Organizational arrangements of U.S. wood-based companies involved in direct foreign investment

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U.S. companies investing in foreign markets minimize their risk by establishing sole ownerships in strong markets and joint ventures in moderate markets.

The domestic operations of the U.S. wood-based industry have received considerable attention in recent years (*1*). The industry's trade position has also been analyzed (*2*). However, the extent of the industry's foreign operations, the organizational structures of these operations, and the factors influencing the selection of organizational structures are, for the most part, poorly understood. In 1984, the U.S. Department of Commerce noted that "there are no known published compilations of foreign holdings of the U.S. solid wood products industry" (*3*).

In an attempt to partially fill this void, a study of the foreign operations of U.S. wood-based companies was undertaken in 1984. Of interest was the extent of U.S. wood-based foreign investment, the manner in which U.S. wood-based corporations organize their foreign operations, and the factors influencing the selection of an organizational structure. The study entailed a major review of existing literature and an investigation (via questionnaire) of 12 major, publicly owned, U.S. wood-based, multinational corporations.

These corporations had 1981 sales over $1 billion; at least 5% of consolidated sales or assets attributable to foreign investments; at least $75 million in sales originating from foreign manufacturing operations; and 25% or more of the voting equity of manufacturing or mining companies in at least three foreign countries. The 12 companies studied were Boise Cascade, Champion International, Georgia-Pacific, Great Northern Nekoosa, International Paper, Kimberly-Clark, Mead Corp., St. Regis, Scott Paper, Union Camp, Westvaco, and Weyerhaeuser. (St. Regis was evaluated as a separate entity even though it was in the process of being acquired by Champion International during the course of the study.) These companies were among the world's top 20 sales-leading transnational wood-based companies in 1981, accounting for 66% of that group's worldwide sales.

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Investment climate in foreign markets and its effect on business arrangements

Corporations become involved in international business dealings for a variety of reasons. Once they choose to do so, there are three avenues of approach: trade (import and export of goods and services), portfolio investment (little or no role in active management), or direct investment (joint ventures, subsidiaries, various levels of equity interest). Direct investment in foreign assets involves some form of active management. This article examines the various ways in which U.S. wood-based corporations have chosen to organize their foreign investments and the factors influencing those choices.

Corporations choose a method of direct investment in foreign markets based on internal company conditions (e.g., risk aversion, previous foreign experience, product differentiation), home-country conditions (e.g., government restrictions on investments abroad), and host-country conditions (e.g., sales potential, raw material availability, production costs). The importance of anticipating host-country conditions cannot be overemphasized.

Forecasting foreign investment climates

Countries of interest to potential investors can be viewed as lying along a temperature gradient ranging from hot to moderate to cold. The temperature of a country's investment climate is defined by the following seven parameters (*4*)

Political stability. A politically stable government permits representation of the major segments of its society, enjoys the confidence of its people, generates conditions for continuity of business operations, and is sympathetic to private enterprise.

Market opportunity. A country that rates high in market opportunity has a sufficient number of customers with incompletely satisfied needs as well as the resources to satisfy those needs.

Economic development and performance. A country's level of economic growth, efficiency, equity, and stability are all factors that shape the environment for private enterprise.

Cultural unity. A sense of shared heritage among distinct segments of a country's population is an important factor in shaping the environment for private enterprise. This heritage includes values, goals, attitudes, and social relationships. The presence of competing groups undermines cultural unity.

Legal barriers. Laws and regulations can deliberately or unintentionally restrict or discourage business activity.

Physiographic barriers. The physical landscape of the country can impede the development of efficient business operations.

Geocultural distance. Business activity can be restricted by barriers created by geographical separation, cultural disparities between countries, and problems of communication resulting from differences in social perspectives, attitudes, and language.

Countries with hot investment climates are politically stable; high in market opportunity, economic development, performance potential, and cultural unity; and low in legal barriers, physiographic barriers, and geocultural distance. Countries with characteristics opposite to these are considered to be cold investment climates. Countries with moderate investment climates have characteristics somewhere in between the two extremes.

