

The Strategic Change and Organizational Development of Philips Taiwan: Integrated Approach

Chia-wu Lin¹⁾, Bor-shiuan Cheng²⁾, Zhu, Dauw-Song³⁾

¹⁾ National Dong Hwa University, Department of Business Management (jwlin@mail.ndhu.edu.tw)

²⁾ National Taiwan University, Department of Psychology (chengbor@ccms.ntu.edu.tw)

³⁾ National Dong Hwa University, Department of Business Management (dswu@mail.ndhu.edu.tw)

Abstract

Most study of Multi-National Company seemed to be focused on the perspective of headquarter. They usually ignore the reaction or strategic move of the local subsidiary. But in strategic and organizational development theories, there are also some scholars emphasis the intention and moving of subsidiary (Birkinshaw & Hood, 1998; Bauman, Jackson & Lawrence, 1997; Weick, 1995). Birkinshaw & Hood (1998) proposed 3 factors that dominant the role of subsidiary local company. Bauman, Jackson & Lawrence (1997) think the success of organizational change depend on some particular mentality change. And Weick (1995) argue the subsidiary or the leader have the enactment power to environment or even to headquarter.

In this study we integrate these three perspectives to one framework and hope it can offer better understanding of the local subsidiary development. We choose the Philips Taiwan as our case study subject, then adept “one case/ multi-level analysis” design (Yin, 1987).

The reason why we choose Philips Taiwan, as our case is it was the fastest growing and the highest-earning overseas subsidiary in the world. It also held a pivoting position in the global research, development, and production, and served as the sales center for electronic components and consumer electronic appliances of Philips (globally). Also because Philips N.V. was one of the earliest foreign businesses to enter Taiwan and was also the largest foreign invested company in Taiwan. Moreover, Philips Taiwan can be regarded as the driving force behind the vibrant electronic information industry in Taiwan. In Philips Taiwan lately history, it had been through 3 changing stage:

1. Root in Taiwan to Conquer the Japanese Market (1985-1993).
2. Based in Taiwan, Look into Asia Pacific Region (1994-1996)
3. With product industry department as the focus, develop the consumer product market

We collect different kind of data including documents, historical files and systematic interview. In analysis technique, we proposed one overall case description first, then try to use the “explanation-building” concept to re-modify the integrate framework. Finally, we think this study can offer the managers some practical insight, like the local subsidiary might not be the totally command-follower. If it occupied critical strategic position then the local subsidiary would have more power to decide it’s own direction. The managers also got to aware one fact, that is if subsidiary lose it’s advantage or strategic position then the headquarter will re-gain the all control power.

Keywords: Multi-National Company, Organizational Development, Case Study

1. Introduction

In the early stage of Taiwan economic development, there is not too much attention on the role of foreign invested company. However, the technology and money transfer by foreign company did make great contribution on Taiwan industry and economic development. Also, the most study of Multi-National Company seemed to be focused on the perspective of headquarter. They usually ignore the reaction or strategic move of the local subsidiary. Therefore, we hope this study can initiate some issues on the subsidiary’ contribution or enactment of multi-national company.

2. Theoretical Framework

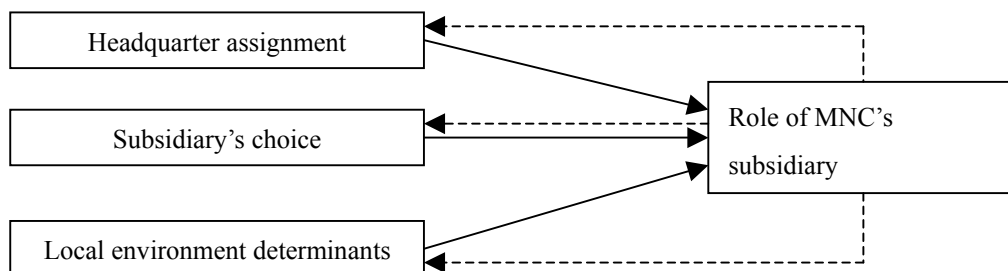
Most of the researchers argue that the leading role would be transfer from headquarter to the subsidiary of MNC when the local market, government policy, and technology change. But more precisely speaking is the leading role change had resulted from the subsidiary develop more sophisticated and newly technology, or the strategic position had been change (Dunning, 1981; Hedlund, 1986; Bartlett & Ghoshal, 1989). We explore the story of Philip Taiwan, which is the subsidiary of Philip Netherlands, on three theoretical basses.

1) Birkinshaw & Hood (1998) MNC’s subsidiary development stage

There are so many different perspectives on subsidiary development, like some focus on resource-base and technology (Hedlund, 1986, Prahalad & Doz, 1981), some focus on the classification of subsidiary strategic role (Bartlett & Ghoshal, 1986, Jarillo & Martinez, 1990; White & Poynter, 1984). But in the subsidiary' role change, only Birkinshaw & Hood (1998), they have more elaborate discussion. They proposed three elements that influence the subsidiary's role, which are "headquarter assignment", "subsidiary's choice" and "the local environment determinants"(Fig. 1).

2) Bauman , Jackson & Lawrence (1997) the change mindset and organizational development

Most people will agree one successful strategic change or organizational development must base on some critical elements, such as member's mindset, technology, behavior change, group and system change. Bauman , Jackson & Lawrence (1997), they study the merge of two National Healthcare Institute, and the lately development. They conclude the successful organizational change actually depend on some specific mentality change. And these mentality are "a winning attitude", "the organization as hero", "cumulative learning", "strategic communication" and "align behavior and strategy". Basically, we agree Bauman et al argument, but there is one important implication in their theory that they did not declare well. The leader usually is responsible for the consequence for organizational change. How does the leader formulate the strategic orientation and how he communicates his logic and ideal with the member? Therefore, Weick (1995) proposed the sensemaking approach to understand the leader and subsidiary enactment role.



