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Looking for 'Americanness': Home-Country, Sector and Firm Effects on Employment Systems in an Engineering Services Company

ABSTRACT ▪ The research reported here begins from the premise that employment relations within the European subsidiaries of American multinationals are influenced critically by the US business system, generating preferences for non-unionism, individualized pay and performance management, and quality management, for example. Further, these can be traced through examination of control systems extended from corporate headquarters. The article complicates this general picture. Despite the case company's leading position within an American-dominated industry, engineering process contracting, we consistently found authority vested in local managers, and host-country orientations to the management of employment relations in the UK subsidiary. Explaining these findings takes us back repeatedly to sectoral characteristics. These directly affect employment systems and influence them indirectly through 'first-order' strategic choices (about where to produce) and second-order ones (about the organizational form to be adopted). The analysis highlights how sectoral factors strengthened the hand of local engineering managers and created circumstances in which they could assert autonomy and extend their 'charter'.

Introduction

The research reported here was conducted as part of a wider project examining home-country influences on employment relations in the subsidiaries of American multinational companies (MNCs) operating in Europe.[1] It begins from the premise, therefore, that the American business system generates ramifications for employment practice and that these can be traced through examination of control systems extended from corporate headquarters. This is the sense in which our research involves looking for 'Americanness'.

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Summarizing interim findings from the project overall, Ferner et al. (2001) confirm home-country effects across the range of our case studies so far, on issues including non-unionism, pay systems, and managing diversity. This article, based on a detailed case study of one American MNC, complicates this general picture. That the corporation is a market leader in an American-dominated sector heightened our expectations of home-country influence, yet we consistently found authority vested in local managers, and host-country orientations to the management of employment relations in the UK subsidiary. Explaining these findings requires us to explore influences other than home country and takes us back repeatedly to sectoral characteristics. In the main, these did not affect employment systems directly, as is often assumed when discussing sector effects. Using the terminology of the strategic choice literature, we distinguish between this kind of direct influence on third-order decisions (including employment practice) and indirect effects created by first-order strategic choices (about where to produce) and second-order ones (about the organizational form to be adopted). Our analysis highlights how sectoral factors influenced each of these decisions in our case study. Further, we integrate agency within our analysis. Sectoral pressures do not determine outcomes themselves, but set a framework within which actors vie for authority within the organization. Drawing from Birkinshaw's (2000) conceptualization of subsidiary development, we illustrate how managers use sectoral characteristics to defend and extend their scope for discretion.

The argument proceeds by examining first the literature on factors conditioning employment systems. Having noted the auxiliary role usually accorded to sector, we set out the background to our case study through discussion of the engineering process plant construction industry and its international development. Detailed examination of our data develops through two stages. The first looks at the nature of control systems in the subsidiary and the second at employment systems. In the penultimate section, our findings of minimal home-country influence are explained with reference to the specific characteristics of the sector and how these influence behaviour within the firm.

Factors Conditioning Employment Systems in Multinational Companies

The starting point for our research is that national business systems continue to condition management strategies within MNCs in important ways and that this is particularly so for American companies. In this discussion, however, we identify other contingent forces that may come into play and raise questions about how these are related.

Within the institutionalist literature, it has become commonplace to differentiate between liberal (or laissez-faire) and coordinated market economies, and to trace the consequences these have for behaviour within and between firms (see Hall and Soskice, 2001; Lane, 1989). Where primacy is accorded to the 'free' operation of markets, as in the liberal market economies of the USA and the UK, trust tends to be low and augmented by legal provision for the enforcement of comprehensive contracts. Coordinated market economies (Germany and Japan are cited usually) rely more upon bureaucratic controls and networks of relationships facilitating less formal contracts and the greater exchange of information.

MNCs develop first within their own national contexts and interesting research questions arise about the degree to which they remain 'embedded' within them (Ferner, 1997, 2000). To the extent that this relies upon the relative importance of international and domestic markets, embeddedness is likely to be particularly acute for American companies because their operations are skewed in favour of their home country to a peculiar degree (Hirst and Thompson, 1999: 81–5). American multinationals generally sell the majority of their goods and services in their home country, hold the majority of their assets there and locate most of their affiliates there too.

If systemic home-country factors are likely to exert a significant influence on the management of US multinationals, what are the consequences for employment relations? Synthesizing a broad range of business history, Ferner (2000: 35–9) develops perspectives on the US business system and the development of MNCs. First and foremost, employment systems will tend to be similar cross-nationally in all parts of the MNC. Given the relatively liberal, deregulated approach to labour markets, the US business system has spawned a great variety of employment practices. At one pole is the strand of 'welfare capitalism' among large US firms and their pioneering role in the development of human resource management techniques (Jacoby, 1997). But large US companies have been famed most for their development of Taylorized, mass-production systems and the attempt to spread these internationally (Hogan, 1985, 1987; Kipping and Bjarnar, 1998; for a general discussion, see Clark, 2000). The key point is that whichever approach is preferred by a particular company in the home country will tend to be diffused also across its foreign operations. Subsidiary operations tend to be closely controlled and subject to an array of detailed performance targets. HR planning will be integral to this and conducted through powerful, corporate HR functions. Policy development will be characterized by programmatic approaches, 'rolled-out' from the centre and monitored subsequently. These programmes, in turn, will tend to be innovative and highly flexible by international standards. For example, productivity bargaining, performance-related pay systems, job evaluation and employee share option schemes will tend to be prominent and reviewed frequently. Equally, formalized appraisal systems are in evidence as are single-status employment and direct employee involvement.

