The present paper will investigate the risk management strategies related to the foreign direct investment (FDI) decisions of two Norwegian manufacturing firms in the late 1960s and early 1970s. The two firms are: Dyno Industrier, which produced explosives and industrial adhesives, and invested in West Germany, England, Singapore, Denmark, and Finland; and Norcem, which produced cement, and invested in Ghana, Liberia, the Philippines, and Ras al-Khaimah in the United Arab Emirates.

Risks, in relation to FDI, are often defined as, “the dangers firms face in terms of limitations, restrictions or even losses when engaging in international business”. Security is a relational term closely connected to the meaning of risk, thus security in relation to FDI is the avoidance of such risk. This paper will examine, compare and discuss the strategies the two firms implemented to ensure the success of their investments and manage risks in their FDIs. The primary focus is on the firms’ investments, which risks they were most concerned with when they invested abroad, and how they chose to manage them.

In the last thirty to forty years, research on risk and risk management has increased in scope and scale. Although risk management and the security of investment was an important element of international investment prior to the increase in interest in the topic, there has thus far been only limited research conducted on how firms chose to manage risks related to international investments in business history. An article published by Casson and Lopes in 2013 is one of the few studies that takes an historical perspective and focuses specifically on how firms manage risk when they invest in high-risk environments. This is also one of few studies that compares responses to risk across firms. However, Casson and Lopes’s paper only presents examples of certain risk management strategies, and the reasoning behind the firms’ management of risks is not discussed.

1 Eduardsen/Marinova, Decision-makers’, 12.
2 Inhaber/Norman, Risk Interest, 119–120.
The two firms in this paper are selected because they had FDIs both near and far, in unstable and insecure countries as well as in stable and secure countries. Their investments abroad coincided with an increase in FDIs by other Norwegian firms, and with an increase in interest in risk and risk management research. The two firms thus invested abroad in a period when there was some, though still limited, Norwegian experience on which to base investment decisions, and when there only was limited research available on how to manage the risks involved with such investments. The research below is primarily based on company archives, supplemented by company magazines, government archives and various governmental publications, primarily from the 1960s and 1970s. Oral history interviews were conducted with two former senior managers and decision-makers in the firms: Ragnar Halvorsen from Dyno and Gerhard Heiberg from Norcem.

The paper will first give a short introduction to the risk management strategies that are commonly used to manage risks involved with FDIs. Thereafter, the paper will describe the Norwegian context the two firms invested within. By doing so, the chapter will provide context and background for the firms’ investments and help to contextualise the options that were available to the decision-makers. The two firms and their investments will thereafter shortly be described, before the risk management strategies employed by the two firms are discussed.

Definitions: Risk and risk management

Originally, Frank Knight defined risk as a situation in which possible outcomes are unknown but where their probabilities are calculable, and uncertainty as a situation in which even their probabilities are unknown. Several researchers have since pointed out, however, that the proposed distinction between risk and uncertainty is not compatible with most uses of risk in modern society, nor with how risk is used in daily language. The two firms did not make a distinction between uncertainty and risk, nor did they find risk to be a quantifiable construct. More recently, there has been an argument for defining risk in a way that includes both negative and positive outcomes. Rosa, for example, defined risk as: “A situation or event in which something of human value (including humans themselves) has

4 Knight, Risk, Uncertainty and Profit.
5 Aven, Risk Concept, 33–44.
been put at stake and where the outcome is uncertain”. 6 Rosa’s definition of risk has inspired several other commentators to devise definitions of their own. Renn, for instance, defined risk as “The possibility that human actions or events lead to consequences that affect aspects of what humans value”. 7 Within the data collected about Dyno and Norcem, there is no evidence that any of them defined what they considered the concept of risk to mean. It is therefore likely that the decision-makers involved in the FDI decision had somewhat different perspectives on what exactly constituted risk and security, as evident from the oral history interviews.

