THE EFFECT OF THE NATIONAL INSTITUTIONAL ENVIRONMENT ON BUSINESS RECIPES: COMPARATIVE CASE STUDIES OF ESSO IN BRITAIN AND GERMANY

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'The Effect of the National Institutional Environment on Business Recipes: Comparative Case Studies of Esso in Britain and Germany'

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Declarations

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(Dr. Sandra Nutley)

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Abstract

The increasing globalisation of business activities since the Second World War might seem to indicate the end of economic diversity within and among nations, and to point towards the standardisation of business recipes across the industrialised world. However, various cross-cultural studies have revealed considerable differences among organisations even within the fairly narrow context of Europe (for example, Lane, 1989; 1992), which are attributed to differences in the institutional environments in which the organisations are embedded. Institutional theorists argue that contingency theorists' emphasis on the influence of the task environment of an organisation, and cultural theorists' focus on the influence of ideational factors, are not sufficient to explain the continuing diversity of organisations across nations.

This research analyses the influence of the institutional environment on the business recipe of private sector organisations. It thus combines institutional theories of organisations and the concept of business recipes. The companies analysed are Esso in Britain and Germany. Given that Esso in both countries is part of the Exxon Corporation, the research not only considers the influence of the national institutional environment, but also offers insights into the workings of a multinational organisation. In-depth case studies of both companies were undertaken by way of interviews and documentary research. These case studies were contextualised by research into areas such as the nature of the petroleum industry, the economic context of the companies, and the history and policy of Exxon Corporation.

The case studies reveal that despite each company's common dependence on Exxon and a fair degree of similarity in the technical factors of their environments, they have distinctive features in their business recipes, and these can be attributed to the configurations of the respective institutional environments. The study illustrates the need for the managers to cope with conflicting institutional pressures, especially from their parent company and the national institutional context. Overall, the findings support the view of institutional theorists (for example Lane, 1989; Whitley, 1992a) that economic diversity among countries will persist as long as the configurations of key national institutions differ.

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1 Introduction

During the last fifty years since the Second World War, the world of business has become increasingly interdependent and complex, with information technology furthering the establishment of networks throughout the globe. Furthermore, this period has been characterised by increasing attempts to facilitate business development across national borders. A fitting example of this was the creation of the Common European Market in 1992 that gave birth to a vast European free-trade zone among the twelve member states of the European Community.

These developments might seem to indicate the end of economic diversity within and among nations, and to point towards the standardisation of business recipes across the industrialised world. However, even in a fairly narrow context like the European Market, little convergence towards a common business recipe seems to have occured. On the contrary, various cross-cultural studies (see, for example, Maurice et al, 1980; Lane, 1989; 1992; Whitley, 1992a) have revealed that considerable differences among organisations within Europe still persist and attribute these to the different institutional environments in which the latter are embedded.

Institutional theorists (for example Meyer and Rowan, 1977; Scott, 1995) posit that organisational structures and processes are influenced by institutions within and outside organisations. Institutions, in this context, are viewed as manifestations of societal values (Lane, 1989). Institutionalists thus oppose on the one hand the 'undersocialised' view of contingency theorists in their focus on the importance of the task environment of an organisation. On the other hand, they reject the 'oversocialised' perception of organisations by theorists in the culturalist tradition who emphasise the influence of ideational factors.

This research set out to examine the extent to which the business recipes of organisations are influenced by their national institutional context. In order to be able to address this question, firstly, in-depth research into the nature and role of institutions was needed. An outline of institutional theories of organisations is given in Chapter Two. Institutional theorists have in the past based their theory on the broad assumption that some organisations are subject to a rather technical environment, mainly private sector organisations, whilst others are influenced by an institutional environment, mainly public sector organisations, (see, for example, Zucker, 1987). This has led to the fact that most institutional analyses (especially within the USA) have been undertaken on public sector organisations. It thus seemed important to analyse how far *private sector* organisations are subject to institutional pressures. Furthermore, most institutional theorists focus on analysing the effects of institutions on factors such as organisational structure or industrial relations (Lane, 1989; Maurice et al., 1980; Sorge and Warner, 1986). Hence, it seemed important to provide further insights into the influences of institutions by analysing their effect on the *strategic level* of organisations, as manifested in organisations' business recipes. Whilst this is more difficult to research than structures or processes, it seemed a very interesting and challenging research task which would penetrate an area not yet sufficiently addressed by institutionalists. In order to understand the origin and characteristics of business recipes, research was needed into the concept of business recipes. An outline of this concept and the literature on it is provided in Chapter Three.

On the basis of the above broad definition of the research task, a research methodology was developed, which is described in detail in Chapter Four. In order to explore the influence of national institutions it seemed most appropriate to study organisations in at least two different countries. The countries chosen were Britain and Germany. Previous comparative analyses of these countries (for example Lane, 1992; Sorge and Warner, 1986) have revealed interesting differences, and analysable results could thus be expected.

It seemed most appropriate to undertake in-depth case studies with a limited number of organisations, which, as explained above, should be private sector organisations. The organisations chosen were Esso in Britain and Germany where access was possible because of existing contacts with the German Esso AG. These organisations are both subsidiaries of the Exxon Corporation and have both been active in the refining and marketing of oil products in their countries for over a century. The companies' mutual dependence on Exxon was expected to ensure to the greatest possible extent that differences found between them would be rooted in the institutional environment rather than in variations in the policies of the parent company or in sector-specific factors. Lastly, with both companies being part of the Exxon corporation, this research offered the opportunity of analysing the impact of the multinational corporation on the organisational business recipes of subsidiaries. Given the interdependence and increasingly global character of business, it seemed a very critical issue to reveal the extent to which the business recipes of the Exxon affiliates are 'global' in character.

As part of the research task and in preparation for the case studies, in-depth research was undertaken on the nature of the oil industry, the history and policies of Exxon, the energy policies of Britain and Germany, the economic context in which Esso AG in Germany and Esso Petroleum in Britain are embedded, as well as the national institutional environment of the two countries. This research is described in some detail in the Appendices and used in the analysis of the case studies in Chapter Seven.

In order to build up a picture of the business recipes of Esso AG and Esso Petroleum, interviews were undertaken with senior management in both countries. Research into business recipes is difficult as it requires the researcher to obtain a picture not only of the formal strategy of an organisation but also of the underlying rationality which leads to this strategic behaviour. A major challenge of this research was thus to reveal this underlying rationality. In this context, not only was it important to reveal the influences managers *perceived* as critical, but also it was essential to find out whether these assumptions by the managers were representative of their strategy formulation. This was done mainly by way of semi-structured interviews which allowed the researcher to obtain a fairly comprehensive picture of the key features and underlying beliefs of the companies' business recipes. These interviews were supplemented by the analysis of documentary evidence provided by the two companies. The case studies of Esso Petroleum and Esso AG are summarised in Chapters Five and Six.

The contrast and comparison of Esso AG and Esso Petroleum enabled the researcher to reveal differences and similarities in the business recipes and to relate these to the institutional environment of the organisations. This also provided the opportunity to explore how managers manage the potentially conflicting institutional influences exerted upon them. The analysis of the case studies is provided in Chapter Seven.

To sum up the structure of this thesis, initially an outline of institutional theories of organisations is provided in Chapter Two. In Chapter Three, the concept of business recipes is presented. Chapter Four describes the research task of this study defining key research questions, as well as explaining the methodology employed. In Chapters Five and Six the case studies of Esso Petroleum and Esso AG are presented with summaries of the overall business recipes of the companies provided at the end of each chapter. The findings are then analysed in Chapter Seven. Chapter Eight summarises the conclusions to emerge from this study.

2 Institutional Theories of Organizations

The purpose of this chapter is to provide an outline of Institutional Theories of Organizations, one of the underlying theories of this research, focusing on studies since the 1970s. The chapter is divided into five parts. Firstly, an introduction to the theory is given contrasting it with other theories and tracing its short history. The second section provides an outline of Institutional Theories. In the third section, special issues regarding the theories are discussed. Fourthly, an outline of various cross-cultural studies in the institutional tradition is provided, with a final conclusion following in the fifth section.

2.1. Introduction

Institutional theories of organisations have evolved mainly since the 1970s. Although some early theorists like Selznick (1957) or Commons (1924) emphasised the presence and influence of institutions in society (for a comprehensive review of early institutional thought, see Scott (1995), only in the 1970s were institutional theories of organisations fully developed as an alternative theoretical conception to other mainstream theories of organizations. Since their early years, institutional theories have undergone various changes. In fact, as Scott (1995) explains, current strands of institutional theories can be regarded as 'Neo-Institutional' as their focus has shifted from formerly the regulative and normative character of institutions to the cognitive side. This chapter will focus on the current theorists in the institutional tradition.

Institutional theories of organizations explain organizational structures and processes as influenced by institutions within and outside organizations. Institutions, in this context, are seen as manifestations, or 'tangible expressions' (Lane, 1989: 28) of societal values. Especially European theorists in the institutional tradition stress the particular importance of how institutions evolved historically - on the basis of value systems - and how this shapes their role in society (see eg. Clegg, 1990; Lane, 1989; Whitley, 1992a; 1992b). Institutional theories are thus different from both contingency theories and the purely culturalist perspective. With regard to the former, institutionalists oppose the idea of contingency theorists that structures and behaviour of organisations are universally shaped by certain contingent factors such as size or the degree of dependency, in short, the 'task environment'. In the eyes of institutional theorists, the success of organizations is not merely dependent on the economic efficiency of the latters' work processes. As Granovetter (1985) puts it referring to Wrong (1961), contingency theories offer an 'undersocialised' account of organizations. As far as the culturalist tradition is concerned, institutionalists reject the exclusive emphasis on ideational factors, which culturalists pursue. In this context, the latter focus especially on the influence of collective norms and values regarding kinship relations or religion, on organizations. Again in the words of Granovetter (1985), the culturalist perspective offers an 'oversocialized' view of the world, neglecting the role of institutional configurations such as the state system, the educational system or the mass media (Child and Tayeb, 1983).

In the eyes of institutionalists, organizations are partly shaped by the institutional framework in which they are embedded (see eg. Granovetter, 1985; Meyer and Rowan, 1977), and by internally generated rules and procedures (Zucker, 1987). Organizational success is viewed as partly determined by the ability of organizations to adapt to institutionalised rules and procedures through the latter of which they gain legitimacy in the eyes of society. In this context, institutionalists consider institutional factors such as the influence of the state, how whole nations came to industrialise, the nature of the political or educational system as well as national public opinion.

2.2 The Institutional Theories of Organizations

Although they agree on common basic assumptions, theorists in the institutional tradition take different views on specifics. Various theorists have summarised and categorised the main institutional theories (see eg. Clegg, 1990; Scott, 1987a; 1995; Zucker, 1987). Common to all theories is that 'institutionalisation' is regarded as a process and property variable (Zucker, 1977). In the former meaning, institutionalisation describes the process by which individuals arrive at common understandings and interpretations of particular actions and situations thereby establishing social norms and rules of behaviour. The second definition refers to the fact that the rules thus created by human beings are, once established, regarded as exterior (Zucker, 1977), as external realities, as "objective structures' which constrain action (Zimmerman and Pfitzner, 1970: 37)' (Zucker, 1977: 727). The thus evolving social order represents the scope within which individuals are to act if they want to be understood and accepted. Institutions themselves are the incorporations of the rules created. They exist at all levels and in different forms, as Scott defines (1995: 33): 'Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers - cultures, structures and routines- and they operate at multiple levels of jurisdiction.'

Scott (1987a) distinguishes four different strands of institutional theories including early theorists in this field. Zucker (1987), focusing on current research, differentiates between two approaches. This approach was later adopted by Clegg (1990). In a recent work, Scott (1995), in line with his above 'omnibus definition of institutions' (ibid: 33) separates institutional theories on the one hand according to their regulative, normative or cognitive character, and on the other hand according to the varying carriers or means of transmission and the various levels of jurisdiction - from the subunit of an organisation to the world system - respectively. All in all, he arrives at a comprehensive model of 'Institutional Creation and Diffusion' (Scott, 1995: 142) which depicts well the complexity of institutional processes within a given society. A full account of institutional theories in this way is beyond the scope of this study. In the following, we will thus follow Zucker's distinction (1987) into two main strands however drawing arguments from other theorists' works. In this connection, the focus will be on those aspects of institutional theories which are relevant for the following study.

In her summary of institutional theories, Zucker (1987) distinguishes the 'Environment as Institution' approach from the 'Organisation as Institution' approach. These differ in terms of where institutionalisation takes place: in the 'Environment as Institution' approach, theorists view the environment of an organisation as containing institutionalised rules and norms of behaviour which the organisation may adopt in its structures and processes. In the 'Organisation as Institution' approach, organisations are perceived as *generating* rules and new cultural elements or imitating norms generated by other organisations. Most theorists in the institutional tradition have applied the 'Environment as Institution' approach in their studies (see eg. Lane, 1989; Whitley, 1992a; 1992b). The 'Organization as Institution' approach has been analysed or applied less frequently (see eg. Zucker, 1977). However, the underlying assumptions of the organisation as generating institutionalised rules and norms can be found in various studies (see Oliver, 1991; Granovetter, 1985) - also in those related analyses describing the existence of distinct organizational 'cultures' (eg. Schein, 1985). In the following, the 'Environment as Institution' approach and the 'Organisation as Institution' approach will be outlined. Whereas Zucker draws a clear line between these two models, however, we will subsequently arrive at a synthesis of these approaches thus adopting Scott's (1995) interpretation of institutional theories.

2.2.1 The 'Environment as Institution' Approach

Theorists using this approach regard institutionalisation as taking place outside the organisation which plays a mainly adaptive role. In modern societies, the institutional environment derives its power from being part of a collective, the state-system with the state as central coercive power (Zucker, 1987). The development of the state-system has led to the establishments of a rational-legal order. Within this order 'organized agents (...) assume jurisdiction over large numbers of activity domains (Swanson, 1971)' (Meyer and Rowan, 1977: 347). The degree of institutionalisation of the system varies according to the degree to which the rational-legal order penetrates society. As Meyer and Rowan (1977: 347-348) explain, 'the stronger the rational-legal order, the greater the extent to which rationalized rules and procedures and personnel become institutional requirements.' In this context, critical for the understanding of the configuration and influence of the state-system as well as other existing institutions is how they evolved historically (see eg. Clegg, 1990; Lane, 1989; 1992; Whitley, 1992a; 1992b).

By conforming to certain rules and norms the organisation becomes isomorphic with its institutional environment and with other organisations within this environment, thereby gaining legitimacy and ensuring its long-term survival and access to resources. In the words of Meyer and Rowan (1977: 349), they thereby 'remain successful by social definition'. In this context, three isomorphic processes can be distinguished (DiMaggio and Powell, 1983): coercive, normative and mimetic. Coercion is exercised formally or informally by other organisations or by society via rules, laws or sanctions. A characteristic example of coercive isomorphism is the implementation of measures required by law. Mimetic isomorphism takes place at a cognitive level through the adoption of taken-for-granted, culturally supported norms of behaviour. An example of this is the adoption of similar practices by organisations within the same field. Normative isomorphism results mainly from the professionalisation of society (DiMaggio and Powell, 1983) and depicts the processes by which organisations adopt certain procedures, policies and structures advocated by professional bodies such as trade associations, universities or consultancies.