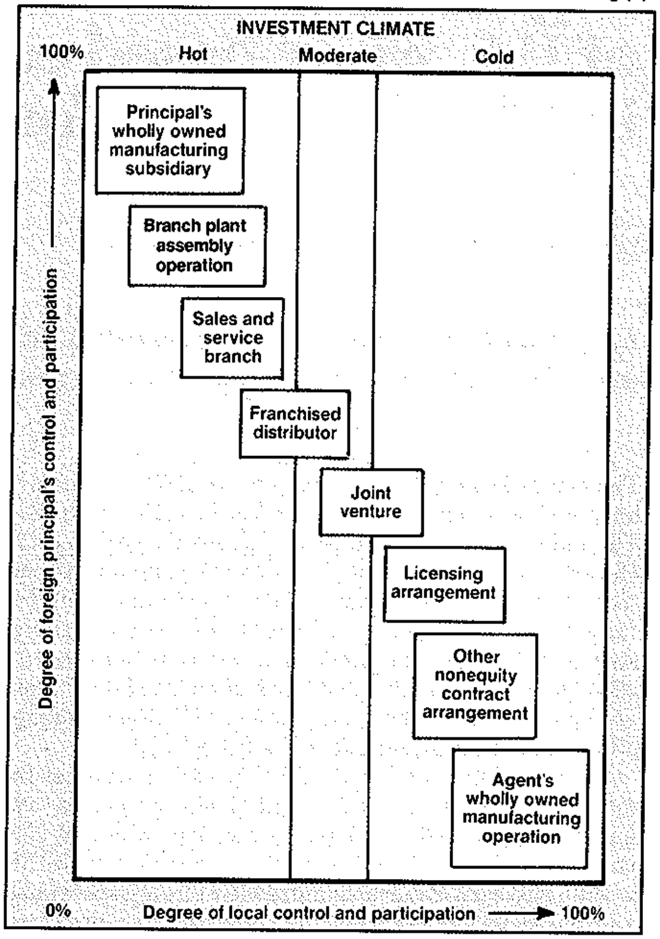
Choosing the appropriate form of investment

Once the corporation has determined a foreign country's investment climate, it can select an appropriate type of direct foreign investment. **Figure 1** lists the investment approaches suitable for the various investment climates.

Different strategies for different climates. Three types of full-equity investments would be expected in countries with hot investment climates: manufacturing subsidiaries, branch-plant assembly operations, and sales and service branches. Wholly-owned manufacturing subsidiaries would be expected for companies that desire a strong presence in a local market. A wholly-owned manufacturing subsidiary generally involves a large investment, especially if the facility is to fabricate finished goods from unprocessed raw materials. Alternatively, a company might establish a branch-plant or assembly operation (assemble wood products from semifinished materials brought in from other plants) that does not require as great an investment as a wholly-owned manufacturing facility. A company that wished an even smaller investment in a hot country could establish a sales and a service branch.

The transitional moderate investment climates favor partial-equity investments such as franchised distributors and joint ventures. Franchised distributors involve contracts wherein a wood-based company exchanges marketing experience (e.g., trademarks) in return for royalties (lump-sum fee, percent of sales, goods purchased at discount) for the use of such experience (*5*). Joint ventures are contracts in which two or more entities combine some of their resources, while maintaining separate identities, to create a separate, quasi-independent entity. Investors can initiate joint ventures with companies or persons within the host country or with the government of the host country itself. Ownership of the joint venture is not necessarily shared equally. Either one of the partners could hold a majority ownership.

1. The amount of risk involved in a foreign investment is determined by the local economic climate. In hot investment climates, investors are more likely to actively participate with high-equity investments. In cold investment climates, investors minimize their exposure by requiring a higher degree of local participation. The investment strategies listed here represent a range of equity participation from high (investor's wholly-owned subsidiary) to low (agent's wholly-owned subsidiary). Source: Litvak and Banting (*4*).



Cold investment climates represent financial risk, and companies are reluctant to expose their equity in such an environment. Thus investments in a cold economic climate are likely to involve little or no equity. Three investment strategies are typically used in cold investment climates: licensing arrangements, other nonequity contract arrangements, and manufacturing operations that are wholly owned by the agent. Licensing arrangements are contracts in which wood-based companies exchange knowledge (e.g., patents, manufacturing methods) in return for royalty payments while retaining ownership of their knowledge. Other nonequity contract arrangements include management contracts, turnkey contracts (foreign company establishes complete production unit in host country), product-in-hand contracts (turnkey contract in which project is fully operational with local personnel), production-sharing contracts [foreign investor undertakes exploration for suitable sites (e.g., mining) in host country], risk service contracts (production sharing contract in which payment is cash, not physical output), and

