswagen, Ford, Renault, and Nissan. To the family, however, Aktiebolaget Volvo (AB Volvo) suited best as business partner, because the Swedish car manufacturer also built quality cars, but it was not as threatening as the other larger candidates.[16] At that moment Volvo produced around 200.000 units annually. Combining both companies would therefore immediately create economies of scale, if not in production then at least in the field of marketing and designing of new models. In

12 Archives Economics Ministry in the Netherlands(AEMN) 319.36.205.15.019, Map 3, Concept perscommuniqué, 3-11-1965.
13 AEMN, 319.36.205.15.019, Map 3, Van Doorne's Automobielfariek N.V. concern-opbouw- schema 1965; Samenvatting EZ DAF-Staatsmijnen 9-11-1965.
14 Het Vrije Volk 7-1-1966: 'Actualiteiten, Daf Naar Limburg.'
15 AEMN, 124.1161.374.14.077, *Samenvatting bespreking 13 april 1971.*
16 AEMN, Nota: *DAF, 26 november 1971,* 2; en zie verder*: Huwelijk tussen Volvo en DAF.*

December 1972 AB Volvo acquired 33 per cent of DAF's passenger car factory in Born. The management, however, remained in Dutch hands and Volvo did not get a share in the DAF Holding, which administered all interests of the Van Doorne family.

Volvo's Majority Stake in Dutch DAF

In 1974 the market for passenger cars collapsed completely. DAF car sales dropped to 78.000 units, instead of the planned 120.000 units, and the company became loss-making. DAF Holding opened negotiations with AB Volvo to take a majority share of 75 per cent in the Dutch factory to integrate both sales organisations and to invest in designing new models. DAF Car would remain a completely integrated car factory. It would become a separate division for compact cars next to the existing Volvo division for bigger passenger cars.[17] President of AB Volvo in Gotenborg Pehr G. Gyllenhammar liked Van Doorne's ideas, because Volvo wanted to become active on the market for economical compact cars after the dramatic increase of the oil price.

Gyllenhammar, however, made sturdy demands on the Dutch government. In a letter to the Ministry of Economic Affairs:

> As I mentioned to you during our meeting in The Hague, the Volvo Board of Directors would only take the decision to acquire up to 75% of the shares in Car BV under the condition that the company would get subsidies to a certain amount from the Dutch State and a long term loan.[18]

Finally, the Minister of Economic Affairs Ruud Lubbers agreed with a direct subsidy of 50 million guilders, a loan of 25 million guilders, and a State guarantee of 100 million guilders.[19] As part of the regional employment policy the Dutch State once more supported the Swedish acquisition. AB Volvo increased its share in DAF Car BV from 33 to 75 per cent, which was shortly renamed to Volvo Car BV (hereafter Volvo Car).[20] The remainder stayed in Dutch hands – DSM owned 10% and DAF Holding 15%.

Contractually, it was provided that without Dutch approval nothing should be changed with respect to the employment in de Dutch factory, and moreover, that Volvo

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[17] AEMN, 122.147.205.02.065, *DAF Eindhoven4: Meerderheidsaandeel in Van Doorne's Personenautofabriek DAF BV)DAF CAR BV) naar Volvo, 16 september 1974.*

[18] AEMN, 122.147.205.02.065, *Gyllenhammar aan Molkenboer, 26 november 1974.*

[19] 1 Euro (€) = 2.20371 Dutch guilders (NLG). AEMN, 122.147.205.02.065, *Ministerie van Economische Zaken aan Volvo Car BV, 23-4-1975.*

[20] AEMN, 1.824.2:629.113 Dossiers 1990-1991, *Nota 16-11-1989: Historie en achtergrond Volvo.*

should aim at growth of the production. Van Doorne's family members stepped down from the Advisory Board, while Sjöström, vice-president of AB Volvo, en Ekström acceded to this Board. Gyllenhammar became chairman of the Advisory Board. A Dutchman Van Dongen remained president of the Executive Board. Shortly, however, he was succeeded by Van der Pad, because of his close ties to the DAF Holding.