Perceptions and conceptions of risk and security have an impact on decisions taken and the ways in which these decisions are reached. 8 The characteristics of individual managers and decision-makers, such as personal experience, risk appetite, and knowledge each impact their decision-making. The impact of risk on a decision is greater in respect to losses than it is to gains. 9 As such, decision-makers and managers may be more focused on security when the issue is framed as a potential loss with severe implications for the firm than when it is framed as a potential gain. Directly related to FDI, managers’ perceptions can have an impact on the timing of internationalisation, the willingness to internationalise, and the selected entry mode. Eduardsen and Marinova found that managers’ international orientation impacts how likely a firm is proactively to identify, create, and capture international opportunities. 10 Managers base their decisions on whether to invest abroad on a variety of aspects. Buckley found that decision-makers emphasise production costs, access to resources, market growth, trade barriers, and country-specific factors such as languages, when considering a foreign investment. 11 All these issues can create risks for a firm considering an FDI. Risk may also arise from other sources including the market and the political or socio-cultural environment in the host country. 12 Political risk includes some of the primary risks that can be faced by firms when they invest abroad; as such, it is a significant determinant of FDI decisions and it continues to be of importance even when the FDI is in place. 13 Political risk is often defined as the risk that the govern-

6 Rosa, Metatheoretical, 28.
7 Renn, Accomplishments, 51.
8 Cohrsen/Covello, Principles.
9 Aharoni/Tihanyi/Connelly, Managerial, 135–142
11 Buckley/Devinney/Louviere, Managers, 1069–1094.
12 Heidenreich/Mohr/Puck, Strategies, 793–803.
13 John/Lawton, Perspectives, 847–879.
ment will “unexpectedly change the ‘rules of the game’ under which business operate”. It is usually associated with changes in political regimes and can result from wars, revolutions, coup d’états, or political turmoil.

How the managers and decision-makers in Dyno and Norcem viewed risk and the need for keeping their firms and their investment secure could thus have influenced their investment decisions and the ways in which the two firms chose to manage risks.

Once a firm that is seeking to invest abroad has identified and assessed the risks associated with the investment, the next step is to decide whether and how to manage them. This can be done by implementing risk-management strategies. A risk-management strategy aims to reduce the impact a potential risk can have on the investment and the firm, thus securing the investment and the firm itself. A firm can manage or mitigate risk through financial methods, such as insurance policies; it can also divide the risk between several partners in a joint venture; and networks and trust can be used to mitigate risks. Furthermore, risk can be managed strategically through, for example, avoidance, control, and cooperation. Avoidance occurs when the firm and its managers consider the risk to be at an unacceptable level. In this situation, the manager can respond either by postponing the investment or withdrawing altogether, if the firm is already involved.

Insurance is one of the oldest strategies for coping with risk, and it can be traced back to Mesopotamia. Insurance is an effective risk-mitigation strategy because firms can secure against risk for a fixed cost. Insurance firms usually divide political risk into three categories: war and political violence; expropriation/breach of contract; and, transfer risk. However, insurance, when it is available, is not always affordable. Commercial risk, changes in government regulation, and discrimination against foreign firms are examples of risks that are typically costly to insure against.

When a company invests abroad, its management must decide on which entry mode they want to utilise and how the ownership structure should be organised. There are three main types of entry mode: contracts, joint ventures, and wholly owned subsidiaries. Entry modes can also be analysed as green field investment versus acquisitions. The choice of entry mode ultimately depends on how much risk the company is willing to take in return for the anticipated greater level of control and potentially higher re-

---

14 Busse/Hefeker, Political Risk, 397–415.
16 Miller, Framework, 311–331.
17 Jensen, Political Risk, 1040–1052.
turns. A joint venture gives medium-level control, while a wholly owned subsidiary gives the most control but is less secure. However, a cooperative strategy such as a joint venture involves increased exposure to opportunistic behaviours by the cooperating parties.

Networks, relationships, and trust can help in the mitigation of cross-border risks. Relationships and networks are an important resource for firms as they can grant access to further knowledge and markets, together with benefits such as access to other relationships, resources, and organisations. Networks are particularly important in the early phases of internationalisation. And research has shown that networks have been particularly important in the internationalisation process for medium and small firms. Cooperation and strategic alliances can, however, also create risks. For instance, conflicts can arise due to the opportunistic behaviour of the participants or through the expression of their individual interests. This is known as ‘relational risk’, which can be managed through control or trust, where control refers to the process of influencing the behaviour of the partner or participants. Trust is an important aspect of any network and can be defined as the willingness to be vulnerable under conditions of risk and interdependence. Trust is seen as a measure that firms can use to mitigate any opportunistic behaviour of partners, for example in a joint venture.

Background and context

The decision to establish production in other countries is especially demanding and risky.

The two firms serving as examples in this paper were both Norwegian-based companies founded, headquartered, and operated out of Norway, and owned and controlled by Norwegian interests. This means that the Norwegian socio-historical context was important for their investment de-

19 Brouthers/Hennart, Entry Mode, 395-425.
20 Miller, framework, 311–331.
22 Björkman/Forsgren, International Business, 6–25.
23 Das/Teng, Strategic Alliances, 251–283.
24 Rousseau/Sitkin/Burt/Camerer, Trust, 393–404.
cisions, the options available to them, their risk management strategies, and how they came to invest abroad.