Organisations become isomorphic with their environment irrespective of whether the rules and procedures adopted increase the efficiency (for a further discussion on the definition of 'efficiency' see section 2.3.1) of their work processes. In fact, the procedures formally adopted for the purpose of gaining legitimacy might even lead to a decrease in efficiency, or in the extreme case, to the sell-out of the organisation's goals (Perrow, 1986). Organisations facing this dilemma tend to 'decouple' elements of their structure from their technical activities and from other structural elements. This is visible, for example, when comparing the formal and informal structure of organisations. Organisations thus seem alike and gain legitimacy from seemingly complying with institutional rules, however the way they actually - informally - work might be different. As Meyer and Rowan put it (1977: 357), 'the organizations in an industry tend to be similar in formal structure - reflecting their common institutional origins - but may show much diversity in actual practice.'

A further point to be made is that institutional frameworks, once established, can prove as an impediment for change for the organizations and the whole society embedded in it. Only severe crises might then lead politicians or organisations to realise that the underlying institutions are obsolete and have to be replaced (eg. Lane, 1989).

In his recent work, Scott (1995) describes the 'Environment as Institution' approach as the 'Top-Down'approach, or 'Macro-Perspective' of institutional theories. It serves to explain on the one hand why organisations within a certain field or at a certain level have similar structures and processes. On the other hand, it offers an explanation for the difference between formal and informal structures and processes of organisations (Scott, 1995: 140-141; see also Meyer and Rowan, 1977; Scott, 1994). Lastly, it shows the relevance of the historical evolution of institutions for the latters' present character and influence and consequently for the organisations affected by institutionalised rules (eg. Lane, 1989; 1992).

Conception of the Institutional Environment

The definition of the institutional environment is subject to variations among institutional theorists. The interpretations of effects of the institutional environment vary somewhat, depending on which level of analysis is applied.

According to Scott (1995: 55) the level of institutional analysis can be regarded as 'the range of jurisdiction of the institutional form' analysed. However, institutional processes are complex and interwoven and any separation into particular 'environments' is problematic. Furthermore, researchers have come to realise that pressures within an institutional environment can be complex or even inconsistent (see eg. Oliver, 1991; Meyer and Scott, 1983; Scott, 1995). Nevertheless, theorists have undertaken analyses at different levels. Within the 'Environment as Institution' approach these are: the world system, the societal system, the organisational field and the organisation population (Scott, 1995).

With regard to the world system as institutional environment, Meyer (1994: 40) distinguishes worldwide effects on the status and rights of individuals from those on organisational complexity. In terms of the former, he explains that various recent developments have happened world-wide and thus had effects on individuals and thus organisations and societies around the globe. According to Meyer, examples of these are the human rights movement or the increased rights for women. However, Meyer suggests that regarding organisational complexity, organisations might be more affected by national sector- or industry-wide institutions than by those at the world-system level. Nevertheless, as he acknowledges, some institutional rules might be diffused worldwide by consultants, business schools or within multinational firms. With regard to multinationals, also Rosenzweig and Singh (1991) point to the diffusion of rules within the corporation.

Regarding society as institutional environment, several studies have used this perspective, either in comparison or analysing merely organisations within national boundaries (see eg. Lane, 1989; Maurice et al, 1980; Sorge and Warner, 1986). In these perspectives the centre of analysis is mostly the state which, being hierarchically superior to the organisation, can impose institutional constraints by way of coercion.

A third level of analysis used by institutional theorists is that of the 'organisational field' as first proposed by DiMaggio and Powell (1983). An organisational field are 'those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource or product consumers, regulatory agencies, and other organisations that produce similar services or products' (ibid: 148). Central to the definition of organisational fields is that the organisations of which the field consists share common rules and values, or as Scott puts it (1994a: 207-208), a 'common meaning system'. Organisational fields might partly consist of organisations belonging to one sector or industry, however, other organisations such as pressure groups or state agencies might have to be included. All in all, organisational fields 'must (therefore) be defined on the basis of empirical investigation' (DiMaggio and Powell, 1983: 148).

Lastly, a further possible level of analysis is the 'Organisational Population' which is the focus of the Population Ecology Theory of Organisations. Populations are groups of organisations which face the same environmental constraints, which '(...) are relatively homogenous in terms of environmental vulnerability' (Hannan and Freeman 1977: 166; quoted in Scott, 1995: 56). In this context, it must be added, however, that the Population Ecology Theory has become subject to severe criticism (see Young, 1988). Accordingly, its definition of 'organization populations' is difficult to sustain.

2.2.2 The 'Organization as Institution' Approach

As previously noted, there are not many acclaimed applications of the 'Organizations as Institutions' approach. In fact, Zucker (1987), focusing on the development of internal structures and work processes, seems to be the only theorist who has attempted to theoretically elaborate this approach. Thus, this section will mainly rely on her analysis. Nevertheless, many analyses of the behaviour and structure of organizations *imply* that the latter develop, or generate, their own distinct rules and procedures, and thus can be considered as broadly applying or supporting this view (see eg. Grinyer and Spender, 1979a;1979b ; Oliver, 1991; Meyer and Rowan, 1977).

According to theorists holding this view, institutionalisation takes place within the organisation. By generating or adopting institutionalised elements, organisations become more persistent and stable as the institutional elements are highly resistant to change (Zucker, 1977; 1987). This feature, however, might lead to both more and less efficiency. The rules adopted are likely to first lead to more efficient work processes in that evolving routines facilitate and accelerate work processes. However, these routines might lead to inefficiencies as their inherent stable character might prove as an impediment for the perception and/or adoption of new, more efficient procedures (Zucker, 1987; see also for a related view, Grinyer and Spender, 1979a; 1979b).

As Zucker (1987: 446) points out, institutions within organisations are developed either by the organization itself or imitated from similar organisations. The concept of coercive isomorphism, as held by 'Environment as Institution' theorists (eg. DiMaggio and Powell, 1983) is precluded in the 'Organization as Institution' approach as the use of coercion onto the organization would imply that more attractive alternatives existed, and deinstitutionalization of internal organizational institutions would take place (Zucker, 1987: 446). As Zucker (ibid) explains, structures and processes created within organizations are 'more readily institutionalized than those embedded in alternative informal social coordination structures (Zucker 1977: 728-29, 1983: 16-18). Hence organizations are important sources of institutionalization of new action.' Indeed, structures and processes once institutionalised can lead to the creation of new, related institutions thereby '(infecting) other elements in a contagion of legitimacy' (Zucker, 1987: 446). Institutionalised rules within organizations thus, on the one hand, promote stability and, on the other hand, cause change in the immediate environment of and within the organization.

The generation of distinct rules within organizations is dependent on the configuration of the technical or institutional environment of the organizations (see eg. Oliver, 1991; Rosenzweig and Singh, 1991). As Tolbert (1987) suggests on the basis of findings from American law firms, the existence of intra-organizational institutionalised rules is more likely if the organization faces a heterogenous environment with different or conflicting pressures. Nevertheless, as Zucker (1987: 456) points out, the existence of internal rules is generally very likely due to firstly, the decoupling of structures and processes in the face of institutional pressures (see section 2.2.1); secondly, due to the fact that the ability of organizations to imitate one another is limited; and thirdly, because the role of the manager as creator of the institutional rules has to be viewed as critical.

In Zucker's eyes, the interpretation of organizations as collective actors, not only as adapting to their institutional environments but also to generating their own institutions is essential for three reasons (1987: 454): Firstly, she posits that a focus on the institutional environment alone means that it becomes problematic to explain the creation of a new social order. Secondly, the importance of the existence and resolution of various social realities forcing the individual to choose between them, would then be neglected. Thirdly, by not acknowledging the existence of institutionalised rules in organizations and thus by neglecting the generating ability of the collective, organizations are regarded as not affected by the interactions of the individuals of whom they consist.

According to Scott, the 'Organisation as Institution' approach is the 'micro-perspective' or 'bottom-up' approach to institutional theory. It serves to explain differences among organisations as 'distinctive cultures are created as an adaption to particular personalities or as solutions to environmental pressures' (Scott, 1995: 141).

The recognition that organizations are generators of their own distinct institutions and not merely adaptive to external pressures suggests a different, more complex picture of institutional processes than proposed by theorists focusing on the 'Environment as Institution' approach. As shown in the following, these approaches combined provide a more complete and -as evidence suggests- more realistic picture of the interactions of organizations and their environments.

2.3 Issues in Institutional Theories of Organizations

Issues in Institutional Theories are primarily related to the 'Environment as Institution' approach. In recent years, this approach has increasingly been criticised for its 'oversocialised view of individual behavior' (Zucker, 1987: 454). The 'Organization as Institution' approach can, in fact, partly be interpreted as a response to this criticism. It represent an alternative approach which, however, must not be seen as exclusive but may well be combined with the 'Environment as Institution' approach.

The following three issues, thus, in their criticism of the 'Environment as Institution' approach, represent indirect support for the existence of institutions *within* organizations as well as for the argument to see these two approaches as complementary and not exclusive. As an extension to Zucker's (1987) elaboration of the 'Organization as Institution' approach (see section 2.2.2) it will be argued that the institutions within organizations are not only related to work routines and organizational structure but also to the strategic activities and behaviour of the organization.

2.3.1. Technical versus Institutional Influences on Organisations

A major contribution of Institutional Theories of Organisations as opposed to other mainstream theories is that they draw attention to the fact that organisational structures and processes are not merely subject to 'technical factors' such as size, degree of dependency, or the number of competitors. Rather, institutional theories point to the importance of institutionalised rules and values which shape organisations embedded in a particular context. According to Scott (1987b: 126), the technical, or task, environments can be defined as 'those in which organisations produce a product or service that is exchanged in a market so that they are rewarded for effective and efficient performance.' Institutional environments 'are characterised by the elaboration of rules and requirements to which individual organizations must conform in order to receive legitimacy and support.'

Two main assumptions have been derived by theorists from the separation of technical and institutional factors. Firstly, an organization's legitimacy can be expected to be built not only on its ability to coordinate work processes efficiently, but also - and in some contexts even more so - on the extent to which they comply with the rules and norms existing within the wider institutional context in which they are embedded. Isomorphism with the environment can thus be of technical and institutional character: organisations which are subject to technical influences will, along with other organisations in the same field, strive for more efficiency (for further discussion of the notion of 'efficiency', see below) of their structures and processes. Organisations facing institutional pressures will organise their activities in line with institutionalised rules and norms to comply with what is institutionally perceived as the proper and appropriate 'way of doing things'. Secondly, a related point is that , as technical and institutional pressures are assumed by various theorists (eg. Meyer and Rowan, 1977) to be of different nature and 'demanding' different ways of behaviour of the organisation, the adoption of institutionalised norms may lead to technical inefficiencies (see above). This might lead the organisation to decouple its formal structure from its technical activities thus causing a divergence between formal and informal activities and procedures.

The distinction between technical and institutional pressures has led numerous theorists to assume that there are some organisations which are subject to institutional environments and others which are influenced by technical environments. Private, or market-oriented, organisations were generally regarded as shaped by technical pressures thus striving for efficiency, whereas public organisations - educational organisations, hospitals and the like - were depicted as institutionally determined, aiming at institutional legitimacy (see eg. Zucker, 1987: 145). Most case studies in institutional theory have accordingly been undertaken on public organisations. This rigid distinction between different environments and groups of organisations is clearly misleading. Firstly, the separation of technical and institutional influences can prove difficult as technical requirements might be a result of institutionalised values, or as new technical achievements might later on become institutionalised (Scott, 1983). Furthermore, as Scott points out (1983; 1987b; 1995), technical and institutional environments should not be regarded as dichotomies, as mutually exclusive. Scott posits (1983: 159) that all organisations are, to some degree, institutionalised: 'Both types of environments vary from strong to weak, and all organizations are subject, at least to some degree, to both technical and social/cultural forces.' In a later work, Scott (1987: 126) depicts this interdependence of technical and institutional influences by way of a matrix structure of influences. He distinguishes four categories: organisations determined by both stronger technical and stronger institutional environments (eg. banks), organisations subject to stronger technical and weaker institutional environments (eg. manufacturing organisations), organisations influenced by weaker technical and stronger institutional environments (eg. schools or churches) and, finally, organisations with both weaker technical and weaker institutional influences (eg. restaurants).

Recently, this basic distinction between technical and institutional environments has come under criticism. As Whitley (1992a) posits, technical or market- efficiency is itself institutionally determined and can thus not be separated from institutional pressures. In his study on the business recipes in East Asian countries he thus abstains from 'drawing a distinction between technical and institutional isomorphism'. Rather, his survey '(...) focuses on the ways that different institutional environments generate different kinds of technically efficient business recipes (...). Social institutions, in this view, are key phenomena in the constitution of different competitive orders and should not be counterposed to market efficiency.'

Whitley's claim seems justified for the following reason: if the technically efficient structuring of work processes is assumed to be market-determined then it can be argued that the market itself and thus all the processes and rules within the market are institutionalised actions and rules. From these rules is derived the expectation of society that a manufacturing organisation has to be structured in a technically efficient way. Other, non market-oriented organisations, such as schools or churches, are, on the contrary expected to comply with societal rules. Although the nature of the expectations is different, their origin is both institutional. Whitley's criticism that *all* processes in a society are socially constituted, seems to lead into the direction of the 'societal effect' approach by Maurice et al. (1980) and Sorge and Warner (1986). The latter theorists link structures and processes within manufacturing organisations to a wider 'societal logic'. Procedures within the organisation are intertwined with societal institutional processes, there are no dependent and independent variables, rather, everything is part of a complex interactive process.

With his criticism, Whitley draws attention to the relative meaning of 'efficiency'. What one society might consider as efficient might not be so in the eyes of another society. We thus have to be aware that the assumption that institutional rules might lead to inefficiencies is only correct if we disassociate the meaning of the term 'efficiency' from the societal contexts in which they are embedded. In this context, it has to be remarked that the term 'efficiency' is used by various theorists in many different ways, and that the theorists generally fail to provide a working definition of the term (see eg. Meyer and Scott, 1983; Meyer and Rowan, 1977; Whitley, 1992a).

Scott (1987b: 126) seems to link efficiency in its extreme form to the definition provided by economists in their interpretation of competitive markets. Meyer and Rowan (1977: 355) refer to possible additional costs incurring as a result of the implementation of institutionalised rules which, in their eyes, lead to a decrease in efficiency. As Institutional Theories of Organisations attempt to mainly explain the behaviour of *organizations* or *groups of organizations* in response to or in interaction with the institutional environment, we can assume that theorists in this tradition do not deal with the concept of allocative efficiency which would incorporate the needs and welfare of consumers *. It thus seems plausible to assume that institutional theorists refer to the notion of 'economic efficiency' which is defined as (Parkin, 1990: 307) the 'situation in which the cost of producing a given output is minimised.' Producers aim to achieve economic efficiency as it implies profit maximization. To attain economic efficiency, they have to ensure that the inputs needed for production are not overpriced and used in 'cost-minimising proportions' (ibid). Furthermore, they have to achieve technological efficiency, ie. that from a given input the maximum output possible is produced. In this context, however, it has to be noted that technological efficiency implies the production of what is *technologically* feasible to produce. This might not necessarily be *economically* efficient. However, 'something that is economically efficient is always technologically efficient' (Parkin, 1990: 221).