3) Weick(1995) sensemaking approach and organizational development

Recently, there were more and more researchers emphasized the sensemaking processes. They thought the leader's interpretation of the contextual environment would be the key of organizational change (Daft & Weick, 1984; Weick & Bougon, 1986; Haukedal, 1996; Dutton & Jackson, 1987; Bartunek, 1984; Gioia & Chittipeddi, 1991; Greenberg, 1995; Lundberg, 1984). In the sensemaking approach, leaders are not the passive role like resource-dependency theory and organization ecology theory proposed. The leader has the initiating power, they can dominant the environmental change, like promote the technology level, build up industry division system, encourage the other foreign company jointly venture and so on. That's Weick (1995) concept, enactment of sensible environment, people enact one feasible, sensible environment. They create what they live (Pondy & Mitroff, 1979). In the sensemaking process, the leader's self-identity and the environmental interpretation would influence all the strategic orientation and organizational structure. Basically, enactment is quit important concept in Weick' sensemaking theory, Weick even take the enactment as the first stage of sensemaking process, as one part of the reality construction. Weick argue several points of enactment:

1. Enactment as bracketing
2. Enactment as deviation amplification
3. Enactment as self-fulfilling prophecies
4. Enactment as social construction of reality

4) Our framework and method

After simple theoretical review, we integrated all the three point of view, and try to offer one whole picture that would have both advantages of macro and micro perspectives. In the research method, we adept "single case/ multiple unit" case study design (Yin, 1987). There are three data resources, company and newspaper document, files record and systematic interview. But in the analysis technique, we prefer not follow the traditional way to use the "proposition deductive" and " pattern matching", on the other hand, we summary one vivid story of Philip Taiwan in time sequential logic, then according to the theoretical concept make the explanation-building.

3. Case Study: Philip Taiwan

1) Philips Taiwan: Current Picture

Philips Taiwan, to many Taiwanese, was a local subsidiary of a famous transnational corporation, N.V. Philips, and this was evident in its position as the most sought-after company in the annual career survey among the Taiwanese university

graduates. Though Philips Taiwan was regarded by many Taiwanese just as a small household appliance brand name, the hundred-year-old N.V. Philips played a key role not only in the market of consumer electronic appliances but also in that of information electronic appliances.

Philips Taiwan, was the fastest growing and the highest-earning overseas subsidiary in the world. It also held a pivoting position in the global research, development, and production, and served as the sales centre for electronic components and consumer electronic appliances. Philips N.V. was one of the earliest foreign businesses to enter Taiwan and was also the largest foreign invested company in Taiwan. Moreover, Philips Taiwan can be regarded as the driving force behind the vibrant electronic information industry in Taiwan.

In 1986, Philips signed a contract with the ROC Government to jointly set up the Taiwan Semi-conductor Manufacturing Co. (TSMC) to produce wafers. Philips Taiwan held 27.5% of TSMC's share and assisted the company on technological transfer and staff training. In the same year, the Taipei head office set up the IC design center. The establishment of TSMC and the subsequent technological transfer played an important role in the development of wafers and semiconductor production in Taiwan.

The head office of Philips Taiwan was an impressive skyscraper located right in front of the railway station at Jinghua District in Taipei. Two year ago, the president's office was moved from the 29th floor (the highest floor occupied by the company) down to the 26th floor. In March 1999, Paul Zeven was transferred from the head office in the Netherlands to succeed Chrysler Lee as the CEO of Taiwan subsidiary. The job title was then changed from President to Country Manager. Such acts reflected the conflicts and transitions of the company in recently years.

2) Philips Taiwan: Past Portrait

In 1966, under co-ordination by Mr. K.T. Li, The Senior Advisor to the Office of President of Taiwan, ROC, Philips N.V. decided to set up Electronic Building Elements Industries Taiwan Ltd. (EBEI) in Kaohsiung Export Processing Zone to produce matrices for computer memory. This opened the first chapter of "Chinese Component" in the history of Philips Group. After 30 years of upgrading and transformation, Philips Taiwan had become Taiwan's largest foreign invested company. Taiwan had also become the main base for Philips in the Asia Pacific region. In 1998, Philips Taiwan had a turnover of NT\$ 140 billion and a workforce of some 12000 employees.

Philips Taiwan mainly produced consumer electronic products and key components. Its seven plants are located in Chungli, Taoyuan, Hsinchu and Kaohsiung. The products included monitors, lamps, Cathode Ray Tubes (CRT), integrated circuit (IC) and passive components. The company was divided into 11 different business departments namely home appliances, luminaries, electronic components, semiconductors, information products and extra cards, key components, multimedia software, professional communication system, medical appliances and system, industry electronic departments and Philips Project Taiwan. A brief note about the seven plants can be found in Exhibit 1.

Philips Taiwan Briefing 1998 stated that developing business in the Asia Pacific region was Philips' core tactic. Philips Taiwan was not only the headquarters of Philips' monitor and computer peripherals businesses, but was also the Asia Pacific headquarters of Philips' electronic component and semiconductor businesses. In 1998, combined with the existing research laboratory in Taiwan, Philips N.V. set up its only research and development center in Asia Pacific region. That was also Philips' 6th research and development center. Moreover, as reflected by the financial achievement index, Philips Taiwan's performance had been spectacular in the past 13 years (1985-1998). The gross turnover had increased from 1985's NT\$ 13 billion to 1998's NT\$140 billion.

3) The Course of Change and Development of Philips Taiwan's Organization and Products

Though Philips Taiwan was established in 1966, it was not until mid-80s that it departed from the labor-intensive activities which characterized its early stage of development (1966-1975). The company had also evolved from the 60s' simple assembly to 70s' Television Industry. In the 80s' Philips Taiwan coordinated with the ROC government in major industry development and later shifted its focus to the development of information electronic industry. However, in mid-90s, following the strategic direction of the head office, Philips Taiwan exerted more emphasis on the development of consumer electronic industry alongside with the information electronic industry. Philips Taiwan had been closely related to the competitiveness of Taiwan's electronic industry in the past 30 years. Its output of resistors, CRT and other components had been the largest in Taiwan. In June 1998, its Chupei Plant became the first factory to produce high-resolution CRT in Taiwan. Such act broke the tradition of Japanese factories' monopoly in the production of high-resolution CRT.

From the 80s onward, Philips Taiwan gradually upgraded its production from "Capital/ Technology Intensive" to "Intelligence Intensive". The company had also transformed itself from an "International Production Center" to a "Asia Pacific/Global Business Organization". The company has also expanded its market from the original "Export (Europe and America)" and Domestic" market to "Regional and Global" market. These changes in tactics, products and markets can be found in Exhibits 2 and 3.

In short, Philips Taiwan's strategy in this period was to transform itself from a home appliances manufacturer to a multimedia information product supplier. Major business included designing, packaging and testing IC, manufacturing monitors and their CRTs.

With upgraded products and increasing importance of the Asia Pacific region, Philips Taiwan's six plants had been expanded into full-function organizations covering market research, research and development and production with their product being sold in the European and American markets. The Asia Pacific region had also become a development target and was set to become a global business center for Philips.

