Scandia Radio Case: Discussion Questions

*These questions are to guide preparation only. They are not to be written out or submitted.

1. What are the most important issues facing Scandia at this point in its history?

2. Assuming that the Board has decided to select one of the three internal candidates (Scheer, Diederich, or Boyd), which one of these would you recommend? Be prepared to defend your choice.
Mr. Nels Pearson, president of Scandia Radio AB of Malmö, Sweden, had announced to the board of directors that, for personal reasons, he had decided to take retirement at age 63 and sever all of his connections with the company. The board had asked Mr. Pearson to remain for another year to give the company time to find a suitable successor who would be able to carry on Mr. Pearson's responsibilities, but Mr. Pearson agreed to remain for only six months. His leaving presented the board with the problem of replacing him with an executive skilled in the management of an international business.

Mr. Pearson had been with Scandia since the inception of the business. His schooling had been meager. As a youth, he learned radio technology in a home workshop. He joined the young Scandia organization as a vocational electrician. At Scandia young Pearson impressed Mr. Per Holm, then president, with his engaging personality and his knowledge of radio technology. Mr. Holm took him out of the shop and made him his office assistant. Mr. Pearson, over the years, took on many of Mr. Holm's administrative duties and in time became a senior executive with many responsibilities, including the direction of sales, both domestic and export.

In recognition of his performance, Mr. Pearson was named executive vice president. Two years later he became president, and Mr. Per Holm became chairman of the board. The export business, which he had started, remained one of Mr. Pearson's responsibilities. Mr. Pearson eventually became the sole director of the foreign business, which had grown from a simple operation of selling finished radios on the continent to an intricate complex which covered the globe and included wholly owned plants and subsidiary companies, partnership arrangements, trading agents, wholesaling arrangements, royalty and
licensing contracts, selling components to local assemblers, and the custom manufacture of parts for competitive manufacturers. Mr. Pearson managed this business with the help of only three assistants, who had never assumed much authority.

The Scandia management had never looked upon its international business as being a separate entity. The foreign business had been treated as an arm of the domestic business without a separate division, although over two-thirds of Scandia's income came from international sales.

THE COMPANY'S HISTORY AND POSITION

Scandia Radio Aktiebolaget of Malmö, Sweden (SRA), had been organized in 1917 to manufacture Edison-type phonographs under license for the Scandinavian market. In 1926 it dropped phonograph production in favor of manufacturing a quality radio of its own design, which was so well received in Sweden, Norway, and Denmark that SRA became the leading radio manufacturer in Scandinavia. During the 1930s Scandia began an export program, and at the start of World War II over half of Scandia's production was sold in markets outside of Scandinavia. After 1945 Scandia added some phonographs to its product line and later some television sets, and it continued to expand its foreign radio trade.

Scandia was recognized as the largest radio producer in Sweden and a leading communications producer in Europe. It was also a leader in the world communications trade, with 70 percent of its total production being sold abroad. Its emphasis had always been on high-quality products; radio communications constituted 85 percent of its total sales volume. Approximately 90 percent of Scandia's radios were being sold in foreign markets. Almost all of its television sets, phonographs, and console combinations were sold within Scandinavia.

During the decade of the 1950s, the company experienced a major shift in its business. Its radio sales within Scandinavia dropped below the 1950 level. The management attributed the decline to two causes: (1) the advent of television, which competed directly with radios, and (2) the fast-rising general prosperity of Sweden, which provided Swedish consumers with the means to buy items previously beyond their reach. Scandia's radios now competed for the Swedish consumer's kroner with such items as automobiles, refrigerators, motorcycles, and washing machines. By the 1960s, radio sets were commonplace and unexciting in Sweden; many other products had more attraction.

At the same time that Scandia's home market was declining, its European markets were undergoing a similar decline, and for similar reasons. In the Common Market area the decline was accelerated by the new competition of Grundig in Germany and Philips of the Netherlands, both of which made excellent radios and electronic products, had much wider product lines, and had the advantage of being EEC members.

Outside of Europe, the various market area potentials presented a mixed
picture. In the United States, which was by far the largest and most prosperous market, national competition, mainly on a price basis, was intense. Everywhere in the world competition from other exporting manufacturers was growing, especially from the Japanese, who sold at prices too low for Scandia to meet.

While radios were a mature or declining product in most industrialized countries, there was a growing market for them in undeveloped areas of the world, where many people had yet to buy their first radio set. However, the standard of living in these areas was usually so low that many people could not afford to buy even the cheapest radio set, much less a Scandia. The potential in these areas was not clear, but it could be enormous. The situation was further complicated by the threat of nationalization in some of the developing countries.

SEARCH FOR A NEW PRESIDENT

"Mr. Pearson grew up with our company," said Mr. Holm, "and as our company grew, he grew with it. This made it possible for him to handle our foreign affairs with his left hand, so to speak, while with his right hand he handled many other matters. He still does that today, despite our large volume of overseas business. Now we will need a person who will devote a considerable amount of time to directing our international activities. The person will need to have many skills and talents. At this stage of our history, it is hard to say just what these skills and talents should be."

The board of directors, at the request of Per Holm (chairman of the board), had studied the problem of replacing Mr. Pearson and had come to three preliminary conclusions. First, that a formal search should be made, using management consultants, to find a new president; second, that the new president should be a person of proven performance in managing an international business; third, that consideration should be given to consolidating all of Scandia's international business in a newly created International Division, headed by a senior executive with appropriate staff support.

With the help of personnel consultants, the search had been narrowed down to three men, all of whom happened to be Scandia senior executives. The consultants advised that anyone of the three was capable of holding the office, and they recommended that the board make the final selection, basing its choice upon the needs of Scandia. The board then decided that it would interview each of the three candidates personally before making its decision. Dr. Curt Scheer was the first candidate to be interviewed by the board. He was followed by Herr Heinrich Diederich and Mr. George Boyd.