Norwegian firms were generally slow to embark in FDIs, and it was only from the 1960s that there was any significant increase in FDIs by Norwegian firms. However, the 1970s marked a turning point: in this decade, both the number of FDIs and the value of investments abroad increased. Changing political views in Norway, the decision to not pursue EEC membership, the increasing importance of the oil industry, and growing investment and labour costs at home all contributed to the increase in FDIs from the 1970s onwards. Consequently, the majority of Norway’s largest manufacturing firms became multinationals during the 1970s, and between 1978 and 1986, the number of Norwegian FDIs quadrupled. The major exception was the shipping industry, which had made several investments abroad somewhat earlier.

Regulations affecting Norwegian outward FDIs were limited, the most important of which being the currency licence. All FDIs by Norwegian firms had to obtain a currency licence from the Norwegian Central Bank (Norges Bank) before any capital could be transferred abroad and investments could be carried out. The exception to this rule was again the shipping industry, which needed approval from the Ministry of Trade and Shipping instead of from the Central Bank. Norwegian investments abroad were otherwise not regulated under Norwegian law, and it was usually easy to obtain the licence. Applications were only rejected in the rare cases in which Norwegian industry would have had little involvement in the proposed project.

One of the main institutions that supported Norwegian firms seeking either to export abroad or invest in foreign countries was the Norwegian Guarantee Institute for Export Credits (GIEK). The Institute helped to promote the export of Norwegian goods, the export of services, and Norwegian FDIs. It also gave special guarantees for export and investments in developing countries as a part of Norwegian developmental aid. This guarantee scheme was established in 1963 and provided guarantees for exports to and for investments in developing countries. This guarantee covered Norwegian investors for the political risks they might encounter while investing in a developing country, thus helping to make the investment more se-

26 NOU 1979: 35.
cure for the Norwegian firm. The political risks the scheme covered were divided into three main categories:

1. Expropriation, confiscation, or similar interventions from local governments.
2. War, rebellion, or similar conditions.
3. Obstacles to the conversion and transfer of funds from the host country to Norway.30

A strike was not covered by the insurance, nor were the commercial risks or expenses arising from mistakes or negligence by the investors. Guarantees would not be granted to already existing investments, unless the investment was a part of an expansion, modernisation, or rationalisation, or otherwise contributed to the further economic development of the business. The investments presented in this paper that received guarantees from the GIEK covered up to 90% of their investments.31 Besides the guarantees for exports and investments in developing countries, firms could also receive financial support for feasibility studies in advance of a potential investment in a developing country. This support could cover up to 50% of the cost of a feasibility study,32 representing a major state-financed contribution towards ensuring the security of FDIs for Norwegian firms.

Dyno Industrier

Dyno Industrier was established in 1972 after a merger between the only two civil explosive producers in Norway: Grubernes Sprængstofffabriker (Grubernes) and Norsk Sprængstofindustri (NSI). Their core activity was the production of explosives, but they also produced chemical products such as plastic sprayers and industrial adhesives.

Both Grubernes and NSI made independent FDIs in the years before they merged. The earliest FDI was in 1966 by NSI in a joint venture in West Germany with the local chemical producer E.H Worlée &Co. m.b.H. The joint venture produced amino resins and NSI contributed the production know-how. NSI’s next investment was in Singapore in 1970 where

31 Utkast for protokoll for møtet i det utvidede styret den 1/2-68. 1968. (RA, GIEK: Da-0005).
they started an industrial adhesives factory in a joint venture with the local development bank. Grubernes, the other merging partner, made its first FDI in 1970 when it acquired a producer of plastic sprayers in the United Kingdom. After the merger of Grubernes and NSI to become Dyno, the company invested in industrial adhesives factories in Denmark and Finland in 1972, both of which were joint ventures with local plywood factories as participants. Most of these investments were financially successful, although the first, in West Germany in 1966–67, was in many ways a failure as it was never profitable and closed just a few years after opening.

Internationalisation through both exports and FDIs was seen as essential for the survival of the firm in the long run, a view which made Dyno especially willing to take risks when it came to investing abroad. Dyno’s monopolisation of explosives on its home market following the merger of Grubernes and NSI was one of the major driving factors behind its attempts to enter the international stage. Inflation in Norway and the increasing costs of labour and production were also important factors. The manager of the firm stated in 1973 that

> The expansion possibilities on the Norwegian market are limited for both the chemical and the explosive sectors. … It is therefore natural to seek expansion abroad; partly through exports of products that can stand transportation costs and potential customs charges, and partly through the establishment of local production or acquisition of already existing firms.

