MANAGING POLITICAL IMPERATIVES: STRATEGIC RESPONSES OF PHILIPS IN AUSTRALIA, 1939 - 1945

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Managing Political Imperatives: 
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Abstract

The Australian subsidiary of Dutch MNE Philips came under secret service surveillance and faced risk of government takeover as enemy property during World War II. It was also excluded from government contracts for communications equipment, while forced to reduce civilian production. These threats to its assets and operations required the firm to develop an adaptive corporate strategy in order to minimise political risk and also take advantage of opportunities that war production offered. This case study offers a rich insight into the processes an MNE employs to pursue dynamic strategic responses to host country political imperatives, confirming hypotheses of Ring et al. (1990). It demonstrates the relevance of historical cases to substantiating theory in strategic management.

Keywords: political risk, Australia, Philips, electronics industry, World War II
JEL codes: L20, L63, M19, N47, N87
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1. Introduction

How do multinational firms deal strategically with political imperatives in international business? Studies in international management offer theoretical assessments of risk factors, focus on issues of taxonomy, or assess risk factors at an aggregated and abstract level while viewing the macro-political environment as a single entity. Firm heterogeneity is an issue that such studies tend to ignore for the purpose of generalisation. Nevertheless, this is an important issue, because firms may not take risk as an externally imposed constraint. They are likely to actively seek ways to mitigate it on the basis of their perceptions of risk factors. Hence, the strategic responses of firms to risk, and therefore the outcomes in terms of firm performance will vary even if they operate in the same context. In addition, if perceptions of political risk and the appropriate strategic responses they elicit differ across firms, it is also likely that firms may actually perceive risk as an opportunity to be seized in order to gain an advantage over competitors, provided they are able to internalise and minimise the associated risk better than competitors.

This interpretation led Mark Fitzpatrick to conceptualise that firms handle issues of political risk on intuition, and that in multinational enterprises (MNEs) parent firms tend to rely on subsidiaries to initiate assessments and responses to such risk factors. In another seminar paper, Peter Smith Ring et al. argued that the strategic responses of a firm to ‘political imperatives’ (i.e. both risks and opportunities) are a function of their impact on a firm as well as the firm’s strategic predisposition. In other words, firms are likely to respond with an interactive rather than merely a reactive strategy. Therefore, the subject of research should be the actual strategic responses of firms to political imperatives more generally, rather than only risk.

Research in business history has addressed the strategic responses of firms to political risk. Despite the differences in the contexts of the studied cases, these
studies reveal that multinational enterprises (MNEs) interpret and interact with political risk in both host and home countries in a dynamic way, rather than merely a reactive and linear way; and that firms respond strategically in order to protect their foreign interests. Together, these studies demonstrate that business history holds significant opportunities to advance theoretical insights in international management.6

The purpose of this paper is to offer a case study of how an MNE and its subsidiary in Australia dealt with both political risk and opportunity. In the 1930s, Philips was a major MNE in global markets for electrical and electronic goods and components. Its subsidiary in Australia experienced rapid growth during this decade, making it one of the largest foreign-owned manufacturing companies in the country. But in the lead-up to World War II, the subsidiary company came under the scrutiny of the nascent Australian secret intelligence service, and it came to face two risks in addition to commercial risks: its assets could be placed in government custody as enemy property, while its income was threatened as preparations for war forced it to reduce civilian production at a time when the Australian government was reluctant to engage the company in contracts for war preparations. But the company also faced political opportunities of which it could only take advantage if it mitigated the political risk successfully.

The rest of this paper outlines how Philips Australia, in consultation with its parent company, assessed the political imperatives and shaped its strategic responses to the issues it faced. The next section outlines the development of the company during 1926-1939, focusing the production of radio valves. Section 3 sketches two important contextual developments that impacted on the imperatives the company faced: the organisation of Australia’s economy and the development of its secret intelligence service, both during 1939-45. Section 4 discusses why the company found itself under the scrutiny of the Australia’s intelligence agencies and the difficulties which that situation caused during 1939-40. Section 5 does the same for further episode during which political risk manifested itself during 1941-42. Section 6 then explains the deliberations in the company to define strategic responses in order to minimise risk and maximise opportunities, and the outcomes of the actions it took.

2. Philips in Australia, 1926-1939

The Australian subsidiary of Dutch MNE Philips was established in 1926 to sell imported Philips products.7 After August 1929, the Australian government raised import tariffs significantly to combat the effects of the international economic crisis, which made domestic production of electric lamps and radio receivers a viable option.

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6 Jones and Khanna, ‘Bringing History (Back)’; O’Sullivan and Graham, ‘Moving Forward’.
7 The company was called Philips Lamps (Australasia) Pty Ltd, until it became Philips Electrical Industries of Australia Pty Ltd in 1943. For convenience, the text refers to Philips Australia.
Philips Australia started production of lamps in 1931 and radio sets in 1933, using imported components. Radio set production was less successful than expected and the company sustained losses. Due to the continued effects of the economic depression, significant losses continued during 1934-1936 in the sales of radio valves, X-ray equipment and radio sets that offset positive returns from the sale of lamps. To address this situation, one of the commercial Managing Directors of Philips in The Netherlands, Othon M.E. Loupart, sent his ‘alter ego’ Armand Giberius to Sydney in 1936 to turn the situation around.

Giberius had joined Philips in 1926 as the assistant of Loupart. He was the commercial head of Philips’ radio valves business. Together with Loupart, he had developed Philips’ strategy in many countries to focus on the production of valves to be sold to manufacturers of radio receivers. By limiting Philips’ share in markets for radio receivers, the company encouraged competition among radio set makers and enhanced their dependence on Philips-produced components. The company pursued this strategy because the rate of return on valves was higher than that on radio sets. Its own production of radio sets was not fully based on commercial considerations, but on reasons such as maintaining brand recognition and sustaining customer perceptions of the quality and technological superiority of Philips products. Giberius was fully informed about Philips’ strategy concerning the production and sale of electronic valves and radio receivers and expected to apply the same principle in Australia.

Philips missed an opportunity to invest in valve production in Australia in 1933, when partly government-owned competitor Amalgamated Wireless (Australia) Ltd (AWA) established a valve factory on the basis of licensing agreements with Radio Corporation of America (RCA). Philips’ response was a cartel agreement with AWA for each to supply 50% of their combined market. During 1933-1939, customs tariffs on valves were up to 20% for imports from the UK and 40% for imports from elsewhere, which protected AWA’s valve venture.

In May 1936, the government introduced licensing restrictions on valve imports. Giberius’ arrival therefore coincided with a growing attractiveness of valve production in Australia. A month later, Australian Attorney General Robert G. Menzies visited the Philips parent company. He informed its Managing Directors about changes in trade policy regarding valves to encourage domestic production, and

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8 NAA C329 376, Transcript Advisory Committee Session (3 October 1939) 13.
10 PCA 882 Australië, Correspondentie Loupart, O.M.E. Loupart to A. den Hertog (31 July 1936).
11 Blanken, De Geschiedenis van Philips, 216-17.
12 PCA 882 Australië, Directie New York, 1, ‘Orientatie van den Heer van Rooyen voor zijn taak in Australië’ (11 April 1941). See also Williams, ‘Consumer Electronics’, 74-75.
13 Radio Retailer of Australia (13 May 1938) 3-4.
14 NAA A981 NETH 3, S.M. Bruce to R. de Marees van Swinderen (4 June 1936); Het Vaderland (18 June 1936); Sydney Morning Herald (23 June 1936).
possibly encouraged Philips to set up a production plant in Australia. In August, Philips opened discussions with AWA and other Australian set makers, interested in a stable supply of domestically produced valves. Discussions covered ways to overcome occasional shortages of imported components, due to booming international demand and uncertainties caused by the duration of transport from Europe and North America.