It is important to acknowledge that home-country effects are only one of a number of influences on organizational dynamics within MNCs. As Lane (2000: 204) notes of multinational corporate actors in general, 'they will be placed in multiple social environments and ensuing unavoidable embeddedness in foreign societies will provide them with competing social templates to structure their activities and goals'.

Much of the literature on multinationals is concerned to establish precisely the balance between home and host-country effects (Muller-Camen et al., 2001; Bélanger et al., forthcoming). Host-country systems can be more or less regulated, influencing the ease with which MNCs can import their preferred methods of operation from home-country environments (for example, Whitley, 1999: Ch. 5). Explanations for variations in employment practice are related primarily to structural differences in business systems and, in the context of MNCs, the relative strength of host- and home-country regulation. Another factor is the relative positions of the respective home and host systems within the world economy. Dominant states are able to exert organizational, political and technological influences that encourage dissemination and adoption around the world. For example, the postwar era until the late 1970s witnessed American economic and political dominance of the international political economy, accompanied by state-sponsored and corporate initiatives designed to diffuse American managerial and production techniques throughout western Europe (for example, Clark, 2000; Djelic, 1998; Dunning, 1998).

Influences from national business systems may be intertwined with others deriving from the characteristics of particular product markets. Pressures on employment relations may result from the requirement to coordinate, and possibly integrate, the activities of subsidiary operations in terms of production, marketing and advertising, international business forms and intra-enterprise competition and trade. These stem in part from mutually reinforcing shifts in consumer tastes and product development. National variations in the market for cars have been virtually eliminated, for example, enabling companies to standardize national subsidiary operations, whereas consumer tastes in food and clothing still tend to be diverse, affected by local and cultural factors.

International integration factors alert us to the potential importance of broader sector effects. Consideration of these has considerable appeal; intuitive assumptions about convergent management strategies in particular product markets have been substantiated repeatedly (see, for example, Hollingsworth, 1991; Räsänen and Whipp, 1992). But problems emerge when moving from the national to transnational terrain. Most would agree intuitively with Hollingsworth et al. (1994: 8) in defining a sector as 'a population of firms producing a specified range of potentially or actually competing products'. But the constitution of sectors varies by national context. Three aspects of sectoral organization can be identified (Hollingsworth and Streek, 1994: 270). To some degree, sectors are communities of shared interests. Under certain circumstances, these common interests may be ordered and articulated through associations. Lastly, companies or associations, or both, may be influenced in turn by frameworks of norms and incentives established by state agencies. These factors vary by national setting in their individual and cumulative importance. For example, employer or trade associations remain strong features in the German and Asian economies, but are relatively absent in similar sectors within Anglo-Saxon economies (Traxler et al., 2001). Within an institutionalist approach, therefore, focusing on structural factors and their influence, sector necessarily remains subservient to home- and host-country effects (Whitley, 1992: 271).

This sets the scene for examination of our case-study data. Here, we have an established US subsidiary operating from a position of strength in an American-dominated sector. Our heightened expectations of home-country effects, however, were quickly confounded by the discovery of substantial subsidiary autonomy. Explaining this situation requires closer analysis of subsidiary development and reveals the important mediating role played by sector.

Research Methods

This research forms part of a larger study of employment relations in US MNCs operating in Europe. An extended case-study approach has been adopted because it allows identification and exploration of subtle dynamics within firms. Fieldwork is ongoing and is being conducted in four European countries: the United Kingdom, Germany, Ireland and Spain.[2] The sectoral pattern of US foreign direct investment is not uniform across these countries and national specificity is reflected to some extent in case selection. However, priority is accorded to companies with an operating presence in at least two of the European countries so as to facilitate subsidiary comparison. The following case is being developed through complementary research in the UK and in Spain.

Uniform methods have been adopted across research teams as far as practicable. Semi-structured interviews are conducted with key management respondents in human resources, finance and line positions. Union respondents are interviewed where collective relationships are established, and employee testimony is gathered in key studies. Interview schedules follow common formats incorporating core analytical themes tailored to specific sector and company environments.

Evidence presented here focuses on the UK subsidiary, Eng Servs UK, and is taken primarily from around a dozen interviews with nine senior managers in HR, finance and operations. Some use is also made of data from a further 10 interviews with a sample of engineering staff on employee attitudes toward management systems in the UK subsidiary. While further work is planned in Spain and at the company's US headquarters, an international corporate perspective is provided by one UK management respondent, who supports a global sales and marketing function based in the UK subsidiary office, and by the HR director in the Spanish subsidiary interviewed by our project colleagues there.

'Eng Servs Corp' is used to refer to the global company and 'Eng Servs UK' to its UK subsidiary.

The Engineering Process Plant Contracting Industry: Patterns of Internationalization

Our case-study organization is a specialist engineering services company operating in a sub-sector of the construction industry, engineering process plant construction (EPPC). The primary business of these firms to design, construct and test investment projects for process producers. *Process* refers to the systems through which oil, gas, coal, and chemical feedstocks are transformed into distinct products or into energy. Construction in this sector involves, therefore, the civil engineering skills required for any building project, but also advanced scientific and technical engineering expertise.