If we understand 'efficiency' in the sense of 'economic efficiency', then clearly, organisations which adopt institutional rules might run the risk of them being inefficient in the purely economic sense. Examples of this would be the introduction of ecologically friendly technological processes which might increase the cost of production; or, Shell and Esso's abandoning of the plan to dispose of 'Brent Spar' in the North Sea due to public pressure which, economically (as well as ecologically according to the companies) is the most favourable option. And although different societies might posit different, socially constructed, notions of efficient work processes, relatively speaking, we could then compare the society's

* Although the comparative analysis of allocative efficiency as constrained by institutions would certainly represent an interesting research task.

notion to the *economic* definition and thus evaluate the *relative* efficiency of work processes and structures. This would help us understand the - institutionally determined - relative success of various organizations within a country, or between countries (see eg. Lane, 1989). The latter seems especially constructive, as organisations increasingly compete internationally and their 'competitiveness' and (economic) efficiency become more and more relative within a wider, global context.

In this connection, however, we have to note that even if a measure implemented seems at first sight economically inefficient, it might still be 'economically beneficial', if we understand 'efficiency' in a different way. This is clearly shown by Abrahamson. In his analysis of the diffusion of *inefficient* innovations, he states (1991:609, emphases added):'Fads and fashions may benefit organisations if they are *symbolically efficient;* if, for example, they project an image of innovativeness (Nystrom and Starbuck, 1984). Although these expressive functions have intrinsic value, they may also be *economically beneficial.* An innovation that makes an organization appear innovative or ethical, for instance, may help it either to raise capital from other organizations or to attract customers.' Therefore, the distinction between technical and institutional pressures should not be opposed entirely as done by Whitley (1992a), as it illustrates well the possible relative efficiency of organisations in different contexts. In this study, therefore, the distinction will be applied.

2.3.2 Adaption Versus Active Agency and Self-Interest

Early institutionalists tended to view the institutional environment as determining the structures and processes of organisations in such a way that organisations had no possibility but to comply. Organisations were expected to adopt institutionalised rules and norms thus becoming isomorphic with their environments and to each other. This deterministic view has been criticised by several theorists (see eg.Covaleski and Dirsmith, 1988; Oliver, 1991; Perrow, 1986; Scott, 1995; Zucker, 1987). Since those early assumptions, empirical evidence has led theorists in the institutional tradition to realise that organisations sometimes differ in their structures and processes and that thus the degree of adoption of institutionalised rules is different among organisations, being subject to organisation-specific circumstances. Furthermore, in contrast to the deterministic view, research revealed that the likely response of organisations to environmental pressures does not necessarily have to be adaption. Rather, organisations seem to have different possibilities of response to these pressures , either alone or collectively with other organisations. These recent notions will be outlined in the following.

Likelihood of Institutional Interpenetration of Organisations

Various theorists have analysed why organisations differ in their degree of institutional interpenetration. A variety of these studies will be outlined below and their main implications summarised subsequently.

Rosenzweig and Singh (1991) point out the possible resistance of organisations to institutional pressures analysing the behaviour of subsidiaries of multinational companies in national institutional environments. In their view, these subsidiaries face dual presssures as they have to comply with the national institutional environment as well as with the norms of behaviour within the corporation. Depending on factors such as the extent to which its headquarter keeps control over its subsidiary, the dependency on other subsidiaries, the nature of the industry as such, the cultural distance between the headquarters and the subsidiary or the nature of the national institutional environment a full isomorphism with the national environment becomes more or less likely. In addition, Rosenzweig and Singh draw attention to the fact that not all parts of the organisation may be affected equally strongly by institutional pressures.

Oliver (1991) develops five different types of strategic responses an organisation can pursue facing institutional pressures. As she points out, the compliance of an organisation with its institutional environment depends on both its 'willingness and ability to conform (...). The scope conditions under which organizations are *willing* to conform are bounded by organizational scepticism, political self-interest, and organizational control (...). The scope conditions under which organisations are *able* to conform are bounded by organizational capacity, conflict, and awareness' (Oliver, 1991: 159; emphases added). With her analysis, Oliver clearly draws attention to the fact that the nature of institutional pressures can differ, and do not necessarily require the organisation's compliance. This part or full resistance on the part of the organisation may, for example, be the result of conflicting institutional pressures in the way that various interest groups posit different norms and beliefs. The organisation upon which the pressure is exerted, then has to *decide consciously* which norms to follow. On the other hand, it might sometimes be favourable for the organisation to follow norms that are not actively or coercively imposed, in order to gain public support. Also in this case, the company will act consciously under consideration of its own capabilities and self-interest.

The fact that the adaption of institutionalised rules and norms is subject to the organisation's willingness to conform is underpinned by the study by Aldrich and Fiol (1994). They show that newly established organisations have possibilities other than pure adaption to institutionalised rules and norms by actively reshaping their institutional environments.

Furthermore, Tolbert and Zucker (1983) show with their study of the diffusion of civil service reform in the United States, that the adoption of an institutionalised rule is subject to its degree of institutionalisation. The authors distinguish two ways of how a measure becomes highly institutionalised. On the one hand, institutionalisation can be achieved by legal imposition, on the other hand by diffusion and widespread acceptance.

According to Zucker (1987: 451) the interpenetration of organisations by the institutional environment is subject to internal goals and values, the legitimacy of external control and the relative control or power of the organisation. Zucker posits that an organisation with internal goals and values which are strikingly different from those of its environment is most likely to change its values and adopt those institutionalised within its environment. Secondly, organisations might attempt to actively manipulate its institutional environment in which case the legitimacy of external control might be modified. Lastly, the influence of the institutional environment is negatively related to the organisation's control over its own boundaries. A vertically integrated organisation, for instance, is less subject to pressures exercised by the environment than those not integrated.

As the above outlined studies show, it is wrong to assume that organisations necessarily adapt to institutional pressures. Rather, it seems more appropriate to picture the process of institutional interpenetration as one where external pressures confront internal values and structures. The latter are shaped by various specific factors such as the organisation's being part of a multinational or a newly established industry. In these cases, as Rosenzweig and Singh (1991) as well as Aldrich and Fiol (1994) reveal, the probability of the organisation's adaption cannot be based on the same assumptions as could be the adaption by an entirely local or established firm, and thus requires an alternative interpretation. Moreover, the nature of the institutional pressure as well as the result of adapting to it must be considered. Here, the organisational self-interest comes into play. In this context, the adoption of state-imposed rules is not likely to be rejected because it is very likely to result in a loss of legitimacy. To this must be added, though, that organisations might be able to influence the state bodies prior to the implementation of a rule, and that consequently, this rule might already be shaped according to the needs and capabilities of the organisation (see eg. Covaleski and Dirsmith, 1988; see also following section). Lastly, it must be considered that the departments of an organisation might be affected by institutions to a varying degree depending on their task.

Possible Responses to Institutional Pressures

The possible responses of an organisation to institutional pressures have been outlined comprehensively by Oliver (1991). She distinguishes five types of strategic responses an organisation can pursue in the face of institutional pressures: acquiesce, compromise, avoid, defy and/or manipulate. However, as Scott (1995: 124-125) points out, despite a likely variation in the organisation's response, the responses to institutional pressures are themselves institutionally determined. As he states, 'it is also important to recognize the extent to which institutional environments influence and delimit what strategies organizations can use. Just as institutions constitute organizations, they also constitute what are their appropriate ways of acting, including acts that are responses to institutional pressures (...). Not only structures but also strategies are institutionally shaped.'

However, organisations might, in turn, be able to proactively shape this very institutional scope within which they are to act. An example of this is given by Covaleski and Dirsmith (1988) who in their study on the University of Wisconsin show that an organisation might be capable of influencing an institutional rule *prior to* its imposition. In their study, Covaleski and Dirsmith reveal that the institutional expectations were from the start actively shaped by both officials of the State of Wisconsin *and* its university so that the 'resulting societal expectations were quite specific, proceduralized, and enforceable' (ibid: 583). In this case, the university, through its active participation in the development of the rules ensured that the institutional scope emerging was also in its own interest and feasible.

Finally, in terms of organisational responses we must consider that organisations tend to respond on a collective basis regarding issues of greater concern. Accordingly, Scott (1995: 124-125) extends Oliver's (1991) argument by adding the importance of collective responses by a number of organisations to the individual organisational responses as outlined by Oliver. The groups of organisations Scott describes might either be part of a whole sector or a trade association. All in all, he supposes that collective responses are probably 'more often the rule than the exception' (Scott, 1995: 124-125). However, as he concludes, collective and individual responses are not exclusive concepts but may both be followed.

All in all, it can be concluded, as Scott puts it (1995: 132), that 'organizations are affected, even penetrated, by their environments, but they are also capable of responding to these influence attempts creatively and strategically. By acting in concert with other organizations facing similar pressures, organizations can sometimes counter, curb, circumvent, or redefine these demands. And collective action does not preclude individual attempts to reinterpret, manipulate, challenge, or defy the authoritative claims made on them. Organizations are creatures of their institutional environments, but most modern organizations are constituted as active players, not passive pawns.'

2.4 Cross-Cultural Comparisons in the Institutional Tradition

Several cross-cultural studies have applied a largely institutional approach in order to explain differences among the organisations analysed. A great number of these have used the 'Environment as Institution' approach and thus explained national variations in organisational structures and processes as rooted in the institutional environment in which they are embedded (see eg. Lane, 1989; Whitley, 1992a; 1992b; 1992c). Furthermore, most studies have analysed organisation structures and internal features such as education of staff or management-subordinate relations. Only few studies have dealt with organisational strategies or business recipes. In the following, an outline of a selection of cross-cultural studies will be given.

In his study on East Asia, Whitley (1992a) compares business recipes of the Japanese, Korean and Chinese societies. As he defines, 'these business recipes, or systems, are particular ways of organizing, controlling and directing business enterprises that become established as the dominant focus of business organization in different societies. They reflect successful patterns of business behaviour and understandings of how to achieve economic success that are reproduced and reinforced by crucial institutions' (ibid: 125). Whitley's focus of analysis is the nature of firms as economic actors encompassing the skills and activities coordinated by firms, the nature of market organization including market relationships among firms or with suppliers and the nature of internal authoritative coordination and control systems of firms. Whitley shows how variations in these elements lead to nationally distinctive business recipes among the countries analysed. He thereby contradicts perceptions of 'universally successful' business recipes across all societies. Indeed, Whitley argues that 'successful forms of business organization develop interdependently with dominant social institutions and therefore differ significantly where these do' (1992a: 122). And he goes further in deriving from this basic assumption that the efficiency of management structures and practices itself is relative, being subject to societal rules and norms of behaviour. As explained in a previous section, Whitley thus opposes the distinction between technical and institutional environments drawn by institutionalists.

Finally, Whitley states that the distinctiveness of societal business recipes depends on the homogeneity of the institutions within the societies analysed. In contrast to the East Asian countries where business recipes seem to differ between but not within societies, in Western Europe and North America, the importance of industry-specific features seems to lead to a different picture. However, as Whitley points out (1992a: 135), 'the variability of industry recipes depends on the differentiation of industrial contexts (...) thus, as many contexts are similar so too can industry recipes be expected to be similar to an extent.' He thus relates the prominence of dominant societal business recipes to the nature of major social institutions such as the state, the educational system or the labour market.

Lane (1989) analyses how manufacturing companies in Britain, France and Germany differ in their organisational structures and processes and how the differences are rooted in 'cultural specificity, expressed in, and reinforced by, different institutional frameworks' (Lane: 292). The interdependence between organisational structures and processes and the institutional environment, however, cannot be depicted in a 'linear cause-effect pattern.' Rather, as institutions continuously influence and reinforce each other, 'it is more appropriate to speak of a circular (pattern) of continual mutual interaction.' In line with Whitley (1992a; 1992b), Lane points to the critical importance of history in explaining national distinctive structures and processes.

Lane argues that despite the superficial similarity between Britain, France and Germany and their common membership of the (then still) European Economic Community a more thorough analysis shows that 'there has occurred relatively little convergence towards a common European type, but that superficially common structural arrangements hide enduringly distinctive national ways of going about and organizing industrial production.' These distinctive ways have historically evolved and are rooted especially in the period of industrialisation. Brtain came to industrialise fairly slowly and without greater societal upheavals so that institutional rules could persist. The long laissez-faire tradition of British policy-making has led to an institutionalised system based on individualism and self-regulation. Germany, on the contrary, has gone through various major crises and was restructured completely after the Second World War. These national upheavals led to the repeated destruction and new development of institutionalised patterns.

Finally, Lane raises the question of how industrial change can be effected considering the highly complex and distinct national institutional patterns. She elaborates two problems in this context. Firstly, the historical origin of institutions and their taken-for-granted character render change impossible unless the whole institutional fabric is destroyed (ibid: 293). This, however, is difficult as their interdependent character requires an event equal to a 'national crisis' to effect changes. Secondly, the interdependence and complexity of institutional structures render it difficult to decide where to start changing, or as she puts it, 'where to break into the circle' (ibid: 194). Nevertheless, as she reveals, varying examples have shown that the implementation of foreign practices and thus the break through the national patterns can be successful, as happened in the case of the adoption of (modified) Management by Objectives practices in Germany and France.

In a related study on business systems in the manufacturing sectors of Britain and Germany, Lane (1992) shows how the nature of firms and the way they grow, the organisation of the market, the systems of control and coordination and employment and personnel practices are shaped by national institutions such as the state, the financial system and the educational system, among others. Lane points out that the roots of the differences lie in the way the systems evolved historically (see also Lane, 1989). In this context she explains that since World War II, the German state system has been built on democratic principles with an underlying system of consensus. The latter becomes obvious in many ways, through the party system which fosters coalitions, through the non-adversarial relationship between trade unions and employers, or through a comprehensive network connecting industry with trade associations and Chambers of Commerce. Another distinctive feature of the German system has been the stable economic framework provided by the state. In Britain, the state has traditionally been very centralised and since the 1980s, the power of local governments has been undermined even more. The electoral system prevents coalitions and results in policies which potentially can change drastically from one government to the next. Government policies have traditionally been short-termist and piecemeal, especially in the area of Industrial

Policy (see also Lane, 1989). The legitimacy of government policies is not very high as their decisions do not necessarily have to be based on a majority vote or agreed upon with other parties, such as trade unions and the like. Overall, this leads to a fairly unstable environment for businesses which has resulted in firms strongly believing in a 'hands-off' policy.

Lane arrives at the conclusion that German, relative to British, firms in the manufacturing sector, benefit from an institutional context in which capital, personnel and technical know-how is easily accessible and the productive combination of these factors is encouraged. British firms, on the contrary, are overall more institutionally isolated. In Lane's eyes, the comparison of Britain and Germany underpins clearly the increasingly held notion that institutional frameworks can be a determining factor regarding the competitive advantage or disadvantage of an organisation, and thus has to be regarded as an additional factor of production *.

In a comparative study of British, French and West German manufacturing units, Maurice, Sorge and Warner (1980) use what they name a 'societal effect' approach. In contrast to these theories they posit that organisational structures and processes are interdependent with distinct societal factors. The distinction between the environment and the organisation, as undertaken in most comparative studies, has to be abandoned as intraorganisational features are socially constituted. The authors' data is structured into three different areas - the configuration of the organisation, including how the labour force is divided into categories and how these are numerically related, the work structuring and organisation and the qualification and career systems. Maurice et al. relate differences between these variables in the contexts analysed to societal features, or the 'macro-area' (p. 80).