In 1976 DAF Holding sold its share to DSM, which acquired 25 per cent of the factory now. Through DSM's share – indirectly thus the Dutch State – and the Dutch executive the Dutch character of the company was guaranteed to a certain extent. Volvo Car remained a certain independence with its own responsibility for the production of compact cars, which was technically managed at arm's length by the Swedes in Gotenburg. However, the Dutch influence should not be overestimated. President Van der Padt was on a flight to Gotenburg on a weekly basis.[21] Gyllenhammar had a huge impact on the direction of Volvo's Dutch subsidiary. In a Dutch report to the Ministry of Economic Affairs it was stated: 'Clearly, nobody at Car B.V. [the Dutch subsidiary] or even at Volvo [in Sweden] dares to do anything without the explicit consent of Gyllenhammar.'[22]

Volvo's Blackmail and Dutch State Support

Despite a recovering market and introduction of a new model (Volvo 343) AB Volvo was unable to make its Dutch factory profitable in the second half of the 1970s. Meanwhile the Dutch and Swedish press reported that AB Volvo would divest itself of its Dutch subsidiary if the Dutch government would not support Volvo Car in Born substantially.[23] Gyllenhammar informed a Dutch union leader at the World Economic Forum in Davos that he would close down the Dutch plant when the government would not cough up at least 250 million guilders.[24] Furiously, the union leader stated that Gyllenhammar could not even give employment guarantees when the Dutch State would subsidize the Volvo plant once more.

In the meanwhile, however, the Ministry of Economic Affairs and AB Volvo negotiated secretly about substantial support. The Dutch this time did ask for employment guarantees for more than 5,500 staff. In addition, contractually the Swedes

[21] AEMN, 322.425.360.03.050, EW 29 oktober 1977: *"Volvo en de Industriebond."*
[22] AEMN, 322.442.360.03.067, *Nota aan de heer Directeur Generaal van Industrie, 17 oktober 1975*.
[23] Zie bijvoorbeeld: Haagsche Courant 8 september 1977 'Volvo Zweden ontkent afstoten Volvo Car.'
[24] Elsevier Weekblad, 29 oktober 1977: 'Volvo en de Industriebond: De strategische verontwaardiging van een vakbondsbestuurder.' International press for example: Handelsblatt, 29 oktober 1977: 'Volvo Holland dementiert Schließungs-Gerüchte. Schritte gegen Gewerkschaftsfunktionär.' Aftonbladet, 19 november 1977:'Volvo ‚Det Är Ren Utpressning'.

could not divest itself of the Dutch plant: to close down the plant in Born it needed the consent of six out of seven members of the Advisory Board, which consisted of four Swedes and three Dutchman.[25] In 1978 the two parties came to terms on State support (*bijzondere steun*), which would be called the First Letter of Intent (LoI-I).[26] Both parties would, the Dutch State as well as AB Volvo, support Volvo Car. The Dutch State's share increased to 45 per cent and AB Volvo's share decreased to 55 per cent. Volvo Car received 195 million special support from the Dutch government and 102 million from AB Volvo. The latter did not have to pay in cash, but could clear this through mutual deliveries. Until 1989 Volvo Car had to pay back this support if it would make more than 30 million guilders profit annually (which was actually 10 per cent of its equity) otherwise it would be exonerated. In fact, this was a extremely soft loan. At the time the company made a loss and to expect a profitability of 10 per cent was an illusion at the time.

Simultaneously, government observer Molkenboer was appointed in the Advisory Board.[27] The Dutch State nonetheless expected a maximum effort from the Swedes. To underline the Swedish intentions and to strengthen the link between the Swedish parent company and its Dutch subsidiary a Swedish president, Helge Castell, was appointed. The ratio of Dutchmen and Sweden in the Advisory Board was not altered. In the same period some major changes occurred inside the Volvo Group. The parent company transformed itself into a multi-divisional company and Renault acquired 20 per cent of the AB Volvo shares (incidentally, Renault had been an early business contact of DAF). One division, Volvo Car Corporation (VCC), became the owner and responsible for all Volvo Car plants, including the Dutch Volvo Car. As a result, the new president Castell had to report now to the president of Volvo's new passenger car division.