**Vita**

**Dr. Curt Scheer**  
Director of Finance and Administration, Scandia Radio AB  
Age: 48

1See Exhibit 1 on p. 889.
EXHIBIT 1
THE MEMBERS OF THE BOARD OF DIRECTORS

Per Holm, chairman, Scandia Radio (Swedish)
Nels Pearson, president, Scandia Radio (Swedish)
Sture Andersson (banker) (Swiss)
Jan Aström (lawyer) (Swedish)
Francois DuBois (advertising agency executive) (Canadian)
Rune Gylling (president, International Paper Products Company) (Norwegian)
Lars Hägglund (executive vice president, international pharmaceutical manufacturer) (Swedish)
Ingemar Holmlind (president, Stockholm Department Stores) (Swedish)
Gunnar Swenson (international shipping firm) (Swedish)
Rolf Deinlund (president, machine tool company) (Danish)

Place of Birth: Basel, Switzerland
Nationality: Swiss
Citizenship: Swiss
Religion: Roman Catholic
Parentage: Father—Swiss
Mother—Austrian
Height: 1 meter, 75 (5 ft 9 in)
Weight: 77.2 kilos (170 lb)
General health: Average good. Eyesight corrected by bifocals. Major impairment in hearing in the left ear.
Residence in childhood and youth: Basel, Switzerland
Mannheim, Germany
Geneva, Switzerland
Education: Volksschule, Gymnasium (public grade and high school), Basel, Switzerland
Wirtschafts Hochschule (Vocational Business College), Mannheim, Germany
University of Geneva, Geneva, Switzerland
Diplomas, Degrees: Vereidigter Buchprüfer (Chartered Accountant), Wirtschafts Hochschule, Mannheim
Dr. Rer. Oec. (Doctorate in Economics), University of Geneva (Major in International Finance and Trade)
Dr. Rer. Pol. (Honorary Doctorate in Political Science), University of Uppsala, Sweden
Experience:
2 years with Swiss-American Chamber of Commerce, New York City, U.S.A.
2 years with Schweizerbank (Swiss Bank), Bern, Switzerland (as Economist, International Dept.)
Scandia, 21 years:
Geneva Office, as financial executive and tax adviser, 3 years
Scandia headquarters, Malmö, Finance Dept., 5 years
Director of Finance, 5 years
Director of Finance and Administration, 8 years
Languages:
Switzer-Deutsch and German (native tongues)
French (learned in school)
English (learned during two years in New York, U.S.A.)
Swedish (learned while with Scandia)
Some Danish (learned from Danish-born wife)

Marital Status: Married
Nationality of Spouse: Danish born, of Swedish parentage. Long-time resident of Malmö
Citizenship of Spouse: Swedish
Family: 4 children, ages 13 to 18

Business and Professional Associations:
- International Association for Research into Income and Wealth
  Fellow: Econometric Society
- International Institute of Administrative Societies
- European Union of Accountants
- Member: International Committee for Historical Sciences
  Associate Member, Scandinavian Historical Society, Malmö

Outside Interests:
- Member, Malmö Civic Symphony Orchestra Board
- Amateur musician (violoncello)
- Sailing (yacht)
- Author of numerous scholarly articles on international trade, world political trends, international finance, the free trade areas, international corporate taxation, Swiss cantons as tax havens, the Hanseatic League in Europe, the Viking Period in Scandinavian history, the coming of the Free Trade Era, and Sweden’s capitalistic social-welfare state.

PER HOLM’S REMARKS ABOUT DR. SCHEER

"Dr. Scheer is our scholar. He is exceptionally able in statistical and financial analysis. People are apt to describe him as 'figure-minded.' He has a long memory for precise data, and without referring to records he can quote significant financial data 10 years old. That once made me nervous; however, I've never found his figures to be far off.

"People usually see Curt Scheer as just an informed accountant, but that is really a surface impression. He is responsible for all of the company’s money management, accounting and paperwork, and many other administrative matters. As our treasurer, I rely on him as the final authority in financial matters. He is Scandia’s economist, and makes up our annual general economic forecasts by world areas. He oversees all our domestic and international tax matters. He is not a lawyer, but somewhere along the line he acquired a good deal of corporate legal knowledge, and so he has become our liaison with our company’s attorneys. Curt also oversees all of our company’s insurance matters, including the employees’ group insurance and pension plan. He is also our link with the government on such things as import and export duties and restrictions, social welfare insurance, labor legislation, and income tax.

"Curt knows as much about Scandia in general as any one of us. He still
supervises the costing system which he installed in our plants, and this has given him a good knowledge of our factory operations. He personally works with George Boyd on finalizing sales forecasts—in fact, he furnishes Boyd with the forecasts. He and Boyd jointly work out our pricing programs. And being the company's de facto legal officer has gotten him into anything and everything that the company does. What I'm saying, I guess, is that Curt Scheer is an economic and financial specialist who is really a broad-gauge generalist.

"Curt looks mild-mannered and easygoing, but underneath he's as tough as leather—a thorough workman who can handle a multitude of problems. He can have a dozen things going at once—union problems, court trials, insurance claims, new bond issues, tax appeals—like a juggler with a dozen balls in the air at the same time—and it doesn't seem to confuse him a bit, or to hurry his pace.

"People don't dislike Curt, but he's not likely to be the most popular one in a group. I've heard snide remarks about his being the company's efficiency expert, a typical auditor, always looking at the financial data. Actually, he's not unfriendly, but he's cool and reserved by nature. Maybe that goes with being an intellectual—what the Americans call an 'egghead.' They don't usually win popularity contests.

"Curt is definitely an international executive. He does a lot of reading, keeps up with world events, and travels a lot. Any installation we have, anywhere, he's been there, knows it first hand. He's more of a linguist than any of us, too. In fact, we look upon him as being the linguist for our headquarters office.

"For recreation, Curt plays a violin in an amateur symphony orchestra, and also sails a yacht. Strange combination. His yacht is a big one—sleeps six. On his vacations he cruises the Mediterranean.

"Curt isn't a Swede, you know. He's Swiss, and he's kept his Swiss citizenship. His wife is Swedish, and the Scheer family seems to be Swedish in every way. I tend to think of him as being a Swede—he's been here so long and he fits in so well.