The first step in locating possible home-country effects is to explore 'the historical process from which the sector evolved' (Hollingsworth, 1991: 35). In this case, even preliminary investigation reveals an industry in whose international development American innovation and organization have been central. EPPC must be placed in context as part of the broader construction sector. There has been an international construction industry since the beginning of the 20th century, but it is highly fragmented by function and nationality. Strassman (1988) identifies four different kinds of company in the US alone participating in global markets. First, and most influential internationally, are the EPPC specialists such as Eng Servs Corp. Three other kinds of company intrude on their operating territories to a greater or lesser extent. These are heavy civil engineering (for example, dams, tunnels and railway systems), general builders (for example, high-rise buildings) and the 'giants' that do everything. Competition in these various areas has been segmented internationally and market positions have tended to reflect particular national competences. Americans retain strengths in complex process areas, while 'the Japanese develop capital-intensive projects and dig tunnels; Italians design and build modern factories; Scandinavians promote innovative housing systems; and Koreans and Chinese do labour-intensive buildings and infrastructure' (Strassman and Wells, 1988b: 221).

Given that the USA has been predominant in EPPC, the sector is of particular importance to our investigation of home-country effects. In terms of its history and patterns of internationalization, the industry is quintessentially American in two related senses. First, it has been dominated by American companies for much of the important postwar period. By the 1970s, eight of the top 10 contractors worldwide were American (Ball, 1985: 53). That ratio declined subsequently as European, Japanese and Korean firms developed competing technologies and moved into the market. By 1982, only three American companies remained in the top 10, but that was still more than any other single nation and American technologies remained predominant in key sub-sectors (Ball, 1985: 53).

This predominance stems from the second aspect of Americanization: the process through which it has internationalized. The industry was originally an American creation, diffused via the influence of the US government and US MNCs. Prior to the 1940s, process producers built their own plant, but innovations in the USA eventually offered huge potential gains to oil and energy producers while increasing the transaction costs to them of retaining in-house construction capacity (Ball, 1985). New oil-refining processes permitted a shift from batch to continuous production and expanded the scope to make economies of scale. Plants became larger and were more integrated, multiplying the engineering and construction challenges. Projects required large process departments capable of attracting specialist scientists, engineers and designers. But the work was also cyclical, vulnerable to fluctuations in the level of capital investment and the price of oil on which it depended. This volatile mixture of profit, risk, and uncertainty encouraged the externalization of project management work and the further development of specialist process construction firms.

US innovation created the potential for these companies to expand abroad, but the impact of war in western Europe provided the real impetus. Sheltered from the bombing experienced in Europe and boosted further by wartime investment, the US oil and petrochemical industries emerged from the war with substantial competitive advantages (Spitz, 1988: 303). Supported by the Marshall Plan, US companies exported their technological expertise and, in the process, ensured long-term future markets by turning coal-based economies in western Europe into oil-based ones. Contracts were won from indigenous oil companies, but the breakthrough into European markets was often accomplished first by work for the American oil majors. Standard Oil, Mobil and Gulf all began to establish refining and petrochemical capacity in Europe, commissioning US contractors to build it for them and providing the rationale for them to establish new branch offices.

All of the US construction companies with a process capability established European offices in the immediate postwar period, 'sending US supervisors to train low-cost local designers and draughtsmen in modern American construction techniques' (Spitz, 1988: 303). For companies outside the process plant niche, international markets were attractive only to the extent that they provided counterbalances to the cyclical nature of demand in still sizeable domestic markets. Many of the 'giants', such as Bechtel, retained up 80 percent of their work in the USA right up until the 1970s (Strassman and Wells, 1988a: 23). But those specializing in the area, such as Eng Servs Corp, internationalized significantly in terms of scope and depth. That is, they tended to have more overseas affiliate offices and to create them as wholly owned subsidiaries, rather than mere field offices (see Ball, 1985; Dunning, 1998). This balance between national and international markets, and the tendency toward host-country incorporation will become key explanatory variables in our discussion of Eng Servs UK.

Preliminary exploration, therefore, reveals an industry that, in general, is fragmented, internationally segmented and predominantly focused on domestic markets. General expectations of home-country effects, reinforced by dominance effects, must be high. Aspects of process plant production, however, suggest quite different pressures. The following section looks in detail at Eng Servs UK and the indicators of home-country effects.

Looking for 'Americanness' in Engineering Services

Eng Servs Corp is a well-established American MNC and a market leader. It has an annual turnover of US$4 billion and employs 10,000 people worldwide, nearly half of these (4500) employed outside the USA (Annual Reports and Accounts, various). The firm was founded in the USA at the turn of the last century, following the merger of two predecessor companies. Rapid early development resulted in its listing on the New York Stock Exchange in 1929 and, consistent with the preceding discussion, moves to establish overseas offices. A branch office in the UK, one of the first, was established in 1920 and this was incorporated as a wholly owned subsidiary by 1927. Further subsidiaries in Europe followed during the 1940s and 1950s, and smaller specialist engineering centres have been established in the Far East more recently.