In a later study, Sorge and Warner (1986) develop the societal-effect approach further constructing a comprehensive theoretical framework of analysis. With the latter, they explain differences between manufacturing organisations in Britain and West Germany. Their focus of analysis are the respective factory organisations, the education and training practices and industrial relations. Sorge and Warner view the distinct features of the factories analysed as part of a wider social network of interdependent factors: '(...) there appears to be a close interaction between factors

* Although, at the moment, the question is whether the German institutional framework still leads to a comparative advantage. It seems that at the current times of increasing international competition, Britain has a good chance of creating internationally competitive industries, due to its lower costs and lesser degree of regulation.

in different spheres of society which follows a logic upon which the identity of a particular society is built' (p. 184). This societal logic is characterised by a high degree of stability, so that 'differences (between the countries) may change over time, but they will not be diminished.'

The societal effect-approach differs from those applied by Lane and Whitley in that *all* factors are assumed to be interdependent. Whereas Lane and Whitley do focus on the importance of a few, distinct institutions and compare the varying influences of these on organisations among societies, the concept of Maurice and his colleagues is much wider and more intertwined.

2.5 Conclusions

In their focus on institutional structures and their influence on and within organisations, Institutional Theories of Organisations combine parts of both contingency and ideational theories. In doing so they avoid the one-sided perspectives of the latter approaches. On the one hand, Institutional Theories are cultural in that they acknowledge the existence of belief systems within societies or cultures. These, however, are viewed as manifested in the institutional frameworks outside and within organisations. On the other hand, institutionalists do acknowledge that producers strive for efficiency, however, theorists posit that economic efficiency might not be the primary goal of organisations, and that the latters' underlying economic rationality may be socially constituted (see Whitley, 1992a). Institutionalists thus expect a possible resemblance of organisational structures and processes to be due not to contingency or ideational factors alone but posit that they are based upon a similarly evolved and constituted institutional framework. Equally, societies might resemble each other in certain aspects, however might be entirely different in others. Because Institutional Theories avoid the pitfalls of Contingency and Ideational Theories in this way, they provide an especially sound basis for cross-cultural comparisons as they neither give an 'undersocialised' nor an 'oversocialised' account of cross-national variations and resemblances.

As to the different notions of Institutional Theories, the literature reviewed in this chapter has shown that it does not seem sufficient to regard organizations and their environment as separate and neither to see organisations as mainly adaptive to environmental pressures. Rather, organisations might be able to shape the institutional scope within which they are to act by negotiating and cooperating with other organisations or with the state on the basis of their own generated rules and norms. We thus have to depict organisations and institutional agents as involved in a 'complex interactive process' (Scott, 1995: 143) with different levels of institutionalised rules, where the institutional pressures confront the beliefs and processes of individual organisations and groups of organisations. As Scott puts it (ibid, emphases added), 'under some conditions, organizational models are produced by *interaction and negotiation processes* involving institutional agents and organizational participants.'

3 The Concept of Business Recipes

The purpose of this chapter is to outline the notion of organisational Business Recipes, the second underlying theory of this research, as a response and alternative to other mainstream theories on business strategies and the behaviour of organisations. After a brief introduction, a general outline of the theory is provided. Subsequently, an overview of the empirical evidence supporting the notion is given. Finally , a conclusion is provided as to the appropriateness and applicability of this concept.

3.1 Introduction

In recent years, organisational and economic theories viewing managers as rational actors whose purpose is limited to making analytical decisions about their company's strategic activities, have come under increasing criticism. Theorists such as Huff (1982) or Spender (1989) have drawn attention to the complexity of the managerial task and the uncertainty that make a systematic analysis as proposed by 'classic' theories (Spender, 1989) unrealistic. Research into the cognitive character of managerial activity, viewing managers as creators of their own rationality, has become more and more popular during the past two decades. Theorists in this tradition (see eg. Huff, 1982; Calori et al, 1992; Grinyer and Spender, 1979a;b) emphasise the social construction of organisations and the impact of shared beliefs, eg. at the industry or society level, on the managers' beliefs and consequently on the structures and activities of organisations. These theorists agree on basic assumptions, however, the foci of their analyses vary as well as the terms they choose for the phenomena observed or theoretically elaborated. In the following, the term 'business recipe' will be used to define the general notion of cognition at all levels. Reference to particular levels of cognition will be made if appropriate.

A full review of studies on business recipes is beyond the scope of this thesis. Instead, a review of those theorists will be provided whose studies have been critical in bringing forward this notion as well as being complementary in terms of the aspects of cognition upon which they concentrate.

Hellgren and Melin (1992) have provided a classification of the different strands of theories concerned with business recipes. They divide these into two categories: those theories that emphasise the importance of the wider institutional and social context in which the organisations are embedded (eg. Whitley, 1992a; 1992b), and those that stress the existence of collective cognitive beliefs which shape the behaviour of groups of organisations as well as individual organisations within the group (eg. Huff, 1982; Spender, 1989). In Hellgren and Melin's words the first classified notion 'describes mainly an institutional configuration, while (...) (the second notion) describes the ideational and cognitive structure of an organisational context' (Hellgren and Melin, 1992: 194).

This classification, however, seems misleading. All theorists base their concepts on the creation of reality the actors pursue. This involves the interpretation of cues received from the environment, and the externalisation of this interpretation via action. The interpretation might thus become part of an abstract, objective reality as others adopt it as the 'way of doing things'. In this context, Whitley's analysis of business systems is rooted as much in the creation of reality as is the existence of collective beliefs at the organisational or industry level. Both belief systems can lead, and have led to the establishment of organisations as manifestations of wider beliefs. At the society level, for instance, beliefs have led to the establishment of distinct national educational institutions (eg. Lane, 1989; Whitley, 1992a; 1992b) or the state system. At the industry level, organisations such as trade associations have been established. A distinction on the grounds that Hellgren and Melin (1992) propose thus does not seem appropriate. Rather, the categories established by the authors belong to a whole group of influences from subgroup-level to society- and world system-level which all, in one way or another, shape the structures and processes of groups and individuals. The difference lies more in the level of influence, or 'frame of reference' (Calori et al, 1992) analysed than in the configuration of these influences, as beliefs and institutions manifesting these beliefs exist at all levels.

3.2 The Concept of Business Recipes

Theorists in the cognitive tradition build their concepts on the assumption that managers are facing an uncertain and complex environment. The manager's main activity is thus not the systematic analysis of data, as economic theories suggest. In fact, as Grinyer and Spender put it (1979b: 114), 'management's information is invariably fragmentary, ambiguous, and riddled with uncertainty; and this proves to be a damning critique of the systematic approach.' In order to be able to make decisions, the manager has to compensate for the lack of information he faces. Spender (1989: 58) suggests that the manager goes through a two-step process to formulate a viable strategy: firstly, he or she resolves the uncertainty, creating a rationality which represents the frame for the second step where, within this rationality, he or she analyses the strategic options of his or her organisation. Porac et al (1989) posit a similar model when they explain that there is a material and cognitive level of transactions with the market. In this context, the manager is seen as creating his or her own mental model regarding business competition, including the selection of rivals, and the definition of market boundaries. Subsequently, he or she then undertakes material or technical decisions such as the selection of the product range, of raw materials etc. (eg. Porac et al, 1989). During the first step, the manager thus creates his or her own understanding of the environment of the company and the role of the company within this defined environment. Thus, the fact that the assumption of systematic analysis is unrealistic does not imply the irrationality of managers. Rather, the latter act within the limits of their own cognition and the context of action in which they are embedded (Calori et al, 1992). They create their *own* rationality of their situation.

In order to be able to resolve the uncertainty and create a rationality, managers, according to Spender (1989) and Grinyer and Spender (1979a; 1979b) have to rely on their 'managerial judgement'. This judgement represents 'that which leaps beyond what can be legitimately justified by the evidence, making up for its deficiencies' (Grinyer and Spender, 1979b: 115). The managerial judgement, in this context, is rooted in general patterns of belief concerning the organisation and its environment. These patterns are partly based upon personal, or idiosyncratic, beliefs of the manager, partly held at a wider, collective level.

Authors analysing managers' cognition have focused on different levels of collective beliefs. As Beyer (1981: 166) points out, within organisations there exists a 'relatively coherent set of beliefs that bind people together and that explain their worlds in terms of cause and effect relations' (quoted in Calori et al, 1992: 62). These cognitive dimensions at the organisational level might be subject to variations within organisations. However, as Calori et al (1992: 63) stress, the set of beliefs within organisations can be expected to be more coherent than those between organisations. The existence of collective beliefs applies equally to the industry level (Huff, 1982; Spender, 1989). According to Spender (1989), industries are characterised by a common set of beliefs, the 'industry recipe', which distinguishes this particular industry from others. Calori et al (1992) name this set of beliefs the 'industry frame of reference'. Apart from this, managers might draw their judgements from beliefs in other industries (Huff, 1982). Furthermore, collective beliefs have been found in subgroups within the industry (Huff, 1982; Porac et al. 1989; 1995). Lastly, collective beliefs exist at the society level (Whitley, 1992a; 1992b).

The notion of collective beliefs at whichever level is based on the assumption that individuals communicate and exchange their beliefs and experiences, or in the words of Grinyer and Spender who refer to the industry recipe, that 'there are extremely powerful patterns of interorganizational communication' (Grinyer and Spender, 1979b: 117). As the authors point out, evidence in numerous cases suggests that contacts among senior executives of companies are widespread. Furthermore, trade associations and government bodies represent a forum for the exchange of information. As Huff (1982) notes in addition, media and professional bodies, such as consultants, encourage the further spread of information and beliefs.

Irrespective of where the pattern of beliefs is located, authors agree that their purpose is to provide a limited view of the otherwise too complex world. To the strategic manager, they are a valuable source of consultation. The patterns of belief consist of ideas which are considered as relevant to the context in question thereby serving as a 'powerful orienting framework' (Grinyer and Spender, 1979b: 117). In this context, the collective beliefs, or recipes, should not be interpreted as *prescribing* which action to take. On the contrary, as Grinyer and Spender point out in their analysis of industry-level beliefs, 'the strategic decision process must remain at the level of the firm, reflecting its policy objectives, limited resources, and historical position. But the outcome is a plan whose fundamental rationality is shared within the industry, beyond the specific company' (ibid: 118). Firms, being member of a collective, in this case an industry, can thus pursue different strategies which, however, are based on the same rationality or 'recipe' shared among members within the group. From this follows that the recipe has to be broadly defined in order to accommodate varying interests and ideas. Indeed, as Spender explains (1989: 190), the recipe is most likely to be inconsistent as this enables it to accommodate changes in beliefs, as industry is learning, and to remain flexible.

Collective beliefs at industry level are, according to various theorists, a particularly important concept. As Huff (1982: 124) posits, industry-wide experiences can lead to the generation of 'a particularly rich set of strategic concepts. It is this set of concepts that has both the variety and the niche-specific focus to allow more sophisticated variants of strategy to emerge.' The consideration of industry-experience thus leads to more elaborated and refined strategies, which, in the defined market, are more likely to succeed. From the point of view of the manager, the industry-wide beliefs are regarded as professional common sense (Spender, 1989). Grinyer and Spender define the industry recipe as 'those rules of thumb which are generally accepted by competent managers as the common-sense way of doing business within their particular industry. Such rules cover marketing, pricing, customer relations, product support, product quality, production methods, industrial relations, training, financial controls and so forth; i.e. whatever is taken to be important in that industry' (1979b: 196). As the industry recipe represents a view of the world shared by most members within the industry the manager feels assured and comfortable when basing his decisions on it (Grinyer and Spender, 1979b: 176).

As far as the influence of industry-wide beliefs is concerned, Spender goes so far as to state that the industry level becomes the 'organization's primary analytic environment. The broader socio-economic environment is secondary, acting on the firm through the recipe, the industry's collective response' (Spender, 1989: 66). This, however, seems to be a too limited view of influences on managerial perception. Although in the case of general strategic differentiation, organisations have been shown to resort to subtle changes in their product range as compared with their rivals (Porac et al, 1995), fundamental innovations are most likely to be influenced by or imitated from other organisations outside the industry (Huff, 1982). The society-level consists of many such industries and organisations which represent a whole variety of possible strategic responses to the complexity of the environment. Apart from these, the personal history of the strategic manager plays an important role. In this context, although it is possible that the manager has gained experience within only one company or within other organisations belonging to the same industry or group, this does not necessarily have to be the case. Therefore, rather than depicting the industry recipe as a mediator or 'channel' between the broader socio-economic environment and the individual organisation, it should be understood as one pool of shared knowledge from which the manager can draw and which certainly offers especially attractive solutions to the problems he or she faces. Apart from this pool of beliefs, however, there are others which the manager might consult in the process of strategy formulation (cf. Calori et al, 1992; Huff, 1982).

To conclude, in order to build their own rationality upon which to found their strategy, the managers are likely to draw from their own personal experience, from collective beliefs at the organisation level, from industry or group-wide beliefs, and from society-wide beliefs. Not merely the industry recipe, but all these various patterns of beliefs together 'can be visualized as a multiplicity of constraints defining a feasible solution space within which the firm's strategy must be located. Thus, as Normann (1976) also argues, the business idea or recipe based strategy can only, in the final analysis, be expressed as a pattern of tangible activity' (Grinyer and Spender, 1979b: 130).

A number of issues arise from the concept of business recipes:

- Organisational Reorientation

  Theorists in the business recipe tradition draw attention to the fact that the failure or success of an organisation is likely to be subject to the viability (for a discussion regarding the notion of success and viability, see section 3.4) of the underlying 'recipe' (Grinyer and Spender, 1979a; 1979b) or 'strategic frame' (Huff, 1982). As Grinyer and Spender (1979b: 118) explain, models of organisational reorientation, based on empirical data, have shown similar features 'in that they involve cyclical patterns of commitment, elaboration of the recipe adopted by the firm, and its ultimate demise.' A new recipe might develop by innovating, which, however, is difficult and risky. Most companies thus tend to imitate other, successful organisations (Grinyer and Spender, 1979b; Huff, 1982).

- Rivalry and Competition

  According to theorists in the business recipe tradition, competition is a cognitive construct created by organisations within a - cognitively constructed - market (see eg. Huff, 1982; Porac et al., 1989; 1995; Whitley, 1992a; b). It thus does not exist merely because firms are similar, which would objectify the notion of similiarity, but because they *perceive* each other as similar on the basis of certain characteristics (Porac et al., 1995). In this sense, market structure thus becomes 'an endogenous product *of* managerial minds' (ibid: 224).

3.3 Empirical Evidence

Theorists in the business recipe tradition base their concepts on the assumption that managers define cognitively their market environment and derive from this construction the role of their organisation within the market. From this assumption follows that the examination of managers' beliefs and perceptions is critical to understanding the working of organisations and markets (see eg. Huff, 1982; Spender, 1989). Accordingly, the whole concept is based upon empirical evidence as conclusions on managerial cognition are drawn upon the basis of case studies.

As explained above, various authors have found evidence for the existence of 'recipes' or 'frames of 'reference' (Calori et al, 1992) and their influence on managerial thinking. In this context, shared beliefs were found regarding the definition of markets and of competitors, the latter on the basis of few central criteria (Porac et al, 1995), of appropriate strategies regarding factors such as capital and cash flow decisions, production and distribution (Hellgren and Melin, 1992; Spender, 1989), of the structure of the market (Porac et al, 1989; 1995) or of the future of the industry (Calori et al, 1992). Furthermore, evidence has been found that recipes are subject to change over time (Grinyer andSpender, 1979a; Hellgren and Melin, 1992; Huff, 1982).