Giberius arrived in Australia to restructure production operations in order to reduce costs, address personnel problems, start up the new valve factory, secure component supply agreements with radio set makers, and renegotiate the valve agreement with AWA. In other parts of the world, particularly in Europe, producers had established valve cartels and patent license agreements with which Giberius was familiar. He was therefore well-placed to negotiate patent agreements with the only two other valve producers in Australia, AWA and Standard Telephones and Cables (Australasia) Ltd (STC), a British subsidiary that focused on transmitter valves. With AWA, Giberius agreed for each firm to specialise on specific types of valves and supply them to each other for further sales under their own brand names or use them in radio set production. Philips Australia invested £50,000 in machinery and plant for valve production, and started a factory with 150 employees in May 1937, after which Giberius returned to The Netherlands.

Table 1 shows that valve production increased quickly. Philips only had 8% of the market for radio receivers in Australia in 1938. But it had a higher share in the market for componentry, particularly valves. Nevertheless, it lost £7,660 on valve production during 1937/38. Giberius was ordered to return to Sydney to take charge of Philips Australia as Governing Director in June 1938. His task was to achieve what Loupart wanted the Australian venture to be: ‘little intervention from Eindhoven, but a healthy, profitable, self-contained Australian subsidiary’. For that purpose, Giberius focused on reducing costs in the production of valves and radio sets, as well as expanding production and sales to achieve profitability. On return, he found Philips Australia to be a top-heavy organisation, with many European expatriates in senior management and technical positions, and with local managers questioning the need

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15 NAA A1608 A127/1/2, R.G. Menzies to G.A. Street (18 October 1939); NAA C329 376, Transcript Advisory Committee Session (3 October 1939) 12-13; Radio and Electrical Retailer (17 March 1939) 24.
16 PCA 882 Australië, Correspondentie Loupart, O.M.E. Loupart to E.T. Fisk (7 July 1936) and O.M.E. Loupart to A. den Hertog (31 July 1936).
17 NAA ST1233/1 N38445, ‘Statement made by Mr. D.G. Wyles’ (30 September 1939).
18 Sydney Morning Herald (31 January 1934 and 28 February 1934).
19 PCA 882 Australië, Directie New York, 1, K.M. van Gessel to P.F.T. Otten (24 August 1941).
20 Radio and Electrical Retailer (24 March 1939) 20.
21 NLA MS4786, S.O. Jones to the Secretary of the Secondary Industries Commission (6 July 1944).
22 PCA 882 Australië, 1, A. Giberius to O.M.E. Loupart and P.F.S. Otten (18 February 1939); Radio and Electrical Retailer (17 March 1939) 24.
23 PCA 882 Australië, 1, O.M.E. Loupart to A. Giberius (24 March 1939).
for the preferential treatment of expatriates. He acknowledged that shortages of suitable local people required the company to employ expatriates, but judged the performance of several of them below par.24

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Sales</th>
<th>Sales to AWA</th>
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<tbody>
<tr>
<td>1937</td>
<td>58</td>
<td>490</td>
<td>184</td>
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<tr>
<td>1938</td>
<td>360</td>
<td>465</td>
<td>190</td>
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<td>1939</td>
<td>340</td>
<td>416</td>
<td>107</td>
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<td>1940</td>
<td>260</td>
<td>433</td>
<td>180</td>
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<td>1941</td>
<td>421</td>
<td>541</td>
<td>200</td>
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<tr>
<td>1942</td>
<td>350</td>
<td>737</td>
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<tr>
<td>1943</td>
<td>444</td>
<td>495</td>
<td>31</td>
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<tr>
<td>1944</td>
<td>404</td>
<td>512</td>
<td>53</td>
</tr>
<tr>
<td>1945</td>
<td>303</td>
<td>482</td>
<td>35</td>
</tr>
</tbody>
</table>

1. Calendar years.
2. Except 1937 financial years, i.e. 1938 is May 1937-April 1938.
3. Decrease due to government order in February 1942 for Philips Australia to focus deliveries to firms producing for defence orders.
5. Budget estimates 1945/46.

Note: AWA is Amalgamated Wireless Australasia Pty Ltd.
Source: PCA, 882 Australië, Components, Box 58, 1, ‘Australië Discussions with Mr Leddy and Col. Jones on September 29th 1945’ (2 October 1945).

In the context of heightened fears in the UK and Australia about a budding war with Germany, in May 1939 the intelligence service of the NSW Police in Sydney received an anonymous tip-off alleging that Giberius was a German agent and engaged in secretive and suspicious behaviour.25 Australia’s nascent secret intelligence service started to investigate Philips Australia. Investigations continued until the late-1940s, triggering potentially very damaging difficulties for the company.

3. Australia and Philips during World War II

To understand why such allegations had such an impact on the company it is necessary to explain how Australia and Philips Australia prepared for World War II. Australia followed the UK in declaring war against Germany in September 1939. Some planning for the war economy had commenced in 1937, mobilisation started in 1939, and measures to prepare the economy for war and the disruption of supply lines between Australia and the UK took hold in 1940. The urgency to plan the war economy did increase until Japanese troops advanced into Southeast Asia in

24 PCA Hans Bruckenstein, A. Giberius to O.M.E. Loupart (22 July 1938).
25 NAA ST1233/1 N38445, W.J.R. Scott to W.J. Keefe (19 May 1939); PCA 882 Australië, Directie New York, 3, H. van Rooyen to P.F.S. Otten (24 November 1942).
December 1941. When they occupied almost all of Southeast Asia in April 1942 and progressed towards Australia-held New Guinea in July, Australia stepped up planning its war production effort.

Production of all sorts of war supplies had to be increased urgently for the Australian armed forces, the American forces in the South West Pacific, the New Zealand and the Netherlands East Indies governments, and to build-up domestic defence capabilities. The armed forces had to be expanded, non-essential production cut back, and labour directed to essential production. While improvised during 1942, the effort became structured during 1943 as Australia’s defence capabilities improved, Australian forces returned from Europe and the Middle East, and greater numbers of American forces arrived. Consequently, government orders, prohibitions and instructions were issued during 1942 in order to decrease the production of electrical and electronic goods for civilian purposes and increase production for military purposes. The Department of Supply had the task to implement these with the aim of meeting the growing needs of the armed forces. The planning of production was the task of the Department of War Organisation of Industry and the Department of Munitions.