Activities centred initially on the development and manufacture of boiler technologies, but the firm followed the postwar trend into engineering services consultancy and project management expertise. This came to be organized around two main business streams. Energy Equipment (EE) designs and constructs power-generation plants and is related to the company's historical core business of boiler manufacture. Engineering and Construction (E&C) operates predominantly in oil and petrochemicals, building upstream (well-heads, tanker terminals, and refining) and downstream (process separation) facilities. Significantly, E&C has become the predominant part of the corporation, contributing currently 74 percent of turnover, 70 percent of new orders, and 70 percent of profit (Annual Reports and Accounts, various). While most of the corporation's subsidiaries operate in both streams, Eng Servs UK specializes in the E&C business. Crucially, as the biggest part of the corporation's most important business stream, the UK subsidiary is responsible for the larger parts of turnover and profit worldwide and employs nearly two-thirds of the corporation's non-US workforce.

In this case, then, the child has outgrown the parent in many key respects. Explaining that process will be an important theme because it has clear implications for the findings on home-country effects. These are considered next. First, we examine centre–subsidiary relations and the implementation of operational, financial and employment controls; second, the provenance and operation of employment systems. Both sets of findings confound our general expectations of management systems in US multinationals: despite substantial home-country influence in the development of the sector, the UK subsidiary operates primarily within assumptions generated by its host-country context and with little intervention from the USA.

Centre–Subsidiary Relations: Operational, Financial and Employment Controls

One of the most powerful mechanisms of corporate control in MNCs is the deployment of expatriate managers. Strikingly, these were entirely absent in Eng Servs UK. There had been a convention, in the past, of appointing an American as chairman of the subsidiary, but this had not generated notable direction from the USA. One manager recalled that an American chairman had been in post when he joined the company, but thought the chairman was not a conduit for American direction since he had 'been kicking around Europe for twenty years and had gone native'. More recently, US executive managers had been withdrawn from most of the corporation's subsidiaries and replaced with local staff, with the consequence that Eng Servs UK had been run exclusively by British managers at all levels since 1996. All respondents stressed that Eng Servs UK was regarded by many as ostensibly a British firm: 'we've been in the UK for eighty years. The average guy that works for this company probably thinks we're British'.

This operational independence was underpinned by the development of indigenous engineering competence. Engineering expertise initially was provided from the USA and from the Eng Servs corporate headquarters specifically. The flow of technical knowledge had never been one way, though, and from the 1970s was increasingly from the UK to the USA. The reasons for this are discussed below. For the moment, it is necessary only to note the extent to which it was the case, and its consequences. Managers and employees alike noted the concentration of industry experts within the UK office. Engineering protocols and systems were of British design and thought to be several years ahead of those used in the USA. One employee recalled a large pharmaceutical project executed in the USA for which the corporate office had requested assistance from the UK subsidiary. British systems incorporated 3D design techniques, but engineers found that, 'all of that is still done by hand in America. They are still writing it all out. [. . .] we went on to automatic building materials like ten years ago. They are way behind'.

This imbalance fundamentally influenced power relations within the firm internationally. Senior engineering managers emphasized their independence on operational matters from the USA: 'I don't report anything to the States on engineering and my boss doesn't either particularly' (G: 44). Some elements of risk management were shared. Bids for contracts in excess of US$100 million were subject to scrutiny involving presentations to key managers at US headquarters and, for bids in excess of US$200 million, to the full executive committee. But US interest tended to focus on the company's potential future exposure and this could be offset depending upon the contractual form adopted. Large turnkey projects offer scope for increased profit margin, but load risk on to the contractor. Risk is reduced on fixed-price contracts, where clients are invoiced on the basis on an hourly rate. Much of the work undertaken by Eng Servs UK was fixed price so corporate scrutiny was regarded as a marginal control in practice: 'a lot of the smaller ones, or ones where say there is very little risk in them but it's purely a value driven thing, that is often handled by phone'.

In this context, functional management from the centre, of finance and human resources, was not a prominent feature of the organization and few corporate controls were imposed on the subsidiary. Two aspects of this need to be highlighted: the relative lack of corporate controls and, separately, the authority of functional HR managers within the UK subsidiary.

Taking financial controls first, corporate expectations of the UK's contributions to profits were high and increasing, confirming one key aspect of behaviour expected of US MNCs, pressure for short-run financial returns. Eng Servs Corp was recovering from a financial crisis and consequent pressures were communicated to subsidiary operations via short-run earnings targets that were repeatedly intensified, often within the same financial year. However, the target-setting process was relatively unsophisticated, based on historical performance levels and negotiation with subsidiaries, rather than detailed operational intervention. Indeed, key respondents doubted whether the financial reporting systems in place could facilitate intervention of this kind: 'Profit and loss accounts were submitted on a regular basis but with little budgetary or forecast information'.

The key management roles accorded to engineers limited the capacity of the finance function to act as a control mechanism. As one finance manager put it, 'you must understand that this is not a financially controlled process'. Finance managers were focused primarily on historical bookkeeping and account consolidation. Project managers and engineering-based project cost specialists oversaw all aspects of budget control, including plant, materials and labour. During tendering exercises, finance managers were occasionally asked to 'have some inputs where it comes to exchange rates, or estimate what the interest cost might be, or if there's a tax cost to be incorporated'. But the function had no core responsibilities for the figures incorporated in bids and, indeed, often did not know what was done with their estimates, since proposals managers would often 'alter it to make the thing look nicer and make the thing more competitive'.