"Now, let's call him in so you can talk to him yourselves."

Dr. Scheer enters. Quietly smiling, he casually greets each director in turn. His dress has a slightly rumpled appearance. His soft bow tie and his gnarled thornbriar pipe, which he puffs at with deliberation, add to his casual effect. He wears bifocal eyeglasses. At times, he absentmindedly fiddles with the hearing aid in his left ear, as though he is preoccupied in searching for an answer, but most of his replies are prompt and incisive. His manner is relaxed, and his replies give the impression of complete candor. Mr. Holm leads the discussion:

Holm: Dr. Scheer—you know of course, that you are being considered for the presidency of our company. This means general management of our international business. Would that have appeal to you?

Scheer: I would have no objection to the appointment. I am already heavily involved in our international business.

Holm: You are aware that we are being advised by consultants in our search. Our consultants have asked that each of the candidates answer certain questions to the board. Is this agreeable to you?

Scheer: Certainly.
Holm: Tell us about your career—as you have seen it.

Scheer: You already have my vita, so I take it you want my view of my career. My father was Oberstudierot (educational counselor) at a Basel gymnasium. Before that he had taught economics. My mother was also a bookish kind of person. I was an only child, and I wasn’t robust and spent a good deal of my childhood at home. As far back as I can remember I was among the literati, the cognoscenti, and the intelligentsia. As a boy I got it from both sides, from my father and mother, and so it couldn’t help but rub off on me. It was always assumed that I would go the full route through university studies. I passed my Abitur without difficulty. My parents didn’t have a lot of money, and from there on I went just about all the way through university on scholarships. My father was an economist, and at one time he taught political economy, as it was called in those days. I had intended to become a teacher—had hopes of becoming a professor of economics—but would even have been satisfied to live out my life as a humble docent. Working at something economic, you enjoy the fruits of the economy more than if you teach economics to others. I liked the fruits. It wasn’t long before I connected with SRA, and from then on my life seems to have been Scandia Radio, all the way. I’m satisfied with the way it’s gone.

Holm: We all know that you have contributed greatly to Scandia. What do you see as your contribution?

Scheer: Inaugurating a “systems” approach to our international financing. Scandia, like many other international companies, drifted into making investments abroad. You might say it even backed into that position, because it was compelled by competitive forces. Our investments were sporadic; there was no master plan. By the time I came to Scandia, our foreign commitment was so large that a continuation of such a policy would have been intolerable. The sheer size of our foreign operations demanded that we rationalize our financial systems.

Holm: Could you be more specific? Give us examples?

Scheer: Yes, several. During the last twenty years Scandia has increased its operations abroad tenfold. Considering the vagaries of foreign political actions, equity investments would have been perilous. It was obvious to me that foreign leaders would often be willing to provide us with a very high percentage of debt capital in proportion to our equity, and so that became our policy in new ventures: a limited amount of equity and a generous proportion of debt.

Now I know that Banker Andersson at this very moment is thinking of the high interest costs. But we have deliberately used our multiple foreign subsidiaries to keep down our money costs, by taking advantage of the low interest rates in one country to supply the capital needs of operations in high-interest areas. This is simple if the money can be freely shifted between countries. If it is restricted by local governments, then we simply delay or accelerate the payment on the intersubsidiary sale of raw materials, components, or finished goods between the companies within the Scandia family. For example: One of our Danish subsidiaries had a cash surplus, which it lent to another Danish subsidiary which was receiving goods from one of our Swedish subsidiaries. The
Danish company prepaid its account with the Swedish subsidiary, and this money financed the movement of Swedish products into our Finnish subsidiary. Now here is what we accomplished:

If Finland had been required to pay for the goods, it would have had to borrow at the high going Finnish rate. If the Swedish subsidiary had financed the sale, it would have had to borrow at a high rate. But cash in Denmark was at a lower rate. Moreover, Danish currency was weak compared with the Swedish. By speeding up payments to Sweden, we not only obtained the money cheaper, but we hedged our position in Danish kroner at the same time.

Being as international as we are, we have also found it possible to adjust prices on intracompany sales according to a deliberate plan. If a country is in foreign exchange difficulties, it may earmark the scarce exchange for imports and not permit dividends to be remitted abroad. But in Scandia’s case, I found it possible to take out our dividends, so to speak, by raising prices on intracompany sales proportionately.

Transfer prices are also a useful device for keeping down the overall corporate tax liability. We have found it possible to instruct our subsidiaries to set high prices on intracorporate shipments to high-tax countries and low prices on those low-cost countries.

I think that we ought to similarly systematize exchange-rate planning. We were well prepared when the English pound was devalued, by deferring payments and switching purchases to other countries. But we ought to set up a system of continuing studies which will scan all of our markets for fluctuations in exchange rate and for impending devaluations, so that we can take full advantage of them whenever and wherever they occur.

Holm: What are your strong points as an executive?
Scheer: I think that I have more respect for facts than most executives. Most situations that call for decisions lend themselves to quantification. I think of decision making as a syllogism. If you take the pains to do so, you can almost always spell out the major and minor premises in terms of concrete data. The conclusion then usually becomes obvious. You have only to calculate it, as you would in solving an equation. People may not always like it, when faced with these kinds of calculated consequences. But they can hardly argue. The results are self-evident.

Holm: Do you feel deficient in any way?
Scheer: (smiling wryly) The more I learn, the more I come to realize how little I know. That’s not my pearl of wisdom, of course— I’m quoting. But as far as Scandia is concerned, I feel pretty well equipped. I say this in all due modesty.

Holm: What do you think of Scandia’s past performance?
Scheer: Scandia has generally been considered a highly successful company, and so its past history has been chronicled as a success story. But what is success in an economic enterprise? Is it what the balance sheets and the income statements show? Can you measure it by any objective standards? I think that success is a relative thing, and I’m not sure to what you could definitely at-
tribute the source. It might be the management, but management is a compound of the artful and the scientific and subject to good or bad fortune. For Scandia, fortune has been mostly good. As to our management, I think it’s been good but primitive—competent in its rudimentary way, and effective, but rugged and unrefined. We’ve been like the old salt of a sea captain who roared at his young mate: “To hell with your barometers and weather gauges! When my bunions ache, there’s a storm brewing, and we trim sail!”