The Directorate of Radio and Signal Supplies in the Department of Munitions organised the production of communication equipment and components since mid-1942. It depended largely on production by private companies, and had to ensure the supply of required production equipment and facilities, as well as basic materials, to these firms so that they could meet contracted production targets. In the light of severely restricted international supply of components, Australia decided to aim for full self-sufficiency in communication equipment. But it soon appeared that the needs of the armed forces required an expansion of available capacity by 50%.26 The Directorate Head, Colonel Samuel O. Jones was instrumental in rationalising the operations of contracting companies to produce radar, radio frequency communication equipment and non-radio signal equipment. Full development of the production program was not achieved until 1943 due to delays in selecting product standards to meet local and American needs, as well as global shortages of key materials such as tungsten wire.27 While 80% of pre-war output in the electronics industry consisted of radio receivers for the private market, by 1944 100% of output consisted of radar and communication equipment for the armed forces.28 The production of valves by AWA, Philips Australia and STC was crucial for that purpose.

To safeguard its business interests in countries on either side of the war, the Philips parent company made preparations in 1939 to move the seat of the company from The Netherlands to Dutch Curaçao. It also split off two new entities: one in

26 NLA MS4786/2, ‘Ministry of Munitions: Summary of Munitions Production Effort 1940-45’ p.58.
27 Butlin and Schedvin, Australia in the War, 403-6.
28 NLA MS4786/2, ‘Ministry of Munitions: Summary of Munitions Production Effort 1940-45’ p.58.
London for the UK and the countries in the British Commonwealth, and one in New York for North and South America. The purpose was to prevent Philips global assets being put under German control following a German invasion of The Netherlands, and also to avoid the possibility that Philips assets in Allied countries would be seized as enemy property. The Australian government indeed appointed controllers for German firms in 1939 under the Trading with the Enemy Act 1939. Dutch-owned Philips Australia remained at risk as controllers could also be appointed if a firm was proven to have business dealings with enemy countries.

Philips Australia employed several German expatriates. Together with other foreigners suspected of disloyalty or assisting the enemy, they came under threat of internment as ‘enemy aliens’ under the National Security Act 1939. Internments of such ‘enemy aliens’ started soon after war had been declared. Agencies enforcing the act were also responsible for domestic intelligence gathering: the Commonwealth Investigation Branch (CIB) in the Attorney-General’s Department, the intelligence organisations of the military (particularly the army), and the special branches of the police forces in the different Australian states. An appeal system took the form of independent Advisory Committees chaired by a judge or a retired judge.

These intelligence agencies were underprepared for their tasks. Political surveillance and counterintelligence had started during World War I and had evolved into the CIB. By the 1930s it focused on communist and left-radical activity in Australia, until it could no longer ignore the rise of Nazism in Australia in the 1930s. In 1934, the army and the navy had already started domestic security operations in competition with CIB and the police, until in 1938 the government decided that the Department of Defence should take all responsibility for security matters.29 It created military police intelligence sections located in the headquarters of the police forces in each of the Australian states.

But in 1939 CIB had at most 50 officers, and it used crude methods to collect intelligence on alleged spies.30 In addition, frictions between CIB and the military intelligence service increased, while government efforts to create a single new organisation failed to take effect. Consequently, political surveillance and counterintelligence were throughout 1939-1945 conducted by different agencies that did not necessarily share information. Interaction with the British secret service was part and parcel of the operations of the Australian agencies, which for various issues sought information and advice from their British counterparts.31

29 Hall, The Secret State, 26; Horner, Spy Catchers, 13-17.
31 Andrew, ‘The Growth’.
4. Risk due to secret service suspicions, 1939-1940

When the Australian intelligence agencies started to investigate Philips Australia in May 1939, they found a company with expanding operations and with a variety of characteristics and practices that raised their suspicions. One confusing aspect was that Philips Australia consisted of several companies and operations, as Figure 1 shows

*Figure 1: Structure of Philips Australia, 1939-1940*

The core company, Philips Lamps (Australasia) Pty Ltd, had a central office in Sydney and offices in all states that sold imported and locally produced Philips products. Its subsidiary production company, Philips Radio Works (Australia) Pty Ltd, maintained three factories in Sydney. Some other Philips operations in Australia...
were controlled by the parent company in The Netherlands, with the sales company as the notional go-between. For example, Electric Lamp Manufacturers (Australia) Ltd (ELMA) in Newcastle, was a joint venture to produce incandescent lamps for the Australian market under different brand names. The structure of Philips Australia became more elaborate with a new factory for high-power transmitter valves, radio transmission equipment, and later also sound amplification equipment, welding rods, X-ray tubes and various electrical and electronic instruments in 1940, the purchase of Acorn Pressed Metal Pty Ltd in 1941, and interests in a hire-purchase finance company and some retailing companies.

Philips Australia’s workforce grew from 43 in 1930, to 296 in 1936 and 739 in 1941. It had difficulties finding suitable local employees for senior general management and technical positions in its factories. It therefore employed about 20 Dutch and other European expatriates, including refugees. Australia’s mobilisation drained the labour market of men for the armed forces and war production, and compounded this shortage of suitable local employees.

Europeans continued to arrive to work at Philips Australia. Even though the Australian government’s reluctance to admit Jewish refugees from Germany and Austria increased, Philips sought ways to offer passage out of Europe for personnel under threat in 1938 and 1939. For example, John H. Brookes (alias Hans Bruckenstein) arrived in February 1939. He had been the Managing Director of Philips Romania and was an Austrian national of Jewish origin. Philips had sent him to Australia for the explicit reason that the Australian immigration authorities in 1938 did not strongly object to the immigration of ‘non-Arian’ persons from Central Europe. Soon after arrival, Brookes changed his name and converted to Catholicism, indications that he did not expect to return to Europe.

Another prominent arrival was Willem J. Waterman in June 1939. He had been Marketing Director in the Netherlands for Philips, and was a Dutch national and a Jew. Waterman left The Netherlands with his family for health reasons, but possibly as a precaution, because anti-Semitism and threats towards neighbouring countries increased in Germany after November 1938. Waterman received instructions to take over from Giberius in May 1940 and turn the Australian company into a production hub for the region.

Unbeknown to Philips, Australia’s intelligence agencies interviewed its local employees. Several of them expressed dissatisfaction with the dismissal of local employees.

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32 PCA 882 Australië, 4, T. Pauling to D. Boer (8 September 1966).
33 PCA Hans Bruckenstein, A. Giberius to O.M.E. Loupart (22 July 1938).
34 NAA C123 9638, Note ‘Giberius – D455/39’; Neumann, Across the Seas, chapter 2; Metze, Anton Philips, 321.
35 PCA Hans Bruckenstein, A.L.M.C. Claassen to A. Giberius (27 October 1938), A. Giberius to A.L.M.C. Claassen (29 November 1938).
36 NAA SP1714/1 N42523 Transcript interview with A.J. Phillips (9 June 1942) 3.
37 PCA 882 Australië, Directie New York, 1, W. Waterman to A.F. Philips (11 March 1940).
employees as part of Giberius’ cost cutting in 1938, while at the same time more Europeans arrived.\textsuperscript{38} Interviewees were also concerned about the employment of Germans, and were suspicious of communications in Dutch or even German between general and technical managers. Such observations were included in reports that the intelligence officers collated. They compounded to the extent that, following Giberius’ arrest in September 1939, the agencies mistakenly even suspected Waterman to be a German and a Nazi sympathiser.\textsuperscript{39}

Giberius was their main enigma. The investigations following the May 1939 tip-off were hampered by the fact that information available to the agencies was piecemeal, incomplete and gained from mail and telegram intercepts, rumours from anonymous informants, surveillance, as well as interviews with local Philips employees and suppliers. The agencies remained puzzled by several matters.