The influence of the HR function was similarly subordinate to the British engineering culture. The corporate HR function was said not to wield significant influence over employment practice within the UK operation and international forums were of negligible importance. An international HR committee tried to meet 'at least once a year', but was concerned primarily with information sharing, and agendas contained 'very few very high level issues'. Having come from another US company, the director of HR found the extent of the discretion this afforded him remarkable. Whereas his previous company 'drove all of the policies and programmes straight out of [US Headquarters]', his corporate director of HR in Eng Servs Corp 'leaves me to get on with it'. Contact with the centre was more frequent than under his predecessor, who regarded the UK operation as 'ring-fenced', but 'I don't sit here waiting for my functional boss in the States to tell me what to do and he doesn't interfere on a day-to-day basis'.

As with the finance function, therefore, any potential role for HR as a regulating device on behalf of the US headquarters was slight and unrealized. The UK function had operated historically as a personnel service to the line: 'they have not been used to what I would call HR programmes where HR, supported by senior management, would establish particular approaches across an organization'. HR influence was exercised through specialist staff devolved to departments, but their weakness was indicated by their nomenclature, 'HR advisors'. Asked about HR influence within the company, one senior manager emphasized that he saw his advisor once every week to discuss issues such as 'long-term sickness, someone off sick, what do we want to do about that? Recruitment, we will first broach that with the HR advisor there'. Like the finance function, HR was accorded virtually no role in the bid-construction process. This is important because tendering processes determine important aspects of workforce planning and skills development programmes. Staffing aspects of bids were seen as an engineering responsibility managed principally by the designated proposals manager in the light of an invitation to bid (ITB):

> He will have identified all the various things that we have to do. He will then break that down into his assessment of the number of people, the types of people and the durations that we need them for and that culminates obviously in some sort of man-hour estimate.

Employment Systems

Before concluding that home-country influence over employment is weak, however, it is necessary to examine the specific character and genesis of employment systems. It is possible that these are traceable to initial American influence, but are so embedded that local managers operate them without question.

At first glance, indeed, employment systems do exhibit stereotypically American traits of the kind found in Jacoby's 'welfare capitalist' regimes (1997) and highlighted by Ferner's study of US home-country effects (2000). Pay systems are highly individualized, quality systems are well entrenched, and employment security is a prominent feature. Some direct corporate influence was indicated by a code of ethics, prohibiting employees from engaging in anti-competitive or corrupt practices in order to secure contracts. Present in the procedures of both the UK and Spanish subsidiaries, this appears to be traceable directly to federal legislation in the USA, which is composed in similar terms. Some US intervention was apparent also in relation to employee involvement. Corporate managers were said to have prevented the UK director of HR from establishing voluntarily a European works council.

Closer examination, permitted by the case-study method, suggests that corporate influence of this kind was nuanced and extremely rare overall. For example, individual performance management was well established in Eng Servs UK and was indeed attributed by respondents to initial American influence: it 'is actually a very traditionally American process and it is just about the only piece of the US process I see operating here'. By common consent, however, the system had not operated effectively in the UK and had assumed a ritualistic character. Most employees received close to average pay increases that had little to do with evaluation of individual development or contribution. The process had consequently been subject to reform initiated, crucially, by the UK HR function and not the corporate headquarters. The new Individual Performance System (IPS) focused more on the developmental aspects of appraisal and de-emphasized the formal link to pay apparent previously. Significantly, reform required eventually of other subsidiaries, including in Spain, bore marked similarities to the IPS, indicating that the 'reverse diffusion' of ideas from the UK had influenced the thinking of corporate HR.

On other issues, American influence over the UK operation was still harder to discern and a predominantly domestic animus was to the fore. Several employees perceived collaboration between UK-based EPPC companies on the rate paid to contractors, self-employed engineers brought in to projects for particular tasks over short periods. At key moments, this was said to have extended to issues affecting permanent staff too. The intensity and intimacy of labour markets for engineers in the UK was offered repeatedly as the driving force behind this 'cartel' behaviour:

> The overtime rate going down to base rate, Saturday, Sunday, flat rate. Anything over your forty hours flat rate, that happened at the other places at exactly the same time. So is that a coincidence or what? Would you try to introduce that, knowing there is a competitor just 30 minutes away up the road on the train who is not going to do it? You wouldn't do it would you!

Another key example was the subsidiary's attitude to unions, since non-unionism is often seen as a distinctive marker of home-country influence in US MNCs (for example, Beaumont and Townley, 1985). Eng Servs UK is indeed a non-union company; unions are not recognized for collective bargaining or for representation. This was not the consequence of US influence, however, since the US operations are unionized as are most of the European ones. Of course, this need not prevent the centre imposing non-union policy objectives on its star performer in the UK, but this was explicitly denied by the HR director: 'it is not a policy objective and it does not get discussed a lot, I have to say'. Asked about the possible consequences of having to cede union recognition, he added, 'I think it would be very unlikely to be a fall-on-your-sword scenario given where they are at [the US parent]'. Moreover, the strong steer from HQ on the specific issue of a European works council did not prevent Eng Servs UK establishing consultative bodies of its own. With one eye on the proposed information and consultation directives in Europe, the UK HR function retained structures used during a redundancy exercise and eventually expanded their terms of reference to include issues such as health and safety, but also, significantly, aspects of terms and conditions. Recent reviews of and revisions to contracts of employment and to the employee handbook were taken first to these employee consultation forums.