4) Philips Taiwan's Unique Strategic Position

Philips Taiwan, being a subsidiary of a transnational corporation, its strategic, management, production and selling policies were under the influences and control by its head office. Philips N.V. was founded by two brothers. One of them was a technique-oriented engineer, while another was a top salesperson. Philips' products were mainly "Consumer Electronic Products". One key characteristic of this type of product was that with technological advancement, trading barrier diminishes, criteria and specifications of products became standardized. However, consumers from different countries would exhibit different needs and tastes. As a result, consumer electronic industry required two distinct traits, global efficiency and regional and national response capacity.

That was why Philips N.V. adopted a multinational strategy for competition in early stage(the 60s). It was similar to a federation model with regional delegation of assets and resources. This was like setting up a series of highly independent and loosely linked regional organizations. The corporation can undertake all the work from product development to selling. Nonetheless, family capitalism still dominates the management level. At early stage, Philips N.V. preferred to send a group of trustworthy stall from the home country to manage the offshore operations. These stall members were familiar with the head office's technology, business objectives and overall strategies. They served as important links between the head office and offshore operations.

Until recently (the 80s), Philips N.V. had made several adjustments to its strategy. The company tried to transform the federal organizations to an effective but integrated network. The head office set up highly efficient global production centers. New products and new technology were also developed via laboratories in the global research network. At the same time, the company increased its delegated of management and control. Especially in some key strategic regions, the regional managers were granted greater decision power. For instance, Philips Taiwan's one and only Taiwanese president, Mr. Y.C. Lo, was appointed in 1988. Besides, Philips N.V. did not intervene with his localization policy and aggressive attitude. Concerning the establishment of global production centers, Philips Taiwan's Chungli Plant was updated into a global monitor production centre, and was the only research and development center in Asia Pacific region.

Such adjustment was in accordance with the in strategy theory. It describes that when a transnational incorporation enters the global market, the "Multinational Localized Strategy" would transform into a mixed "Global Strategy". Pure "Multinational Localized Strategy" allows subsidiaries in all countries have maximum decision power in production and selling while pure "Global Strategy" exercise central control in planning of global production and selling (Miller & Dess, 1996). Although Philips Taiwan also follows this direction, its transformation rate is obviously faster than the other Philips' subsidiaries. The underlying reason for this phenomenon can be reflected from the analysis of Philips Taiwan's strategic orientation.

Furthermore, according to Chandler(1966), different form of strategy would induce different organization structure. To coordinate with the early federal multinational strategy, Philips Taiwan adopted a matrix organization model. Afterwards, to coordinate with the later mixed global strategy, the company gave up the matrix organization model and adopted a product division structure. Nevertheless, we can see this transformation at rather slow rate. Philips N.V. announced in 1988 that Worldwide Philips Corporation would move toward a product division organization model, while Philips Taiwan's transformation was only started in 1997. National Organization in the original matrix organization model became superficial. That accounted for the title of Philips Taiwan' regional leader changed from president to national manager.

5) Strategic Orientation in the Early Y.C. Lo Era (1985-1993):

Root in Taiwan to Conquer the Japanese Market

On 1st October 1988. Mr. Y.C. Lo was appointed by Philips N.V. as the president of Philips Taiwan, creating the precedent of the first Chinese to hold the post of the company's chief executive. Mr. Lo joined Philips Taiwan in 1969 as an IC engineer. He was promoted to the position of general manager of Kaohsiung IC Plant in 1972 and was further promoted to be the general manager of Philips Electronic Building Elements Industries Taiwan Ltd. In 1985, he became the vice-president of Philips Taiwan and was responsible for production, project and quality control.

In the Pre-Y.C. Lo period (1985-1988), the company had carried several important changes in production and strategy.

1. Philips Taiwan's Chungli Plant began producing color monitors (1985), the Far East Sales Center was set up and

- Chung Li Plant became the head office's consumer electronic production center in the far east region (1987).
- Philips N.V. signed a contract with the ROC government to set up the Taiwan Semi-conductor Manufacturing Co. (TSMC) to produce wafers, investment ratio was 27.5% (1986).
 - The PEBEI plant's Integrated Circuits Division and Passive Components Division officially began independent operation (1986). A Lighting plant was set up in Taoyuan. Basically, Philips Taiwan set up three companies in Taiwan, namely, "Philips Taiwan Co. Ltd.", "Philips Electronic Building Elements Industries Taiwan Ltd. (Kaohsiung IC Plant, Kaohsiung Passive Company and Integrated Circuit Department)", "Philips Taiwan Electronic Industry Co. Ltd. (Chupei Plant, Chungli Plant)", the turnover of that year was NT\$21.6 billion. Moreover, Philips also invested in "Taiwan Semi-conductor Manufacturing Co. (TSMC)", "Taiwan Lighting Industrial Co. Ltd." and "Compact Disc Industries Co. Ltd."

Concerning the market strategic position, the Commonwealth Magazine described the strategy of Philips Taiwan as "Uniting Taiwan to beat Japan: A Strategic Move by Philips". The desire of "beating Japan" was matched by another strategic move of Philips Taiwan -- to pursue the highest honorary award in Japan, the Deming Prize.

Mr. Gray Hung the general manager of Philips Electronic Building Elements Industries Taiwan Ltd., grouped the world into three big markets including America, Europe, and East Asia in the eyes of Philips. By setting up a base in Taiwan, Philips not only could understand the latest trend of Japanese electronic industries from a short distance, it could also prevent itself from being forced to fight against Japan and Korea far in Europe. Such act could avoid adopting global strategic policies which were termed as Outsider go into your house to fight against you". The general manager of ChungLi Plant, Mr. He Nei Fu, claim that Philips Taiwan could complement for the unfavorable location of the headquarter in Europe. Concerning about the comprehensiveness of selling and R&D policies, Philips' was one of the best corporation in the world. However, it was behind Japan on production. Philips Taiwan was greatly influenced by Japanese industrial philosophy because of geographical and historical reasons. It attached great importance to production efficiency and that was exactly what the headquarter needed.