_Holm:_ What do you think of Scandia as it is today?
_Scheer:_ I can give you three answers to that question. By any popular measure, Scandia is “prima”—in the money markets, in engineering circles and in the marketplace. That’s what the public thinks. I don’t think we can afford the luxury of basking in that glow. Which brings me to my second answer. If we take an introspective look at ourselves, we can hardly agree with the public’s “prima” opinion. I’d say that the “prima” opinion is actually a “prima facie” opinion—one taken at face value. If we could only stand aside and take a detached look at ourselves, we’d see that our way of management is an anachronism—outmoded and outdated. If we continue to use present techniques, then we have reached our zenith. My third answer is that we are now at a stage in our history in which we have arrived at a point of divergence. We must conscientiously address ourselves to the question of choosing what we wish Scandia to be in the era of our posterity. If we resolve to determine that now, we probably can choose among a number of options still available to us at this time. If we ignore the dilemma, we will lose the initiative and thereafter experience stagnation.

_Holm:_ Which leads right into my next question. What do you see as the company’s future?
_Scheer:_ We have our problems of the moment, but I see these as being eclipsed by the opportunities. Our future depends upon the attitude with which we face it. We can be reactionary, or conservative, or progressive. We are fortunate. We have many options.

_Holm:_ Could you be more explicit?
_Scheer:_ Some think that we have pushed too far, too fast, abroad, and that even in Scandinavia we will never again use our full capacity. We could retrench—cut back to our home market, survive there by eliminating ourselves of every last inefficiency, practicing Spartan economy to meet price competition. That would be reactionary. Taking that course, we would resign ourselves to remaining forever a relatively large producer in a radio market which is relatively small and might become smaller. No one could accuse us of being rashly ambitious, but no one could guarantee that it would be a sinecure. The conservative route would call for holding our present position, rationalizing, and consolidating as much as possible. In my opinion, our present position is untenable—we are beset by so many forces which are beyond our control, such as changes in customers’ preferences, or the shifting world economy. There are so many self-seeking governments with narrow perspectives. And always, the whimsical, the unpredictable vicissitudes of politics. In our blind
campaign for more sales, we have pushed ahead wherever we found an opening, and now our most advanced positions have weak lifelines. As conservatives, we would often find ourselves fighting rear-guard actions.

As progressives, we would have a number of attractive choices. It would depend on how we wished to be—what stance we chose in the expanding field of electronic communications.

Holm: Along which of the three routes would you lead the company?

Scheer: (curtly) That kind of decision should be reserved to the board of directors.

Holm: Are you in agreement with the plan to set up an International Division?

Scheer: There will be organizational difficulties. Henceforth, we will have a chief of the International Division, and a president. Over three-quarters of our business is now international. Who will actually be the chief executive?

Holm: Do you want the office of president?

Scheer: I am already so heavily involved in companywide foreign affairs that international business takes up most of my time. Therefore, it might make things easier to handle if I had full direction of our business. I, of course, would be honored to accept the office if it is offered to me. I am enthusiastic about expanding our international business.

Holm: Where will you live when you retire?

Scheer: Right here, in all likelihood. My Swedish family won’t let me move, and I don’t care to move, either. I guess I’ve become Swedish by marriage. (Facetiously) I thought we were talking about a promotion. Am I being fired? (laughter).

Holm: Thank you very much for cooperating, Dr. Scheer.

Vita

Herr Heinrich Diederich
Director of Manufacturing, Scandia Radio AB
Age: 54
Place of Birth: Braunschweig, West Germany
Citizenship: German
Religion: Lutheran
Nationality of parents: Father: German
Mother: Polish/German (Danzig)
General health: Good. Vision corrected by reading glasses
Height: 1 meter, 90 (6 ft 3 in)
Weight: 99.9 kilos (220 lb)
Residence in childhood and youth: Braunschweig, Germany
Education: Volksschule, Braunschweig
Gymnasium, Braunschweig
University, Braunschweig Technische Hochschule
Diplomas, Degrees: Degree in Electrical Engineering
Experience:
Blaupunkt Radio, Braunschweig—8 years
Design Engineer, electronics—2 years
Production Engineer, car radios (for Volkswagens)—4 years
Assistant Production Superintendent, radios—2 years
Scandia Radio—22 years
Assistant Plant Superintendent, Denmark—2 years
Plant Manager, Austria—3 years
Assistant Plant Manager, Malmö—3 years
Plant Manager, Malmö—4 years
Director of Manufacturing, Scandia Radio—10 years
Languages: German—native tongue
English—learned in school
Swedish—learned while with Scandia
Marital Status: Married
Nationality of Spouse: German
Citizenship of Spouse: German
Family: 8 children, ages 8 to 22
4 grandchildren
Business and Professional Organizations:
  Vice President: International Scientific Radio Union
  Chairman: Nordic Association of Radio Manufacturers
  Council of Nordic Master Craftsmen
  International Council of Societies of Industrial Design
  International Electronics Association
  International Esperantist Chess League
Outside Interests:
  Amateur radio operator
  Malmö Civic Men’s Choral Society
  Home gardening
  Chess

PER HOLM’S REMARKS ABOUT
HEINRICH (HEINZ) DIEDERICH

“Heinz Diederich is our technical man. I believe that he knows as much about
radio technology and audio amplification as anyone in the world today. He’s
lived close to radios since his early boyhood. We have Diederich to thank for a
number of our patents.

“Heinrich looks like the old Prussian ramrod type of plant manager, and
sometimes I believe that he is. But for assistants, he chooses modern
youngsters who are college-bred technicians. They are as much organization
people as engineers. Two of his present staff are engineers who have American
M.B.A. degrees. Sometimes I wonder if these youngsters are accountants, or
finance people, or production engineers.