No global corporate approach to training and development was evident within Eng Servs UK. Asked about whether the USA influenced training, one senior manager responded:

> Oh absolutely not, no. They have done nothing. No. Training is typically the sort of pot-shot, you know a bit of presentation skills, maybe some negotiating skills, that sort of thing. But not as part of an overall competency plan.

There was some limited evidence of international development for executive managers, but only at the very highest levels, involving a handful of key managers. The global head of the E&C function in the US office at the time of the research was British, for example. For the bulk of the UK workforce, however, formal training was relatively limited and development was geared tightly to the acquisition of portfolios of work experience. The link here was with the British engineering institutions that require formal examination of such portfolios before granting chartered status to applicants.

Forms of employment flexibility were also influenced primarily by a mix of sectoral and host-country factors, rather than pressures emanating from the USA. Aspirations to increase functional flexibility were expressed, but these came from the UK HR function rather than the USA. In project environments, numerical flexibility was the most obviously available source of variability, but this was constrained in two key respects. First, the ability to deploy contract staff was relatively limited in Eng Servs UK. The use of contractors potentially insulates core workforces from market shifts. Several competitors, notably among the construction giants rather than EPPC specialists, tolerated high levels of temporary working (up to 50 percent of the workforce), but this was not possible in Eng Servs UK which tended to maintain only around 15–30 percent on temporary contracts. Their absence from core, front-end design engineering was explained by client preferences which, in complex work of this kind, could be both strongly expressed and influential. Employment security for core staff was a marked feature of the UK operations for the same reason. Senior staff tended to have long service records with the company: 'now, from a client's point of view that is a wonderful strength because . . . they feel they're buying experienced people . . . fully appreciative of all the procedures and standards . . . that are necessary to execute these jobs'.

In summary, the evidence suggests that within Eng Servs UK, home-country effects are influential on a minority of specific employment relations issues, notably codes of ethical behaviour and employee-involvement structures. A mix of sectoral characteristics and those stemming specifically from the host-country environment mediated those from the home country, however, and proved decisive on most issues. In the next section, the factors underpinning this mediating role are explored further before general conclusions are drawn.

Discussion: The Mediating Influence of Sectoral Development

Thus far, we have a series of vignettes suggesting weak home-country effects on employment relations, relative to host-country orientations, and a mediating role for sector in producing such an outcome. This section builds this argument and moves toward a basis for generalization. First, it is necessary to consider closely what constitutes a sector effect. Discussion then proceeds to the question of how these operate in relation to the institutional influences discussed earlier.

A frequent assumption in discussions of sector effects is that aspects of the product or production process, or of the rules by which these are regulated, confer on companies common approaches to common problems across national boundaries, and that features of a sectoral employment system, therefore, tend to be universally shared within the sector. It is certainly possible to identify elements of employment systems in Eng Servs UK that are explicable by universal characteristics of the sector. Teamworking, for example, was not the result of recent and self-conscious management strategy within particular firms, but was integral to the production process. Engineering complex installations requires interaction across the full range of disciplines throughout the design process. As Bresnen notes of complex construction firms, 'where tasks are medium to high in perceived difficulty and high in perceived variability (or uncertainty), then group modes become appropriate for problem-solving and decision-making' (1990: 8). This is generally achieved through the creation of project teams comprising selected members of the respective engineering departments, physically relocated within offices to designated project areas. Matrix working of this kind is common across the EPPC sector, with engineers supervised simultaneously through line management in their departments and project managers on specific projects.

However, generalizing this argument to other aspects of the employment relationship quickly runs into the sand. The employment security noted earlier, for example, was not a feature of the US operation where downsizing was reported to have cut deeply into the organization. Preliminary interview data from the company's Spanish subsidiary indicates greater restrictions of local discretion, in relation to recruitment and pay for example. Thus, not all sectoral characteristics are universal and even universal sectoral characteristics can permit quite different responses.

It is important then to accommodate the specific circumstances of the firm and the subsidiary and their interaction with the structural characteristics of the sector. It is useful to refer at this point to debate in the IR literature surrounding the concept of strategic choice (Kochan et al., 1986; Purcell and Ahlstrand, 1994). This follows a well-trodden path in IR conceptualization by linking employment practice to contextual pressures. It is helpful in discussions of this sort because it illuminates dimensions of influence not usually recognized explicitly in the institutionalist literature. Three orders of choices are identified. Those affecting employment are seen as third-order choices. Importantly, these are dependent to a significant degree on second-order choices about organizational form and first-order choices about what to produce and where. Looking closer at this line of analysis, the issue of teamworking is one of a minority where sectoral pressures directly encourage particular employment (or third-order) choices. For other employment issues, we must explore the sectoral influence over first- and second-order choices and how these relate to employment strategies.