Especially noteworthy is the study by Calori et al (1992) who analyse the influence of collective beliefs at different levels on the perception of managers in France and Britain. On the basis of evidence found, the authors develop an integrative model of possible influences on managerial perceptions as to the structure and dynamics of their industry. Calori et al reveal in their results Industry Frames of Reference as well as Main Country Frames of Reference. With regard to the former, managers in all industries 'employ some common concepts to make sense of the structure and dynamics of their different industries' (Calori et al, 1992: 68). With regard to the Main Country Frame of Reference, despite the changing business environment in Europe, the authors reveal 'systematic differences between French and British managers' (Calori et al, 1992: 72) regarding the structure as well as dynamics of their industries. Calori et al. see the roots to these differences at a 'more macro-cultural level' (ibid).

The authors explain the differences revealed with 'three complementary explanations (...): first, that industry structure is an important influence on managerial thinking; second, that differences which exist in political and macro-economic systems between countries also influence managerial thinking (...). Third that influences of national cultures are also quite evident (...)' (Calori et al. 1992: 76). All in all, the data collected shows that managerial thinking is subject to different frames of reference, at the industry *as well as* at the country level, however, that it is also limited by these frames.

3.4 Critical Evaluation of the Business Recipe Concept

The notion of business recipe explains well the complexity and uncertainty of the managerial task. As especially Spender (1989) elaborates, the concept of business recipes is as ambiguous and complex as the world managers face and thus can adjust to different constructed realities. As he explains (1989: 7), 'I wanted a term that was loose and ambiguous, open to some re-interpretation, able to adapt itself to the specifics of situations much as a creative chef adapts to missing ingredients.'

Conclusions drawn from the authors are based on empirical evidence since, as they all emphasise, it is crucial for the understanding of strategic activities, structures and processes of organisations to examine what managers actually think and perceive. Thus, the notion of business recipes has empirical foundation (see eg. Calori et al, 1992; Huff, 1982; Hellgren and Melin, 1992; Grinyer and Spender, 1979a; Porac et al, 1989; 1995; Spender, 1989; Whitley, 1992a; b).

Moreover, the concept of business recipes is able to explain why organisations within an industry or group make similar strategic choices (see eg. Huff, 1982) and become similar in their operations and processes (Porac et al, 1989). In this context, the concept is able to explain not only why firms pursue similar strategies when the latter have been proven to be successful. But also, the notion of business recipe delivers an explanation for an industry's demise and adoption of overall *unsuccessful* strategies (Huff, 1982). Moreover, the concept shows why organisational strategies or recipes remain persistent over time (Porac et al, 1989). Furthermore, the concept explains the difficult and challenging process of the development of a new underlying rationality, or recipe (Huff, 1982; Grinyer and Spender, 1979a; 1979b). Finally, the notion acknowledges that managers are not only influenced but can influence collective beliefs themselves by introducing strategic measures which, most likely if they achieve success, are subsequently adopted and might become part of or the new rationality for action. It thus depicts rationality construction as an interactive process which explains why some organisations' concepts might be especially influential within an industry context at some point in time.

The concept of business recipes, however, has a major limitation deriving from the fact that it has so far focused on criticising other mainstream economic and management theories regarding the nature of managerial activity and strategy formulation. Theorists in the business recipe tradition have mainly attempted to deliver evidence for their assumption that managers are not rational actors, or that the process of strategy formulation is not necessarily systematic. The actions of managers have been explained as based on reality construction where experience is shared among various actors and collective beliefs develop (eg. Grinyer and Spender, 1979b). Competition has been defined as constructed by managers (eg. Porac et al, 1989), and market structures and rationalities have been shown to be socially determined (Whitley, 1992). Despite the analysis at different levels - from society-level (Whitley, 1992a) to manager-level (eg. Grinyer and Spender, 1979a), various important issues have as yet not been addressed by business recipe theorists. These are outlined below:

With their emphasis on the cognitive nature of human action, business recipe theorists suggest a complex modelling of social action and interaction between managers, groups of organisations and society, where all action is based on complex mental models of the actors involved and 'external' factors do not exist. However, this extended and complex view of the concept has so far been avoided. In fact, theorists have resorted to explaining only part of the process - eg. the process of strategy formulation (Huff, 1982) or competition (Porac et al, 1989) - as cognitively constructed, however these theorists have not yet dealt with the further implications of their concept.

In fact, the factors and influences beyond these limits are, as in other - criticised - theories regarded as exogenous, as objective reality. Examples of this view are Huff (1982) and Grinyer and Spender (1979b) who explain how business recipes fail and need to be changed because of 'changes in the environment', however, these latter changes are not further examined or defined. Furthermore, Porac et al (1989) in their analysis of the mental models of managers mention other actors apart from competitors, such as suppliers or customers as part of the -cognitively constructed - market. According to the theorists, from these other actors as well as from the competitors the managers receive cues the meaning of which they have to interpret and incorporate in their rationality. However, the authors do not elaborate further the role or perceptions of customers or suppliers but emphasise the especial influence of industry-wide beliefs. Furthermore, the authors perceive factors such as the policies of the state or macroeconomic developments as 'exogenous' factors which impose constraints on managers' actions and perceptions. Why these factors should be viewed as exogenous and competition or other actors should not, remains unexplained.

Two important related issues thus arise from the above. How should the 'environment' be perceived in the business recipe concept, and how can successes and failures of recipes, and change in general, be explained? As for the notion of the environment, the literature on business recipes does not provide many clues as to how to interpret the organisational environment. A possible framework to overcome this theoretical limitation would be to combine the studies of Whitley (1992a) and Porac et al (1989) and to perceive the manager as receiving cues from the market which itself is cognitively constructed not only by the managers but also by the wider collective and their beliefs, or institutionalised values which, in turn, influence the manager who is part of this collective. Calori et al (1992) speak of different 'frames of reference' to which the managers refer in their cognition. This and the above suggest a multi-level model of actors and groups of actors connected by collective beliefs, where levels of beliefs and the groups within the levels are interdependent and individuals subject to various different belief systems. This approach seems to be similar to the one by Maurice et al (1980) and Sorge and Warner (1986). The latter authors view actors in a given context as interdependent and socially intertwined in a way that 'exogenous', or independent variables do not exist.

As for the notion of 'successes' or 'failures' of recipes, as well as 'change', as explained above, theorists in the business recipe tradition have so far generally failed to provide an explanation of *why* some recipes fail or become obsolete. Reference is made to changes in the environment (Grinyer and Spender, 1979b; Huff, 1982) which cause a recipe to no longer prove successful, however, these changes are not further examined. The only theorist who seems to deliver an explanation with regard to the roots of the success of certain recipes is Whitley (1992a). As he explains with reference to national business recipes, the nature of efficiency and thus of the effective and successful ways of structuring business is dependent on the nature of the institutional environment in which the companies analysed are embedded. The success of structures and processes of organisations is thus, in Whitley's eyes, dependent on whether they are in accordance with wider societal beliefs and structures. As Whitley stresses, there is no single logic which will necessarily lead to success. Furthermore, the success of certain measures and activities might not always be guaranteed, as beliefs and assumptions as well as priorities change and consequently the structure of the market. 'Thus, macro-economic policies which achieved the desired effect in one situation may generate different outcomes if major economic actors develop different views about their significance and implications (...)' (Whitley, 1992a: 123). Accordingly, Whitley suggests that 'the social construction of business structures and practices means that not only are they the product of collective beliefs, conventions and moral codes which vary between societies, but also the nature of economic success and ways of achieving it are dependent on dominant conceptions of economic practices and rationalities' (Whitley, 1992a: 123).

As the institutions Whitley examines as independent variables are manifestations of collective beliefs at the society-level, the same is likely to apply to collective beliefs at other levels. This would imply that business recipes are only then successful if they are not only shared by industry or within a group as the 'right way of doing things', but also by those at whom the strategies based on the recipes are aimed: customers and, more generally, the wider society. Theorists in the business recipe tradition have generally put the focus on industrial recipes and their cognitive character without considering the importance and cognitive construction of customers' or society's beliefs who are likely to determine to a great extent whether a recipe is successful or not. It should be interesting to analyse how the 'wider societal recipes' and the managerial, or industry recipes interact and thereby lead to mutual exchanges of interpretations and beliefs (Calori et al, 1992). Up to now, the wider society has only been brought into the concept indirectly, through the idiosyncracy of the manager or as a wider frame without direct influence.

If the concept of business recipes is to be regarded as an alternative to other mainstream theories which it criticises severely, then it should be able to not only explain the way managers act and construct their own rationality but also how this action affects the context in which the managers are embedded, and how this context should be perceived. Business Recipe theorists (eg. Spender, 1989) seem to see the validity of the concept mainly in its realistic assumptions on managerial tasks. However, the validity or integrity of a theory is generally not only judged in relation to its usefulness to managers. Theories need to meet an academic standard or internal consistency and empirical validity.

However, the question whether the concept demands to be seen as an alternative to other theories cannot clearly be answered. Spender (1989) opposes the idea of constructing a comprehensive 'theory' of collective beliefs as this, in his eyes, would limit the scope for managerial creativity. As Spender puts it, 'a well formed theory is logically complete, with this very completeness rendering entrepreneurial input or 'subjective' interpretation unnecessary. A recipe, by contrast, is open, incomplete, ambiguous and in need of interpretation before it can be used as a guide to the firm's action even within its own rationality' (Spender, 1989: 7).

Spender sees the validity of the 'recipe' concept in exactly this flexibility and ambiguity. In his eyes, the concept can serve managers as guidance to understand their behaviour and lead their company successfully. However, it has to be remarked that the success of the company is also, to a great extent, dependent upon processes which are located outside the company, and outside the industry. There are various examples where strategies based on industry recipes have failed to lead to success (see eg. Huff, 1982; see also Shell and the discussion on the removal of 'Brent Spar'). To managers it would be of critical importance not only to understand their own actions but also why these recipes fail and how to perceive the environment, issues not yet addressed by recipe theorists. It has to be questioned whether the concept of business recipes in its seemingly deliberate incompleteness and ambiguity depicts fully managerial reality in a way which helps managers master their task more successfully.

3.5 Conclusions

As shown in this chapter, the business recipe notion is a concept which explains well the complexity of the task managers face when formulating a strategy as well as the development through which an organisation goes over time. Furthermore, it draws attention to the importance of collective beliefs especially at the industry-level, which influence greatly the strategic activities of organisations.

However, the concept has so far failed to conceptualise the environment of organisations and to explain why recipes succeed or fail, or what causes change. Various theorists in the business recipe tradition emphasise that the business recipes, if made explicit, can help managers understand and master their task. However, this is only so to a limited extent if a manager is unable to understand how new recipes or ideas are evaluated by customers or the wider society. The collective beliefs of the latter, thus, are of great importance, too. Nevertheless, as outlined briefly in the previous section, the concept seems capable of explaining and incorporating reasons for the viability of certain recipes.

All in all, the concept, in its focus on what managers actually perceive and believe, seems to be able to depict a more realistic picture of organisations, their successes and failures, structures and processes than other mainstream economic or organisational theories.

4 Research Task and Methodology

The aim of this study is to reveal to what extent the business recipes of organisations in different countries are subject to pressures exerted by the national institutional environment. The Institutional Theories of Organisations as well as the concept of Business Recipes, which form the theoretical basis for this research, have been outlined in chapters two and three respectively.

This chapter outlines firstly which research questions need to be addressed considering the theories outlined previously. Secondly, the methods are described which have been used to collect the data needed in order to determine the influence of the national institutions. In this context, alternative methods of data collection are outlined before those used in this study are described.

4.1 The Research Task

This research sets out to examine business recipes in different societies and how far possible differences are subject to variations in the national institutional environment. This study combines Institutional Theories of Organisations and the Concept of Business Recipes. In this research, a connection is established between the managerial recipes at the organisation level and the broader belief systems as manifested in national institutions. The two approaches can very well be combined as they both assume the existence of beliefs at different levels. In fact, the Business Recipe tradition in its focus on the strategic behaviour of organisations and organisational groups can well complement Institutional Theories of Organisations which have traditionally focused on explaining the structures and work processes of organisations. Indeed, it seems that both approaches are complementary as the limitations of the business recipe concept can be reduced by drawing explanations from the closely related Institutional Theories. Parallel explanations can be seen in the Organisation as Institution-Approach and the Concept of Business Recipes at the organisation level. It can be argued that business recipes may be defined as the rules institutionalised at the individual or group level regarding how to successfully undertake a business.

As Whitley (1992a) has shown, the Concept of Business Recipes and Institutional Theories can be combined. His study, however, focuses on the macro-structure of the market explaining how institutions affect business systems whereas the object of this thesis will be the organisational recipe.

This research aims at delivering a possible explanation of how to perceive the organisational environment and how to explain the success and failure of business recipes; both areas which, as explained in Chapter Three, have largely remained unexplained in the Business Recipe Concept. Furthermore, this thesis attempts to give further insights into the behaviour of organisations facing institutional pressures, and the nature of institutions. These aspects will help provide further evidence for the validity of Institutional Theories.

The literature reviewed in the previous chapter has outlined the assumptions and ideas underlying the two notions. The following research questions were formulated on the basis of the theories, prior to the data collection:

1. The Concept of Business Recipes

Following the Concept of Business Recipes, it could be assumed that collective beliefs exist at different levels all of which would influence the recipes of Esso UK and Esso AG. In the case of the Exxon subsidiaries it could be assumed that apart from the recipes at the national level also the recipes of the international oil industry as well as, in particular, the recipe of Exxon would be of importance. Due to the limited scope of this study, however, it was decided to focus on organisational recipes and its interdependence with surrounding institutions. The recipe of Exxon, however, was not ignored completely. Exxon guidelines and overall policies were brought into the analysis as Multinational Institutions (see below). Considering the relatedness of Institutional Theories and the Business Recipe Concept, these Multinational Institutions might well be interpreted as parts of the overall business recipe of Exxon. This applies equally to the other categories of institutions defined (see below). All in all, the resulting first research question was:

What are the business recipes of Esso Petroleum and Esso AG respectively?
In this context, the main question was how the business recipe was most likely to manifest itself. It was assumed, on the basis of the literature, that the recipe not only manifests itself through beliefs mentioned by managers, but also through actions and measures implemented which would reveal managerial beliefs.

Furthermore, in order to be able to examine how far the business recipes are influenced by the national institutional environment the following research questions had to be addressed:

What are the similarities and differences between the recipes of Esso Petroleum and Esso AG?

What are the roots of these similarities and differences?

2. Institutional Theories of Organisations

With regard to Institutional Theories, the basis of analysis was the 'Environment as Institution' approach as outlined in Chapter Two. However, in accordance with more recent institutional theorists, it was assumed that organisations are not passive, merely reactive to pressures from the institutional environment. As explained previously, organisational business recipes can also be regarded as institutionalised rules within the organisations as to how to successfully conduct the business. These rules may be in conflict with pressures from the institutional environment. It can thus be expected, in line with supporters of the 'Organisation as Institution' approach that organisations have their own distinctive rules and structures and may try to influence the institutional environment to accommodate their interests.

With the organisational business recipe being perceived as internally generated organisational rules this research can also be interpreted as analysing the interdependence between organisation-specific institutions and those perceived as 'external' by members of the organisation. All in all, with regard to Institutional Theories, the following research questions arose:

What is the institutional environment of the two countries analysed?
Following the Institutional Theories it could be expected that the Institutional Environment consists of and is shaped by institutions such as the state, the educational and financial system, public opinion, the labour market and the like (see eg. Whitley, 1992b).

How do the institutional environments of the two countries analysed differ?
Differences could be expected to be rooted to a great extent in the historical evolution of the institutions in question, and especially of the configuration of the state-system (see eg. Lane, 1989).

