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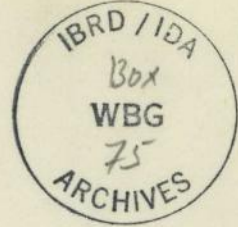
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AMERICAN BUSINESS GOES ABROAD -- A CASE HISTORY

Address by Stanley C. Allyn, President,
National Cash Register Company, before the
26th National Business Conference sponsored by
the Harvard Business School at Soldiers Field,
Boston, Massachusetts, June 16, 1956



It is a pleasure to participate in this conference because these annual meetings impress me as constructive contributions to the well-being of American industry.

There is no place else in the world where the ties between industry and education are so firmly woven, and there are no foreign counterparts of our schools of business administration.

Fortunately, however, universities in Europe are beginning to take a more lively interest in business, and business is beginning to appreciate the vital role of education in developing the management group of the future.

If a representative group of educators and businessmen from foreign countries could sit in on this conference, they would go home with a lasting lesson in the rewards of a vigorous partnership between the campus and the field of commerce.

The purpose of this year's conference has been well stated. We are here to look at the opportunities of doing business abroad. We are also here to look at the responsibilities of doing business abroad.

We cannot talk about one without talking about the other.

The two are inseparable in overseas trade -- as in any other business relationship. All too often we discover that efforts to develop business overseas have foundered on a failure to appreciate the fundamental link between responsibilities and opportunities.

In spite of these unprofitable adventures, this country has a very substantial commercial interest in overseas nations. This interest is frequently minimized and sometimes overlooked. It might be a good idea if we took a quick glance at the question of overseas business in general.

What does it mean to the United States?

What does it mean to foreign countries?

What are the yardsticks by which its importance should be measured?

I would not attempt to answer those questions in detail. But I believe I can provide a few highlights which may serve to point up our commercial interest abroad.

The total of our exports is the most commonly employed measure of our foreign economic stake. Exports of goods and commodities are at the annual rate of about \$14 billion.

This figure is solid as far as it goes, but it does not go far enough. It is two-thirds inadequate, because it measures only one-third of our annual foreign sales. We must also include sales by American plants in overseas countries.

These plants -- and there are many -- including a few which belong to the National Cash Register Company -- are selling to the foreign market at the annual rate of \$30 billion.

This means that foreign sales by American industry add up to \$44 billion, which is a far cry from the sum of our exports. And, of course, a large share of the earnings on those sales by American plants abroad comes back to this country and is poured into the churn of our national economy.

A \$44 billion figure may not look impressive in the full glare of our \$400 billion gross national product, but all one has to do is to adjust his focus, and \$44 billion becomes a rather staggering total.

It is equivalent to the gross national product of the United Kingdom.

It is almost twice the gross national product of Canada.

And, finally, our \$44 billion of foreign sales is more than the current level of national security spending in the United States.

When one views our sales to foreign customers under that kind of candle-power -- which is the only logical way that one can view them -- our foreign business attains the respect it deserves.

It would seem to follow in natural sequence that the United States has a vital interest in the continued economic growth and prosperity of the free world...an interest far beyond what it is generally portrayed to be.

The reverse side of the coin reflects the stake of other nations in our off-shore business. American private enterprise has been investing \$1.5 billion overseas a year. These investments are not exactly unwelcome in the nations where such funds are spent. Neither are the employment opportunities which such investments naturally create.

It is rather significant that out of the annual total of \$1.5 billion of private enterprise investment abroad, \$500 million has been invested in the under-developed nations. This private investment equals -- almost dollar for dollar -- the amount of our government's proposed economic assistance to those under-developed countries. It very definitely will be equally effective in bolstering their economies.

I do not know exactly how many American companies are engaged in overseas trade, but the number must be impressive and is constantly increasing. Some have operated overseas for several generations, some only a few months.

My mission this afternoon is to present a case history of an American business which went abroad in the 19th century and ever since has maintained successful outposts overseas.

It is the case history of my own company which made its first journey to foreign shores in 1885.

The National Cash Register Company has been in world trade for 71 out of its 72 years. We are doing business in some 100 countries. Our overseas sales in 1955 amounted to over \$100 million -- or 40 per cent of our total volume. We anticipate a substantial increase in 1956.

As the years have gone along, we have developed a pattern of operations, based on certain definite and proved principles. This pattern might not work for other companies, but it has worked for us.