They questioned Giberius’ nationality, because he had been born in Germany and had lived there for quite a while, even though he travelled on a Dutch passport. He spoke fluent German and was reported to have made statements revealing sympathy for Germany, but also statements critical of Germany.\textsuperscript{40} His wife had remained in The Netherlands with their two children, and he maintained a private address in Sydney, but he lived with a German friend and her mother elsewhere in the city. Surveillance found that he kept unlicensed electronic equipment at his residence that could possibly be used for short wave transmissions, and that Giberius received mail there from senior people at Philips in Eindhoven, rather than at his Sydney office.

The rumours about Giberius’ nationality and political interests had their origins in the local electrical and electronics industry.\textsuperscript{41} This small, but rapidly growing industry was laden with commercial and interpersonal rivalries. In 1938 and 1939, Giberius sought to increase the company’s sales of valves by using marketing strategies that bypassed wholesalers and dealt directly with small set makers and retailers for the purpose of increasing Philips’ share in the market for valves.\textsuperscript{42} His strategy was to offer valve retailers and also set makers so-called ‘P’-type valves at low prices, including the valve sockets. In the valve replacement market these ‘P’-type valves and sockets would then substitute the ‘G’-type valves and sockets that both Philips Australia and AWA produced and sold under their cartel agreement. As Philips was the only company producing ‘P’-type valves and had to sell sockets only once, it could increase its market share. In addition, the company encouraged retailers

\begin{footnotes}
\item[38] NAA ST1233/1 N38445, ‘Statement made by Miss M.G. Longhurst’ (28 September 1939).
\item[39] NAA C123 9638, Wasserman [also known as Waterman], Willem Jacques (Dutch) [Box 291].
\item[40] NAA ST1233/1 N38445, ‘Statement made by Mr. D.G. Wyles’ (30 September 1939).
\item[41] NAA ST1233/1 N38445, H.E. Jones to Commonwealth Investigation Branch (6 October 1939) and D.R.B. Mitchell to Commonwealth Investigation Branch (9 October 1939). Both letters mention that CIB received allegations in August 1939 that Giberius had ‘expressed pro-Nazi sentiments’.
\item[42] NAA SP1714/1 N42523, ‘Report on certain activities of Philips Lamps (Asia) Pt Ltd’ (23 October 1941), attachment to A. Fraser and G.J. Marshall to Wilson (31 October 1941).
\end{footnotes}
and set makers to purchase large batches of ‘P’-type valves on favourable long-term credit. In some cases, retailers and set makers were not able to sell enough valves to meet the payment conditions, upon which they were repossessed by Philips Australia. This strategy increased dissatisfaction among set makers, wholesalers and retailers, who possibly associated it with Giberius. Disgruntled individuals in the industry may have started rumours that led to the May 1939 tip-off.

The relations between Philips Australia and AWA were not cordial, despite their joint valve cartel. Secret investigations revealed that AWA Chairman Sir Ernest Fisk and AWA Secretary Lionel G.A. Hooke were the ‘originators of a whispering campaign’ that actively criticised the marketing methods and management of Philips. This campaign, combined with rumours about Giberius’ nationality, led a leading industry journal to publicly accuse Philips Australia in 1940 of using ‘European’ (i.e. non-British), ‘ruthless’, ‘unsavoury’, ‘Nazi type’ trade practices of selling at unsustainably low prices. The journal maintained that ‘a fight has been going on between some recently arrived foreigners who control the Australian organisations of their foreign parentage and the wholesalers, retailers and manufacturers of Australian vintage’, foreigners who ‘took the jobs held for years by real Australians; and so the Nazi pressure was intensified’. The journal did not name Philips Australia, but no other companies from continental Europe occupied a prominent position in the electronics industry. The growth and ambitions of Philips in Australia clearly incited negative responses that had become a threat to the company’s operations.

Giberius was arrested and detained on 4 September 1939, but released the next day following an inquiry about his case from then Prime Minister Menzies. But he was re-arrested on 15 September 1939 and charged with being an ‘enemy alien’. The Department of Defence summarised the reasons for his arrest to the Prime Minister: ‘the suspicious nature of his activities, and that he is regarded as a very clever German agent by the Military authorities and the State Police in New South Wales’.

Giberius’ appeal was heard in October 1939 by a National Security Advisory Committee. The hearings clarified all the issues that had puzzled the intelligence agencies. Giberius had been born in Germany of a Dutch father in 1898. He had lived and studied in Germany, Luxemburg and Switzerland, and had only moved to The

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43 This happened with at least one Sydney set maker in 1940: NAA SP1714/1 N42523, ‘Briton Electrical & Radio’ (9 January 1942).
44 NAA SP1714/1 N42523, ‘Philips Lamps (Aust.) Ltd.’ (23 July 1941).
45 Radio and Electrical Retailer (4 April 1940).
46 Radio and Electrical Retailer (18 April 1940).
47 Waterman asked for Menzies’ intervention. NAA MP729/6 63/401/14, W.J. Waterman to R.G Menzies (4 September 1939). Menzies later denied that he had issued instructions for Giberius’ release and put his denial on record. NAA A1608 A127/1/2 R.G. Menzies to G.A. Street (18 October 1939).
48 NAA A1608 A127/1/2, Department of Defence to Prime Minister R.G. Menzies (8 October 1939).
49 NAA, C329 367, National Security Advisory Committee hearings 3, 6, 9 and 10 October 1939.
Netherlands in 1920, but had always had a Dutch passport. Following positions at several companies, he had joined Philips in 1926. During his extensive travels in Europe as head of the Philips valve marketing section, he had met his German friend and her mother in 1933. They had followed him to Sydney, and he had become their lodger at their Sydney address, paying full board. The equipment in his own house comprised models of high-end radio receivers, which he sometimes demonstrated to visiting retailers in a living-room setting. He also rented the house to entertain business clients. The business mail he received at the house was sent there in order to keep it away from prying eyes in the Sydney office, and Philips used an internal coding system to reduce the cost of sending international telegrams.

The Committee found that there were no grounds for the arrest and detention of Giberius and recommended his release. This happened on 21 October 1939, but on the understanding that Giberius would leave Australia within three months. He was not informed of the exact reasons for his detention, despite various representations to the Australian authorities, amongst others by the Dutch consulate in Sydney, to allow Giberius to rehabilitate himself. Giberius was ordered to leave, because the Department of Defence argued that ‘inter alia’ the Committee had established that ‘a degree of suspicion did attach to his conduct’.