I. Type and number of foreign investments of the 12 studied companies (*8*) (1984)

Company	Type of subsidiary: Wholly owned	Majority owned	Equally owned	Minority owned	Unknown	Total
Boise Cascade	7	...	1	...	...	8
Champion International*	...	8	3	3	11	25
Georgia-Pacific	6	...	...	...	...	6
Great Northern Nekoosa	1	...	1	1	...	3
International Paper	36	1	8	...	...	45
Kimberly-Clark	9	8	5	4	8	34
Mead	10	...	11	2	1	24
Scott Paper	9	4	9	7	...	29
Union Camp	2	2	...	...	...	4
Westvaco	2	...	...	...	1	3
Weyerhaeuser	13	...	...	6	...	19
Total	95	23	38	23	21	200

*Includes St. Regis which was merged by Champion International during the course of the study.

international subcontracting (company acts as contractor placing orders with subcontractor in developing country). All such arrangements involve the exchange or transfer of technical knowledge with little or no equity investment by the foreign company (*5*).

Extent of equity. Just as no form of domestic investment is ideal under every circumstance, no form of foreign investment is unconditionally ideal. Consider the advantages and disadvantages of full-equity, partial-equity, and nonequity arrangements.

Full-equity investments in foreign markets have numerous advantages (*6*). They provide product support and add credibility to a company's promises to its customers; they provide a means of maintaining close control over transfer of funds, market share, and sales volume; and they are tangible proof of a company's interest in a market. Perhaps the primary advantage of a wholly-owned subsidiary is that the owning company has complete control over the operation of the subsidiary. There is no need to disclose information about company operations to persons outside the company. As such, the company has far more flexibility in establishing prices for the raw materials sold to a subsidiary of a foreign company and in establishing prices for the products produced by the subsidiary. The company has control over hiring, training, and wages. And, finally, profits from the subsidiary need not be shared.

The downside of full-equity ownership is risk. All strategies for foreign investment share similar types of risk: operational risk (e.g., business conditions unknown to home company management), monetary or foreign-exchange risk (e.g., loss of profit or asset value because of change in exchange rate), and political risk (e.g., imposition of rules such as export quotas, limits on raw material imports, nationalization, and expropriation). Full-equity ownerships bear the highest exposure to such risks.

Partial-equity investment is an alternative investment strategy (*6*). The advantages of this approach include the potential of rapid penetration into a market; a smaller commitment of financial and human resources; and a reduction in political risk by acquiring a local partner who can communicate with the local government. The disadvantages of partial-equity investments include the risk of obtaining a partner with limited ability (e.g., poor management skills); loss of control (e.g., delegation of responsibility to local partner); potential communication problems (e.g., local partner unwilling to share manufacturing and marketing methods); and diminished profit and growth opportunities (e.g., sharing of profits and new technologies).

Companies interested in foreign markets can also use a nonequity approach. Many of the advantages of partial-equity investments also pertain to nonequity investments: they are effective in markets with limited market potential; they enable a company to quickly penetrate a market; and they allow a company with limited financial and managerial resources to stretch resources and influence. All provide the company a return for little or no equity investment and with minimal political risk. Many of the disadvantages of partial-equity investments also pertain to nonequity investments. These include possible limited availability of competent local partners, loss of control, communication problems, and diminished profit and growth opportunities (*7*).

Pattern of foreign-investment participation

The 12 transnational wood-based companies in this study identified their participation in a total of 200 wholly-owned subsidiaries and joint ventures. The extent of participation for each of these companies is listed in **Table I.**

As a group, the 12 companies were nearly even in their use of wholly-owned subsidiaries (95) and joint ventures (84). The most common form of joint venture was the equally-owned subsidiary (38). The number of majority- and minority-owned joint ventures was equal (23). The ownership of 21 subsidiaries could not be ascertained.