Some parts of our pattern are so fundamental -- as we see it -- that they could not be omitted from any type of orderly procedure in overseas countries. And, except for refinements which are inevitable in a rapidly changing world, the pattern has been substantially the same for many years.

It seems to me that the best way to present this case history is to enumerate certain major principles within the pattern in capsule form and then elaborate upon them as I go along.

When we go into any foreign country, we go in for keeps.

We believe in a company operation overseas instead of general agencies.

We believe in staffing our overseas operations with natives of the countries concerned.

We have learned that -- for us at least -- service comes ahead of sales. I should probably point out that I am using the word "service" in the sense that it means the rejuvenation of over-age machines, new parts for old and skilled repair work.

We consistently invest part of our profits in the countries where those profits were earned.

We do not treat our overseas employees as stepchildren. We treat them exactly as we treat our staff at home.

We try to give the foreign market the product which the market wants --- and not the product which we think the market ought to have.

We believe in first hand contacts with our foreign markets, and that means that we are constantly traveling.

Finally, we are extremely careful to respect the customs, traditions, religions and sensitivities of alien peoples.

These nine principles are the fundamentals of our working pattern, but they do not follow any particular order of precedence. One principle might take priority in one nation, and still another be considered as the most important principle in a different country.

Now let me see if I can elaborate on those principles.

I said that when we go into a country we go in for keeps. Wherever we hang up our shingle, we are there to stay, regardless of wars, revolutions and depressions. In many countries we have entered, the National Cash Register Company has lasted longer than the government.

Actually, we have never voluntarily withdrawn from any country, but we have been put out of business in some nations behind the iron curtain by the simple process of expropriation. Incidentally, did you ever stop to reflect on the fact that there isn't one scrap of American ore -- or American workmanship in that curtain?

Even outside of the Iron curtain, it has not always been easy to keep our business going. Let me say with all sincerity that the real credit for what we have been able to accomplish under all kinds of bewildering and hardship circumstances belongs to the NCR people in the countries involved -- men and women who have time and time again made sacrifices for the business -- far beyond the call of duty.

You could fill a small shelf of books with examples of these sacrifices, but one example will suffice to tell the story.

Did you ever hear of anyone stealing a factory?

That is what happened to us.

Before the war, we had a beautiful factory in Berlin. Somehow, it had escaped being bombed, but when the Russians came in they virtually rolled our factory up like a rug and took it home with them.

They ripped out the elevators and the windows and then loaded them up and dumped loose machine parts on top of the load in a fantastic kind of jumble.

I heard the details from our German employees when I arrived in Berlin in August, 1945, as a guest of the Army. But I also heard what our German employees had done for us, and that's the real point of this example.

Our Berlin manager, Herr Wilhelm Rohm began to read between the lines of Herr Goebbel's optimistic war communiques some months before the armistice. Herr Rohm decided privately that the Russians would occupy the city. He also had a shrewd hunch that his beloved factory would be a prize piece of loot for the Soviet government.

So he lined up as many trucks as he could and loaded them with blueprints, tools, parts and key employees and moved 115 miles southwest of Berlin to an ancient champagne cellar in Freyburg. So you might say from that part of the story that American business abroad sometimes has to go underground if it expects to survive.

The Freyburg adventure did not last long. Herr Rohm was tipped off that Thuringia might be labeled for inclusion in the Soviet zone, and his strange little caravan took to the road again. It traveled mostly by night because Herr Rohm recognized the possibility that his tools might be seized by the Russians and that prowling Soviet troops might imprison him and his men or shoot them on sight.

Eventually, he found a refuge in Gunzhausen in the American zone. The owner of a small hotel let him stow his gear in the basement and allowed him to have two little rooms for an office. From Gunzhausen, Herr Rohm moved to Augsburg where he leased a small factory, and we were back in business -- so to speak.

The war was over then, but there was not much help we could send Rohm and his men in their miniature enterprise. But we could send CARE parcels, and we did that. The parcels contained cigarettes which we had intended for our men's own pleasure. But they thought up a better way to use them.

Cigarettes were a medium of exchange at that time, and a far better medium than money. Our people traded their cigarettes for tools and equipment and gradually built up a self-sustaining repair business. I suppose you might say that they literally smoked out business where it didn't exist. They even managed to lay aside a little working capital to resume manufacturing.