Do these institutional environments influence the business recipes of the two organisations?

It could be expected that the business recipes are influenced by institutions, as institutions are manifestations of collective belief systems. These belief systems, as argued by business recipe theorists, influence managerial perceptions and subsequently action (see eg. Huff, 1982). Furthermore, it is argued by institutional theorists (see eg. Oliver, 1992) that institutions affect strategies, and thus, business recipes of companies. Institutions, though socially constructed, become an external reality to which managers adapt.

If yes, how do the institutions influence the business recipes?

Influence could be expected to be exerted in different ways (see eg DiMaggio and Powell, 1983; Scott, 1995), by way of coercion, normative rules or via imitation.

Which institutions have an effect and why?

Due to the coercive power of the state (see eg Lane, 1989; 1992), it could be expected to be of primary importance. Other institutions which were considered as important were the national public opinion in each country. This especially, as oil companies due to their products could be expected to be subject to severe public scrutiny. For this reason, the influence of pressure groups was analysed as well. Furthermore, several theorists (eg Whitley, 1992; Maurice et al 1980) have underlined the importance of labour market institutions, especially trade unions and works councils in organisations, as well as educational instititutions, such as universities, schools and the like and, finally, professions.

Given that institutionalisation operates at a number of levels what is the respective influence of these other levels - particularly of the multinational, general international and sector-specific institutions?

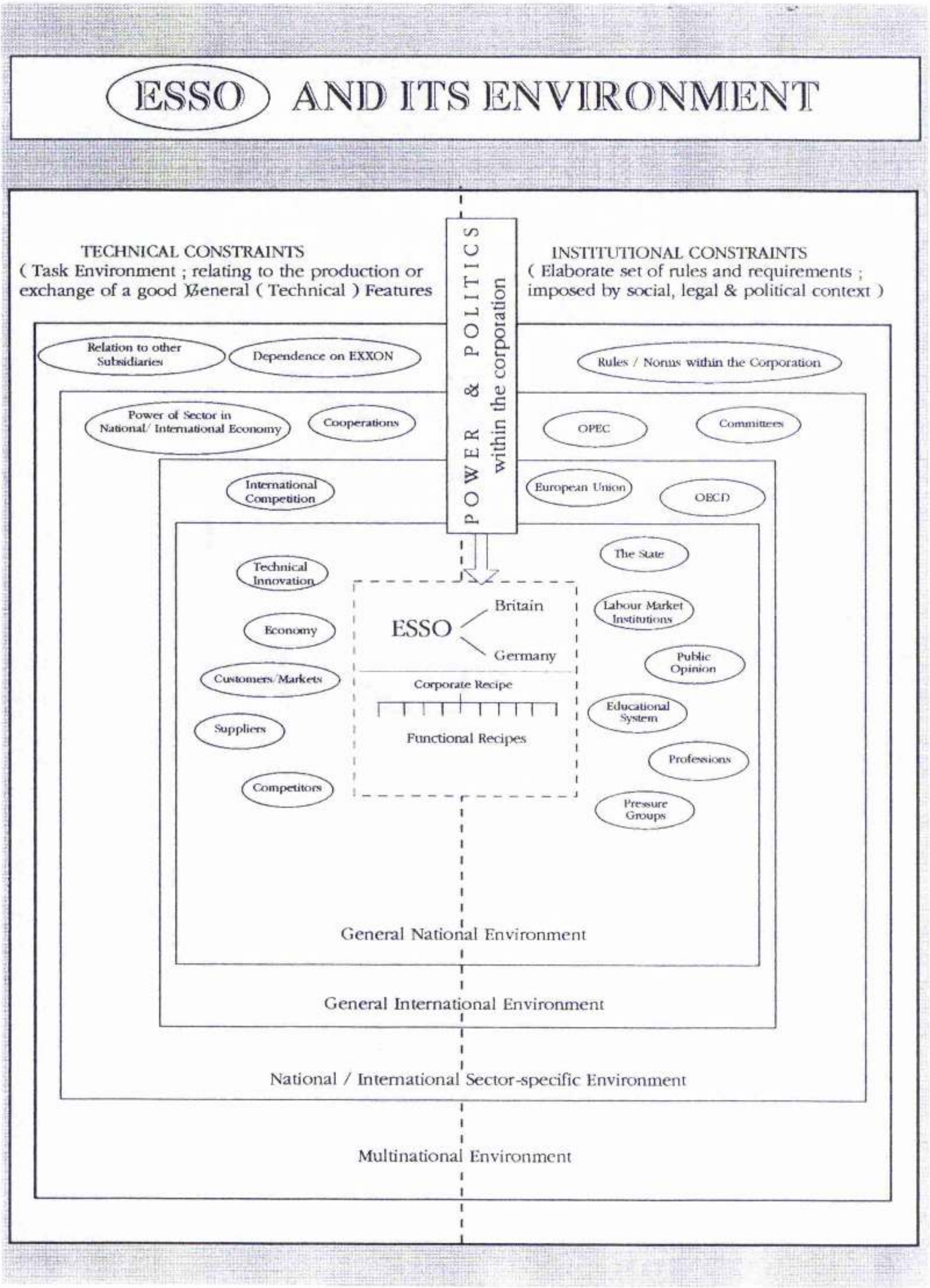
As Esso UK and Esso AG are subsidiaries of Exxon, the latter and its guidelines, or 'multinational institutions', as named by the researcher, could be expected to have an influence as well (see also Rosenzweig and Singh, 1991). Furthermore, sector-specific institutions, nationally and internationally, due to the international character of the oil industry, could be expected to be influential. Lastly, the emergence of international organisations had to be considered, such as the EU, or the OECD, which were named 'General International Institutions' (see Figure 1.0). The different institutions were thought to vary in influence, following theorists such as Oliver (1991) or DiMaggio and Powell (1983), and part of the research was meant to reveal how these different levels of institutions relate to the organisations in question. In particular, it should be revealed how far the influence of an institution is subject to its proximity to the organisations analysed.

How do the organisations act facing possible institutional pressures?
The research was partly aimed at revealing whether organisations necessarily have to adapt to institutional pressures, or whether there is scope for strategic choice, as Oliver (1991) argues.

Which other influences exist apart from the institutional environment?
The question as to whether other influences exist is only possible if we assume - unlike Whitley (1992a) or Maurice et al (1980) and Sorge and Warner (1986) - that not all factors are of institutional character. Although the case of these theorists is strong as explained in Chapter Two, the separation into various categories of influences seems helpful in order to evaluate the relative efficiency of organisations (see Chapter Two for details). Furthermore, Whitley's (1992a), Maurice et al's (1980) and Sorge and Warner's (1986) approaches suggest a very complex model which is difficult to research, especially considering the limited scope of this study. In addition, some factors such as the availability of natural resources, seem more technical than institutional in character, as the existence of the resources is independent of the existence of a society which is seen as owning it. For these reasons, in this thesis the distinction between the Technical and Institutional Environment will thus be applied. Furthermore, the notion of power and politics within the organisation will be integrated into the theoretical basis of this approach (see below).

Figure 1.0 depicts the environment of Esso AG and Esso Petroleum respectively:

Figure 1.0 **The Environment of Esso AG and Esso Petroleum**



4.2 The Choices in Research Design

Research tasks can be approached in various different ways. In this context, researchers firstly need to consider whether they want to undertake their analysis on the basis of a given theory (*deductive method*), or whether they wish to derive theoretical models from the data gathered (*inductive method*). This research applies a largely deductive approach as its purpose is to prove or disprove given concepts, ie. the assumptions of Institutional Theorists and those of Business Recipe theorists.

Secondly, researchers need to choose whether to apply a largely quantitative or qualitative research design. Qualitative research is applied mostly when the subject under analysis is hard or impossible to quantify, such as research which aims at revealing beliefs of individuals or motives for their actions. Quantitative research, on the contrary, is mainly used in areas where quantifications are possible, such as measuring how many people hold certain beliefs. This study applies a qualitative approach which was found to be appropriate for the research into belief systems and business recipes.

Within the area of qualitative research, researchers thirdly have to decide whether they are going to look at a narrow range of questions/areas and try to explore these with many people/sites, or whether they wish to look at a wide range of questions/areas and cover a limited number of sites.

Alongside the distinction between qualitative and quantitative approaches, researchers need to consider a variety of different research designs. They can, for example, pursue an experimental design, a survey methodology or undertake an in-depth case study. Experiments and surveys are usually allocated into quantitative approaches in that both usually entail measurement of some kind. All three methods will briefly be outlined in the following in order to show why a case-study approach was chosen.

As far as the experimental method is concerned, data in this method is collected in a laboratory, where volunteers are put under certain conditions and their behaviour or responses studied. The advantage of this method is that effects of certain influences can be studied by holding other factors constant. The experimental method, however, has a limitation in that it might be that 'what is being studied is laboratory behaviour rather than natural behaviour' (McNeill, 1990: 55). This effect is also called the Hawthorne effect as Professor Mayo first detected this difference in his study on the Hawthorne Plant of the General Electric Company (ibid.). Professor Mayo revealed that the behaviour of the subjects being studied might be different from their actual behaviour under 'normal' conditions. It has to be noted, though, that most research methods cannot fully eliminate the risk of the subjects analysed being different from their 'normal' self. An experimental design, however, being undertaken in a laboratory, might reinforce this effect. Apart from the Hawthorne Effect, in an experimental design, the experimenters themselves might influence the outcome by their presence and guidance of the volunteers through their experiment.

As for the survey design, surveys are mostly undertaken in order to obtain quantifiable data. However, surveys can also be used in qualititative research their advantage being that the results obtained are highly generalisable. However in order to ensure that the findings be generalisable a survey has to be conducted with many subjects. Furthermore, the mostly highly structured and standardised format of surveys leaves only little scope for the respondents to elaborate their answers further, so that issues which might be of interest might not become part of the investigation.

As for the in-depth case study, the researcher spends a period of time at a limited number of sites, and thus obtains a fairly deep understanding of the way they operate. The organisation's members remain in their context and are thus not likely to be subject to the 'Hawthorne Effect' (see above) as much as in the experimental design, the advantage being that the researcher obtains 'rich' embedded data. However, the presence of the interviewer/observer might still lead to results different from the 'normal'. Case studies can be conducted in different ways. The researcher can undertake the observation as a participant of the group or organisation. In this context, the researcher is not recognised as such and can thus study the members of the group in their natural behaviour. He can also undertake a non-participant observation where his role as researcher is clear to the individuals or groups analysed, however where the researcher spends a fairly considerable time with these groups or individuals. Lastly, the researcher can undertake interviews with a variety of members of the organisation or group. These interviews can be structured or unstructured. This latter method can also involve the use of questionnaires and documentary research in order to ensure the data's validity (data triangulation). If researchers undertake in-depth case studies, they have to be aware that due to the embeddedness of individuals studied in their context, the observations can be attributable to many different factors. The researchers risk, in this connection, that their data is only valid in one particular case, and not necessarily generalisable (Hartley, 1994: 209). Furthermore, if researchers undertake interviews, they have to be aware that the data might be influenced by both the interviewer-effect (responses are different to different interviewers) and the interview-effect (managers might behave differently in this situation).

For an experimental design it is essential to remove the participants from their normal context and other factors, which made an experimental design unfeasible. Furthermore, the design of an experiment seemed impossible on the basis of the research questions outlined above. A survey design which took a narrow range of questions/areas and tried to explore these with many people/sites did not seem appropriate for the research into business recipes. It would have been appropriate to do more in-depth, qualitative surveys (using semi-structured interviews) in several organisations across the two countries. However, this would have required a large number of researchers and thus was not possible in this study. For these reasons, a case-study design was chosen despite its limitation that the results might lack generalisability. The latter could have been improved by doing multiple case studies. Again, however, a large number number of researchers would have been necessary and thus, this method was not feasible in this study's context.

4.3 Research Site and Period of Study

As the effect of different national institutional environments was to be researched, it was necessary to select organisations in different countries which were comparable, in order to minimise the chance that dissimilarities might be due to differences in factors other than the institutions. In this context, features such as organisational size, degree of dependency, technology and the product were aimed to be matched in order to ensure that differences found be due to institutional pressures.

The companies to be analysed were Esso in Germany and Britain. Interviews were also held in Esso France and background research was undertaken as well on French institutions. Whilst time prevented this element of the research being further pursued, it did prove useful in bringing the comparison and contrast of Britain and Germany into sharper focus. All three countries seemed appropriate as many researchers have revealed differences between these countries (see eg. Sorge and Warner, 1986; Lane, 1989; 1992) and analysable results were therefore probable. As for Britain and Germany, interviews in these two countries could both be undertaken in the managers' mother tongue due to the researcher speaking both languages. Furthermore, the fact that the companies in question are subsidiaries of

Exxon Corporation was expected to render it easier to isolate any cultural-institutional effects compared with a study of different companies in different countries. In the latter case, any differences observed in terms of business recipes could be due to sector-specific influences or the impact of their respective parent company, rather than to differences in the institutional environment. Moreover, it was found that the fact that Exxon is an American multinational was not problematic since its European subsidiaries have been established in local countries for a long period of time, and have had to operate within the context of the national culture and institutions of the host countries. Lastly, this research offered the opportunity of exploring the effect of the multinational corporation on the local business recipes. As Esso AG is active in the downstream, that is the refining and marketing of oil products, only with upstream activities being undertaken through subsidiaries, subject of the study in Britain will not be Esso UK, but its downstream division Esso Petroleum Company Ltd. Reference will be made to the holding company Esso UK where appropriate.

The business recipes of the above companies were analysed at one point in time, rather than over a longer period of time. This was mainly due to the limited time scope of this study. In an ideal situation a longitudinal approach would have been preferred.

4.4 Methodology Employed and Stages of Research

Interviews were undertaken with five senior managers and a board member in Germany, and five senior managers and a group manager in Britain. The business recipe was expected to be located at the level of senior management and above. Various studies (eg. Grinyer and Spender, 1979a) have shown that business recipes are to a great extent determined by the responsible senior manager or CEO. At Esso as well, due to the profit centre concept of the Exxon subsidiaries, senior managers are responsible for their strategies and business conduct.

Data collection in the organisation was undertaken in Germany in October 1995 and in Britain during January 1996.

The design of the interview schedules (see Appendices I-III) was based on the premise that managers' beliefs are subject to three main influences:

- The Institutional Environment, defined as rules and requirements imposed by the social, legal and political context;

- the Technical Environment, defined as factors related to the production or exchange of a good;
- the Power and Politics within the Organisation, defined as the centres of power within the organisation at the national and international level, and the relations between the different actors derived from and/or leading to this 'power-structure'.

As explained above, the differentiation between the Institutional and Technical Environments were adhered to despite the criticism summarised in Chapter Two, as it proved helpful in order to distinguish contingent factors such as size, availability of resources or geographical characteristics from other, more society-based factors. As for the notion of Power and Politics within the Organisation, this was seen as complementing well the first two areas of influence, as it represented a notion of the 'inside' of the organisation and seemed particularly interesting in the case of a multinational corporation, as analysed in this study. Organisations can be defined as coalitions of interest groups (Morgan, 1986) and as such the business recipe might be affected by which group of interests is dominant and by the nature of any conflict between these interests.

The focus of analysis was the National Institutional Environment. The other areas were taken into account in order to better understand the factors which determined the influence of the national institutions. The purpose of the interview schedule was to obtain a fairly complete picture of the process of strategy formulation as undertaken by managers in two organisations in two different societies. Only if influences of other factors were revealed could the influence of institutional factors be identified.