Waterman became the company’s new Governing Director in November 1939. He was not closely associated with the company’s component strategy, but he was aware of the continued losses that the non-light business of Philips Australia sustained. During Giberius’ detention, Waterman sent laments to Loupart about the difficulties of doing business in Australia. In effect, he was toning down the expectations the parent company may have had of its Australian subsidiary by emphasising that it would continue to depend on Eindhoven for crucial supplies. When Waterman requested Eindhoven to send more expatriates, Loupart lectured him that he would have to build up a cadre of local senior staff that could gradually be given greater responsibility.

Until his departure in February 1940, Giberius remained in Sydney. He could not work with Waterman: ‘our views and intentions most vital problems entirely dissembling since my spontaneous but apparently premature voluntary transfer of leadership. Waterman strongly resents any interference Australian affairs which
attitude already caused unnecessary drop sales return since November. They disagreed about Waterman wanting to discontinue unprofitable activities and focus on profitable operations. This included downsizing the valve factory, even though the parent company expected it to become the key source of profits in Australia. Loupart insisted that both men work together to establish a strategy for the company’s future. But it is likely that personal disagreements made this impossible. For example, while Waterman had done his utmost to protect Giberius from adverse publicity, privately he considered Giberius to be ‘a Nazi’, who would inappropriately shoot his mouth off and contribute to the company’s poor public profile.

5. Further risk due to secret service suspicions, 1941-1942

Philips Australia remained under investigation by the intelligence agencies in 1941. This included interceptions of the company’s mail, telephone and telegrams, as well as interviews and surveillance of company employees. Even in London, Philips mail between the UK and USA was intercepted by British intelligence and copies of relevant items were sent to Australia. The intelligence agencies distributed bi-weekly investigation reports. The company appears to have been aware of this situation, but uncertain about the consequences. For example, it informed the Comptroller of Enemy Property in Australia about the global structure of the company, and the reasons why Philips continued production facilities in German-occupied Europe and in Allied countries, and denied that shipments would fall under the Trading with the Enemy Act 1939.

While the production and sales of lamps remained very profitable, other lines of business continued to struggle. Nevertheless, Philips Australia had a share of about 40% in the market for valves and 9 to 13% for radio sets. In addition to labour shortages, materials supplies became increasingly difficult to get. It was clear that the company had to attract government orders, which would make it easier to acquire supplies. In November 1940 the company had received a significant £230,000 defence contract for military transmitters and aircraft trans-receivers from the government of the Netherlands East Indies. But it remained unsuccessful in attracting similar

58 PCA 882 Australië, Correspondentie Loupart, A. Giberius to O.M.E. Loupart (15 January 1940).
59 PCA 882 Australië, Directie New York, 1, ‘Orientatie van den Heer van Rooyen voor zijn taak in Australië’ (11 April 1941).
60 NAA ST1233/1 N38445, O.M.E. Loupart to A. Giberius and W. Waterman (19 January 1940).
61 PCA 882 Australië, Directie New York, 1, K.M. van Gessel to P.F.T. Otten (24 August 1940).
63 NAA A1380 EP181, W.C. Thomas to Secretary of Philips Lamps Australasia (8 November 1939).
64 PCA 882 Australië, Directie New York, 1, ‘Orientatie van den Heer van Rooyen voor zijn taak in Australië’ (11 April 1941); NAA SP1714/1 N42523, ‘Report from C.J. Lane’ (30 June 1941).
65 PCA 882 Australië, Directie New York, 1, W. Waterman to P.F.S Otten (23 September 1940) and H. van Rooijen to P.F.S. Otten (9 September 1941).
contracts from Australian government departments, except for minor orders such as for naval gun sights in November 1941 that were placed with Philips Australia despite what government agencies internally called ‘the firm’s reputed alien association’.  

The new Managing Director of the production company, Hendrik van Rooyen, suspected that ‘special interests appear to have blocked this’. Without knowing why, he was right. The intelligence agencies were not able to substantiate their continued suspicions against Philips Australia, but argued that ‘dealing with Australian interests, this Section is actuated by the desire for precautionary measures rather than by evidence of subversion or other activity which may be of benefit to the enemy’ and ‘with a number of aliens amongst its executives and employees, we cannot recommend that it be allowed to participate in Defence contracts’. Waterman made representations to government departments, arguing that the company’s ‘alien associations were not as serious as alleged’. He also contacted CIB directly to ask for a meeting to discuss the fact that the company was not receiving defence contracts, because he feared ‘the risk of losing irreplaceable technical staff … we need badly for the execution of defence orders’. An official of the Department of Munitions told Waterman informally ‘that they could not put any secret work in any factory where any aliens were present’.

During 1940/41 and 1941/42, profits from the production and sales of lamps continued to be good, but losses continued in other activities, particularly in radio set and valve production. A visiting representative of the parent company found in April 1941 that the cost of production was very high in Australia due to high labour costs, the inefficiency of operating in different factories, high set-up costs in relation to ‘absurdly small production runs’, the high cost of valves and other components, and the fact that the quality of the radio sets was ‘too good’. Waterman’s health deteriorated since early 1941, and he tendered his resignation in November 1941.

By then, Australia had started to prepare for war production. In November 1941 the Department of Supply and Development noted the increasingly urgent need to mobilise the valve producing capacity of Philips Australia, because AWA alone

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66 NAA ST1233/1 N38445, Secretary Department of Supply and Development to Secretary Department of Army (26 November 1941). Apparently this order was based on a verbal agreement reached by Dudman. NAA SP1714/1 N42523, A.J. Paterson and N.P. Craig to W.C. Watkins (16 April 1942).
67 PCA 882 Australië, Directie New York, 2, H. van Rooijen to P.F.S. Otten (3 January 1942).
68 NAA SP1714/1 N42523, General Staff Eastern Command to Director Board of Area Management, Ministry of Munitions (draft, June 1941).
69 NAA ST1233/1 N38445, Secretary Department of Supply and Development to Secretary Department of Army (26 November 1941).
70 NAA ST1233/1 N38445, W.J. Waterman to CIB (29 December 1941).
71 NAA SP1714/1 N42523, F.S. Marshall to K. van Gessel (4 June 1942).
72 PCA 882 Australië, Directie New York, 1, W. Waterman to O.M.E. Loupart (7 November 1940).
73 PCA 882 Australië, Directie New York, 1, M.M.N.J. Dorenbosch to P. van den Berg (28 April 1941).
would not be able to supply the valve requirements during the next 12 months. Reluctantly the intelligence agencies agreed that ‘the national need appears to outweigh any unsubstantiated suspicion’ and that Philips be involved in defence-related work.

In February 1942 the Department of Munitions instructed the Philips valve factory to limit supplying valves to set makers and traders and sell exclusively to producers for defence purposes. In addition, the Philips set factory was forced to reduce production to 25% or less of past production. But no major Australian defence orders had materialised. Some small orders came in, such as an order by the army for 5 transmitters. It looked like the tide would turn in March 1942, when the company was promised a huge defence order for 900,000 valves. This, together with the pending appointment of Waterman’s successor, led Loupart to herald in May 1942 the start of a new era for the company in Australia. Nevertheless, the situation deteriorated considerably for the company that month. The expected defence order for valves was significantly reduced. But the main problem that unfolded was the consequences of serious accusations against the company by Victor H. Dudman, the manager of the transmitter factory, which again raised the suspicions of the intelligence agencies and put them in overdrive.