“IT caused a ruffle of ill will when we made Diederich, who is German,
production chief of Scandia. There were some career Swedes in the Malmö
plant who felt that they had prior rights. We are an international company now,
and our people are going to have to learn to forget their Swedish origins, or any
other kind of origins, for that matter. You could look at it another way: I didn’t
choose Diederich because he was non-Swedish. I chose him because he knows radio design and he knows how to turn out radios.

"Heinz will give you the impression of being slow-moving. He is slow-moving; but when he does move into something, you can be pretty sure that he's thought about it. I've heard that no one in Malmö has ever beaten him at chess. That's not because of his brilliant moves. He simply takes his time and wears out his opponent.

"Diederich acts like a growly old bear—sometimes he even roars a little—but that is a surface impression and a cover. He actually is a kind man. He treats people fairly, without any grinning or backslapping. His people like him. Even the Swedes who were jealous of him didn't quit, and they are loyal to him now.

"Diederich has been a ham radio operator since he was eight years old. I'm told that the antenna for his home broadcasting outfit is the tallest and longest in Malmö. But radios aren't all of his life. At home he's all wrapped up in his kids, and by this time there are a few grandkids. In summer he spends his evenings weeding his roses and rutabagas. Heinrich doesn't travel much. He'd rather be at home than anywhere else—except in the plant.

"Diederich is a shirt-sleeved shop man. (Ruefully) I sometimes wish he were more of the executive type. I don't think he spends a fourth of his time at his desk. At most any time I'll find him hunched over a drawing board with some young draftsperson, or he'll be out patrolling the plant. He likes to feel the thump of the punch presses or hear the sputtering of the soldering irons and the whine of the circle saws. That races his pulse; that's life to him. Once when I almost choked on the smell of acid fumes in our electroplating shop, he laughed and called it the perfume of production. It smelled as sweet to him as his begonias.

"Now let's have Heinrich in and talk to him."

Heinrich Diederich enters and nods to the group of directors. He is a big, portly man. His steel-gray hair is a stiff, crew-cut bristle. His manner is stolid, impassive.

Holm: Herr Diederich, you know that you are being considered to head our company. Would the office of president have appeal to you?

Diederich: Yes, if the board determined that I was best man for the job at this time.

(Pause)

Holm: Would you explain, please?

Diederich: As you know, I find my present job very challenging. However, if it is the decision of you gentlemen (nodding toward the board) that I can better serve the company as the chief executive officer, I would exert every effort to move the company forward.

Holm: Our consultants have proposed certain questions which we would like to ask you.

Diederich: Feel free.

Holm: Please tell us about your career—as you have seen it.
Diederich: My father was a tool and diemaker by vocation. When I was a little boy he told me that he was making the dies which punched out the condenser plates for the radios being made by an early Braunschweig radio manufacturer. I found that exciting. Radio was the rage in those days, in the early 20s. As a 10-year-old I built my first headphone set out of a few wires and a cardboard oatmeal carton, and I was proud to get reception from Hanover, which was over 30 kilometers away. I have always found technical and scientific things interesting. While the other boys were playing soccer, I was in my home workshop tinkering with the new neutrodyne and superheterodyne tube radios. When the other boys were fascinated with athletic and military heroes, my heroes were Ferdinand Porsche and Thomas Edison, Marconi, Morse, and Alexander Graham Bell. We were not poor—my father earned good wages, and he determined that I would do better than he had done. There was no tradition of schooling in our family, but he and my mother encouraged me and helped me. I am the first one in our family to achieve a university education. I liked the natural sciences best. They came easy to me. If I had been allowed to do so, I would have studied only science—I would never have opened a book on history, or economics, or government, or anthropology. I took my degree just in time to become a soldier. I didn’t do much soldiering. I was assigned to a specialist post at an army headquarters unit as a radio technician. I never saw any heavy action. After the war, I was lucky again. I got a job with a radio company right in my home city of Braunschweig. I did well there, and then Scandia offered me a better job in Denmark. I married early at the end of the war, and there were getting to be quite a few little Diederichs about. I couldn’t afford to turn down raises. Besides, Scandia’s excellent technology appealed to me. So I came to Scandia. I have not regretted it. I think that for an electronics engineer, I have had an ideal career.

Holm: We all know that you have contributed a great deal to Scandia. What do you see as your contribution?

Diederich: Three things. First, maintaining the high quality of our product line.

(Pause)

Holm: How, specifically?

Diederich: It is related to my other two points. My second point was the establishment of a spread of plants which virtually blanket the globe. My third point was the firm adoption of a policy of centralization of product planning, standardization of products, and quality control, with decentralization of production but with the overall production still directed centrally.

Holm: Would you explain, please?

Diederich: As our sales abroad increased, the pressure to establish local plants became strong. For example, our distributor in Canada, where we had a ten-week delivery schedule, didn’t like predicting sales maybe six months in advance and maintaining a three-month supply in inventory. He wanted to draw from a plant in Montreal from which he could get deliveries within a week. So we built a small plant in Montreal. There are offsetting disadvantages to building small plants abroad. You lose the efficiencies of truly mass production that
you get in a centralized home plant, which might more than offset duties and freight. And plants in developing countries might be very inefficient. For example, the radio which we produced in Columbia at $41 might be produced in Mexico for $32 and it might be produced in Malmö for only $18! But nevertheless, we went the route of building small plants abroad to give better service and to satisfy the demands for nationalization of production.