Apart from the potential influences outlined above, other factors are likely to exist influencing the perception of managers, such as the idiosyncracy of managers, beliefs at the industry level or the like (see eg. Huff, 1982). However, it was beyond the scope of this study to examine all possible influences on managers' beliefs.

The Standard Interview Schedule (see Appendix I) was divided into three parts. The structure of the schedule was semi-structured. In detail, the structure was as follows:

1. General Question Section, containing questions about the personal background, education and career of the interviewee;
2. Open Question Section, with questions regarding strategy formulation. This section was meant to enable the manager to explain factors taken into consideration when formulating their strategy and to evaluate their influence;
3. Closed Question Section, where managers were firstly prompted to consider certain institutions regarding the latters' influence as well as the way the adjustment to institutional pressures takes place. This section gave further insights into the nature of institutions, and their relation to managers' beliefs. Secondly, managers were asked to compare the influences of the Institutional Environment as opposed to the Technical Environment and the Power and Politics within the Organisation.

In the Closed Question Section, the researcher mostly worked with cards on which the factors analysed were written. This section consisted of four parts:

Firstly, managers were asked to compare the influences of institutions in one environment relative to those in another environment. The ratings went from 'the same' influence to 'more' and 'much more' influence, and 'less' and 'much less' influence respectively. For the analysis, the answers were given numbers with 'the same' = 0, 'more/less' = 1/-1; and 'much more/much less' = 2/-2.

The institutional environments were as follows:
General National Institutions; encompassing institutions such as the State (laws, energy policy, taxes etc), public opinion, trade unions, banks, capital market, professions, pressure groups;
General International Institutions ; encompassing the European Union, the OECD, the UN etc.;
Multinational Institutions; encompassing any Exxon guidelines (such as OIMS, CIMS), and contacts to/ cooperations with other Exxon subsidiaries;
Sector-specific Institutions; encompassing institutions such as OPEC, the International Energy Agency, Rotterdam Market, American Petroleum Institute, or Sector-cooperations.

Secondly, the managers were asked to evaluate how they adjust their strategies to different institutional pressures. They were asked to name the most likely response. The categories of adjustment were taken from Oliver (1991).

Thirdly, the managers were asked to evaluate the influences of the technical environment, the institutional environment and Power & Politics. The rating went from 'very strong', 'strong', 'moderate', and 'weak' to 'none'. The environments were characterised as follows:

Technical Environment: Economic Development, Availability of Resources, Competitors, Technological Progress, Suppliers, Customers (number etc..);
Institutional Environment: OPEC, Public Opinion, The State, EU, OIMS and other Exxon guidelines, Sector-cooperations;
Power&Politics: Distribution of 'Power' within Esso UK, Distribution of 'Power' within Exxon Corporation.

Lastly, managers were asked to say which strategic approach their business unit tends to pursue. In the cases of the Esso Petroleum Strategic Planning Manager and the Public Affairs Manager as well as the board member in Germany, this question was modified because of their role within the organisation, and they were asked what strategy Esso Petroleum and Esso AG respectively tend to pursue. Three possible options were given, and the managers were asked to choose one/rate them if more than one was applicable. The choice of answers was as follows:

( ) *A strategy which achieves the most efficient utilization of resources.*

( ) *A strategy which has legitimacy in the eyes of society.*

( ) *A strategy which is acceptable to all stakeholders (ie. in this context: interest groups within Esso , including shareholders and employees, at the national/international level)*

The combination of an unprompted interview section (section 2) and a prompted section (section 3) was chosen in order to reveal possible areas of institutional influence of which the managers are not aware and which accordingly would not be mentioned in section 2. However, also this combined method does not ensure that all institutions which are influential would be revealed. Managers are likely to integrate institutionalised rules into their daily work and strategy formulation without necessarily realising it, not even if they are prompted. One way to detect any institutions which have an influence would be if the researcher worked in the company in question, as a manager, tackling business tasks and maintaining a high level of awareness as to which influences on his or her work are of institutional character. Such a thorough approach, however, was not feasible in this research due to the limited scope of the study.

A related limitation of the methodology used is the fact that the researcher had to rely on the managers identifying the relative influence of varying institutions in section 3. The danger of this approach is that managers might not be best placed to understand the degree of institutional influence to which they are subjected. This especially if we consider the 'taken-for grantedness' which characterise most institutions which impact on us. Some degree of bias in the data collected could thus be expected. However, to reduce the degree of bias, during the interviews the researcher encouraged the managers to elaborate on any points of interest or concern to them irrespective of whether they were included in the interview schedule or not. She thereby ensured that she obtained a picture of the business as comprehensive and unbiased as possible. The analysis as to whether the issues outlined by the managers had institutional origin was subsequently done by the researcher.

As the first interviews were undertaken, it became clear that managers of service functions required a different interview schedule due to the nature of their tasks. Subsequently, amended schedules were used for the interviews with the Public Affairs Manager and the Human Resource Manager in Britain (see Appendices II and III). These interviews were aimed at gaining an insight into what determines the policies of Esso in the above areas. The importance of interviews with managers from across functions within the organisations should be underlined at this point. Esso, as most other organisations, operate according to division of labour among the various departments. A full understanding of the overall business recipe of Esso UK and Esso AG respectively cannot be obtained by focusing only on line management, as basic policy decisions are mostly prepared and elaborated by service functions, though possibly initiated by line managers.

Throughout the interview, managers were asked to describe and evaluate their 'strategy' or 'strategy formulation'. The notion of 'business recipe' was not used, as this could be expected to be misunderstood by the managers.

The interviews were recorded in note form as well as taped. None of the managers opposed the taping of the interview. Notes were taken in addition to the tape, in order to enable the interviewer to get back to certain areas of interest during the interview. The taped interviews were later on transcribed. In the case of Germany, they were subsequently sent to the managers interviewed for them to provide further comments on their answers. However, this was not done in the case of Britain as only one German manager returned a corrected version.

Prior to the semi-structured interviews as outlined above, 'information-interviews' were undertaken with the Public Affairs Manager in Germany. The former had the purpose to introduce the researcher into the subject and make her familiar with the oil industry and current issues as well as possible differences between the countries to be analysed (for the Information-Interview schedule, see Appendix IV). A shortened version of this schedule was used during an interview with the Strategic Planning Manager in Britain, to obtain information regarding factors such as the structure and size of Esso Petroleum. Extensive documentary research was also undertaken concerning the companies analysed, the oil industry in general as well as the countries in which the companies are situated (see Appendices V - VIII). Thus, data was triangulated by way of consulting and analysing different sources of information.

Business Recipes, that is, the beliefs of managers as to how to successfully conduct their business within a given context, cover all areas of a business. Due to the limited scope of this study as well as the limited number of managers interviewed in both companies, the complete business recipes of the two organisations covering all aspects of the business could not be subject of this study. Rather, it attempts to give an overview of the factors and beliefs mentioned by the managers interviewed as well as revealed through documentary research, especially focusing on distinctive features of both recipes.

In the following, firstly, the case studies of Esso Petroleum and Esso AG are presented in Chapters Five and Six respectively. In the final sections of these chapters, the overall business recipes of both companies are outlined. In Chapter Seven, the case results are analysed with special reference to the research questions outlined in this chapter. Lastly, a summary and conclusion of this research follows in Chapter Eight.

5 Esso Petroleum Company Ltd. - A Case Study

In this chapter, the results obtained from the data collection on Esso in Britain are presented. Firstly, general information on Esso Petroleum is given. In the second section, different parts of the business recipe of Esso Petroleum, the downstream side of Esso UK, are described drawing information from the interviews undertaken as well as documentary research. In this context, those parts of the business are presented which, in the interviews, were revealed as being handled differently in the two companies analysed and/or as providing interesting insights into the managerial recipes of both companies. In the final section of this chapter the overall business recipe of Esso Petroleum as gathered from the data presented will be outlined.

5.1 Esso Petroleum Co. Ltd - General Information on the Company

Esso Petroleum is the downstream division of Esso UK Plc which is a fully owned subsidiary of Exxon Corporation. The company receives all financial resources and main raw materials from its parent. Furthermore, Exxon has guidelines and worldwide policies to which the subsidiaries are expected to adhere. In this context, especially the ideal of cost efficiency is emphasised throughout the company and represents the basis upon which the affiliates' performance is evaluated (for further details on the history and policies of Exxon Corporation, see Appendix VIII).

Esso UK Plc supplies around one-sixth of the petroleum products used in the British market, and produces about one tenth of total United Kingdom oil and gas output. Its upstream activities account for 75% of its profits with Esso being a major investor in the North Sea. To date, in cooperation with Shell, Esso 'has been responsible for a quarter of North Sea activity' (Esso UK Plc, 1995a). As for its downstream activities, the 'Esso refinery at Fawley is the largest in the United Kingdom and one of the most complex refineries in Europe' (ibid.).

The current number of employees at Esso UK is 3,500. Since the 1970s where Esso UK had 12,000 employees the number has decreased considerably. Of the employees approximately 15 to 20 managers and five to ten other employees are sent from Exxon. Most of these work with Esso Exploration and Production Ltd, the upstream side of the business. The current turnover of personnel is less than 2% and the average employee is about 42 years old. In addition to the Esso employees, Esso works with a considerable number of contractors. In the office complex in Leatherhead alone, 1/3 of staff are contractors.

5.1.1 Organisational Structure of Esso UK

Esso UK's offices are spread all over Britain. Both divisions of Esso UK Plc, Exploration and Production and Esso Petroleum Plc have a Managing Director who report to and are members of the board of Esso UK plc. The board consists of four members, with a financial director and the Chairman in addition to the Managing Directors of Esso UKs divisions.

5.1.2 Organisational Structure of Esso Petroleum Company Ltd.

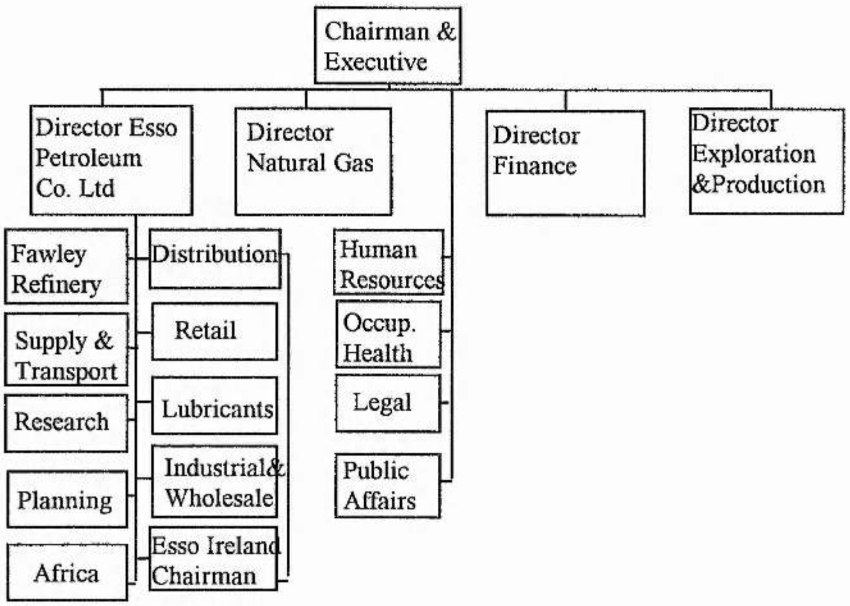
Esso Petroleum has on average four to six hierarchy levels from the Managing Director down to the 1st Line Supervisor or foreman in the plants respectively. The business units are combined according to functions for the service functions and according to products for the product lines. The average span of control of managers is from three to five at the higher level of the hierarchy and about 20 at the lower level (eg. below the foreman).

For product lines and service functions a functional link to corresponding departments at Exxon Company International exists. One example of this is the refinery manager who is in close contact with the refining group of Exxon Company International (ECI) in New Jersey, 'they are sort of like the functional arm of the shareholder in New Jersey', as he explains.

The product lines at Esso Petroleum are organised as profit centres. The coordination of activities across the business units takes place at management level as well as through project teams consisting of employees as well as managers.

All in all, the organisation structure of Esso Petroleum is depicted in Figure 2.0, which shows the firm's relation to the holding company Esso UK Plc.

Figure 2.0 **Organisation Structure of Esso Petroleum Company Ltd.**



5.2 Components of and Contributors to the Business Recipe of Esso Petroleum

In the following, elements of the business recipe of Esso Petroleum are outlined. These are beliefs of managers as to how to successfully conduct their business. The business recipe of Esso Petroleum is manifested in the actions as well as attitudes of the company.

5.2.1 Esso Petroleum and its Employees

Management Recruitment and Development

At least 97% of the managers of Esso Petroleum hold a university degree. No vocational training or 'work and study degrees ' exist to develop future managers. The majority of managers are recruited directly from university after achieving their first degree and stay with Esso for their whole career. The majority of managers at Esso UK are of male sex. However, the number of women in these posts is increasing. At present, about 35% of the graduates recruited are women (Esso UK Plc, 1995a).

Managers come mostly from an engineering background. When they enter the company they are trained on different jobs in the form of job rotation. Among the jobs executed is mostly a stay at Exxon in the States or with another Exxon affiliate. Accordingly, having a specialist education when they join Esso UK, most of the managers become generalists in the oil business as their career goes on. A striking example of this policy is the Strategic Planning Manager who has had nine different jobs in his 12 years of being with Esso. As he explains, 'When I first joined the company the average assignment (of a manager) was 18 months. Now, it is about 2 1/2 years, and it is the shortest for 'highflyers''. Of the managers interviewed, three had worked in their current positions between two and three years, two between five and six years, and one less than one year.

Further training for graduates is provided by way of 'leave of absence'. If the company sees the benefit in the further education of a graduate employee, they encourage the pursuit of MBA studies or the achievement of an accountancy qualification. In these cases, 'external creditation provides quality assurance of a person's competence - or it's a vehicle to help recruit and retain employees' (Human Resource Manager). Training is increasingly done at a European level (see below) in so-called 'European Skill Centres'.

Recruitment and Development of Employees at the Operational Level

Employees at the operational level are mostly employed after graduation from school. Full-time training in the form of apprenticeships is undertaken in the refinery. All other training is provided 'on the job' or 'leave of absence'. For the last three or four years, Esso UK has introduced vocational training under the National Vocational Qualifications scheme of the governments education and training policies. According to the Human Resource Manager, this is to be extended.

Employee Participation

Esso UK plc is a non-unionised company. This used to be different in the 1970s before the conservative government under Thatcher came to power. As the Human Resource Manager points out: 'Back at the end of the 1970s all our employees at the operational level were collectively bargained'. However, the influence of unions is present, as the contractors with whom Esso works are largely unionised.

Today, pay bargaining at Esso is done at the individual level. Employees have individual employment contracts. The benefits are common throughout the company, including, for example, employee share ownership, but the salaries are calculated individually. This is done on the basis of the skills of the particular employee in comparison to a labour pool specific to his or her work. For instance, there exists a labour pool for process engineers and a different one for a skilled accountant. The Human Resource Manager explains: 'We are paying individual employees according to their skills within that market.'

Employee participation is carried out through staff committees at site level. These committees consist of employees from across the site who meet with management on a regular basis. These staff committees are merely concerned with workplace-related issues. Their involvement is based on consultation rather than negotiation. In this context, the Human Resource Manager explains: 'It's a dialogue about things that are concerning employees, so that's a long way removed from bargaining. It's more a sensing mechanism.' An example of the use of the staff committees to sense the needs of Esso employees was the establishment of a coach from the train station when Esso moved from inner London to Leatherhead, a fairly remote site south of London.