In essence, this issue was caused by envy and mistrust among local managers towards European expatriates, as well as Dudman’s capricious personality. The tight Australian labour market continued to make it necessary to employ European expatriate technical managers from Philips ventures in other countries. In mid-1940 Philips Australia employed 15 Dutch nationals and a further 11 continental Europeans, with a total of close to 700 employees. By early 1942, their number had increased to 22, respectively 13, out of a total of 887. Some local managers found it difficult to work with expatriates, who often occupied senior positions and enjoyed

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74 NAA ST1233/1 N38445 Secretary Department of Supply and Development to Secretary Department of Army (26 November 1941).
75 NAA ST1233/1 N38445, B. Tyrrell to CIB Canberra (30 December 1941) and W.J. Mackay to Secretary Department of Supply and Development (31 December 1941).
76 Radio and Electrical Retailer (19 February 1942) 3, (2 April 1942) 3.
78 PCA 882 Australië, Directie New York, 2, H. van Rooijen to P.F.T. Otten (26 February 1942).
79 PCA 882 Australië, Directie New York, 2, O.M.E. Loupart to W. Waterman (1 April 1942).
81 PCA 882 Australië, Directie New York, 2, W. Waterman to Board of Directors (6 May 1942).
82 NAA SP1714/1 N42523, W.C. Watkins to Deputy Director NSW Security Service (13 June 1942).
83 NAA SP1714/1 N42523, A. Grigg to B. Tyrrell (31 July 1940).
84 NAA SP1714/1 N42523, A. Grigg to G.H.V. Newman (5 January 1942).
higher pay.\textsuperscript{85} Such feelings of dissatisfaction remained under the surface, but bobbed up occasionally.\textsuperscript{86}

Dudman had been employed at Philips Australia since 1928 in the department that sold and installed radio transmission equipment. In 1939 the parent company had given him the task of establishing a separate factory for the production of radio transmitters, starting in February 1940.\textsuperscript{87} He did so under direct guidance of the parent company’s transmission department in The Netherlands. Dudman was responsible to the Governing Director of Philips Australia, but enjoyed a degree of autonomy that enabled him to hire around 100 local staff, including senior engineers who were very loyal to him.\textsuperscript{88} The Department of Manpower declared the transmitter factory a ‘protected undertaking’ in March 1942. Its permission was required for personnel movements, which may have enhanced Dudman’s autonomy. Dudman did not get along with his superior, because Van Rooyen’s arrival meant that the factory had become part of the production company, reducing Dudman’s independence.

Dudman’s personality had earlier caused the company several problems. Already in 1941 the intelligence agencies had learned that Dudman was scientifically well-versed, but ‘in the practical sphere … he can only be classed as a “dud” … a point of very considerable dissatisfaction by executives’ and that he ‘was given to the use of extravagant statements’.\textsuperscript{89} Dudman caused a major problem in April 1942 when the US Army came very close to cancelling its purchase of transmitters that Philips Australia had originally been producing for delivery to the Netherlands East Indies before the Japanese occupation. He had agreed to unrealistic delivery schedules without consulting others in the company and without a written US Army order specifying delivery conditions.\textsuperscript{90} A last-minute intervention by Waterman and Van Rooyen to apologise and negotiate new schedules prevented cancellation.

Aggrieved, Dudman brought these issues to the attention of the Department of Munitions and he subsequently met with intelligence officers. In his view, Dudman faced ‘extraordinary circumstances’ and asked that he ‘be given protection when acting according to my ideas of my obligations to the crown’, and that the factory ‘be acquired by the Commonwealth as early as possible’.\textsuperscript{91} He also stated that he ‘could mention other matters concerning Philips generally’. Dudman caused the company further difficulties in May 1942, when the Directorate of Radio and Signal Supplies withdrew from ordering £200,000 worth of aircraft transmitter and receiver

\textsuperscript{85} PCA 882 Australië, Directie New York, 3, H. van Rooijen to Board of Directors (31 August 1942).
\textsuperscript{86} NAA SP1714/1 N42523, Transcripts interviews D.G. Wiles (9 June 1942) 13-16 and F.S. Marshall (10 June 1942) 6-9.
\textsuperscript{87} NAA SP1714/1 N42523, ‘Memorandum of the discussion on June 19\textsuperscript{th} 1939’ (22 June 1939).
\textsuperscript{88} NAA SP1714/1 N42523, Testimony Arthur Redfern Hill (17 July 1942).
\textsuperscript{89} NAA SP1714/1 N42523, ‘Philips Lamps (Aust.) Ltd.’ (23 July 1941).
\textsuperscript{90} NAA M1415 119, W.J. Waterman to Deputy Director General of Manpower (30 May 1942); NAA SP1714/1 N42523, ‘Reply from Mr. V.H. Dudman’ (10 June 1942).
\textsuperscript{91} NAA SP1714/1 N42523, W.C. Watkins to A.J. Paterson and N.P. Craig (14 April 1942).
equipment, because Dudman had failed to submit a written quote. This came at a time when the company was desperate for defence orders. It therefore suspended Dudman for ‘neglect of duty’.92

Knowing that he would be suspended, Dudman phoned and wrote to members of Parliament and Cabinet ministers in Canberra to state his case.93 He alleged that Philips was stalling the work of the transmitter factory and thus impeded Australia’s war effort. CIB decreed that the allegation had to be investigated. Consequently, the offices and homes of most European general and technical managers of Philips Australia were raided by the intelligence organisation of the NSW Police on 6 June 1942 in search of incriminating documentation.94

Following investigations, the NSW Police intelligence organisation concluded that Van Rooyen had impeded the war effort in the factory.95 In the meantime, Waterman had managed to stall any intended government intervention in the company’s affairs until after the arrival of his successor. The company’s solicitors Sly & Russell enquired about the nature of Dudman’s allegations with William J. Mackay, Director General of National Security. Apart from Dudman’s statements that the company engaged a large number of foreigners, and that the Philips MNE ‘had such world wide interests that its outlook was “international” and consequently might not have the same incentive to a wholehearted endeavour on the part of the Allies’, Mackay did not specify the allegations.96

Consequently, in mid-1942 Philips Australia faced very significant political imperatives. It had been discredited in the eyes of the intelligence services and in some government circles, at a moment when its non-light activities had become almost entirely dependent on defence contracts. Moreover, it faced the possibility that its £1 million assets would be put under a government-appointed controller as enemy property.