Though Philips Taiwan had such a clear strategic orientation, great discrepancies with Philips N.V. still existed concerning the actual operation. For instance, to comply with CWQI (Corporate Wide Quality Improvement), a global product quality project, announced by the head office in 1983, Philips Taiwan officially set up "Company-wide Quality Improvement office" to promote CWQI activities. However, Philips Taiwan's CWQI and that of the head office were different on both conceptual and practical aspects. Philips Taiwan's CWQI was carried out by the then acting vice-president Mr. Y.C. Lo who was responsible for production, project and quality. The project adopted the Japanese quality concepts. A 5-year plan was set with the goal of winning the Japanese Deming Prize. (Philips Taiwan 25th anniversary special issue, 1991) That plan was rejected by the head office. According to Mr. Y.C. Lo:

At first, when I proposed to compete for the Deming Prize, the boss at the head office called me and told me that I was not allowed to do so. Then, I decided to go to the office in the Netherlands to fight for it. Just as I stepped into the office of the vice-president, he immediately shouted, "You listen carefully! Don't join the competition or else you have to bear all the consequences." I met him in the hallway later, he informed me that I was not allowed to join the competition and that was the decision of the board of directors. I participated the competition regardless. After we had worked very hard for two years, the board of directors changed its attitude and invited us to give a lecture on our hard work.

With Mr. Lo's determination, Philips Taiwan began the journey towards winning the Japanese Deming Prize in 1989. The company undertook many tests on quality control in order to prepare for the competition. In 1990, the "New Business Development Center" was set up the Taipei head office aimed at coordinating related know-how's and teamwork to ensure rapid growth of new businesses at the leading edge of science and technology. Philips Taiwan also cooperated with the head office to carry out the Centurion Project to improve quality, efficiency and profitability. In 1991, while Philips Corporation celebrated its 100th anniversary and Philips Taiwan celebrated its 25th anniversary, Mr. Y.C. Lo took up the post of the president of Asia Pacific Region Electronic Component Department. In November 1991, Philips Taiwan was awarded the global laurel of quality, the Japanese Deming Prize.

In 1993, Philips N.V. signed a strategic alliance agreement with ROC Economic Department. The head office also announced the largest overseas industrial investment at the end of the year. The company invested NT\$ 9 billion to build the Asia Pacific Region Picture Tube Component Centre (Dapon Plant) in the Hsinchu Science based Industrial Park. In 1993, the company entered the Japanese OEM market with computer monitor products.

6) Strategic Orientation in the Late Y.C. Lo Era:

Based in Taiwan, Look into Asia Pacific Region (1994-1996)

In 1994, Economic Department for the first time awarded an European Corporation Personnel, Philips Taiwan's president, Mr. Y.C. Lo, the Golden Quality Medal and the Personal Achievement in Country-wide Quality Award. According to the Economic Department, played a pivoting role in the key investment projects of Philips N.V. and the four subsidiaries in Taiwan. As a result, a capital amounting to NT\$40 billion was accumulated. On technological transfer, Mr. Lo has

successfully transferred the technological processes relating to the manufacturing of TSMC, CD-ROM, CD-Audio, Digital cassette recorder and player, photoelectric component. He also championed cooperative project with Industrial Technology and Research Institute (ITRI) on establishing "Surface Mounting Technology Center".

In 1995, Philips Taiwan set up various industry departments continually, including Multimedia Industry Department, Asia Pacific Region and Taiwan Personal Computer Department as well as Research and Development Department. By the end of 1995, the plants, departments and service units of Philips Taiwan all obtain the ISO 9001 certificate. At that time, Philips Taiwan had been continuously applying the successful model over all over the world. It actively moved out of Taiwan and sent staff to assist the parent company to set up plants in Suzhou of Mainland China and Mexico.

In that two-year time, the strategic orientation planned by president Mr. Lo can be described as "Implementing localized operations and expanding the Asia Pacific Market". At the beginning of 1992, when Mr. Lo explained the direction in which he was leading Philips Taiwan to, he stated that while implementing localized operations, Philips Taiwan was at the same time upgrading industry of Taiwan. With a firm independent foundation, Taiwan had evolved from a processing base to a regional business centre. Mr. Lo held that putting emphasis on communications, adaptation, and continuity as well as weakening the shade of being a foreign investor was not only for the benefit of Philips Taiwan, but also for the country.

Nowadays, our staff already regarded Philips Taiwan as our own company but not a foreign company. They did not only work according to what the foreigner had asked them to, they also looked for the goal for different period of time independently as well as worked hard to achieve that. We kept on asking, "If Philips Taiwan is to operate in Taiwan forever, what should we do next?" Before Taiwan became the export kingdom of colour TV, Philips Taiwan had transformed from the largest domestic monochrome CRT producer to the largest domestic colour CRT producer. In early 80s, when the ROC government advanced information industry, Philips Taiwan had already transformed the TV CRT production line into producing Computer monitor CRT. The former traditional Passive Electronic Component plant had also upgraded its product to SMT component. The Semiconductor Plant had updated its nature from downstream processing to a comprehensive business including design and production. Such smooth transformation of products was the result of Philips Taiwan actively mastering the domestic trend of industrial development. Some of the plans were not even approved by the parent company. (Prominent Magazine , 199203)

After four year, Mr. Lo. had took into account the vigorous development in Asia Pacific Region and emigration of Taiwan industry and elaborated his idea of "localized operations". He used the idea of "Moving the production line to mainland China, while rooting the assembly technique in Taiwan" as the main axis. He believed that if western countries would like to plant permanent roots in Asia Pacific region, they could not just focus on cost efficiency when investing as before, they should have thorough consideration on questions like where were the markets? Where were the resources? Where were the talents and raw materials? Only with thorough consideration could they compete with Japanese company. In the past, Japanese companies kept the leading power in the hand of Japanese, they did not have much confidence in local management talents. While the western corporation had more confidence on local management staff and adopted the model of delegation and division of level. How could western corporations hold the advantage of having an open attitude over local management, at the same time apply a more in depth and active comprehensive investment strategy, in order to compete with Japanese companies for the Asia Pacific market on equal terms?

Western countries should adjust their attitude on operations and planning in Asia Pacific market. In the past, when western countries invested in Asia Pacific region, they only focused on the cheap labour, low cost efficiency bought by cheap land. When Japanese companies invested overseas, other than considering the cost, they would have comprehensive consideration over resources and market. Taking the example of rare metals, at presents 85% of the world rare metals are found in Mainland China. A lot of Japanese companies invested in mainland in order to be close to mineral products. (Industry and Commerce Times, 19960105)

On opening up the Asia Pacific market, Mr. Lo chosen the Japanese market as the major target and emphasize strengthening the solidifying function of Philips Taiwan.