First-order choices are dealt with relatively easily: for most EPPC companies, a presence in the UK was required historically by the size and unique importance of British markets, both domestic and international. Britain's petrochemical industry assumed strategic importance during the postwar period. Polyethylene consumption grew much more rapidly than in mainland Europe, 'as did consumption of solvents and synthetic detergents' (Spitz, 1988: 365). Between 1948 and 1958, nearly US$280 million was spent on new investment in the petrochemicals sector, a much larger figure than any other European economy, and production almost tripled over the period as a result (Spitz, 1988: 365). Most important though, British companies were important pioneers in the global development of oil exploration and had substantial influence in key markets. Historically, the Middle East provided around two-thirds of the world's proven reserves. The first oil discovery there was by the forerunner of British Petroleum (BP) in Iran in 1908, and the company retained exclusive access to oilfields across the country until 1954 (British Petroleum, 1970: 24–5). BP and Shell took major stakes, alongside US companies, in Iraq, Qatar, Kuwait and Saudi Arabia. The strategic importance of this US–UK axis increased still further from the 1970s when fourfold increases in the price of oil enabled OPEC nations to invest massively in refining capacity. By the end of the 1970s, the Middle East was the third largest construction market in the world, behind the USA and Japan (Strassman and Wells, 1988a: 3).

Eng Servs UK grew significantly during this immediate postwar period and expansion included the new subsidiaries established in France, Italy and Spain. These were managed initially through the UK, a developmental factor that goes some way to explaining the current differences in their standing noted earlier.

But this does not explain by itself the second-order choices apparent in this study. Eng Servs UK was established early on as a wholly owned subsidiary, rather than a branch office. Often a mere technical device providing certain fiscal advantages (Dunning, 1998: 69), incorporation in the UK clearly had broader meaning in this instance, fostering devolved management and considerable autonomy. Given the general tendency, highlighted in the literature, for American MNCs to be corporately driven and controlled, this is a finding that requires particular exploration. Birkinshaw's work (2000) on the development of subsidiary autonomy is useful here since it helps to reintegrate agency within predominantly structural analysis. Subsidiary development, according to Birkinshaw, is dependent upon the accumulation by the local office of resources (productive factors available to the firm) and capabilities (the ability to deploy and manipulate those factors). These influence the capacity of a subsidiary to extend its 'charter', that is, 'the business or elements of the business in which the subsidiary participates and for which it is recognized to have responsibility within the MNC' (Birkinshaw, 2000: 86). A range of possible development paths is identified. Parent-driven development occurs where corporate headquarters retain discretion over the allocation of charters; strong home-country effects are likely in these cases. Where local managers attain leverage over their charter, the development tends to be subsidiary driven and the organization assumes local or host-country characteristics. At the other extreme, subsidiaries can be closed down, as a result of corporate decision-making, or atrophy where local managers fail to exploit their resources effectively. The extent to which charters are contestable is a critical factor in these processes. Simple product lines can be established in almost any national location and can be relocated easily. Subsidiary managers in such contexts find it difficult to establish authoritative claims for extended charters. But where subsidiaries accrue specific geographical or political benefits not easily attainable elsewhere, their charters are harder to contest. Local managers have a more secure basis within the firm from which to develop entrepreneurial behaviour in the quest for further organizational resources.

Looked at within this framework, a mix of sectoral and host-country effects made the Eng Servs UK charter difficult to contest. First, EPPC is a highly complex and variable product and an inherently risky one too. There is a history of endemic losses in the EPPC sector and the consequences of even a single contract failure can be catastrophic. This may usually encourage tight, centralized management of subsidiaries, but this is not possible in EPPC because of the multifaceted and inherently local nature of construction risks. These include 'inclement weather, delays in site availability, unforeseen subsoil conditions, inadequate detail drawings, late material deliveries, unanticipated price changes, faulty subcontracting, unproductive labour, strikes, political disturbances, getting paid on time, foreign exchange rate fluctuations, transfer restrictions, and expropriation' (Strassman and Wells, 1998b: 224).

As Bresnen (1990: 57) notes of complex construction firms in general, this tends to encourage 'a strong reliance upon the technical and managerial expertise of personnel performing the work at the operational level (and hence the decentralisation of discretionary, decision-making authority to those on the ground)'. The granting of discretion to subsidiaries does not necessarily require that they are managed by indigenous staff, as noted to be the case here. Expatriate managers could be appointed and given the necessary leeway, but financial, commercial, and labour market factors disbar such an option in this sector. American managers in EPPC are highly paid, owing to tight labour markets around key centres on the east coast and in the south. This provides a built-in disincentive to overseas placements, since overhead costs are central to contracting success and are subject to close client scrutiny. Commercial factors reinforce this dynamic in favour of local managers, since links with host-country governments and clients are critical. National governments have always been closely involved in oil. The British government took a controlling share in BP in 1914 and, as one BP chairman put it, 'even in Persia, they were never quite convinced that I had not come straight from Whitehall' (British Petroleum, 1970: 53). Influence now tends to be less direct, but remains significant. The combination of national interest and extreme risk has inclined most governments to provide insurance and 'soft-credit' for firms wishing to internationalize in these markets. Export Credit Guarantees operated by the British government have provided 'up to 90–5 per cent of losses . . . if the client refuses to pay, becomes insolvent, is forbidden to pay in foreign exchange, cannot pay because of war or other disturbances, or because of cancellation of various necessary permits' (Ball, 1985: 240). Since many of these schemes have incurred significant losses over time, they have operated effectively as a subsidy and can be critical in determining contract prices and sales success for the firm (NERA, 2000). Lastly, UK labour markets in this sector positively encourage local management because the structure and size of British EPPC markets, noted already, means that there is considerable indigenous capacity. The biggest refinery in the world up to 1950, at Abadan in Iran, was built by British engineers working for BP. American supremacy in hardware innovation became manifest during the postwar period in the virtual hegemony of 'American Standards': the requirement by clients to incorporate US patented technology into projects regardless of the nationality of the constructor (Dunning, 1998: 45). Importantly, though, this never in itself generated a monopoly on design and execution expertise, and British skills in the civil aspects of construction (foundations, buildings, structural steel, piling, grading and roads) continued to rival those of US contractors (Dunning, 1998: 157). Vesting authority in UK engineering staff was not problematic in this context and this goes some way to explaining the absence of expatriate managers noted earlier.