6. Mitigating risk and maximising opportunities, 1942-1949

The Philips Board of Directors had found a solution in January 1942 to help resolve the company’s problems in Australia by appointing Frank N. Leddy as Waterman’s successor.97 Leddy had experience as Managing Director of Philips Orient, based in Egypt, during 1938-1942. He was selected because of his good reputation among the

92 NAA SP1714/1 N42523, W.J. Waterman to V.H. Dudman (29 May 1942).
93 NAA SP1714/1 N42523, V.H. Dudman to D. Mulcahy MP (26 May 1942).
94 NAA SP1714/1 N42523, W.C. Watkins to Deputy Director of Security NSW (16 June 1942).
95 NAA SP1714/1 N42523, W.C. Watkins ‘Philips Lamps … impeding production of war materials’ (13 June 1942).
96 PCA 882 Australië, Directie New York, 3, Sly & Russell to W. Waterman (31 July 1942) and Van Rooyen to Board of Directors (31 August 1942).
97 PCA 882 Australië, Directie New York, 2, O.M.E. Loupart to P.F.S. Otten (9 January 1942), O.M.E. Loupart to W. Waterman (15 January 1942); 4, O.M.E. Loupart to F.N. Leddy (9 January 1942).
British and Australian forces in the Middle East. Philips had no production facilities in Egypt, but in 1940 Leddy had improvised a local workshop, cannibalising Philips products and using scrap metal, to produce badly needed direction-finding and homing navigational equipment for use by desert-bound British and Australian troops. The workshop developed into a factory that produced different kinds of signalling equipment for British and Australian forces. The Board of Directors expected that Leddy’s reputation would help Philips Australia to receive the defence contracts it needed.

Leddy did not arrive until late-July 1942 and within a few days he was summoned to Canberra for a major meeting with new Attorney-General Herbert V. Evatt in the presence of Mackay and the Dutch ambassador in Canberra. Leddy had no knowledge of the findings of the intelligence services and was taken aback to hear Evatt express dissatisfaction with Philips Australia in view of Australia’s war effort:

‘the Philips factories were not fully working to serve the defence of the country, and that they could not be brought into that service, due to the lack of trust expressed by the various war-related departments. On the other hand, the government wished to draw the maximum possible benefit from the existing facilities and acknowledged capabilities of the Philips company. For that reason it has decided in the interest of National Security and the Allied War Effort to take very drastic steps’.

Evatt did not specify those steps, but continued that in the context of Leddy’s arrival and ‘on the basis of certain information received from Cairo and in particular from General [Sir Thomas] Blamey’ he was prepared to give Leddy a ‘fair chance’, provided the company would take the following measures within a month: (1) withdraw its appeal against the reinstatement of Dudman; (2) stand down Van Rooyen, and no foreign replacement to be sent, because the number of Dutch nationals at Philips Australia is already ‘out of proportions’; (3) bring all companies under a single leadership in order to avoid inefficiencies and conflict in senior management, and also to achieve (4) improved contact and closer cooperation with the Australian authorities; (5) improvement in output and quality of defence products; (6) reduced interference by the company directors in New York and London in the affairs of Philips Australia.

Evatt added that he was in principle against Australia accommodating subsidiaries of MNEs that maintained links and interests in ‘enemy territory’ and that he was inclined to use a ‘high degree of caution’: ‘In the case of Philips there were

98 Phillips ‘2/6Cavalry Commando’.
100 PCA 882 Australië, Directie New York, 2, F.N. Leddy to Board of Directors (24 September 1942).
some doubts. The government knows that the company maintains (or at least maintained) relations with Eindhoven … and that it would have been theoretically possible that certain information about Australian companies had found its way to enemy occupied territory’. These were very serious allegations and the Australian government’s far-reaching intervention in the management of a private company could clearly have been much worse.

Leddy cabled to the Board of Directors in New York: ‘Demand general measures ensuring better cooperation authorities including increased output and quality war production failing which government considering drastic steps’. And the Dutch ambassador recommended in a separate telegram that the company meet these conditions as soon as possible, or face ‘danger of government intervention’. The Board authorised the necessary changes and Leddy formally succeeded Waterman in August 1942. The company amalgamated all its Australian operations, and changed its name to Philips Electrical Industries of Australia Pty Ltd. Van Rooyen was stood down. Dudman resigned from the company in September 1942. Leddy could do little in the short term about the number of European expatriates. He engaged suitable Australians as far as these were available for senior management positions. For example, he employed ex-Australian Imperial Force Signals Major Arthur J. Phillips, with whom he had worked in the Middle East in 1940, to convert the set factory to produce defence-related equipment.

Despite these changes, Philips Australia received few government orders. Leddy was informally advised that the company was not excluded from defence work, but that the Directorate of Radio and Signal Supplies had been ordered not to place orders for equipment ‘of a highly secret nature, such as Radio Location Equipment’. The orders for valves were sufficient for the valve factory in 1943, but the radio set, transmitter and metal works factories remained underutilised. Leddy expressed his disappointment to Prime Minister John Curtin in February 1943, and asked for the company to be given more orders. But on the basis of British intelligence, the Director General of Security advised the government against involving the company in the production of any secret war material. Thus, Philips

101 NAA SP1714/1 N42523, F.N. Leddy to P.F.S Otten, H.F. van Walsem, O.M.E. Loupart (10 August 1942); PCA 882 Australië, Directie New York, 3, Memorandum P. van den Berg (12 August 1942).
102 PCA 882 Australië, Directie New York, 3, H. Riemens to Board of Directors (22 August 1942).
103 NAA A1608 AI27/1/2, F.N. Leddy to J.J. Curtin (24 February 1943).
107 NAA A1608 AI27/1/2, W.B. Simpson to Prime Minister’s Department (11 March 1943) and J.K. Jensen to Prime Minister’s Department (27 April 1943). Both the British and American intelligence services kept the Philips company under surveillance because, as the British mentioned, the suggestion ‘that that this organisation is being used by the Germans for espionage … cannot altogether be ignored.’ NAA SP1714/1 N4523, ‘Note on the Philips Organisation’ (9 February 1943) and ‘A study of the current activities of NV Philips’ (19 September 1942).
Australia remained excluded from the development and production of the most advanced equipment.

Nevertheless, in the course of 1943 and 1944 Philips Australia received its share of government orders for various types of valves and a range of equipment. It produced general field radio receivers that were used by the armed forces throughout the South West Pacific Area, and specialised receivers for the US forces, as well as sound amplifying equipment, precision testing instruments, radio accessories, the first Australia-made cathode ray tubes and aircraft components, astrocompasses and all kinds of lamps and lighting. Production was not easy, because of shortages of skilled people and many basic materials. But Philips Australia received the necessary raw materials allocations and government permissions to import the machinery and equipment that it needed to re-focus its production. Competition for government contracts and sales of valves to set makers remained fierce despite the continuation of the valve cartel with AWA. But a fire in AWA’s valve factory in February 1944, followed by AWA’s cancelation of the cartel agreement, allowed Philips to produce a greater range of valves, including US-type valves that suited the local market better.109

Table 2 shows that the company’s turnover remained at level during these years. Philips Australia’s profits continued to be in selling electric lamps. On balance, the results of other activities remained disappointing, with communications equipment, radio sets and electronics (i.e. valves, other semi-manufactures and other electronic equipment) the main loss-makers. ROA was very low in 1943/44 due to losses in ‘other’, which was possibly related to the overproduction of valves in 1942, following the optimistic Department of Munitions promise of an order for 900,000 valves. The company had to sell overproduction in 1943 at a loss.110 In contrast, the 1944/45 results were good, with a positive result in non-light activities.111

Despite the losses, Philips Australia had avoided being put under government control. When its war effort took a positive turn in 1944, Leddy started to plan for the company’s future. Loupart visited Australia in August 1944, and discussed with him how the company would contribute to Australia’s postwar employment program. Both also met several senior Australians in the industry to persuade them to join Philips Australia after the war. A significant new recruit was Jones, the Head of the Directorate of Radio and Signal Supplies in the Department of Munitions. Leddy

109 The Argus (21 February 1944); PCA, 882 Australië, Components, Box 58, 1, ’Australië, Discussions with Mr Leddy and Col. Jones on September 29th 1945’ (2 October 1945).
110 NLA MS4786/15, Sir Samuel Jones, Ministry of Munitions.
112 The Argus (22 and 26 August 1944).
struck a rapport with him through the dealings between the Directorate and the company during the remaining war years.