Next, VCC endeavoured to integrate the Dutch subsidiary into the passenger car division. More and more decisions were centrally taken in Gotenborg and the Dutch managers were more and more overruled by their Swedish colleagues.[28] In addition, VCC decided to transfer various operations, like marketing and parts distribution, from the Netherlands to Sweden. Dutch staff and its unions became increasinly discontented, as they were afraid of a loss of employment. Furthermore, they expected the Dutch plant just to remain a vulnerable assembly plant in the future.[29] The works council (COR) demanded that the contract of 1975, which had laid down that the president of Volvo

[25] AEMN, 322.425.360.03.050, *Nota aan de heer minister. Onderwerp: Volvo Car BV, 31-10-1977*.
[26] AEMN, 1.824.2:629.113 Dossiers 1990-1991, *Nota 16-11-1989: Historie en achtergrond Volvo*, 2-3.
[27] Ibid.
[28] AEMN, 322.1320.469.15.085, *Rapport van de ondernemingsraad Helmond/Oss*, 20-8-1979.
[29] AEMN, 322.1320.469.15.055, *Volvo Car BV*.

Car had to be a Dutchman, should be complied with. At the end of the 1970s the Dutch and Swedish views clashed more and more: the Swedes wanted to centralise and integrate, the Dutch wanted to decentralise and management at arm's length. National sensitivity, different business interests and difficult economic circumstances for the car industry in general hampered Dutch-Swedish co-operation. Intensive Dutch government support had saved the passenger car factory, but the future was far from secure.

More Support and Less Volvo

In 1979 the Dutch State's support proved not sufficient. As a result, a new rescue operation was set up (LoI-II). This time the State paid 151 million and AB Volvo 76 million under the same conditions as last year's soft loan.[30] Ultimate repayment year, or year of exoneration, was 1994. As a result of the second oil crisis, however, this subsidy did prove insufficient once again. Dutch critique on the Swedish management, which was not able to motivate its Dutch company and make it profitable, grew. Volvo Car, however, needed cash to compensate losses and to develop new models.

The Swedes on the other hand did not show much willingness towards the Dutch factory. President of VCC Frisinger was very negative about the chances of its Dutch investment and stated in the *Veckans Affärer* that 'he wanted to minimize the risks in [Volvo] Car BV'.[31] In other words, VCC wanted to divest instead of invest, although a year earlier the company had signed a contract to find other solutions if the break-even-point would not be reached in the 1979-1982 period.[32]

In January 1981 negotiations about a third rescue operation began between the Dutch Minister of Economic Affairs Gijs van Ardenne, Gyllenhammar (Volvo AB) and Frisinger (VCC). The Swedes pointed out to the minister that they wanted to use their capital to develop a new and more prestigious model for the growing American market (700 series) and, moreover, they wanted to limit their stake in the Dutch factory to only 20 per cent. During the negotiations Van Ardenne learned from his staff members that developments on a corporate level, inside AB Volvo, could influence the outcome for the Dutch negatively. In 1980, AB Volvo had acquired an investment company Beijerinvest AB, which focused its activities in the food and oil industry. As a result, Volvo followed a diversification strategy, which could mean that they could divest

[30] Tweede Letter of Intent (LoI-II) genoemd.

[31] AEMN, 322.1320.469.15.055, *Notitie aan de heer Minister: Uw gesprek met Mr, Gyllenhammar (AB Volvo) d.d 12/1/81.*

[32] Ibid.

completely from the Netherlands. In addition, Beijerinvest AB had close business contacts to Mitsubishi from Japan, that was interested to import small middle class cars to Scandinavia and even to assemble these in Sweden. Because of these developments the minister was advised not to put pressure of time on the negotiations.

After months of sturdy talks, in which the Swedes constantly put forward that they wanted to sell their stake to Renault, they suddenly changed their position.[33] According to the Dutch this was a result of differences of opinion between Frisinger (VCC) and Gyllenhammar (AB Volvo). The latter seemed much more positive about the possibilities of the Dutch plant. According to another analyses the Swedes had second thoughts because the whole Dutch sales organisation was important for Volvo. Without its factory in Born this organisation would become loss making as well. Volvo's sales organisation could also profit from Dutch government support.[34] Anyway, what mattered to the Dutch was that the Swedes were inboard again.

Because of the enormous sum, in total more than 1 billion Dutch guilders, that would be involved in the third rescue operation (LoI-III) a moment of reconsideration was planned after the 1981-1983 period.[35] The initial period aimed at showing black figures again, after years of only red. If this target would be reached the government and VCC would provide capital to develop a new model (400 series). The Dutch State acquired for 250 million guilders new shares by which its total stake rose to 70 per cent. The other 30 per cent remained in the hands of VCC, which gave 95 million guilders support, not in cash but for taxational reasons as cost-compensation to its Dutch subsidiary. The Dutch agreed because through this construction the Swedish State indirectly supported the rescue of the Dutch factory as well.