In March, 1949, the first post-war, completely German-manufactured cash register came off the assembly line at Augsburg. So, you see, we have even managed to survive a cigarette economy, which is one hazard that isn't usually mentioned when the risks of foreign trade are talked about.

Now let's turn to the proposition of a company operation overseas as compared to general agencies.

At the outset of our foreign operations, we established general agencies abroad. In general, this did not work out. Our agents did not plow back sufficient income to expand the scope of their enterprises. They did not develop a "feeling" for our business. Their attention was divided among a number of products.

National cash registers, accounting machines and adding machines are specialty products. They must be sold by specialists who are not only specialists on the machines themselves, but specialists on business systems.

But, as everybody knows, there are always exceptions to a rule. Actually, we are selling today in a number of countries of the world through general sales agents.

Most of these countries are rather small, but two of them are among our most important overseas operations. In these nations, the third generation of the families concerned is now in the business. They have held the NCR franchise for more than 50 years. They handle nothing but National Cash Register products, and it is doubtful if anyone could do a better job than these men are doing.

In the main, however, our experience points to company-owned branches as the best method of distribution for a product such as ours. Very obviously, our rule might not apply or be feasible as to many products sold across the counter. For example, it would be difficult to imagine establishing a branch store just to sell fountain pens.

You will remember a reference to staffing our overseas operations with natives in the capsule version of our working pattern.

Our overseas business supports an organization of approximately 18,000 employees, only six of whom are Americans. It may be that we lean over backwards on that score, but experience inclines us to believe that it pays.

This policy also has a most important by-product. When my associates and I visit an overseas operation, we are not insulated from the nationals by layers of Americans who might or might not have adjusted themselves to an understanding of the native scene.

We are able to talk directly with the nationals because there is no one else to talk to. It is almost that simple, and we propose to keep it that way.

In these turbulent times, this policy of avoiding insulation is even more important than it used to be. While the United States has been growing more internationally-minded, we are forced to acknowledge that many other countries are growing more nationalistic.

It has been our experience that natives acquire the necessary knowledge of our business with about the same facility as Americans. More importantly, they know their own peoples -- and the problems of their own nations -- far better than outsiders.

Now let's look at our principle that service comes ahead of sales and what applies to our products undoubtedly applies to many others.

In many sectors of the globe, the salesman for American equipment is first asked about the kind of service he can provide and then asked about the kind of machine he has to sell. All of which makes sense. The customer is principally

interested in the work the machine will perform. If the machine breaks down, and there are no repair facilities at hand, the machine is just so many pounds of useless metal.

Our machines contain from 2,000 to 22,000 precision parts. They cannot go along indefinitely without service. Many of them are in almost continuous use throughout the day.

Last year, we visited Baghdad as one stop on a trip through the Middle East. It was decided to establish a company-owned branch in that ancient and fabulous city. In planning the physical facilities, however, first consideration was given to acquiring quarters for the Service Department and bringing in the necessary staff of skilled doctors for tired-out and over-worked machines.

It is probably important to mention that in times of stress, service has kept our business going when there were no machines to sell and when we would otherwise have had to close our doors.

Spain is one example. During the civil war in Spain, our organization was almost completely disbanded. The premises were destroyed, and our stock of machines was confiscated. But the manager of our branch happened to be a former repair man....a fine doctor for a sick machine.

As soon as the pressure of hostilities had eased a little bit, he canvassed around for service, and he found enough to keep going.

Eventually, he was able to buy a machine in the second-hand market, overhaul it and sell it. From this nebulous rebirth, our business in Spain was rebuilt to respectable proportions. There have been many other cases where service has offered the only means for survival, and not all of them were connected with war. Our policy of putting service ahead of sales boils down to the fact that once we have made installations in quantity in any country, we have automatically established an almost imperishable business in that country.

Now we come to the question of reinvestment of profits earned abroad.

Our overseas business last year was more than 10 times what it was in 1940. While many factors combined to create this record, one of the most important was our long-established practice of plowing back part of our profits in foreign soil.

This reinvestment has largely paid for the manufacturing plants we have established since the war and for numerous expansions of our sales and service facilities.

I would put re-investment of part of our earnings very near the top of the list of rules for overseas success. The advantages are two-fold. You acquire necessary facilities by that method, but it also becomes obvious that you are putting something back into the country. In other words, you are meeting the responsibilities of foreign operations as well as taking advantage of the opportunities.