We used to lay particular stress on production to sell back to the parent plant. In order to open up the Asia Pacific market now, we set up new industry department. Philips Taiwan must transformed to play the dual roles of production base and selling centre. In comparison with the stable and saturated market in European and American market, Asia Pacific market is an eye-catching new battlefield for global corporations. Concerning with the parent company's global strategy, shifting from the European and American market to Asia Pacific market has been a critical development direction. In 1994, the parent company's rate of Asia Pacific turnover to global turnover was 8%. The rate has increased to 12% now. We hope that the Asia Pacific market weigh would increase to 25% in the year 2000. On the content of investment, Taiwan has been the focus of the Philips' investment in Asia Pacific region. At present, its investments scatter all over Asia, for example, it has 15 to 16 plants in Mainland China. In comparison with the investments in Europe and America, Philips' investment in Asia Pacific region has been numerous and huge in monetary terms in recent years. (Industry and Commerce Times, 19960105)

Mr. Lo said, "It is the time to conquer Japan." Japan used to be a fascinating market yet difficult to break in. In my

opinion, after Japanese Yen has substantially appreciated, based on comparative advantage, part of the market has to accept imported good in order to maintain its competitiveness. Japan is a fertile land which is suitable for innovative development because of the existence of advanced technology, rapid flow of information and creativity. To invest in Japan is more than acquiring technology, but also obtaining an organization and an environment. Japan possesses the nutrition for hi-tech development. As long as we have the ownership, why should we keep all the techniques at home? To change a point of view, though we are positioned in Taiwan, we should give up the "Island nation concept". (Liberty Times, 19941012)

7) Strategic orientations in the Transnational Manager Era:

With product industry department as the focus, develop the consumer product market.

In the beginning of 1996, Philips N.V. announced that the President of Philips Taiwan and Asia Pacific Region Electronic Component Department, Mr. Lo Yi Qiang, would joined the GMP-Group Management Committee of the policy decision centre in the Netherlands' head office on May 1st. He would be in charge of the global electronic business of the head office from then on. GMP was the global core of policy decision of the company with the global President being the chairman. Other members included acting vice-president and other directors of important business units of company. Mr. Lo's position would be taken by the current person-in-charge of the global picture tube component department, Mr. Ke Ci Lei. (Industry and Commerce Times and Liberty Times, 19960215, Philips Taiwan Brief, 1996)

In April 1996, Philips' global President CorBoonstra went to Taiwan to preside over the handing-over ceremony of Philips Taiwan's President. CorBoonstra stated that Philips Taiwan had successfully developed a global strategic point of electronic component in Taiwan and the new business field of Personal Computer.

In the future, with the parent company's profound strength on consumer electronic business as well as information industry, Philips Taiwan would join in the development of "4CM2" (Consumer · Computer · Communication · Components · MultiMedia) . That was to combine the sunrise industries of Consumer Electronic · Computer · Communication · Components · MultiMedia. He further pointed out that the importance of Philips Taiwan in the whole world and the Asia Pacific region had been steadily on increase. Asia Pacific region was the fastest growing region of the parent company in the world. In the past three years, Asia Pacific region had an annual growth rate of 30%. The growth rate of Philips Taiwan was even higher than that. (Economic Post, 19960427) In June 1996, the information published by 天下 Magazine showed that Philips Taiwan Electronic Industry Manufacturing Co. Ltd. For the first time entered the Magazine's top ten list of Manufacture industry (Number 7, NT\$ 44.8), while Philips Electronic Building Elements Industries Taiwan Ltd. was Number 12 (NT\$38 billion), together with three other Electronic companies, the total operating income was NT\$93.2 billion. The new President Mr. Ke Ci Lei analyzed on the three main factors contributing to the growth of Philips Taiwan in the past year.

The first factor was the three major growing products, semiconductors, CRT and terminals. The second was Philips Taiwan's profound quality foundation made in the course of competing for the Japanese Deming Prize.. The third one was Philips Taiwan's success in thoroughly carrying out the policy of localizing talents as well as maintaining sound relationships with local industries and government. (World Magazine, 19960605)

On 1st May, 1996, Mr. Ke Ci Lei officially took up the position of Philips Taiwan's President. He stated in his inaugural speech that the company would use its calculating funds with meticulous care and improve control on cash flow and profitability. He also stated that new strategies had been mapped out. Other than further strengthening the key component department, home appliance and multimedia departments would also be reinforced so that the product of Philips Taiwan could get on the consumer and daily life level. (Economic Post, 19960903). Before this speech , the parent company announced that the Philips Taiwan's long sought after "Head Office of Asia Pacific Region" would be set up in Singapore but not Taiwan. (Industry and Commerce Times, 19960827)

In July 1996, news about the parent company reforming the consumer electronic department due to the huge deficit of the season and firing more than 6000 staff members had spread out. (Economic Daily, 19961130) In December, Philips Taiwan announced the decision of setting up the Foundational Research and Development Centre in Taiwan. That became an important part of the parent company's global advanced technological research project. While in the end of 1996, news about the resign and transfer of Philips Taiwan's nine senior managers of vice-president level had spread out. The Personnel manager, the financial manager and the vice-technology manager were all involved. (Industrial and Commerce Times, 19961217. At the same time, Philips Taiwan also announced its plan of investing NT\$4 billion on the production as well as research and development of electronic components and semiconductors in Taiwan in 1997. (Economic Times, 19961217)

In the beginning of 1997, Philips announced the global operating condition of 1996. It had a net loss of more than US\$ 300 million. The global President, Mr. CorBoonstra, stated that the deficit of the past year was due to the emergence of special expenditures and the failure in matching up with market change promptly. In July, 1997, the parent company announced that Philips Taiwan's President, Mr. Ke Ci Lei would take up the position of President of the China Group. The areas under his management included Hong Kong and Mainland China. (Industry and Commerce Times, 19970723).

Meanwhile, newspaper reported that Philips Taiwan would discharge 100 million of TSMC's shares, it worth around US\$ 500 million (Economic Daily, Industry and Commerce Times, 19970729). In October 1994, Philips Taiwan was awarded the N Prize of Japan National Quality Prize. (Chinese nation Daily, 19971212; Philips Taiwan Newsletter, 199802)

In September, 1998, Philips Taiwan and TSMC, one of the corporation invested by the company, formed a joint venture of US\$ 1.2 billion to build an IC plant in Singapore, the plant was planned to begin production in 2000. Nonetheless, Philips Taiwan could not escaped from the Asia Financial Crisis. By the end of 1998, 2000 staff members were laid off in succession. The seven plants under Philips Taiwan reduced its staff number continuously. (Industry and Commerce Post, 19990124). In December 1998, news was spread out from the parent company that Mr. Lo Yi Qiang, who was transferred to the head office two years ago, would resign in the next year due to health condition. His concurrent post of the head office's vice-president would also be re-assigned. His position would be taken up by the current President of Philips Taiwan, Mr. Ke Ci Lei, with the Netherlands Nationality. (United Daily, Economic Daily, 19981223).