Now, along with the pressure to build plants abroad comes pressure to modify our products to suit the tastes and preferences of the new market. The pressure comes not only from our salespeople; it comes from our engineers abroad, too. I have resisted this pressure, and insisted on uniformity, on standardization of our products, and even of our production processes, everywhere. This is the only way we can maintain quality and cost control. Now, while we have decentralized production in the sense of spreading it to dozens of plants abroad and giving local plant managers a free hand when it comes to labor relations and working conditions and many other things, we still are working at achieving a coordinated centralization of production planning. Scheer is much more advanced with his centralized financial planning than we are in production planning. We are just beginning to shape up. It does not make sense to try to produce our total product at each location. This is obvious. Many of our plants are located in countries which don’t have the basic raw materials, such as wood, or aluminum, or steel, or copper, yet they insist, for purposes of nationalizing production, on making as much of the product as possible. Therefore, we find ourselves making stereo cabinets, or at least the veneers, in Arkansas and Canada and Sweden; in stamping chassis in Sweden, Germany, Holland, and the United States; in making components in Paris; and so on with other essentials. Often only assembly is done locally. Now, when you have this kind of operation, it must necessarily be integrated and coordinated by centralization of production planning, which we do here at Malmö. We don’t yet have as smooth an operation here as I would like it to be, but I have some sharp young American industrial engineers who are studying the possibility of computerizing production schedules. But we have no intention of trying to run our individual plants on a day-to-day basis.

Holm: Do you feel deficient in any way?

Diederich: I have been a technical man, and in my end of the business I feel very confident. I am sure, however, that I would need to broaden my perspective in the president’s role.

Holm: What do you think of Scandia’s past performance?

Diederich: It has been excellent. SRA has always made as fine a communications product as anyone in the world. We deserve our good reputation.

Holm: What do you think of Scandia as it is today?

Diederich: I think we are in excellent condition, as least as far as our Malmö production and our continental plants are concerned. I am not that proud about what is coming out of our plants in Calcutta, or Zanzibar, or Buenos Aires, other than radios and some parts.

(Pause)
Holm: Why not?

Diederich: I should think that if developing nations want to get into production, they ought to begin with simple products—like shoes or furniture. A radio is a complex instrument. People cannot be cow herders today and radio makers tomorrow.

Holm: What do you see as Scandia's future?

Diederich: Well, I know that most people don't get very excited about radios and stereos any more. They are "old hat," as the English say. To my teenage daughter, they are as outdated as stereoscopes. I see it differently. There are great opportunities ahead for us. With our superior know-how, there are great areas that we have not even tried to exploit: the specialized kind of equipment needed by armies, by air forces, and in seagoing vessels, the highly refined equipment needed by commercial aircraft; and the use of radio in many industrial and commercial applications, where satellite radio might be much more practical than the equipment that we use today. The world today is so flooded with cheap radios that compete on a price basis that I think Scandia would do well to stay away from the general market. We ought to be doing what only we can do—making the superior-quality commercial sets that require superior talent in the making. It would mean cutting down on volume production, but we would then be in a field where we would have few competitors and where price, of course, would be a secondary consideration. It would be the answer to most of our world marketing problems. Products that are clearly superior—in the technical sense—vault right over the trade walls—the duties, the quotas, the nationalistic restrictions. Look at Swedish steel, or the Volkswagen, or Leica cameras, or Scotch whisky, or Wilkinson Sword razor blades, or Swiss watches, or Danish pottery.

Holm: (laughing) You've made your point. Are you in agreement with the plan to set up an international division?

Diederich: I am not sure how the International Division would work, but I cannot see that it would affect my end of the business very much. We already have full exchange of technical information, internationally. We also exchange personnel between all our foreign plants, as much as it is practical to do so. Our research and development will go right on as it is now, regardless of how you change the management. The new International Division might make quite a difference to Scheer and Boyd, but not to me.

Holm: Do you want the office of president?

Diederich: I would be honored, of course. While I am well situated in my present position, I still enjoy a challenge. I am interested in what is best for the company. I definitely would like the chance to be president.

Holm: Where will you live when you retire?

Diederich: I'm still a long way from retirement and hadn't really given it much thought. I assumed I would stay here until I retire, and maybe even stay here beyond 65, if it might be permitted. Most foreigners newly abroad tend to assume that their stay is temporary and that they will sooner or later go
“home.” But the longer you stay abroad, the more you get to be at home away from home. If I went home at age 65, I probably wouldn’t feel at home there. I honestly cannot answer that question. Perhaps my wife can answer it.

Vita
Mr. George Boyd
Director of Marketing, Scandia Radio AB
Age: 51
Place of Birth: Blue Earth, Minnesota, U.S.A.
Nationality: American
Citizenship: U.S.A.
Religion: Protestant (nondenominational)
Parentage: Father: John Boyd, third-generation American of English-Irish ancestry
Mother: Elise Schmidt, fourth-generation American of German ancestry
General Health: Good. No physical infirmities.
Height: 5 ft 10 in (1 meter, 78)
Weight: 175 lb (72.5 kilos)
Residence in childhood and youth: State of Minnesota, U.S.A.
Korean War
Lived in Chicago, Illinois, U.S.A.
Education: P.S. 4, Blue Earth, Minnesota
Blue Earth Public High School
Two years at Winona State College
Night School in Chicago—selected subjects in salesmanship, advertising, merchandising, retailing, market research, sales supervision, etc.
Diplomas, Degrees: 4-year High School Diploma
60-hour Business Diploma, Northwestern University Evening Division
Experience:
2 years U.S. Army, Infantry, Honorable Discharge; Rank, 1st Lieut.
2 years Salesman, Home Beautiful Furniture Co., Chicago, Ill., U.S.A.
3 years Lyric Radio Company, Chicago Area Sales Supervisor
18 years Scandia Radio:
6 years Lyric-Scandia, Midwest Sales Manager
5 years Scandia Radio, Inc., Sales Manager, United States and Canada.
2 years Assistant General Sales Manager, Scandia Radio AB, Malmö
5 years Director of Sales, Scandia Radio AB, Malmö
Languages: English—Native tongue
Swedish—Learned since 1965 with Scandia
Marital Status: Married
Nationality of Spouse: American, of English-Irish parentage
Citizenship of Spouse: U.S.A.
Family: No children
Business and Professional Associations: Delegate: International Marketing Federation.
Outside Interests: Spectator sports
Reading
World travel
PER HOLM'S REMARKS ABOUT GEORGE BOYD

"I once heard a man who disliked George Boyd describe him, nevertheless, as the world's greatest salesman. That might be a little overdone, but not much. You may not believe it when you first see him, because he's not the gladhandling type. George can melt ice when he wants to turn on the charm, but he's not by nature a gusher. He doesn't even do much smiling. He plays his own personality straight. I think of him as being aggressive, first of all, and second, I think of him as a maker of deals.