Our company tries to behave at all times as a guest in other nations....and as a guest who is grateful for the hospitality of our hosts. We not only contribute to the economies of our hosts, but we do whatever we can for the well-being of the communities in which we are located. To put it another way, we try to make ourselves welcome enough so that our hosts will want us to stay forever, instead of tolerating our presence.

Let me give you an example of this principle in operation.

When World War II was drawing to a close, we could foresee an impending shortage of dollars in practically all of the countries in which we hoped to sell machines. This could only lead to increasing difficulty in shipping to those countries from the United States. We had to develop a new source of supply for those countries which would no longer be able to purchase machines from the United States.

Great Britain seemed a natural location for a factory. The British market itself was important to us. So were the commonwealth nations. Shipment from Britain could be made to many other countries. A close study of the areas available took us to Scotland and then into Dundee.

Dundee was a so-called distress area at that time. It was plagued by unemployment. We were given a hearty welcome. A site was selected, a factory erected, and production was begun in 1947. That factory is now five times its original size. More than 3,000 people are employed.

The Dundee operation was started with a modest investment of dollars. It has been amplified largely through the re-investment of earnings, and in principle the same plan has been followed in all of our post-war expansion abroad.

We are following a far more ambitious program of manufacturing in Dundee than we ever visualized in the beginning. Several other American companies built plants in that city after we did, and Dundee is no longer a distress area. On the contrary, there is a shortage of labor.

The project has been a profitable one for our stockholders and for the British economy. It has always been the policy of the British government to be fair with us on the question of remitting royalties and dividends.

You could hold up a mirror to the Dundee plant and see what we do in Dayton. Good working conditions, adequate recreation facilities and employee benefit programs mean just as much to people overseas as they do here at home. We do everything we can to make sure that our foreign personnel will have no reason to think of themselves as stepchildren.

And -- you will remember -- that is another fundamental principle of our operational pattern -- which you heard before in capsule form.

The next principle practically falls into the same category. We adapt the product to the market.

We have learned from experience that it is not enough to say that, "What is good for the American market is good for overseas." Very often, that is true, but there are instances in which needs and conditions vary, and a product must be changed to fit those needs.

We would consider it foolishness to try to force an American product into situations for which they are not suitable.

To implement this principle, we have established product development committees in every sector of the globe where we do business. The job of these committees is to appraise and re-appraise the market and keep a close check on its requirements.

Not all of our workable ideas originate in Dayton headquarters -- not by any means. Manufacturing for and selling to a foreign market is not a one-way street. A man who is stationed half the way around the globe from Dayton, and without any immediate source of direction is likely to develop a strong knack of resourcefulness. The result is that a number of important developments which were subsequently adopted for the business as a whole have originated abroad.

A brief anecdote from Egypt may serve to put an accent mark on the principle of gearing the product to the market. Egypt is undergoing a powerful wave of nationalism today, which is true of all nations in the Arab world. This extends right down to the fact that the Egyptians take pride in keeping their records in Arabic and refuse to adopt a less cumbersome system. Out of respect for this feeling, we are making bookkeeping machines for Egypt which speak mathematical Arabic.

You can imagine the initial difficulties. Like Chinese, the Arabic language reads from right to left. So do Arabic record-keeping entries. The English alphabet has 26 characters. The Arabic language has 72. If you should ask me how our people managed to design a machine that would suit the Egyptian customers, I can only say that our people did not know that it could not be done -- and so they went ahead and did it.

There is no other way to capture the full flavor of a little story like this except by personal, first-hand contact between management and world markets, and you will recall that travel was mentioned a few minutes ago as one of our fundamental principles.

You cannot sit on the banks of the Miami river in Dayton and get a world viewpoint. It is too easy to say "No" to ideas and suggestions from native managers when your operations are regulated by remote control. You can read reams of reports and statistics and still not know the most important element in any situation -- which is simply people -- the people in your own organization and the people who are your customers.

That is why executives from Dayton travel thousands of miles a year in visits overseas. Included in this group are men responsible for sales, engineering, product development, research, finance and manufacturing as well as several of us from the executive office.

Trips to Britain and the continent are made regularly because of the heavy concentration of sales and manufacturing in Europe. And in recent years, a flying squadron from the executive office has tried to cover one other section of the foreign field each year.

One year it was Australia and New Zealand, the next South America, then the Far East, Africa and the Middle East.