The foreign investments of the 12 companies were scattered over much of the globe. In 1984, they had wholly-

II. Location and number of foreign investments of the 12 studied companies, 1984 *(8)*

Country	*Wholly owned subsidiary*	*Majority owned subsidiary*	*Equally owned subsidiary*	*Minority owned subsidiary*	*Unknown*	*Total*
"Hot" climates						
Australia	1	...	3	...	1	5
Austria	1	...	1	1	...	3
Belgium	4	...	...	...	...	4
Canada	25	3	6	2	4	40
Denmark	...	1	...	...	1	2
France	13	1	...	4	1	19
Italy	2	...	3	...	...	5
Japan	2	...	3	1	...	6
Netherlands	3	...	...	...	1	4
New Zealand	...	...	1	...	...	1
Sweden	...	...	1	...	1	2
Switzerland	3	...	...	1	...	4
United Kingdom	11	...	2	...	4	17
W. Germany	6	...	5	...	...	11
Total "hot"	71	5	25	9	13	123
Moderate countries						
Bahamas	3	...	1	...	...	4
Bermuda	2	...	...	...	4	6
Brazil	3	2	...	3	1	9
Colombia	...	...	3	2	...	5
Costa Rica	...	...	1	1	...	2
Ecuador	...	1	...	...	...	1
French West Indies	2	...	...	...	...	2
Greece	2	1	...	...	...	3
Hong Kong	1	...	1	...	...	2
Ireland	...	1	...	...	...	1
Israel	...	...	1	...	...	1
Malaysia	...	...	1	3	...	4
Mexico	...	...	...	2	2	4
Netherlands Antilles	3	...	...	...	...	3
Panama	1	...	1	...	...	2
Singapore	...	1	1	...	...	2
South Korea	...	1	1	...	1	3
Spain	4	2	...	...	...	6
Taiwan	...	1	...	...	...	1
Venezuela	...	2	...	...	...	2
Total moderate	21	12	11	11	8	63
"Cold" countries						
Argentina	...	...	...	1	...	1
El Salvador	...	1	...	...	...	1
Nicaragua	...	2	...	...	...	2
Philippines	3	1	...	...	...	4
South Africa	...	...	1	1	...	2
Thailand	...	2	1	...	...	3
Zambia	...	...	...	1	...	1
Total "cold"	3	6	2	3	0	14
Total foreign investment	95	23	38	23	21	200

owned subsidiaries or joint ventures in 41 countries with investment climates ranging from hot to cold, as seen in **Table II.**

Like the majority of U.S. multinational companies, the 12 U.S. wood-based companies have more investments in developed countries than in developing countries. What is surprising, however, is the magnitude of the difference. U.S. multinational wood-based companies prefer the developed countries by a ratio greater than 2-to-1. Of the 200 total foreign subsidiaries and joint ventures identified, 135 were in developed countries. Only 65 were located in developing nations.

The 12 companies had a significant preference for foreign investment climates that are hot or moderate. For every one subsidiary in a cold investment climate, there were 13 in hot or moderate investment climates. More specifically, 62% of the companies' subsidiaries were in countries with a hot investment climate, while 32% were in countries with a moderate investment climate. Only 7% of the 200 identified subsidiaries were in countries with a cold investment climate.

Generally speaking, the studied companies prefer wholly-owned subsidiaries in hot countries and joint ventures in moderate and cold countries. While the overall split between wholly-owned subsidiaries and joint ventures was about even, the majority of the wholly-owned subsidiaries were in hot countries, while the joint ventures were concentrated in moderate and cold countries. Of the identified subsidiaries in countries with hot investment climates, 58% were wholly-owned subsidiaries. The concentration of wholly-owned subsidiaries in countries with hot investment climates is explained in part by the regulatory differences between the hot and cold countries. The latter often prohibit companies from making full-equity investments.

Majority-owned subsidiaries were the favored form of investment in the countries with cold investment climates. The six majority-owned subsidiaries represented 43% of the 14 wood-based investments in these countries. Majority-owned ventures constituted 19% of the investments in the moderate countries and just 4% of the investments in the hot countries. Kimberly-Clark accounted for three of the majority-owned subsidiaries in the cold countries, with large tissue plants in El Salvador, the Philippines, and Thailand. Champion International had two majority-owned subsidiaries in Nicaragua. The sixth majority-owned venture is Scott Paper's tissue plant in Thailand.

The percentage of equally-owned joint ventures was about the same in each of the three investment climates (20%, 18%, and 14% for hot, moderate, and cold climates, respectively). Minority-owned subsidiaries were skewed somewhat toward moderate and cold countries. Only 7% of the subsidiaries in the hot countries were minority-owned, compared with 18% in the moderate countries and 21% in the cold countries.