"George is always out to capture something, or to talk somebody into some kind of a horse trade. He is an honest trader, but when he charges after something he get it, just about every time. What he goes after, he brings home.

"Boyd drives himself hard. Even when he is relaxing, he's probably planning the next coup he's going to make. He drives his subordinates hard, too. Maybe too hard. He expects them to dedicate their total lives to Scandia, just as he does. I know that some of his people don't like him, but he gets things done.

"The Boyds have no children. He and his wife Ruth are a devoted couple. I sometimes think that Ruth works as hard at George's job as he does, and she enjoys it as much, too. She knows everyone who ever had anything to do with Scandia, and its competitors, and she knows their cousins and their uncles and their aunts. She's a living directory, and she helps George immensely. They are an excellent married working team.

"The Boyds are well off financially. Both of them had inheritances from their parents. They could live in style on income from investments if they cared to do so. Instead, they both work hard at George's job and live modestly in a seaside apartment near Malmö. You'd think that as sales chief he would have to do a lot of wining and dining, but they live quietly and only entertain when they need to do so.

"George is a talker. He can hold forth on most any subject, and he does—at length. He'll tell you—in no uncertain terms—what's wrong in the world and how to straighten it out. He'll tell you where world Christendom is heading, and what should be done about apartheid in South Africa. And when George has the floor, he holds it. He's pretty dogmatic.

"As you will see for yourselves. Let's have him in and talk to him."

George Boyd strides purposefully into the board room, nods unsmilingly in the direction of the directors, and says, simply, "Gentlemen." He makes a trim, well-tailored impression. Boyd has dark, piercing eyes and black hair and looks younger than his age. He declines a proffered chair, says that he would prefer to stand, and addresses the group:

Boyd: I understand that you wish me to answer certain questions. I will be pleased to do so. In fact, I have been looking forward to this session.

Holm: Would the office of president have appeal to you—especially in view of the fact that we are heavily international?

Boyd: It certainly would. Our international activities need unified direction.
Our international business needs leadership—strong leadership—and I believe I can supply it.

Holm: Please tell us about your life—from your own viewpoint.

Boyd: My father was a small-town merchant. He had the largest general store in Blue Earth, Minnesota, which was a prosperous farming community, and he did very well. My father was born on a farm in Minnesota. His parents came from England and Ireland.

My mother was American-born of German ancestry. Her parents were born in the United States and were proud of their ancestry in the United States dating back to the early 1800s.

My mother wanted me to become a teacher. She thought of that as a proud profession, and so I was sent to the state college. I really wasn't much interested in becoming a teacher. I had been helping my father in his store since I was a little boy, and I thought that the traveling salespeople who called on him led much more interesting lives than schoolteachers. There was one especially, who drove an old Dusenberg automobile, who was my boyhood hero. He sold underwear.

At state college I met my wife. We were married during my army service. Ruth and I have never regretted it. She has been a great help to me in my positions.

My parents were well off financially. They could easily have afforded to finance all of my schooling, but both of them believed in industry and thrift, and so they paid only for my tuition and board. If I wanted any spending money, I would have to earn that myself. At first I did odd jobs. They didn't pay well. Then I heard of a fraternity that wanted to buy new dishes and silver for its dining room. I got a special deal through a salesman who sold to my father, and I made the sale to the fraternity at a neat profit. Next I got the staple-food accounts for two fraternities, and later a laundry concession for the entire college. By my second year I was doing all kinds of business and earning big money for a young boy. I even sold the college itself a big order of furniture, and that "big-ticket" item was what led me into the furniture business in later years. My business dealings didn't do my grades any good, but they earned a lot of money, and inadvertently they became the most vital part of the education I received at that college. It saddened my mother, but my father was proud of me. Also, I got a taste for money early in life, and that was not good for a boy who was supposed to become a schoolteacher.

In the Korean war, I volunteered for service in the infantry at the end of my third year in college. After the war I didn't go back to school. A friend of mine got a job for me as a salesman in his father's wholesale business in Chicago. After a few months I was put in charge of radio sales. Three years later I accepted an offer to become Chicago sales manager of Lyric Radio, which was later bought by Scandia as a sales outlet. Scandia reorganized Lyric and made it a distributor, and I became North American sales manager. After a while I was invited to Malmö, and after a few years there, I became sales chief.
During my Chicago years, I had the opportunity to go to night school at a leading university, where I absorbed all the textbook knowledge I could find about selling and sales management. I already knew how to bargain—that seemed to be an inborn talent. I think I’ve led a charmed life. Except for the Korean War years, I’ve always been doing what I like and what I’m best at—managing a sales operation.

Helm: We all know that our sales have increased substantially in the years that you have directed our marketing. What do you see as your contribution to Scandia?

Boyd: Often when companies get into foreign operations, they do so rather aimlessly, without any real knowledge of their markets, which are quite likely to be very different in advanced countries versus developing countries or undeveloped areas. They lack sales sophistication.

I think this was especially true of Scandia. It sold abroad on the basis of old-established connections which it had developed haphazardly, on a sort of homespun who-knew-who basis.

I think I’ve modernized our sales tactics. Sales promotions abroad are now made on the basis of the most solid research which is available in each area, rather than according to “Who is our friend there?” Hunches have now been replaced with statistics, which we get not only from market researchers, but from economists, sociologists, and even political analysts. Sometimes our future in a country will depend upon an economic decision made by a politician, and then we even zero our investigations in on the politician personally, to try to get “inside” to anticipate which way his or her thinking is going. Our marketing decisions are now worked out systematically, where before they were based on “gut” feeling.

Helm: What do you think of the company’s past performances?