**Norcem**

Norcem was a producer of cement and related building materials, such as lightweight concrete and asbestos cement. They were also involved in plastic boat production. Norcem was established after a merger between three cement producers in Norway in 1968. Norcem’s focus on exports, primarily of cement and clinker, gave it international experience and contacts. In the early 1970s, its focus on the export of cement was complemented with an emphasis on the export of industrial know-how and management ser-

---

34 Adm. direktørs redegjørelse på generalforsamlingen onsdag 9. mai 1973. (RA, Dyno: nr 1, 110.4-9433).
vices. The knowledge and contacts that the company gained through this contributed to Norcem’s later involvement in FDIs.

Exports played a significant role in Norcem’s development. For a short period, between 1965 and 1970, Norway was Western Europe’s largest exporter of cement. Norcem’s primary export markets were outside of Europe. The decision primarily to export to markets outside of Europe was likely connected to the strength of its European competition. Several of the European countries were already producing cement and had no need to import it from abroad. Norcem’s recognition that its future markets would be those found abroad continued to be reaffirmed. The CEO stated that “it has become one of our long-term goals to use the strong reputation we have gained as a result of our know-how, our technology, and our competent people, on different projects in several places around the world”.

Norcem saw the Norwegian market as too small for future growth, and export and internationalisation were therefore seen as necessary if the firm was to survive in the long term.

The cement producers’ first FDI was through a mutual sales company in 1967, the year before the merger, when it became the minority owner of two cement mills in Ghana. The Ghanaian state owned the majority share, and the main income for Norcem came from the export of cement clinker produced in Norway. It took nine years from Norcem’s first investment abroad before it made its next and Norcem made two FDIs in 1976. One of these was a joint venture in plastic boat production in the Philippines; this investment only lasted for a few years and was largely unsuccessful. The second investment was in a block factory in Ras al-Khaimah. This was a joint venture with Sheikh Saqr bin Mohammed al-Qasimi, the ruler of Ras al-Khaimah. In 1977, Norcem also invested in cement mills in Liberia. This investment had many similarities to the earlier investment in Ghana, but this time with Norcem as the majority owner and the local government a minority owner. Norcem’s FDIs in the 1960s and the 1970s were in distant countries with few cultural similarities to Norway, and in which few other Norwegian firms had invested. Furthermore, Norcem was more exposed to risks due to the nature of the industry in which it was involved.

35 Gartmann, Sement, 33.
36 “Norcem eksporterer”, Nytt i Norcem: 1–69.
37 “Internasjonalisering”, Nytt i Norcem: 3–76.
38 Aftenposten, “Norcem vokser internasjonalt”.

https://doi.org/10.5771/9783748924579-135
Generiert durch IP '54.70.40.11', am 02.07.2021, 08:40:19.
Das Erstellen und Weitergeben von Kopien dieses PDFs ist nicht zulässig.
Risk management strategies

One of the first steps in the risk management process is to identify and assess relevant risks. Both firms conducted research on the market, and on the potential risks involved with the investment. Norcem and Dyno both focused on risks that they could prepare mitigation plans for, and the two firms considered themselves to be well prepared for the investment and its accompanying risks. For instance, Heiberg from Norcem reported that he felt the company was “thorough” when evaluating and assessing the risks before the investment decision was taken.39

There are, however, marked differences in how much risk the managers of the two firms were willing to take, and how much they focused on keeping the firms’ investments secure. Norcem, under Heiberg, was the most risk-willing of the two firms. Heiberg himself stated that, “We were a little bolder than Dyno, a little more ‘trigger-happy’, to use that word, in a lot of what we were doing”.40 Norcem’s views on risk and their decision-makers’ perceptions of them are reflected in their chosen investment countries. The countries were distant from Norway, both geographically and culturally. Notable examples of this include Norcem’s investments in Ghana, Liberia, and Ras al-Khaimah. Dyno was more focused on keeping the company and its investments secure, and its investments were both in countries that were geographically close to and distant from Norway. The firm took some risks in regard to its investments, though not as many as Norcem. Dyno was more willing to accept risks in situations where they were affected by increased competition, however, for instance in the case of Singapore, where increasing local production put pressure on Dyno to invest if it wanted to maintain its market share.