Canada, the site of 40 subsidiaries, is the most popular country for investment by U.S. wood-based companies. Table II shows that the number of subsidiaries in Canada is more than the combined totals of the next two leading countries. France and the United Kingdom, the second and third leading countries, have 19 and 17 U.S. wood-based corporate affiliates, respectively. Not surprisingly, each of these three countries is involved with a greater number of different U.S. wood-based companies than any of the other countries. Each has subsidiaries from 8 of the 12 companies studied.

The U.S. wood-based industry, like most manufacturing industries, has made investments in relatively few developing countries. (All such investments were made in developing countries with moderate investment climates.) The most popular focus for investment among the developing countries was Brazil, where six companies have nine investments. These investments include Champion's majority-owned subsidiary in pulp and paper, Westvaco's wholly-owned corrugated boxes and accessories plant, Scott's minority-owned subsidiary in timberland forestry projects, and Georgia-Pacific's wholly owned veneer plant. Bermuda was also a popular location, having six wood-based subsidiaries that were all insurance-related. Colombia had five investments, including two equally-owned joint ventures by Kimberly-Clark: one in cigarette tipping and plug-wrap papers, and one in sanitary paper products. Scott Paper also had a Colombian investment, a minority stake in a plant producing sanitary paper products and wax paper.

Investments by U.S. wood-based firms in the African, Caribbean, and Pacific regions were limited. Champion International had a minority-owned subsidiary in a printing and packaging operation in Zambia. International Paper had four subsidiaries in the Bahamas, including three shipping subsidiaries and a subsidiary manufacturing papermaking equipment. International Paper also had two subsidiaries in the French West Indies and a wholly-owned subsidiary in the Netherlands Antilles. Financing subsidiaries were operated in the Netherlands Antilles by Mead and Kimberly-Clark.

Countries with cold investment climates generally have severe restrictions regarding the involvement of foreign companies in their economies. Very few U.S. wood-based companies had investments in such countries. Of these countries, the Philippines was the most popular. Investments in the Philippines included two paper companies (wholly-owned by Boise Cascade and Scott Paper), a sanitary paper products company (wholly-owned by Kimberly-Clark), and the Capricorn Corp. (a wholly-owned Weyerhaeuser subsidiary). Champion International had two majority-owned joint ventures in Nicaragua, and Kimberly-Clark had an investment in El Salvador.

Experiences of major wood-based companies in foreign markets

The 12 U.S. wood-based companies were contacted by telephone and by mail questionnaire to determine the reasoning behind the various approaches to direct foreign investments. Those responding were all senior-level corporate officers assigned to international business activities. A detailed accounting of their responses can be found in the literature (*8*).

History and rationale for foreign investment

None of the studied companies were new to foreign markets, with most of the companies having maintained foreign investments for at least 21 years. Three companies had maintained foreign investments since before World

War II (41-85 years); one was a relative newcomer to international markets (11-20 years).

Making a profit was of obvious importance to the studied companies. They also indicated four additional reasons for becoming involved in foreign markets:

- Provide better service to customers within foreign markets
- Increase company's competitive position in world markets
- Diversify the company's asset/resource base
- Take advantage of those foreign markets offering the best long-term potential for profitability.

Investment strategies and planning

Foreign involvement and long-term corporate future. All the responding companies agreed that the ability to compete in world markets is very important in the wood-based industry. However, only five of the companies expressed a belief that world markets would be a key factor in their long-term development. Those companies who disagreed with this premise took the position that their future lies with effective competition in domestic markets. Despite that, seven respondents indicated that their companies have become increasingly involved in world markets.

The majority of the respondents did not agree with the assertion that "over time, investments abroad have been growing more important to our company." Four companies strongly disagreed with this statement, while two others simply disagreed. One of the respondents who strongly disagreed subsequently noted that the company had not initiated any new foreign investments in the past few years. Only three companies indicated that foreign investments were of growing importance, with one noting that while they have "a modest investment position offshore," there is "not a major corporate strategy to expand this base."

The existence of a strategy statement focusing on foreign investments would confirm a company's commitment to worldwide operations and provide a clue as to the nature of its future international investment activities. In general, responding companies did not have statements dealing with overall world investment strategies. Only two had such statements. Five did not, two were not at liberty to say, and three refused comment.