Because the majority of shares were now in hands of the Dutch State it was provided that the majority of the Advisory Board had to be Dutchman. The president of Volvo Car Castell was replaced by André Deleye, not a Dutchman but a Belgian, who was extremely popular with the staff in Born. Various activities like marketing, designing and parts distribution, were brought back from Sweden to the Netherlands, because the Dutch wanted to run a complete car factory. Although Volvo Car had become a minority participation, it was allowed, under strict conditions, to continue to use the Volvo brand.[36]

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33 AEMN, 322.1320.469.15.055, *Nota aan de heer Minister, 21 april 1981.*
34 AEMN, 1.824.2.629.113, *Historie en achtergrond Volvo, 16-11-1989.*
35 Ibid., 4.
36 Ibid., 5-6.

In 1983 for the first time since Volvo's participation the company made a profit of 14 million guilders.[37] As a result, the Dutch government granted 500 million guilders as provided in the third letter of intent (LoI-III) for the development of a new model. VCC gave 158 million guilders again as cost-compensation to its minority participation. On the basis of earlier experiences it was decided that Volvo Car had to repay this huge sum, not to the State or VCC, but to a separate fund. In the future this fund could be used by Volvo Car for the designing of new models. In this way the continuity of the Dutch car manufacturer would be secured.

Table 1 Summary Support Dutch State and Volvo Car Corporation to Volvo Car BV, 1977-1983 (in million NLG)

	NL State	AB Volvo/VCC	Total
LoI-1	195	102	297
LoI-2	151	76	227
LoI-3 (1e fase)	250	95	354
LoI-3 (2e fase)	500	158	658
Total	**1176**	**431**	**1607**

Bron: EZARCH, 1.824.2.629.113, *Historie en achtergrond Volvo, 16-11-1989,*7. 1 Euro (€) = 2.20371 Dutch guilders (NLG)

Volvo Car's complete car factory and its relative independence from Gotenborg, combined with the substantial financial support, brought about protracted growth. In 1982, it started its own product-planning department and its own international marketing and sales department. As a consequence, the company got much more influence on its cost and price structure. Employment grew from 1982 to 1989 from 5,536 to 9,083 staff. In 1981, the factory had produced 78,000 units in the 300 series. In 1989, it produced 135,000 cars in the 300 and 400 series; the year ended with a profit of 55.1 million guilders.[38]

NedCar: Volvo, Mitsubishi, and Dutch State

In 1990, Economics minister Coos Andriessen stated in a letter to Dutch parliament: 'financial participation of the State in a normal private enterprise should not be a permanent matter nowadays.'[39] These words clearly showed a paradigm change concerning the government's relations towards private industry in the Netherlands at the time. During the second half of the 1980s the Dutch government began to reconsider its

[37] Volvo Car B.V. Helmond, Nederland: Jaarverslag 1983.
[38] AEMN, 1.824.2.629.113, *Notitie COR en Vakbonden: Volvo Car BV, 11 juli 1990.*
[39] Ibid.

role within state-owned companies. In 1986, for example, it brought back its majority share in KLM from 54.8 to 39.4 per cent. In 1989, it privatized DSM, a 100 per cent state-owned company. In the same year, it transformed PTT (the national Post Company) into a public liability company, called KPN, which shares were sold on the Amsterdam and New York stock exchange.[40]

Against this background Dutch politicians, on the left as well as the right end of the political range, did not disagree with the minister about starting negotiations about selling the State's stake in Volvo Car completely to VCC.[41] In June 1990 talks began between minister Andriessen and Gyllenhammar, which was succeeded shortly by Christer Zetterberg as president of AB Volvo. The Swedes proposed to acquire Volvo Car completely, because they wanted to create more synergy between VCC and Volvo Car, and thus lower its production costs to be more competitive in the presence of increasing Japanese competition in Europe.[42] Andriessen brought forward that continuity of the Dutch car factory was a top priority for the Dutch State. Greatest obstacle, however, appeared to be the valuation of the Dutch car factory. According to the Dutch state total value amounted to 1.5 billion Dutch guilders, while the Swedes estimated the total value of Volvo Car either zero or negative.[43]