Research on risk and FDI has primarily focused on the risks involved in the investment itself. However, for Dyno, and partly for Norcem, the risk of not investing also played a role in the risk assessment and investment decision. One of the main arguments in support of Dyno’s investment in Singapore was that, “If our company does not establish local production, we must run the risk of losing our present position”.41 It was likewise argued in regard to its Finnish investment that it was, “probably the last possibility for keeping an interesting share of adhesives deliveries to Fin-

39 Interview with Heiberg, August 2015.
40 Interview with Heiberg, August 2015.
Thus, without the FDIs, Dyno risked losing the market share that it had established through export. Norcem, though to a lesser degree, came to a similar conclusion with regard to its investments in the Philippines and Liberia. Norcem argued that the FDI in the Philippines was necessary for the survival of Fjord Plast boat production because “large transport costs have proven it impossible to deliver the smaller boats from Fjord to this market”. In addition, the investment in Liberia was intended to ensure deliveries of clinker from Norway. The risk of not investing and potentially losing their existing market share was an important aspect of their risk assessments and investment decisions, and it affected how the two firms viewed and assessed the investments.

In some of the potential investments that were discussed by the two firms, the risks were deemed to be too high compared to what the firms expected to gain from them. In those cases, the firms decided to avoid the risk by not investing. Examples of this include a discussion which took place at Dyno about acquiring a firm in Sweden which was decided against because the cost was seen as too high compared to the firm’s worth.

Norcem also decided against direct investments in cement factories in the US, and instead relied on exports. The reason given for this was that the risks and investment costs involved were too high and could thus have had a significant impact on the firm as a whole if the investment was not a success. The size of the other investments varied, but none were large enough to pose a threat to the whole firm if they failed. Deciding against investing was thus a risk-mitigation strategy used by two firms that otherwise were relatively willing to take risks. This shows that there was a limit to how large a risk these firms were willing to take, and that avoidance was used as a risk-mitigation strategy. Keeping the firm secure was considered as more important than taking this risk. This fits with March and Shapira’s findings, where managers perceived risk as something that should be avoided when the survival of the firm is under threat.

42 Formalin- og Limfabrikk i Finland. 1971. (RA, Dyno: nr. 34, 114 Styret).
44 “Fjord plast”, Nytt i Norcem: 2/3-75.
45 “Klinkereksport sikret ved kjøp av cement-mølle”, Nytt i Norcem: 2-77.
47 Interview Heiberg, August 2015.
48 March/Shapira, Managerial Perspectives, 1404–1418.
Political risk

The most significant risk associated with the investments outside of Europe are political risks. Included in this category of risk are political instability, government policy instability, and social risk. Norcem was the only company that had to deal with political risk throughout its investments, while for Dyno this was mainly a concern ahead of its investment in Singapore. Political risks were a crucial consideration in regard to Norcem’s investments in Ghana and Liberia, but also in its investments in the Philippines and in Ras al-Khaimah. Some research on political risk had been conducted before the firms invested abroad, but it was a relatively new research field until the 1980s. Political risk was clearly a concept that both firms were aware of and concerned about before their investments abroad in the 1960s and 1970s. Political risks are referenced several times in the data, and the GIEK provided a separate insurance policy to cover political risk in developing countries. The term ‘political risk’ was used by the firms to describe both political instability and government policy changes, such as the confiscation of subsidiaries and coup d’états.

Several strategies were implemented to manage or mitigate political risks by the two firms. One of those strategies, the selection of what they considered to be less risk-prone countries, was used both to avoid political risk and to limit risk in general. For instance, Dyno chose to establish an FDI in Singapore rather than in nearby countries as a part of its risk-management strategy, with Singapore being preferred over other countries because it was seen as having a more stable economic and political environment. Dyno’s knowledge about the political and investment environment in Singapore was greater than it was for other nearby countries, and this further contributed to the firm considering this a less risky choice.

One of the other significant risk-management strategies that was used to mitigate political risk was insurance from the GIEK. Both firms had previous experience with the GIEK’s guarantee scheme, as they had used it to insure their exports. The guarantees against political risks were used for the FDIs that were outside of Europe. The guarantees from the GIEK against political risk in regard to their investment could have contributed to this, as 90% of both of their investments was guaranteed against political risk at

49 Miller, Framework, 311–331.
50 Styremøte 5. 6. 1969. (RA, Dyno: nr. 32. 114).
51 Kobrin, Political Risk: A review, 67–80.
52 Styremøte 5. 6. 1969. (RA, Dyno: nr. 32. 114).
the time of the investment.\textsuperscript{53} Norcem used the insurance for several of its investments while Dyno used it for the investment in Singapore. For Dyno, the guarantees were set as a condition before it would commence with the FDI in Singapore.\textsuperscript{54} The investment in Singapore was a large financial investment for NSI, but the political risk of investing in Singapore was, to a large degree, offset by the guarantees from the GIEK. The guarantees thus made the investment feel more secure for Dyno.