Table 2: Financial Performance of Philips in Australia, 1942/43-1949/50

<table>
<thead>
<tr>
<th>Turnover (f1,000)</th>
<th>Results in Australia (£1,000)</th>
<th>Results for Parent Company (f1,000)</th>
<th>Assets in Australia (£1,000)</th>
<th>ROA in Australia (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre-tax</td>
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<td>1942/43</td>
<td>6,648</td>
<td>70</td>
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</table>

Notes: ROA = Return on Assets. Financial years were May-April. Approximate official exchange rates: 1A£ = f6 during 1942/43-45/46 and 1A£ = f8.50 during 1946/47-49/50. Asset increase in 1948 due to £700,000 loan from Philips parent company in The Netherlands. The parent company results are the ‘concernresultaten’, which also include the revenues of the parent company in the form of royalties from Australia and the profits from its sales of products, semi-manufactures and production equipment to its subsidiary companies in Australia. Source: PCA 882 Australië, 2, ‘Australië 1942-1952 Concernresultaten’ (2 September 1952).

Around that time, the Australian government also started planning for the post-war years. In July 1944, Jones submitted an influential report on the further development of the communications engineering industry in Australia. He foresaw significant growth of civilian radio production, and made a case for continued trade protection in support of further development of the communications equipment industry in Australia. In early 1945 this appeared to become the post-war future of the industry, and it is likely that Leddy and Jones shared this vision.

Jones started at Philips Australia as Chief Engineer in May 1945. At the end of the war in the Pacific in August 1945, he travelled with Leddy to The Netherlands to discuss the expansion of the company’s activities in Australia, in particular the opportunity to amalgamate and expand the production capacity of the company in a single factory. There was a significant backlog in civilian demand for radio sets. As the Australian government continued trade protection to create job opportunities and encourage migration to the country, Philips Australia had to expand quickly.

113 NLA MS4786, S.O. Jones to the Secretary of the Secondary Industries Commission (6 July 1944).
114 Radio and Electrical Retailer (26 April 1945) 3-4. Jones would rise quickly to become the company’s Technical Director in 1951.
This led to the purchase of a large factory building in Adelaide in 1946, which brought the scattered Sydney factories together and was expected to employ 2,000 people.\textsuperscript{115} On the basis of his experience in the Middle East and the important introductions it had provided him, as well as his engaging personality, Leddy had by then extensive contacts in Australian politics, industry and society, which he put to use to achieve the re-establishment of the company’s production facilities. He also used these contacts to facilitate the expansion of the company during the 1950s into the production of television valves and components, as well as television sets and a growing range of other electrical and electronic products. This expansion was conditional on the continuation of Australia’s import protection policies. They allowed it to continue the valve strategy that Giberius had put in place in the 1930s, after renewing the valve cartel with AWA in 1945.\textsuperscript{116} Valves and other componentry for radio and television sets, rather than final products, became the company’s most profitable business in the 1950s. It expanded production capacity to produce over 7 million valves per year in 1959/60, capturing 65 to 70% of the Australian market.\textsuperscript{117} By the 1960s, it was one of Australia’s largest industrial companies.

7. Conclusion

The case of Philips Australia during World War II demonstrates that political imperatives in international business are by no means linear and predictable. It also demonstrates that the imperatives had both industry-generic and company-specific aspects. They evolved as a consequence of changes in the broader business context and circumstance that were difficult to predict for the company.

The risks to the company’s assets manifested themselves through the company’s marketing function in 1939-40 and through its production function in 1941-42. Both were familiar sources of risk in international business: competition and expatriation. But these risks were magnified by significant changes in the broader business context of Australia during the war years, resulting in the possibility that the company’s assets would be confiscated as enemy property and its expatriate managers detained as enemy aliens, as well as the risk of missing out on necessary government contracts.

The opportunities were also magnified by the war, as Philips Australia had become indispensable to Australia’s war production effort in 1942, due to its continuation of unprofitable operations. The opportunities took the form of retaining control over the company’s assets, minimising losses by obtaining government

\textsuperscript{115} The Advertiser (2 February 1946); Radio and Electrical Retailer (14 February 1946) 7 and 10.
\textsuperscript{116} PCA 882 Australië, Components, Box 58, 1, ‘Australië, Discussions with Mr Leddy and Col. Jones on September 29th 1945’ (2 October 1945).
\textsuperscript{117} PCA 882 Australië, Components, Box 58, 2, ‘Australië: Bevolking, welvaart, electrificatie’ (October 1960).
contracts for war production, and accumulating goodwill as an asset to position the company for expansion of its operations during the 1950s and 1960s.

The magnification of risks and opportunities had the advantage that Philips Australia had few opportunities to let the issue linger. It had to address them almost instantly in order to mitigate the risks or maximise the opportunities. For that purpose, the company developed an adaptive corporate strategy, in part because its own actions were an unwitting source of risk, but primarily because it had no choice but to manage the political imperatives. Although the company remained under suspicion and investigation, particularly the appointment of Leddy in mid-1942 enabled it to turn risks into opportunities.

This paper supports Fitzpatrick’s proposition noted in the introduction that firms handle issues of political risk on intuition, and that parent firms rely on subsidiaries to initiate assessment. The paper also underscores the core hypothesis of Ring et al. that the strategic responses of an MNE to political imperatives are a function of both the impact of such imperatives on a firm as well as the firm’s strategic proclivity, as the Philips subsidiary and its parent company cooperated to develop strategies to resolve the imperatives they faced in Australia, drawing on accumulated strategic experience in the MNE. Due to their non-linearity, political imperatives are difficult to predict, anticipate and generalise. Philips Australia and its parent company therefore addressed the political imperatives they faced in an interactive way, rather than with a merely reactive strategy, as Ring et al. predicted.

While Ring et al. offered seven testable hypotheses for further research, it is close to impossible to make a historical real-world case in this paper fit their conceptual taxonomy of types of industry structure, firm-level impacts of political imperatives, firm strategies, and strategic disposition. Consequently, their theoretical approach to understanding political imperatives in international business may help to structure the analysis of individual cases, but it does not necessarily lend itself to applied research. As the case of Philips Australia shows, one reason is that inventive, lateral-thinking company executives in both the subsidiary and parent company are crucial in the processes of analysing the imperatives and developing strategies to minimise risk, respectively maximise opportunity. Such human elements may be difficult to model and generalise in the study of international management.
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NAA, National Archives of Australia, Canberra, Australia
NLA, National Library of Australia, Canberra, Australia
PCA, Philips Company Archives, Eindhoven, The Netherlands