Management support and experience of corporate officers. Corporate policy towards international direct investment can be a function of the international experience of company officers. In this respect, the studied wood-based companies were very domestically oriented. Only two of the responding companies had corporate officers with significant international experience; seven had very limited or no such experience. Does top management support international operations? Yes, in general. Five companies agreed, with one strongly agreeing, that management is interested in and supportive of their international operations. One of the disagreeing companies stated, "We have changed our focus to domestic."

The presence of corporate officers with international experiences is no guarantee that a company will have a world investment strategy. Of the two companies having officers with international experience, one had no such strategy. Of the two companies acknowledging the existence of an overall world strategy, neither had top corporate officers with international experience.

Internal company conditions affecting type of market entry

Length of investment. The foreign investments of surveyed companies were generally long-term. Three indicated company foreign investments were always long-term; two indicated this was often true; and two indicated this was only sometimes true. Of the four companies stating foreign investments are always long-term, three have been in foreign markets for 21-40 years and one for 41-85 years.

Entry strategy. It is not unusual for a company to enter a market in a conservative fashion using little or no equity. Then, after gaining experience, the company can make an equity investment. Six responding companies indicated that they use low-equity or nonequity arrangements to get a foot in the door or to test the waters in foreign markets. One company stated that it used license agreements for such purposes.

Policies limiting type of investment. Company policy prohibiting the use of a particular foreign business arrangement is an obvious curtailment to foreign business activities. Three companies indicated that general corporate policy prohibits consideration of certain types of investments. Four of the companies said there were no such limiting policies; the others were not at liberty to say or refused comment.

Developed vs. developing countries. The companies were also asked whether corporate business arrangements in developed countries were significantly different from those used in developing countries. Four of the responding companies indicated this distinction was often true; one indicated it was sometimes true; and the remainder stated the question did not apply. One company representative responding positively to the inquiry stated that "in developing countries, the investment tends to be oriented towards basic products (e.g., bags, boxes) with low capital needs and a short return, while in a developed country, higher tech and more sophisticated products tend to be the case."

External conditions affecting type of market entry

Social and political unrest in host country. Companies with subsidiaries in countries with a history of social unrest may prefer minority ownerships or nonequity business arrangements. The wood-based companies studied generally felt this to be true. In countries with a history of social unrest, local partners—public or private—can sometimes be more efficient than expatriate management at assuming risks and responsibilities, because local partners respond from within the culture in which the disturbance is occurring. Of the 12 studied companies, the majority were in agreement with this perspective, with no one disagreeing.

Foreign pressure to reduce equity. Foreign governments can have a major influence over the type of investments made within their borders. Despite these circumstances, none of the respondents believed that their company was under any pressure to reduce equity in

III. Potential for direct foreign investment in various regions over next 10 years as judged by seven of the studied companies (8) (1985)

	Investment potential				
Country or Region	*Highest*				*Lowest*
Western Europe	...	2	1	3	1
Eastern Europe	...	...	...	1	6
Canada	...	1	3	3	...
Central America	...	...	...	2	5
South America	...	1	1	2	3
Pacific Basin	1	5	...	1	...
Soviet Union	...	...	...	1	6
Mainland China	1	1	3	1	1

company operations.

Rationale for and attitudes toward joint ventures

Share financial burden of large projects. Joint ventures can be useful mechanisms for sharing the financial burden of large projects. Four of the responding companies indicated they use joint ventures in this manner—two of them often and two of them sometimes. (One respondent indicated that this was never true.) These four companies were among the companies that always or often require direct control over foreign investments.

Control foreign exchange and profit remittances. Stringent foreign exchange and profit remittance controls can be troublesome for a transnational corporation. An investment is worthless unless the projects and equity from the investment can eventually be brought out of the country. For the most part, the U.S. wood-based companies studied do not prefer wholly-owned subsidiaries in countries with stringent foreign exchange and profit remittance controls.

Access to market knowledge. Where knowledge of the local customer is an important consideration, joint ventures and other low-equity or nonequity arrangements are often the best means of entering a market. The nine responding companies agreed with such a market entry strategy. Eight of these companies indicated that joint ventures and other low-equity or nonequity arrangements are preferable in such market situations.