In January 1999, to reduce cost and improve the global production structure, Philips Taiwan decided to resign from the passive component market and sold its production plant to one of its holding company. (Economic Times, 19990129; Note: Philips Taiwan let its plant set up an independent company was for the sake of adjustments on financial aspect.)

Basically, there were many subtle changes during the period which was started with the transfer of Mr. Lo Yi Qiang to the head office in the Netherlands. Because the position of global President of the head office was substituted at the same time, the operation of Philips Taiwan seemed to be under the shadow of the parent company. Such phenomenon could not be witnessed when Mr. Lo Yi Qiang was leading Philips Taiwan. On strategies, comparing the "6 Ps" suggested by Mr. CorBoonstra after he took up the post of Philips' global President and the "6 Ks" announced by Mr. Ke Ci Lei in Taiwan, though they were not exactly the same, we can see that Mr. Ke Ci Lei was actually follow the direction of the parent company from many of the actions that had been taken by Philips Taiwan. From several of the company's actions, we can see the clues of such coordination.

● Turning "Philips Taiwan" (National organization) into mere figurehead.

According to the newspapers, Asia Pacific Business took up 18% of Philips N.V.'s composition. The figure was predicted to increased to 25% in 2000. There were already 25 joint ventures and independent corporation in Hong Kong and Mainland China. Their annual turnover amounted to US\$ 2.63 billion. As it was a market with huge potential, the head office decided to strengthen the Chinese Corporation Organization. A President position was added to the existing acting-President position. In July 1997, the head office granted Mr. Ke Ci Lei the title of Chinese Group President in order to develop the Asia Pacific Market as the operation target. (Industry and Commerce Times, 19970723)

At first glance, such acts extended Mr. Ke Ci Lei's authority. Nonetheless, from the fact that the "Asia Pacific Region Head office" was set up in Singapore as well as an interview with a current Philips Taiwan's senior manager (Mr. C), we could see that the head office's new global President was carrying out the principle of "Strengthening the division of authority and reducing coordination". What is the meaning of this principle? The head office's President had once explained:

How is coordinate achieved among one another? Firstly, we have to ask, "Who is responsible? Responsible for what?" We have to define the authority and responsibility within the organization very clearly. In 1988, we have transferred the decision authority from N.O. (National Organization) to various product departments. Nevertheless, confusion still exists today. (Philips Taiwan Newsletter, 199612) Note: Philips Taiwan was a matrix form organization, another direction was P. D. (Product Division).

That was to say weakening authority of Taiwan's N.O., while strengthening that of P.D. At last, even Mr. Ke Ci Lei's authority was weakened. For instance, during an interview, Mr. C. said,

Positions are the same, but N.O. used to have huge authority and did not let Product Group take the lead. These two periods were happened to be different. In addition, the parent company on one hand motivated the lead of P.D. In the future, every product will be responsible for itself. If your product is in a country with no surplus. You have to cut yourself off. The decision is made by P.D., but not N.O. (Mr. C's interview, L21-26) After we have switched to the P.D. driven direction,.....the senior staff used to say, "We don't have to listen to your P.D., we only listen to N.O. Our budgets do not need P.D.'s approval, they only need N.O.'s approval." In the past, what did our budgets have to achieve was determined by the report of Taiwan's N.O. N.O. said yes, that was yes. It was because we only had to produce what the Taiwan region had to produce. What we distribute to each plant..... The situation is very different now, after Mr. Lo Yi Qiang had left, we had to report to Asia Pacific's P.D. and produce what the Asia Pacific P.D. asked us to. There is not much to negotiate about. It became P.D. top down mode. (Interview with Mr. C., L97-207)

Such transformation of the roles and authorities of N.O. and P.D. did not only affect the leaders, but also the whole process of purchasing and selling:

Before the departure of Mr. Lo, Mr. Zheng, who was responsible for managing the whole business, had once said, "Taiwan has to produce this amount of goods today, but they are not supplying us!" For instance when we produced IC semiconductors, we always complained that the supply from overseas was inadequate, the variety of products was not wide enough, the parent company supported the other countries first, or no strategy account was provided for Taiwan. Mr.

Zheng only told us, "It is okay if you look for Taiwan brands, you can buy them." When N.O. took the lead, we did it that way. We did not have to sell the products of Philips Taiwan, we only need to have an outstanding accomplishment. If we can find Winbond, we can sell their product in order to compensate for our shortcomings. When Mr. Lo was here, we dare to do so. After Mr. Ke Ci Lei took up the position, we have to listen to P.D.'s instruction on how we are selling out product. When we have no supply, we have nothing to do! When there is a shortage of product in the market, we have to take all the blame! That is why we changed the title of sale manager later into sorry manager, the initials are still S.M. though. (Interview with Mr. C., L209-222)

Such change even affected the orientation of the role of Philips Taiwan's President. The authority and status quo of the post had been continuously declining:

N.O. had become the representative of the French, Ke is only the representative of the French but not a President. He is not managing the business! All business are looked after by regional manager, it is so easy for him to be the President. Mr. Lo Yi Qiang used to be very busy. Nearly all of his assistants are now fired. (Interview with Mr. T., L199-201)

What is the intention of such act? The head office was strengthening the investment in China while moving the production focus from Taiwan to Mainland China as well as dissolving and combining various departments. The above continuous actions can prove that the parent company was moving the focus to Mainland China while maintaining the Technological Research and Development Centre in Taiwan. Besides from the above interview with Mr. C., we can discover that such action could hardly be carried out when Mr. Lo was in his former position.

Furthermore, Mr. Ke Ci Lei had also stated in a newspaper interview that based on consideration on globalization, the parent company had been strengthening its investment in China. Up to that point there were 19 joint investment proposal. All of them were head office driven. The main products of the investment items in Mainland China were low-graded products like hi-fi, video equipment, luminaries, small-sized monitor CRT, semiconductors packing, personal computer fabrication and extra-cards etc. These production lines were labour intensive, and were unsuitable to be invested in Taiwan. It was more cost efficient to invest in Mainland China with markets nearby. Philips N.V. had already moved part of the Research and development center to Taiwan. In March 1997, the Asia Pacific region's first fundamental Research and Development Centre was set up in Taiwan. While low-graded production and processing would be moved overseas subsequently. The role of Taiwan would shift from focusing on improving accomplishment to focusing on cash flow and the achievement of profit target. (Economic Daily, 19960904)