Another important risk-management strategy implemented against political risk was maintaining personal relationships and trust. This helped to ensure the firms’ position in the relevant country, and it granted access to new investment opportunities. Networks and trust can be used to mitigate opportunistic behaviour of partners, and can also promote and increase information transfer.\textsuperscript{55} Forming relationships with government officials in particular can provide useful information about governmental processes.\textsuperscript{56} This strategy was utilised by Norcem and, although to a lesser degree, also by Dyno. Halvorsen, the former manager of Dyno, said,

In general, you made friends – that is what you did. Friends whom you could trust and, if it went wrong, that one could talk to. Thus, as part of the internationalisation process this is, I think, a main point. Especially for a Norwegian firm with little capital and a small business, that only has to offer specialities within adhesives that one can buy from elsewhere.\textsuperscript{57}

One of the reasons this was seen as a useful risk-management strategy for Dyno was due to the firm’s size. From an international perspective, both Norcem and Dyno were small firms with limited resources. Maintaining a close relationship with the people it invested with and the leadership in the country it was invested in was therefore an important strategy. Norcem, for example, did not have the resources required to bribe officials at the same scale as larger firms. Close cooperation and relationship cultivation with government actors were therefore used in order to retain the monopolistic position it had gained in Ghana and Liberia against financially stronger competitors. For Norcem, this risk-mitigation strategy was also useful in its investment in Ras al-Khaimah, where its relationship with

\textsuperscript{55} Rousseau/Sitkin/Burt/Camerer, Trust, 393–404.
\textsuperscript{56} Doh/Lawton/Rajwani, Nonmarket Strategy, 22–39.
\textsuperscript{57} Interview Halvorsen, August 2015.
the government in relation to the management of the cement factory contributed to making its first FDI in the country in 1977 a possibility. The previous involvement in the country also ensured that Norcem knew its investment partner before becoming financially involved. Heiberg argued, “We found that we could rely on them and they found that they could rely on us, which made it easier to say ‘yes, let us invest together’.” 58

However, relying on networks, friendships and trust is a complex risk-management strategy. In particular, this was the case for Norcem in Ghana, Liberia, and Ras al-Khaimah, as it is difficult to maintain a friendship with the political leadership in a country with frequent regime or leadership changes. It was therefore also crucial not to be too closely associated with a former government, so as to be able to build a relationship with a new government without being linked inextricably with its predecessor. 59 The complexity of this strategy was emphasised in Norcem’s application for guarantees from the GIEK. The application was sent without the Sheikh’s knowledge, and Norcem requested that the application be kept a secret, stating that

Since Sheikh Saqr is both the political leader of the Emirate and a part of this project, it will be very unfortunate for both this project and later cooperation if it becomes known to him that we seek guarantee coverage for political risks. We therefore request confidentiality regarding the case, and that it must not be made public in statistics or in other public information that can be traced back to this project. 60

Based on the above, it is evident that political risk was a known and even an essential aspect of the firms’ international investments, and that it played a significant role in the firms’ investments outside of Europe. Both Norcem and Dyno used guarantees from the GIEK to insure against political risk, and Dyno even established this as a requirement before commencing with the investment in Singapore. 61 It is possible, however, that Norcem would have commenced with the investments regardless of the insurance. Insurance via the GIEK was thus seen by Norcem as helpful, but not as a necessary strategy to mitigate political risks. The two companies both also highlighted the importance of a close relationship with the elites of the countries in which they invested. In Norcem’s case, corruption and

58 Interview Heiberg, August 2015.
59 Interview Heiberg, August 2015.
bribery was a risk it had to manage. Corruption is here defined as bribes paid to government officials to gain ‘favours’; something which research shows can increase the cost of investing by up to 20%. It can, however, also contribute to securing certain advantages, such as obtaining a monopoly in a given market.62 This issue was similarly managed by maintaining close relationships with the leadership in the two countries, together with ensuring a high and consistent quality of production and making a social contribution to the countries.63 In general, it can therefore be said that maintaining a high and consistent quality product and establishing a reputation as a firm that could be trusted was essential for the success of the firms in their investments.