Tonight, we are taking a plane for Copenhagen, and the day after tomorrow we expect to be in Leningrad. That will be the beginning of a trip through Russia and several other countries behind the iron curtain which we have long wanted to visit.

But we in Dayton are not the only ones who travel. We bring many of our overseas people to the United States, and that is still another factor in our working equation of frequent personal contacts between people at the management and supervisory level.

The last of our fundamental principles concerns our respect for the traditions of other people.

My trips abroad have instilled in me the definite idea that in their basic reactions, people are much the same the world over. Their outlook may result from differences in tradition, language, religion, standards of living and geography. But they all have one common denominator -- the desire to be treated like human beings. And they all have their sensitivities -- and so do we.

Out of many rather quaint experiences abroad in this connection, one incident stands out as typical. On our trip to the Far East, we spent several days in Singapore. I suggested to some British acquaintances that we ought to have all of our employees together for a dinner, which is our normal practice on such visits. They were stunned by this idea. They told us that a dinner was out of the question because our employees included Chinese, Mohammedans and Europeans.

The three groups worked together very well, but there was no social mixing whatever. The Mohammedans had their own special rules about food and its preparation. It had to be prepared by Mohammedans and served by Mohammedans.

Furthermore, the Mohammedans would not sit at the same table with the Chinese, or, for that matter, with Europeans.

The Chinese were hardly less scrupulous. They did not mind sitting with the Mohammedans, but they had their own very positive preferences about food.

Then there were the Europeans. They were willing to sit with almost anyone, but they had their own ideas about the menu. It seemed only too obvious that we were simply asking for trouble if we pressed the idea of an organization dinner.

But the dinner was held -- and quaintly enough, it was held in a dining room in an amusement park called "Happy World." We had three separate tables. Mohammedan food and Mohammedan service prevailed at one table. Chinese food was served at the second table, and there was a separate menu for the Europeans at a third table. The meeting was a great success. There was a considerable amount of visiting among the tables, and by the end of the evening the original lines of demarcation seemed to have been completely forgotten.

I asked myself more than once on that particular trip, as I have on others, "Why is it that business finds a way to survive and grow in the face of the same obstacles which seem to stifle understanding among nations?"

In my opinion, the basic reason is that business is forced to acquire an understanding of the customs of a country and the traditions and preferences of its people and to conduct itself accordingly.

You either establish a common meeting ground, or you do not do business.

Wherever I have traveled overseas, I have seen American products in use. A Singer sewing machine in a dilapidated hut along the Menam River in Bangkok. Coca-Cola almost every place. Signs along the road advertising American automobile tires and the gasoline of American companies. Kodak is a name so universally employed that it must be a word in every language. American automobiles are plentiful in many countries. Readers Digest is a popular publication in twelve languages.

In department stores and smaller shops, American cosmetics are almost always available. I cannot think of any place where American movies were not available. And of course we see to it that there is a fair representation of our own products.

It is something of a paradox that while American products are universally popular, by no means the same thing can be said of American ideas. Perhaps we should examine the methods we are using to sell freedom to the rest of the world. That is the most important sale we have to make, and I sincerely believe that world trade -- conducted with satisfaction to both sides -- can be as important a factor as any in making that sale.

I do know -- as a fact -- that business relations among men of different nationalities sometimes serves to take the edge off belligerency. And I can testify to that with a little anecdote from World War II.

Our office in Paris was on the line of march when Hitler's Wehrmacht rumbled into town along the Champs Elysees.

One of the tanks swerved out of line and headed straight for the office. The tank came to a halt and disgorged a German soldier who thundered on the door and made it plain he wanted to come in. And in he came, and there he stood in that enemy uniform, with a gun on his hip and a grim look on his face.

Our French employees had a bad moment, and then the German soldier suddenly smiled and said:

"I'm from the National Cash Register Company in Berlin. I'm sorry I can't stay very long, but I was wondering if you made your quota last year."

So ends my story of one American company's experiences abroad. In giving you this case history, I hope I have portrayed something of both the opportunities and responsibilities inherent in overseas trade. I remember saying once upon a time that doing business overseas was largely a matter of learning to live with the complexities and to roll with the punches. I still agree with that statement, but I would like to add to it now by saying that the rewards -- if you succeed -- are worth the effort, many, many times over.

They are worth it in terms of your own business -- and worth it in the contribution that your success can make to a better understanding among the peoples of the world.