● Devoting to the development of consumer product market

Mr. Ke Ci Lei had stated in an article from an internal newsletter that, "Most of Taiwan's economic activities focused on regional and global export. Contrasting with that, our local market share in consumer product and professional product and service is very limited (for example, our share in the television market is less than 2%). As a result, we have to actively strengthen our local market. On the role of suppliers in the markets of audio-visual products, small home appliances, luminaries, personal computers etc. we have to catch up with the leaders and make adjustments to our selling units and strengthen the selling channels and improve our brand management. (Philips Taiwan Newsletter 199612)

Such idea agreed with the global President Mr. CorBoonstra's strategy of "focusing on opening up markets". That was to strive to expand the consumer electronics market which had been neglected during the early Mr. Lo Yi Qiang Era. Mr. Ke Ci Lei took the same direction, he might just follow the traditional orientation of the parent company. That might be related to the corporate image. Mr. Ke Ci Lei stated in another interview:

Philips' global corporate image is based on consumer electronics (for example, Philips started the business by making bulb). Consumer electronic product amounts for 70% of the parent company's operating income. Nonetheless, in Philips Taiwan annual operating income, consumer electronic products amount for less than 10%. This is because the operation model of Taiwan electronic industry is export driven. Demand for IC chips is relatively high in Taiwan market. But the company would expand consumer electronic department into covering multimedia and the application of 3C as well as expand the sales channels in the future. (Industry and Commerce Times, 19960614)

On actual practice, Philips Taiwan employed two sales management talents from outside to act as the general managers of Audio-visual product department and Luminary product department. The company also actively increased the ratio of direct bulk with discount sales channels and formed an alliance with passage sellers. (Industry and Commerce Times, 19970213. Economic Daily, 19971123) moreover, in order to enter the information service market, the information market had become independent and a new company was set up. (Industry and Commerce Times, 19970217)

8) Philips' transformation on organization structure and authority in the 90s

In the 80s, Philips Taiwan adopted the "Matrix model" of organization structure. However, in 1988, the head office had reached a common consensus to nominalize N.O. and move towards the direction of P.D. driven model of organization. Nevertheless, to the Philips Taiwan's President at that time, Mr. Lo Yi Qiang, it was not a favourable resolution. In addition to Mr. Lo's marvelous performance, Asia Pacific market has been becoming more and more prosperous. Philips Taiwan has the

best accomplishment and the highest profit among Philips N.V.'s subsidiaries. Such condition made it difficult for Mr. Lo Yi Qiang to carry out the policy of nominalizing N.O. The authority of N.O. had been strengthened in contrast. Several posts of acting-vice President were added according to his will. Philips Taiwan even had its ranking system of job titles which was different from that of the parent company. Below is an exquisite description of such situation by Mr. C.:

In Mr. Lo's Era, several Vice-President were created. in charge of business, technology and finance respectively. President could focus on administration then. That was the framework set up by him. Before that, Mr. Lo was personally in charge of administration and business. There were Vice-Presidents for technology and finance but not for business management. That was the change initiated by him. (Interview with Mr. C., L328-331).

Most of these posts were created and did not exist in the past. It was Mr. Lo who created those posts. (Interview with Mr. Lo, L470-471)

Nonetheless, this organization structure in Mr. Lo's era underwent huge changes after Mr. Ke Ci Lei had taken his position. Many of the Vice-President posts in Mr. Lo's era were cancelled one by one. The staff member on those posts might well be transferred to other posts. The ranking system of job titles was naturally shifted back to that of the parent company.

After Mr. Ke had taken his position, those responsible for business disappeared, they were pressed down to a lower rank! Like Mr. W, he was no longer in the board of directors of Taiwan. After being released out, he became part of the local staff. He could keep the title of Vice-President but he was in charge of business. That was different from the situation in the past, a Vice-President used to be able to manage the plant, but Mr. W. could not do so after being pressed. He could only take charge of business and selling. After the new President had come, this position was cut again..... Only Vice-Presidents for technology and finance as well as an acting-President were left. The present situation is if technology is also included, who are those P.D. listening to? AS a result, they are no longer leading. At last, the Vice-President of technology would turn that down and the position would no longer exist. The position for finance would always exist and would not disappear. As long as the foreigners are here, the Vice-President of finance would be here, as he is also transferred from the Netherlands. (Interview with Mr. C., L331-349)

The ranking system of the staff of Taiwan was different from that of the Netherlands. The rank of those foreign general managers was lower than the managers under their supervisions. That was why they started to make adjustments. Afterward, they said the subsidiaries around the world should adopt the system of the Netherlands. As a result, all the Taiwanese staff had fallen for three levels. A general manager in Taiwan used to have a rank of 12 which is equal to a rank of 9 in the Netherlands. Then everyone should fall by 3 levels. Everyone can adopt the Netherlands' system. (Interview with Mr. C., L473-482)

Then how is the organization structure in Mr. Ke Ci Lei's era? Basically, it was a completely P.D. driven one. The N.O. would disappeared step by step. Even the status and authority of Mr. Ke Ci Lei were constantly declining. Mr. C. used the metaphor of "Landlord" to describe the changes in the President status of Mr. Ke Ci Lei.

In the national organization in Taiwan is only a figurehead. We all follow the route of products. Everyone listens to his P.D. The head of N.O. becomes merely a landlord. He doesn't have any authority. For instance, he wants to have a meeting so as to learn about the operation condition in Taiwan. People attend the meeting and report to him just for the sake of showing due respect for his feeling. They don't have to attend the meeting! I only have to report to P.D. but not to you, Taiwan. (Interview with Mr. C., 013-019)

If I were the boss and found that the rent was too high today. I apologized, terminated the contract and went to Nangang, or rented another building. My business would be continued there. There was nothing he could do, not even preventing me from doing so. With the approval from P.D., I did not have to listen to the landlord. That is correct! It is like a department store composed solely of different specialized counters. The department store does not have its own sales department. The store is only responsible for providing the corporate service. It is like saying that, "I rent you a counter. I can provide you with electricity and water. If your staff needs to have lunch, I can even provide that to them. I would take care of all of these stuff as the cost will be much higher if you take care of them yourselves." It is exactly the role of the President. If the tenant says that he did not want the counter anymore and he would open another branch. That would be okay. He could just leave and there is nothing the President can do. (Interview with Mr. C. L365-376)

This "Specialized Counters" model of organization structure and the decline of the President's authority appeared explicitly when the new leader took the President position from Mr. Ke Ci Lei on 1st April 1999. The new leader, Mr. Paul Zeven, officially took the place of Mr. Ke Ci Lei in Taiwan on 1st April 1999. His position was "Country Manager". Besides, Mr. Zhen had not taken over the post of "President of Asia Pacific Electronic Component Department" which was taken up by Mr. Ke Ci Lei from Mr. Lo. This phenomenon showed that the parent company intentionally nominalized the status of the Taiwan N.O.