Entry mode

The selection of entry mode and, with it, the selection of ownership structure are essential aspects of risk management in FDIs. Research by Benito on the ownership structures used by Norwegian manufacturing firms found that firms that invested in politically-unstable countries were more likely to select shared ownership.64 Dyno and Norcem considered sharing the risk with other participants as a risk management strategy in almost all of their investments. A majority of the investments established by the two firms were joint ventures in which the other partner or partners were locals. This contributed to limiting the risks involved by sharing them with the other participants, but also by obtaining local knowledge about the country. Halvorsen from Dyno argued that the preference for joint ventures was intended to limit risk and because of a need to “know our limits”.65 Heiberg from Norcem emphasised the importance of the ability to be flexible in regard to ownership: “We had no clear policy … we had to be flexible depending on the political situation we found in the nations where we were”.66 The only investment that was wholly owned was the in-

63 Interview Heiberg, August 2015.
64 Benito, Ownership Structures, 157–198.
65 Interview Halvorsen, August 2015.
66 Interview Heiberg, August 2015.
vestment in the UK by Grubernes (Dyno). Grubernes chose to acquire the whole company in England primarily for tax reasons.67

The two firms were the majority owners in most of their investments. In two of Dyno’s investments, the company had shared ownership equally with one or several other participants, while Norcem was the minority owner in two of its investments. In the investments where the Norwegian firms were the minority owner or where ownership was shared equally, the Norwegian firm contributed know-how and management experience. The exception to this rule was Dyno’s first investment in West Germany, where the local partner was responsible for management and sales, while Dyno provided the know-how. Table 1 below shows the ownership structures used in the two firms’ investments.

Table 1: Ownership structure of the FDIs

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment</th>
<th>Year</th>
<th>Ownership</th>
<th>Other participant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dyno</td>
<td>Germany</td>
<td>1967</td>
<td>Joint venture</td>
<td>German company 50%</td>
</tr>
<tr>
<td>Dyno</td>
<td>England</td>
<td>1969</td>
<td>Acquisition</td>
<td></td>
</tr>
<tr>
<td>Dyno</td>
<td>Singapore</td>
<td>1970</td>
<td>Joint venture</td>
<td>Local investors 35%</td>
</tr>
<tr>
<td>Dyno</td>
<td>Denmark</td>
<td>1972</td>
<td>Joint venture</td>
<td>Consumers of adhesives 66%</td>
</tr>
<tr>
<td>Dyno</td>
<td>Finland</td>
<td>1972</td>
<td>Joint venture</td>
<td>Consumers of adhesives 50%</td>
</tr>
<tr>
<td>Norcem</td>
<td>Ghana</td>
<td>1967</td>
<td>Joint venture</td>
<td>Ghanaian State 85%</td>
</tr>
<tr>
<td>Norcem</td>
<td>Philippines</td>
<td>1976</td>
<td>Joint venture</td>
<td>Local investor 49%</td>
</tr>
<tr>
<td>Norcem</td>
<td>Ras al-Khaimah</td>
<td>1977</td>
<td>Joint venture</td>
<td>Sheikh Saqr bin Mohammed al-Qasimi 60%</td>
</tr>
<tr>
<td>Norcem</td>
<td>Liberia</td>
<td>1977</td>
<td>Joint venture</td>
<td>Liberian State 25%</td>
</tr>
</tbody>
</table>

One crucial aspect of how risk is managed within a shared ownership structure is through the selection of the other partner or partners. Dyno and Norcem used this strategy extensively. In Dyno’s investments in Denmark and Finland, for example, the other partners in the joint venture were the consumers of the product, and thus some of the risks were mitigated through ensuring sales due before the factory had begun operating. On this strategy, the former manager of Dyno stated, “It reduced our risk and our chances”.68 This strategy is closely connected to the use of net-

68 Interview Halvorsen, August 2015.
works, friendships and trusts as forms of risk-mitigation, as mentioned above.

For Norcem, its partner in joint ventures was often the local government. Norcem used this strategy in several of its investments, with the aim of managing risks. According to James and Vaaler, this can function as an effective risk-management strategy, though this is mainly the case when the local government holds less than 50% of the ownership, and it works best when the local government holds between 21% and 30% of the equity. In Norcem’s investments in both Ghana and Ras al-Khaimah, the government was the majority owner with an ownership share of 75% and 60% respectively. Heiberg, the manager of Norcem, found the strategy useful, explaining that, “In Africa, we were partners with the government, I saw this as an advantage because they also had a responsibility in this, so if they broke us down, it would affect them as well”. It was only in Norcem’s investment in Liberia that the government held the minority share, with 25% ownership.