Dutch trade unions and Works council reacted extremely critical on Volvo's plan for a complete take-over, because of the bad experience they had with the Swedes at the end of the 1970s. They stated that 'the Dutch management (chaired by a Swede) had had no control over the Dutch activities. It had only acted as a figurehead.'[44] They expected the Dutch management to lose its grip again on costs, profits and investments issues. In addition, they asked the Dutch government what would happen with the development funds for new models. There was a great risk that these funds would be used somewhere else in the parent company.[45] To maintain 6,300 staff in the Born factory and 1,200 in the development department in Helmond the trade unions made demands on the Dutch government to keep its majority share. If this would not be attainable, in view of the

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[40] Its shares were sold at the Amsterdam and New York Stock Exchanges in 1994 and 1995 respectively.
[41] AEMN, 1.824.2.629.113, *Notitie COR en Vakbonden: Volvo Car BV, 11 juli 1990.*
[42] AEMN, 1.824.2.629.113, *Samenvatting van gesprek v.d Harst, v. Kooten (I&R) en v.Rees (FNV) v. Os (Unie BLHP), 2 oktober 1990.* See also: New York Times, 'Volvo Searching Hard for Relief', 12 June 1991.
[43] AEMN, 1.824.2.629.113, *Samenvatting van gesprek v.d Harst, v. Kooten (I&R) en v.Rees (FNV) v. Os (Unie BLHP), 2 oktober 1990.* According to Zetterberg the company value was eventually estimated at *f* 660 million. Financieel Dagblad 4 mei 1991: '*Continuïteit Volvo Car veilig. Volvo-president Zetterberg tevreden over letter of intent.'*
[44] AEMN, 1.824.2.629.113, *Notitie COR en Vakbonden: Volvo Car BV, 11 juli 1990,* 4. 'dat de toenmalige hoofddirectie van Volvo Car (onder leiding van een Zweed) in de praktijk geen enkele zeggenschap had over de Nederlandse activiteiten. Deze hoofddirectie acteerde slechts als zetbaasje.'
[45] Ibid., 6.

political climate of that moment, they aimed at preservation of an integrated car industry in the Netherlands.[46]

In the meanwhile, there existed great financial problems inside VCC. As a result, president Holback was succeeded by Lennart Jeansson. The new president, who had worked for years in Volvo's plant in Ghent, spoke excellent Dutch and had a 'positive-critical' attitude towards the subsidiary.[47] In the same month a new partner was suddenly introduced to the Dutch ministry of Economic Affairs. For a while, without informing the Economics ministry, Volvo and Mitsubishi had negotiated about joint ventures in Europe.[48] The contact between the two industrial conglomerates existed since Volvo's acquisition of Beijerinvest in 1980. Ten years later Mitsubishi was still interested to have a bridgehead inside the European Union. However, they did not like idea to have a joint venture in which there existed a majority share of a government.

Dutch government on the other hand liked the idea of a joint venture with Mitsubishi for various reasons. First, Renault was a large shareholder in AB Volvo. As a passenger car producer it was much larger than Volvo: it produced 1.5 million units compared to Volvo which produced only 270.000 units annually. A complete take-over by the Swedes would mean that the small factory in the Netherlands would become dependent on the French production plans in Europe. Second, collaboration with the Japanese was probably the best guarantee that there would remain a complete car factory in the Netherlands, including research, design and marketing departments.[49] Third, the Dutch management, which didn't like the idea of a Swedish complete take-over either, supported the Japanese options, because Mitsubishi was one of the most advanced car producers in the world at the time.[50]

Volvo was interested in a joint venture with Mitsubishi because it could obtain production technology for its own factories. Renault, which had been originally against the Mitsubishi opportunity, eventually supported the joint-venture because it could catch up with the state of the art of motor technology. Because in the end all parties involved were happy with the collaboration a Letter of Intent was signed on 3 May 1991 between Andriessen (Dutch State), Jeansson (president Volvo Car Corporation), and H. Nakamura (president Mitsubishi). They agreed upon a proportional participation in