Nonequity arrangements

Although all responding companies maintain wholly-owned subsidiaries and joint ventures, there was no such uniformity in contractual arrangements (e.g., management contracts, turnkey contracts, production-sharing contracts). Five companies did not engage in such arrangements. With regard to licensing arrangements, five had foreign licensees; three did not. As best as could be determined, the responding companies did not engage in franchising.

Structure of foreign investments—an overview

The specific responses of the surveyed companies support the following conclusions concerning the structure of foreign investments by U.S. wood-based companies.

- In addition to making a profit, a major reason for entering foreign markets is to provide customers with better service.
- While most companies view the ability to compete in world markets as an important attribute, not as many believe that this ability is the key factor in their future development.
- While most companies are increasing their involvement in world markets, they do not believe that foreign investments or exports are growing in importance.
- Relatively few wood-based companies have a global strategy guiding their foreign investment policy.
- Some companies have investment policies that preclude certain types of business arrangements. This generally is not the case in companies that engage in licensing and other contractual arrangements.
- Wood-based companies generally prefer long-term investments. However, these preferences are not related to the length of time a company has been involved in international markets.
- Wood-based companies often enter foreign markets conservatively with a low-equity or nonequity investment and later make an equity investment after gaining experience in that market.
- Wood-based companies do not have highly developed, fully integrated production systems for their foreign operations. Products are generally sold in the countries where they are manufactured. Products, management, and technology are shipped from the United States to foreign subsidiaries and between such subsidiaries.
- While wood-based companies favor direct control over foreign business arrangements, they also are open to having foreign partners.
- There are different investment patterns for developed and developing countries, with more equity going into developed countries. This is the result of deliberate planning by wood-based companies as well as policies established by host countries regarding foreign investors.
- Wood-based companies do not perceive pressure to reduce equity in foreign operations.
- Where knowledge of the local market is an important sales factor, wood-based companies prefer joint ventures. Knowledge of local markets is far more important than gaining access to expertise in an area outside the company's traditional product line.

One of the more striking observations concerning the companies studied is the great diversity of policies, programs, and approaches toward international investment. If the studied companies are representative of the industry's foreign involvement, wood-based companies in general do not appear to imitate each other in their quest to compete successfully in foreign markets.

Future location of foreign direct investment

Where will U.S. wood-based companies make direct foreign investments during the next 10 years? The responses of the 12 studied companies provide some indication of trends. These trends are listed in **Table III.**

None of the surveyed companies indicated any plans to expand direct foreign investments, at least in the near future. Even if they were to do so, no region of the world was a unanimous favorite. Only two areas, the Pacific Basin and the Peoples Republic of China, received the highest potential rating by any company. Three regions of the world—Eastern Europe, the Soviet Union, and Central America—were viewed as least likely to receive direct investments by U.S. wood-based companies. Despite the Soviet Union's favorable attitude toward joint ventures and tremendous supply of timber, none of the companies responding to the study viewed the Soviet Union as a good place to invest.

It is likely that U.S. wood-based companies will continue to invest in countries with relatively high levels of economic development and relatively large (or potentially large) domestic or regional markets.

Summary

Wood-based companies enter foreign markets primarily to better serve foreign customers. Such companies can be quite flexible with regard to the type of foreign business arrangement chosen. They often enter markets in a conservative fashion (e.g., limited joint-venture investment) and then seek to obtain a better understanding of that market before committing to a substantial form of foreign investment (e.g., wholly owned subsidiary). The companies studied in this article favored direct control over their foreign investments.

Foreign investments of U.S. wood-based firms are located primarily in developed countries with favorable investment climates, such as Canada and Western Europe. Among developing nations, investments were concentrated in countries that are economically and politically progressive. Like most U.S. manufacturing industries, wood-based firms had few if any investments in the poorer underdeveloped countries of the world. As for the type of business arrangement used, wholly-owned subsidiaries were favored in countries with hot investment climates, while joint ventures and shared-equity ventures were favored in countries with moderate and cold investment climates.

There is a diversity of opinion regarding the importance of future foreign investments to corporate growth and competitive status. For companies with extensive foreign investments, such investments will certainly play an important role in their corporate future. In general, the studied companies viewed the ability to compete in world markets as important. Few companies, however, perceived this ability to be a key factor in their future success.□

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