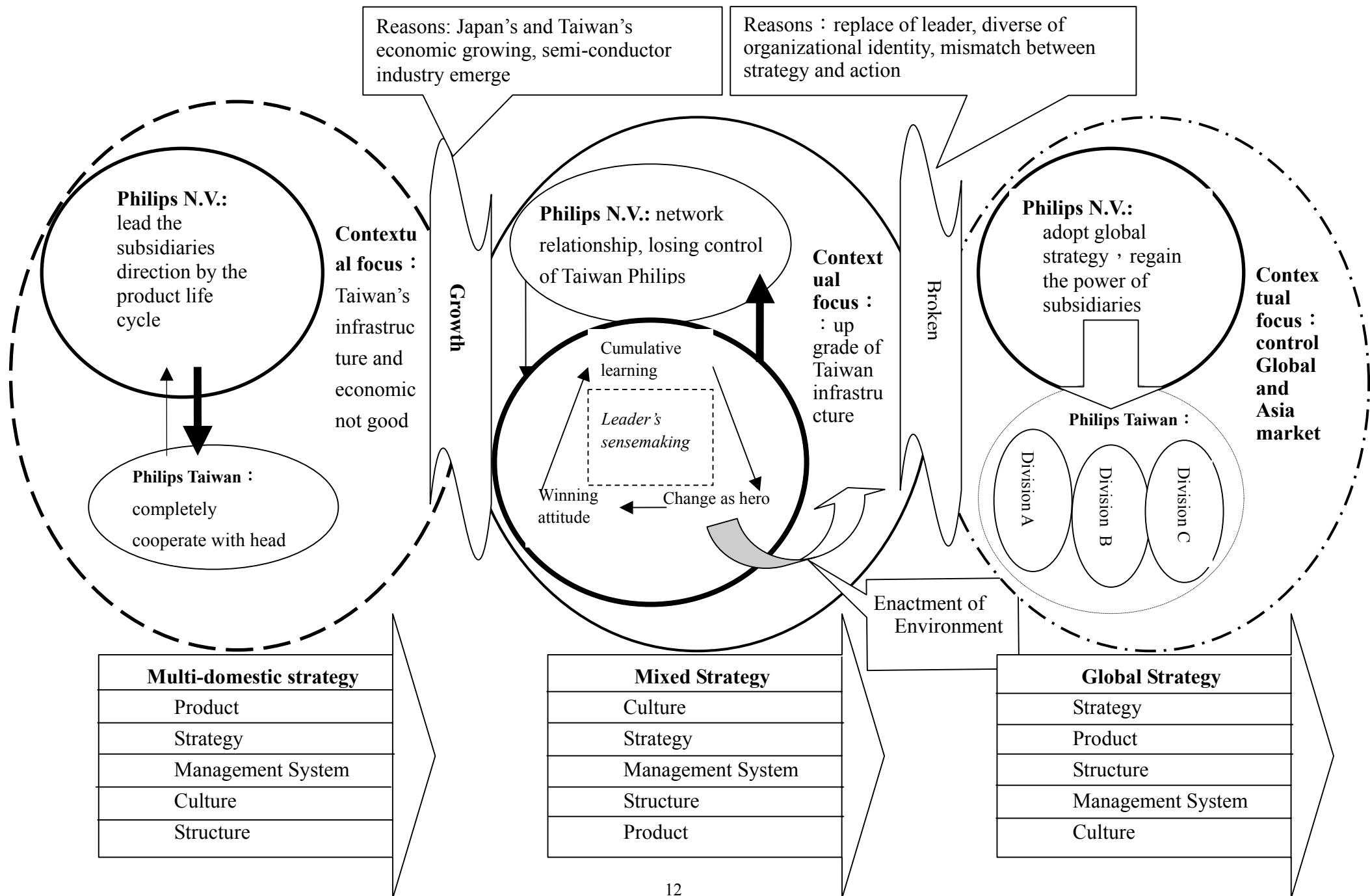
Why was the title changed to "Country Manager", it used to be "President"? It is because when the post was president, the leader could take charge of all the department under N.O. despite that fact that they were legal entities. His performance could be assessed in this way. With the title changed to "Country Manager", everything is different. P.D. don't have to listen to him. He is like a ...a governor, a governor of a colony. (Interview with Mr. C., L247-256)

Such normalization of authority and position could be reflected from another phenomenon. The N.O. policies of 1997, 1998 and even 1999 were nearly the same. In the Philips' website, Philips Taiwan's "Corporation's Belief" is mainly in accordance with the ideas and direction of Mr. Lo's era. One simple thing is that, in 1997, there was still a N.O. policy. They would still prepare for the N.O. policy. It was still announced in 1998, though that was copied from 1997's. The four guiding principles were the same. Everybody just acted the same. So it was okay to be called "Country manger". If we perform badly afterwards, the Taiwan subsidiary has to report to the Mainland and the title of "Country manager" has to be changed again!

Note: The belief of Philips Taiwan is "Intuitive knowledge, good behaviour and conscience" Intuitive knowledge and good behaviour are the essences of "comprehensive improvement of quality". An organic organization put the clients at the first place. Philips Taiwan underwent thorough reform during the past years to cohere all the wisdom and power so as to transform the corporation into an "Organic Organization" successfully. (Philips Taiwan's website, 1999)

4. Conclusion

In this case study, the researcher briefly described the changes in Philips Taiwan's strategic orientation and organization structure from the past 15 years. The changes from "Expanding strategy of localization" to "Control Strategy of Globalization" and from "Matrix model organization" to "P.D. driven organization" are the result of the interaction between parent company's basic consideration on global strategies and the ideas of the Philips Taiwan's current leaders. During this process, the first local President of Philips Taiwan, Mr. Lo Yi Qiang, played an important role. The parent company decided to transfer Mr. Lo to the Managing Committee in the Netherlands' head office. Such decision was crucial to the strategic orientation of Philips Taiwan afterwards. Besides, that also supplied another discussion topic for those who are curious about management. The topic is about the roles and identifications of "Localized leader" and "Transnational Corporate manger" in leading a transnational corporation. How are different roles and identification affect the organization of the corporation? The case study of Philips Taiwan seems to give us many of the answers indistinctly. At the end, we integrate the theoretical framework and the data into one holistic model (see Fig. 2).



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