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46 Ibid., 11.
47 AEMN, 834H WA-IR 386/1, *de heer DG-I&R: Uw gesprek met de heer Jeansson, 13-1-1987.*
48 Financieel Dagblad 4 mei 1991: '*Continuïteit Volvo Car veilig. Volvo-president Zetterberg tevreden over letter of intent.*'
49 AEMN, 1.824.2.629.113, *Samenvatting van gesprek v.d Harst, v. Kooten (I&R) en v.Rees (FNV) v. Os (Unie BLHP), 2 oktober 1990,* 2.
50 De Volkskrant, 3 december 1991: '*Deleye stapt op bij Volvo Car na tekenen contract Mitsubishi.*'

Volvo Car, although there was still a lack of clarity about what would happen to the Dutch design and marketing departments, and what the intrinsic value of the shares was. Although minister Andriessen had preferred completely to get out the whole project, the three parties now agreed to become shareholder each for one third.[51] The Dutch State sold 33.3 per cent of its stake to Mitsubishi Motor Corporation (MMC) and 3.3 per cent to VCC. Total revenue for the State amounted to 242 million guilders. At the end of 1998, when the Dutch State would withdraw completely, the other two parties would acquire each half of the shares.

In addition, each party would contribute 700 million guilders to the designing costs for a new model. Total investments for the building of a new factory in Born amounted to 3.5 billion guilders until the end of 1995. The Dutch State used its two development funds, which had been created after earlier rescue operations. It was agreed, however, that the State would support the new joint-venture if by 1996 the company would make a loss. VCC and MMC each would give a deferred loan of 700 million each. Repayment to the Dutch State of its 700 million guilders loan would take place from 1998 until 2004.

As of 1995 the factory in Born would produce new middle size passenger cars for Volvo as well as Mitsubishi, build on the same sub-frame, and which shared other major components. The plants annual capacity was raised by 50 per cent. Each brand would produce 100.000 units, which would be delivered to their own sales organisations. The key issue, the economies of scale in passenger car manufacturing, was eventually solved in this way. On 1 January 1992 Volvo Car BV was renamed to Netherlands Car BV, abbreviated NedCar. It was the beginning of the biggest reorganisation in the company's history, which was transformed into one of the most modern car factories in Europe, based on state of the art technology from Japan.

At the end of 1996 the new factory in Born was opened by the Dutch Queen Beatrix. In 1996 it was expected to produce 163.000 units, however, as a result of technical, organisational and start up problems of the new production line only 145.000 units were manufactured. The next year, when for the first time only the new models Misubishi's Carisma and Volvo's S40/V40 were made in the factory Born, a production volume of almost 200.000 units were realised.[52] Moreover, at the end of 1997 average productivity increased enormously. Then only 26 hours of labour were required to build a complete car compared to 42 hours at the end of 1996. That was fairly good compared

[51] AEMN, 1.824.2.629.113, *Vertrouwelijke nota aan de Minister: Samenwerking VCBV en M., 30 oktober 1990.*
[52] http://www.nedcar.nl/images/stories/History/historie_nl.pdf, 7.

to the mere 20 hours for the highly productive Japanese assembly plants, but extremely good compared with the 60 hours needed at Volvo's main plant in Torslanda near Gotenborg.[53]

In 1999 an all time high production record was attained: NedCar produced 262.196 units. On 15 February 1999, the Dutch State withdrew as third party from the joint venture, as had been agreed in 1991. NedCar's shareholder structure changed into a fiftty-fifty ratio in favour of Mitsubishi Motors Corporation and Volvo Car Corporation. The transaction involved a total of 220 million guilders of which Mitsubishi and Volvo each paid 110 million guilders.[54] Only two weeks later, it was made public that Ford Motors Company would acquire Volvo's passenger car division VCC. At first, however, it was decided that Mitsubishi and Volvo would continue their joint venture in the Netherlands, also after 2004 when either party could stop the production of the existing models. They did, nonetheless, decide to sell the design department in Helmond, which meant according to the trade unions, that the factory in Born would become only a vulnerable assembly plant.[55]