Structural factors of this kind provided the basis for subsidiary autonomy, but were insufficient to secure it. The extent of autonomy given to Eng Servs UK must be linked to 'critical mass' and the size and importance of the subsidiary relative to the US parent. This is due to the kind of entrepreneurial behaviour predicted by Birkinshaw in subsidiaries where charters become difficult to contest. In Eng Servs UK, sustained success in the Middle East was reported to have prompted a major entrepreneurial initiative within the subsidiary that finally secured its corporation-wide predominance in E&C operations. Toward the end of the 1970s, sensing the end of the construction boom in the Middle East, and the onset of a cyclical depression across its segment of the industry, Eng Servs UK began to look for other market opportunities. It noted considerable activity growth in South-East Asia, ostensibly part of the US E&C group's operations at the time, but an area to which they were devoting relatively little attention. The UK head of sales and marketing argued a successful case to take leadership for the whole of South-East Asia for Eng Servs:

> [. . .] the US office [. . .] was very busy with domestic work so we just annexed the whole area and then we started a campaign of building our markets in South East Asia. Of course that proved to be exactly the right thing to do because by the mid-eighties South East Asia started out on a twenty-year period of economic growth.

Between 1980 and 2000, contracts secured in South-East Asia accounted, on average, for 30 percent of Eng Servs UK's annual business. The US domestic market, by contrast, went into substantial decline. As the oil price tumbled during the early 1980s, demand for the alternative energy-generation schemes built by Eng Servs Corp declined too and the company embarked on a programme of downsizing and withdrawal from key product lines: 'basically, they abandoned their position in the US E&C market. I don't think they have ever recovered from that'. Thus, first-order choices about subsidiary location were influenced critically by the international structure of the sector and the position of the UK within it. These structural factors strengthened the hand of British managers in their attempts to extend their charter and, consequently, autonomy over third-order operational and employment-related matters.

Seen in this context, the decidedly British orientation of the subsidiary becomes understandable. The transparent nature of costs and the magnitude of risk creates an inbuilt bias toward local management throughout the industry and some direct influence on third-order choices concerning employment strategies. This is particularly marked in the UK, however, where the strategic importance and structure of the marketplace condition first- and second-order choices over the role and organization of subsidiaries located there. This context endows the charter given to Eng Servs UK with considerable strength. It is this that explains the entrepreneurial behaviour of Eng Servs UK and the local orientation of its employment systems.

Conclusions

Eng Servs Corp is a major international company operating within an American-dominated sector. This would seem to provide fertile conditions for the home business environment to exert a significant influence on employment relations in the company's UK subsidiary. Looked at more closely, however, the findings have shown that key structural factors permit sector influences to attenuate those from the home-country business system.

Sector influences were not necessarily of a direct and universal nature. Direct links between sectoral characteristics and broadly diffused employment practices were found for only a minority of issues, most notably teamworking. On other issues, including recruitment and employment security, variation between operating centres was noted. Using the language of strategic choice, we argued that sectoral influence, in this case, was delivered primarily through first- and second-order decisions over what to produce (and where) and through what organizational form. These have indirect effects on employment practice by shaping the constitution of subsidiary management and their orientation toward employment practice. Expatriate managers constitute key links in corporate control systems, but management in Eng Servs UK was exclusively British, a factor explained by financial, commercial and labour market features traceable to sectoral pressures.

These findings develop our understanding of contextual influences on employment relations behaviour within MNCs in two main ways. First, they offer a basis for exploring the interplay between sector and national business systems. Commonly, institutional analysis has insisted that sector plays a secondary role to home- and host-country influences. To some extent, this conclusion is borne out by this research too. The composition of the EPPC sector, and the importance of the UK within it, can only be explained through reference to the characteristics of the national business system, particularly the authority gained from former imperial markets (see Campagnac et al., 1999). What matters for this discussion, though, is that a general institutionalist analysis, a priori, would assume strong home-country influence because in general terms the UK is an open economy offering little regulatory resistance. Highlighted strongly here is the role played by sectoral pressures in modulating that interplay and, on specific issues, providing alternative influences of their own. This suggests the need to incorporate into discussion of home- and host-country effects the more general literature on patterns of sectoral specialization (see Quack and Morgan, 1999).

Second, applying Birkinshaw's (2000) conceptualization of subsidiary development allows us to integrate agency within structural analysis. Sectoral characteristics observed here did not determine organizational biases by themselves; rather, they influenced the framework within which actors operated and provided levers for them to use in pursuit of their specific interests. The notion of charters is especially useful and, understood in sector-specific terms, provides a set of explanations for the entrepreneurial behaviour observed in Eng Servs UK. It was this behaviour, as much as the structural factors that prompted it, that effectively secured for the subsidiary control over its own charter, and operational authority vis-a-vis corporate headquarters over employment relations.

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NOTES

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