It is clear that the firms implemented several strategies with the aim of managing the risks involved in their foreign investments, and several of the strategies used are aligned with modern research on risk management in FDI. As this research has shown, entry mode was one of the most actively used strategies by the two firms, both in their investments in Europe and the rest of the world. An important aspect of this was a focus on the other partner(s) in the joint ventures. Partners were specifically selected because they could contribute to limiting risks, either through having local knowledge, through being a guaranteed purchaser in the future, or through their being local government actors. Consequently, one of the most used and discussed risk strategies was sharing the risk with partners in joint ventures. Besides this, the two most used strategies to mitigate risks were guarantees from the GIEK and maintaining a close relationship with the government and the cooperating partners.

Summary and Conclusions

This paper has shown that risk and risk management was a consideration in both firms’ foreign investment activities, even though they invested abroad before the majority of the scientific research on the topic had been

James/Vaaler, State Ownership.

Interview Heiberg, August 2015.
conducted. The two firms also implemented various risk-management and mitigation strategies, such as the selection of an entry mode, the selection of participants in joint ventures, the selection of countries, and the use of guarantees against risks. For instance, the firms chose to avoid risks by deciding not to start or continue with the investment, they took risks in order to pursue opportunities, and they shared risk with other parties.

A majority of the investments made by the two firms in the 1960s and 1970s were successful, both financially and in establishing the firms in the relevant country or region. Several of the subsidiaries that were invested in or established still exist today, under new owners. Two of the investments can be identified as failures, due to the lack of profit and the firms’ decision to divest after a few years’ involvement, including Dyno’s first investment in West Germany in 1966 and Norcem’s investment in the Philippines in 1976. Dyno withdrew from its investment in West Germany in 1971, only five years after production had started. The subsidiary struggled financially and Dyno suffered a financial loss. Norcem’s investment in the plastic boat factory in the Philippines in 1976 also only lasted for a few years before the company decided to divest.

In general, very few of the risk mitigation strategies that were implemented by the two firms in their FDIs were decided upon following a process whereby components of risk were defined and methodologically addressed. This was particularly the case for the investments that did not succeed. One of the primary issues in all of the failed investments appears to have been a lack of research in general, in particular regarding their competitors. There was a large increase in research carried out by Dyno between its first investment, in West Germany, and its second, in Singapore. If Dyno had carried out further research on the competition in West Germany, it might have been better prepared for the competition it met from German companies.

Some of the risks were assessed, planned for and mitigated in advance, but in several of the investments, the risks were only addressed, and the problems were only solved when they arose. Nevertheless, a majority of the investments by the two firms were successful, and this inspired the firms to continue investing internationally. Risk assessment and risk management contributed to the success of the investments, even though they were established prior to the increase in scientific interest in the field. It is

72 Interview Heiberg, August 2017.
therefore unlikely that increased scientific knowledge on risk and risk management in relation to FDI would have had a significant impact on the way in which a majority of the investments would have been conducted, yet it could have had some more or less negligible implications in the cases of the investments that did not perform as well as expected. Several of the investments could have benefited from further research on the competition, from a higher focus on risk assessment, and from earlier-laid plans as to how to manage the risks involved in the investments. The firms were, however, willing to take the risks involved with their investments because the two firms had identified international expansion as a future aim. Both firms continued to undertake FDIs all around the world and they grew into international organisations with subsidiaries in several different countries before they were themselves acquired by other firms.

Bibliography


Gartmann, Frithjof: Sement i Norge 100 år. Oslo 1990


Norwegian Official Report: 35. Strukturproblemer og vekstmuligheter i norsk industri, Oslo 1979


Norwegian Official Report: 54. Om revisjon av valutareguleringen, Oslo 1983

Nytt i Norcem, Norcem’s internal magazine, 1-1969 “Norcem eksporterer i år 1,1 million tonn cement”

Nytt i Norcem, Norcem’s internal magazine, 2/3-1975. “Fjord’s plast etablering på Filippinen et faktum”

Nytt i Norcem, Norcem’s internal magazine 3-1976. “Internasjonalisering”

Nytt i Norcem, Norcem’s internal magazine 2-1977. “Klinkereksport sikret ved kjøp av cement-mølle”

Renn, Ortein: Three decades of risk research: accomplishments and new challenges, in: Journal of risk research 1 (1998), 1, p. 49–71