Within two years Ford, the new owner of VCC, decided to sell its stake in the Dutch factory to Mitsubishi. The Japanese company had tried to persuade Ford to continue the Dutch joint-venture and to proceed with building passenger cars of both brands in the same factory that would share major components. However, the American car company decided otherwise: it wanted to create synergy effects between Ford, Volvo (and Mazda, of which it already owned 33.4 per cent.) In Europe, the medium-sized car market was so saturated that car companies made almost no profit on sales. The acquisition of VCC meant that Ford would intensify competition in the luxury market by using Ford parts in Volvos, and rationalise distribution by using its own network.[56] As a result, on 30 March 2001 Volvo Car Corporation sold its stake of 50 per cent in NedCar to Mitsubishi Motors Corporation. According to the Letter of Intent Mitsubishi had the first option to buy the Volvo shares. This transaction, however, did not mean that Volvo could immediately stop with the production of the V40/S40 model in Born. VCC was obliged contractually to produce cars there at least until 2004. The last V40s and S40s were therefore manufactured until 19 May 2004. In total Volvo had produced more than 2.6 million units in the Dutch factory. The divestment, however, did not hamper Volvo's

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[53] New York Times, 'Volvo Searching Hard for Relief', 12 June 1991.
[54] Press Release Volvo Group Global, 14 December 1998.
[55] NRC Handelsblad: 'Mitsubishi en Volvo zetten NedCar voort', 29 September 1999.
[56] Interview: Herman Ambergen Secretary to the Board of NedCar, June 2008.

car sales in the Netherlands. In 2007 in the Netherlands Volvo still had the largest market share (4 per cent) outside Sweden.

Conclusion

The internationalization pattern of the incrementally increasing commitments to host countries can clearly be observed in the Volvo case, with two peculiarities however. First, Sweden's largest car manufacturer had successfully exported its cars to the Netherlands and had acquired a minority share in DAF. However, when car sales dropped dramatically in 1974, the brothers Van Doorne, the majority shareholders of DAF, persuaded Volvo to take 75 per cent of DAF shares. Second, only after the Dutch government had promised to subsidize the whole car project Volvo acquired the majority of the factory's shares and transformed the Dutch company into a full subsidiary.

Volvo's investment, however, proved not particularly successful during the 1970s. The factory was too small to be competitive and the Dutch management, the Dutch government, and Swedish managers were constantly in disagreement about the company's policy. At the end of the 1970s, Volvo wanted to divest its Dutch subsidiary. However, again Dutch government intervention, extensive subsidies and soft loans – the Dutch state acquired the majority of the shares – saved the small car manufacturing plant in Born. After an enormous capital injection, Volvo's Dutch subsidiary began to develop new models. As of 1983, for the first time since Volvo's take-over, the company became profitable.

By 1990 the Dutch government – as part of its privatization policy - wanted to sell its participation back to the Volvo Car Corporation. After severe protests of the Dutch trade unions another solution was found, however. In 1991 a joint venture was set up between Volvo Car Corporation, Mitsubishi Motors Corporation and the Dutch state. In 1996 a completely new equipped factory started to manufacture Volvo and Mitsubishi cars simultaneously. Three years later the Dutch state sold its participation, as agreed before, to the Japanese and the Swedes. In the same year Ford Motor Company acquired Volvo's car division in Sweden. As a result, in 2001 Volvo Car Corporation sold its Dutch participation to Mitsubishi, eventually leaving the factory to the Japanese. As of 2004 Volvo served the Dutch market only through exports.

The role of the Dutch State in Volvo's venture in the Netherlands was undeniable very big. Without the State intervention, and moreover, the Dutch State's financial support Volvo would probably have divest somewhere at the end of the 1970s.

However, the Swedish commitment to the Netherlands lasted for another twenty years, and became successful in the end. This part of the Dutch business system, the important role of government intervention in the economy, was completely in accordance with Volvo's experiences in its home economy. In Sweden Volvo could also count on a supportive government as regards the company's investment programmes. Consequently, its managers were experienced negotiators with various government agencies.

However, as regards another important characteristic of the Dutch business system, i.e. the role of trade unions and works councils, the Swedes showed less compliance despite a similar experience in their home economy. In particular, after the parent company had transformed itself into a centralising multidivisional company interests between the Dutch subsidiary and the Swedish parent clashed more and more. Only after the Swedes lost their majority stake and the Dutch business was managed at arm's length, the factory became for the first time profitable.

The ensuing joint-venture with Mitsubishi proved successful. In particular, the technology transfer from Japan to the Netherlands made the Born factory into one of the most productive ones in Europe, which could manufacture different brands on the same production line. The take-over of the parent company by Ford thwarted the growth path of the joint-venture. It were strategic decisions on the highest corporate level, i.e. Ford's Board, that made Volvo eventually divest from the Netherlands. As a consequence, the Dutch factory's future became once more insecure.