Boyd: The rest of the world thinks that our company has performed superbly. I think that it has done very well, too, but I think that we have patches on the seat of our pants. We are still operating as though we were a Swedish company which is selling its radios abroad. This—at a time when only one in four of our products is sold in Scandinavia. Actually, we are an international company, or a multinational company, as some call it. We are not a truly “multinational” company. That name is usually reserved for companies that are truly global in production, sales, financing, and management. We haven’t reached that stage yet. We sell in some markets; we have some production abroad; we have more debt financing abroad than we have equity investments; our top management is an international mix, but from that level down it’s still mostly Swedes at home and locals abroad. And what’s more significant, I think, is that our board is mostly Swedish and most of our thinking and our policies have a Scandinavian flavor.

Helm: What do you think of the company’s present position?

Boyd: I think that we have reached the proverbial fork in the road, and at this time we must be decisive. In the beginning Scandia looked upon its foreign sales as something it did with its left hand when both hands weren’t needed to
work on the home business. Exporting was a sideshow; the main act was in Sweden. The export sales went well and they earned money. But Scandia treated these earnings as something it did on the side, like a person who bets a few idle kroner on the racehorses and when he or she wins says, well, I'll bet it all again, and if I'm lucky, I may double my money once more.

It did this without much regard to alternative opportunities abroad elsewhere on the international scene which might have been more profitable. And Scandia is now almost a global corporation.

Holm: What do you see as the company's future?

Boyd: Scandia has a very promising future. It is already an excellent company, but its present position could be merely the platform from which it steps into true global greatness. It could do that if we properly exploit the vast untapped potential for our products that lies waiting in the world market.

Holm: Could you expand on that?

Boyd: We are already an international company, not a Swedish company selling in foreign markets; but we have never formulated a definitely defined strategy that would make the best use of our competitive advantages. And we have advantages—in technology, in reputation, in our brand name, in competent management, and in an established customer following.

We ought to face the fact that we are on the threshold of becoming a truly global company, and we ought to act like one. We ought to establish our production deliberately in areas where the costs are lowest, and that would mean shifting it away from Sweden, where the level of the economy is very high, resulting in high costs. We should shift production to areas such as the Far East, where labor is plentiful and wages are low. Many U.S. electronics manufacturers are now doing this and selling their products in the high-price United States market. We ought to build up sales where the market has the most potential and is most rewarding in profits. This would mean adding cheaper-quality products to our present line, ones that could be sold to the vast masses who still live in darkness and are just emerging into the light of civilization and are hungry for radios but cannot afford our expensive ones. If we were to operate as a true global corporation should, we could find a glittering array of opportunities to buy cheap and sell dear, what with our many differing markets, varying labor conditions, market demands, political influences, and money markets—provided that we can properly coordinate the total into an integrated and smoothly functioning operation. We are not operating that way today. Today we still treat overseas business on a sort of happenstance basis, as though it was a side issue.

Holm: What are your strong points as an executive?

Boyd: I've heard, via the grapevine, that I'm a tiger in the jungle, and I'm proud of that criticism. Until lately Scandia subscribed to the philosophy of building the better mousetrap, and some of the world did actually beat a path to its door, but this won't work any longer in today's world market. You must drive hard, and you must wheel and deal.

Holm: Wheel and deal?
Boyd: Yes. Get trading advantages wherever and however we can. Through natural economic advantages, or political influence, or systematically using the power structure that exists in every country. For example: We can make some electronic products economically in Sweden or the United States; we can make radio and phono components more economically in Taiwan or Ireland, where labor rates are low. It might even be to our advantage, in some countries, to have competitors make some of our parts and electronic components for us. We might do all that and assemble them in England for sale in the United Kingdom and Commonwealth markets. These intercountry exports and imports often amount to a significant percentage of these countries' foreign trade and give us a good deal of political influence.

Holm: Do you feel deficient in any way?

Boyd: Not especially, except that I play the game to win, which means I play the game for blood, not for fun, and that's left a trail of people in my wake who aren't especially fond of me. Oddly enough, while many of these don't like me personally, they are still quite willing to do business with me because I make deals on the basis of having something that they want, and I'm willing to bargain.

Holm: How do you rate the other contenders for the job?

Boyd: They are all competent executives. I wouldn't care to make any other public appraisal of the men whose help and loyalty I would expect to enlist if I were to become chief.

Holm: Why do you want the job of president?

Boyd: Because I believe that Scandia's future lies in the direction of continued expansion of sales globally, and doing so profitably, and I would lead it to that goal.

Holm: Where will you live when you retire, and what do you intend to do?

Boyd: (after a blank pause) Frankly, your question puzzles me. I have never given any serious thought to retiring. I guess that means I feel I will go right on doing what I'm doing now, and die with my boots on, as they say in the States. As to where I'll live, that will be wherever my work takes me.

Holm: Thank you very much. You have been very candid and most helpful.

Holm: Well, gentlemen, that concludes our interviews. What do you think?

Jan Aström (lawyer): Gentlemen, in view of our line of questioning, I wonder if we have approached this in the wrong way. What are we really looking for? What talents should our new president have? What special qualification? How should he be different from our other executives? Do you think we would know a good international executive if we saw one?

Sture Andersson (banker): I don't think our man needs to be an experienced internationalist. Any good broad-gauge executive could be competent in the job, even if he speaks only Swedish and has never been outside of Malmö.

Ingemar Holmlind (department stores): How can he make major decisions about Scandia's world trade if he hasn't had experience as a world trader?
EXHIBIT 2
Scandia Radio AB, Malmö, Sweden, organization chart.
Sture Andersson: I make decisions every day about fisheries and flour mills—and (looking pointedly at Holmlind) even department stores—and I am neither a fisherman nor a miller nor a merchant.

Ingemar Holmlind: But your decisions are financial ones.

Sture Andersson: Scandia is a commercial enterprise. It certainly isn't non-financial.

Holm: Well, gentlemen, we have had a busy day. I would suggest that we now adjourn and meet again a month from now. We must choose our new chief executive at our next meeting.