Overall, the Human Resource Manager sees the derecognition of unions as a positive development. In his eyes, the involvement of employees has *increased* this way because 'typically, in a unionised company, you find that the union representatives are a third party between you and your employees.' The existence of well established communication (despite the lack of formal employee codetermination) is a factor that also the Strategic Planning Manager mentions. As he points out, in comparison with Esso AG, 'we are a more relaxed organisation (...). Relaxed in the way that it's pretty open, managers are very accessible.'

Furthermore, apart from the improvement of communication between management and employees, the Human Resource Manager acknowledges that the fact that Esso Petroleum is not unionised facilitates the change which all large enterprises across the world are going through at present. In this sense, he prefers the British system to German codetermination as - although the latter might bring short -term advantages - in long-term, the ability to change enables the company to transform quickly and thus to ensure its survival. This, in turn, is in the interest of those employees who stay with the company. Also the Refining Manager sees the non-unionisation as an advantage. In fact, considering the depressed refinery margins and his strive for profitability, he says that 'I don't think we have fully developed or achieved the potential available from getting people out of the union.'

Dismissals

Dismissals are relatively easy to undertake in Britain under current employment legislation. As the Human Resource Manager acknowleges ' it's very easy to make people redundant under UK legislation provided the jobs are disappearing.' However, Esso has primarily, up to now, offered employees 'who we can't see progressing through the organisation, financial packages (...) to ensure and maintain the motivation of those who stay'. According to the Refining Manager, the voluntary agreements were also undertaken because employees could otherwise claim their rights before industrial tribunals. Both managers do not know whether this policy of voluntary agreements will be adhered to in future. Especially in the refinery, there is not much further scope for financial packages. Here, already 10% of the workforce, that is 100 people were made redundant in 1995 with 200 or 300 more to follow this year. Most employees who were willing to go have been made redundant so that 'you (now) move out of the area of voluntary redundancy into compulsory redundancy', as the Refining Manager states.

5.2.2 Esso Petroleum and the British Government

The actions of the British government influence the business of Esso Petroleum to a great extent. The influence is exerted directly via taxation and legislation as well as indirectly by shaping the environment in which Esso is embedded (for example in terms of education and training policies).

Relationship between Esso Petroleum and the Government

The managers interviewed at Esso Petroleum described the relationship with the government generally as cooperative. Regular meetings with government ministers 'from cabinet level downwards' (Public Relations Manager), and meetings with senior civil servants ensure that the views of Esso are considered and that 'when (the government officials) are struggling with a particular issue they feel free to come to Esso managers and take our view' (Human Resource Manager). In this context, the strong position of Esso is based on the fact that Esso is 'something like the sixth largest company in Britain. So each government would expect, and we would expect, to have a view, whatever the issue of the day is' (Human Resource Manager). However, Esso is probably not the most powerful actor within the British oil industry, as the Human Resource Manager acknowledges. Shell and BP have their headquarters in Britain and thus have more resources allocated in this country. As the manager explains further, the fact that BP used to be state-owned no longer influences the relationship to the state, however it used to.

The communication between Esso and the government is not merely done on a one-to-one basis. As the Public Relations Manager points out, the government 'has a strong desire to make sure that they get a strong input from industry generally.' Being a member of trade associations such as the Confederation of British Industry (CBI) or the United Kingdom Petroleum Industry Association (UKPIA), the company's interests are also represented through these institutions which, as in the case of the CBI, 'formulate national responses (to government legislation)' (Human Resource Manager).

All in all, the Human Resource Manager comments, 'you can never behave as if you expect all these things to be done your way. At least we have a view and make sure our voice is heard.'

Esso Petroleum and Government Legislation

With regard to the level of legislation, the Planning Manager points out that 'there are too many regulations that impose unnecessary burdens on the industry. Everywhere, in terms of the environment, competitive environment, we have had to go through monopolist examinations where we thought that was not necessary. We would like deregulation, but that's not on top of the list.' Apart from competition policies, Esso Petroleum is concerned especially about the recent developments in environmental legislation. In this context, Esso opposes strongly the increased level of taxation imposed during the past few years in line with environmental objectives of the British government. As Keith Taylor, the chief executive of Esso Petroleum points out (Esso UK plc, 1995b: 3) 'as a tool of environmental policy (increased taxation) is a very blunt instrument. The one thing that is clear is that industry's costs will continue to increase, and this potentially damages the United Kingdom's competitiveness in global markets.' Also the Strategic Planning Manager criticises the environmental legislation . As he explains, it is part of his work to analyse new or forthcoming legislation in terms of how Esso has to respond to them. He points out that the new legislation 'often results in investment, it's investment that we're usually not particularly happy about because it usually hasn't got a return, it's usually got a non-discretionary burden (...) Some environmental investment does have a return, but there are other investments that have effectively given no return (...). The damage that's been done to the environment isn't sufficient to justify that expense.' The company believes that cooperation between government and industry is essential in order to ensure the feasibility of environmental measures: 'Esso recognises that a partnership between industry and government based on a rational approach is essential to achieve affordable environmental progress. This involves setting scientifically -

based and clear standards, and following these with cost-benefit analysis.' (Esso UK Plc, 1994d: 2).

As the Strategic Planning Manager explains later on, Esso feel that they are in a free market and that the government can trust the company to do their business. The role of the government should, in the manager's eyes, be merely to interfere where there's market failure. This belief is clearly expressed in the company magazine in 1993 with special reference to environmental legislation: 'Esso is a firm believer in self regulation and environmental management being an internal company responsibility. (...) Prescriptive legislation is something we oppose strongly.' (Esso View, December 1993: 3).

Exxon guidelines and UK legislation

Guidelines given by Exxon, eg. in terms of Human Resource Management, have only to a little extent to be adjusted to local legislation as UK and US law are quite similar. As the Public Relations Manager puts it 'there's (...) tremendous similarities between the way Exxon thinks, and the way the British government thinks.' One example of this is the 'Alcohol and Drug Policy' which was introduced by Exxon to all its affiliates at the end of the 1980s. It is to ensure that in safety-critical positions within the corporation people are employed who have not been previously convicted for alcohol or drug related offenses. In Britain, this policy could be implemented with only slight modifications. The latter were related to the fact that under UK legislation, convictions that happened more than five years ago are 'spent' .

If, however, there is a conflict between Exxon rules and local law, the local law takes precedence. Although, as the Human Resource Manager explains, 'there's an element of lobbying as well... if it's very important to the international organisation, (...) then you would expect local management to take it up with the regulators.'

5.2.3 Esso Petroleum and Its Competitors

As a reaction to the competition by the hypermarkets (see Appendix V), this year, Esso Petroleum has introduced its 'Price Watch' campaign. This ensures that Esso petrol stations adopt the lowest price in their area thus reducing the price gap to the large retail chains. Esso has adopted this price-oriented strategy because a consumer survey recently revealed 'that motorists now overwhelmingly prefer lower prices to promotions (...)' (Esso UK Plc, 1996b: 3). This cut in prices puts increasing pressure on the profit margins, and according to Esso Managers, operational efficiency needs to be improved further to help increase the margins. In addition to the Price Watch compaign, Esso has gradually extended its forecourt programme which started in 1978. Today, Esso petrol stations are not only selling motor oils and car accessories as in the beginning 1980s but a wide range of convenience goods in programmes such as 'Fresh Ideas' or 'Snack&Shop'.

As for the refining side, Esso Petroleum has responded to the change in demand structure by investing in facilities able to produce the lighter oil products that are in demand. The present overcapacity in the refining market has put Fawley refinery under increasing pressure. The Refining Manager believes that the long term survival of the Esso UK Fawley refinery depends upon the refinery's ability to work more cost-effectively and thereby increase profitability. As the Refining Manager puts it, 'We are losing about $1 million a week at the moment. - So as the margins are not going to improve and the fundamentals of the business are not going to improve, there is a tremendous pressure on costs (...) whether that be people costs or material costs.' In this context it is essential for the refinery to cut down not only its absolute costs but to improve its relative competitive performance, that is to decrease the competitive costs of its operations. These competitive costs are determined worldwide in the so-called Salomon-Survey. It allows the Fawley refinery to measure its performance against about 100 other refineries in the Middle East and Europe.

The ultimate aim of Fawley refinery is thus to 'improve (its) position against the benchmark', as the manager explains. However, this improvement is not only about 'making money'. At the same time as driving down their costs, Fawley is trying to increase their competitiveness by aiming at the improvement of their safety performance, the reliability of the equipment, and their environmental performance. In this process it is important 'to ensure that you have no product giveaway, that you get the maximum product out of the crude oil... but the real strategy is about improving safety, reliability and environmental performance at the same time as driving down the costs.' Only such a complex strategy seems to ensure the long-term survival of Fawley refinery.

In more detail, this strategy implies, for the manager, the improvement of the planning system, of the setting of objectives, of the stewardship system as well as the laying off of workers and the cutting down of the numbers of managers and supervisors, and finally the more efficient use of contractors.

5.2.4 Esso Petroleum and the Public

The managers interviewed identified the following features of British public opinion as most characteristic and as necessary to be considered in their business conduct:

- *The British Public are concerned about safety and health.* As the Public Relations Manager says, 'safety is something the company could easily be criticised for if it doesn't comply with it....Safety gets a pretty strong attention'. The company places great emphasis on its compliance with safety standards and the improvement of its performance. As is expressed in the company magazine: 'Safety is our first priority and our most important business objective' (Esso UK Plc, 1996b: 5). The company see the Operations Integrity Management System (OIMS), one of Exxon's worldwide policies, as the tool for the achievement of an improved safety performance.

- *The British Public is less concerned about environmental protection.* Considering the Brent Spar public reaction in Germany, the Public Relations Manager comments that 'I don't think there's such a strong reaction to environmental issues (in Britain).' The Strategic Planning Manager sees a difference of concern among different parts of the public. As he explains, 'the environment is a big issue for us, but I'm not so sure it's so for the Esso UK customers. The press and the government have hyped it up into a big issue'; Nevertheless, Esso stress in their formal brochures that the company has had an environmental policy for 25 years (Esso UK Plc, 1995c: 4).

- *The British Public distrusts large profit-making organisations.* As the Public Relations Manager explains, 'there's not much love for the oil industry in the UK, because (...) there is a deep distrust, dislike actually, lack of understanding on the part of the vast majority of this country for large organisations. And that's (...) increasingly a problem for multinational organisations.' He sees this as a recent development, especially since the Second World War where the country became heavily influenced by the socialist policies of the Labour party. As he says, 'I think especially in the post-war period where we went highly socialist, dominated by trade unions, there really is a distinct lack of understanding of business, of the profit motive and certainly a sort of dislike for things that have large numbers attached to them.'

- *There is a strong tradition and expectation that large companies give money to the charitable sector.*

  In this context, the Public Relations Manager explains that 'in the UK there's been a very strong tradition from the early days of the industrial revolution of industrials setting up educational organisations, community organisations, which has led in the UK to a very strong charitable sector.' As he states further, the support of charitable organisations is still expected by the British public. Also Esso, who have been in the UK for over 100 years, are subjected to this expectation. In fact, as the manager points out, 'a fairly substantial amount of my budget is devoted to charitable giving, sponsorship/support for works by charitable organisations.' However, as he admits, this is not necessarily disadvantageous as 'the contact to the voluntary organisations enables us to get closer to some of these organisations that might cause you trouble if you don't manage them right.' Esso has a Community Action Programme which encourages employees to become involved with the local community. As is explained in a company brochure, 'the (Community Action) Programme focuses on education, the environment and assisting in locations where the Company is a major employer. The programme is proactive and recognises the important and innovative role played by the voluntary and charitable sector in national life' (Esso UK Plc, 1995a).

5.2.5 Esso Petroleum and the European Union

The overall opinion of the Esso managers interviewed regarding the European Union (EU) is sceptical in terms of the latter's goals and achievements. It is felt that most of its regulation, especially concerning environmental and social issues (for example employment legislation) place a great burden on the UK companies. The sceptical feeling about EU activities is clearly expressed by the Bitumen manager who states that 'I would say that the EU brings increasing costs, for no great benefit. Lots of formal harmonization which isn't real.' Especially in the area of environmental protection, Esso Petroleum believes that it is essential to set European standards the fulfilment of which should be left to the discretion of the individual companies (Esso UK Plc, 1993: 2). Esso Petroleum fears that unless the European Commission finds the 'right balance between safety, environmental, health, technical and economic considerations' (Esso View, February 1996: 4) the international competitiveness of the European market will decrease.

In order to ensure that EU decisions be based on 'sound science and cost-effectiveness' (Esso UK Plc, 1996b) In this context, Esso Petroleum and their holding company Esso UK oppose strongly the 'Best Available Technology' approach of the German government (eg. Esso UK Plc, 1993) Esso is represented in Brussels. As the Strategic Planning Manager explains 'we do a fair bit of lobbying (...) with the EU (...), in particular with the cabinets and the commission, mostly it's the environment directives that we try to influence quite a bit.' Esso follows its lobbying activities on behalf of or with associations such as Europia (the European Petroleum Industry Association) or the International Affairs Committee of the Confederation of British Industry, the latter of which is looking at the European dimension of employment legislation. With regard to European issues, cooperation exists among the European affiliates of Exxon to get 'a common approach throughout the affiliates responding to (the EU) public policy issues' (Public Affairs Manager).

5.2.6 Esso Petroleum and Exxon

In general, the managers interviewed view the influence by Exxon as top-level leaving scope as to how to manage their business units in detail. However, as the Bitumen Manager states, the influence of Exxon is increasing as the company is trying to maximise its return from the European market and thus introduces more and more standardised rules and procedures. The managers are generally aware that their performance is compared with other businesses of Exxon in Europe and the world and that Exxon will invest primarily in those businesses that promise superior return. Europe, in this context, provides only low return compared with growing markets such as Malaysia. Within Europe, however, the UK has an overall favourable position due to its low total labour costs and the non-interventionist stance of the British government so that, as the Human Resource Manager states, 'it's going to be interesting to see whether this nearly deregulated economy from the Exxon perspective will lead to the placement of more and more management functions in the UK.'

The guidelines of Exxon affect all aspects of Esso Petroleum's business. As the Human Resource Manager explains, 'there are a lot of policies which guide the behaviour of the organisation at an individual level which are common across the world except where the local legislation prohibits it'. The implementation of these policies and guidelines is done even if, as in the case of the Alcohol&Drug Policy (see above), 'it felt very much like a US problem' (Human Resource Manager). In the area of Human Resources, there are a lot of guidelines and common policies set by Exxon . Examples of these are the Alcohol&Drug Policy (see above) or the Conflict of Interest Policy 'which is about not putting yourself as an individual employee in a position where your personal activities can conflict with the company's activities. At least with the company not being aware of it' (Human Resource Manager). Furthermore, the Exxon ethic is a prominent feature of Esso Petroleum Human Resource Policy. As the Human Resource Manager explains an example of this ethic is 'that (...) employees (deal) honestly with other employees and the outside world is an overarching goal.'

In the area of Public Affairs, guidelines are set for example concerning common approaches for emergencies and crises 'because large incidents affect both the corporation and the country where it happens' (Public Affairs Manager). In addition, responses to issues affecting several or all affiliates worldwide are formulated on an international basis. An example of an issue in this context is 'global warming'.

In refining, the responsible manager highlighted the guidelines concerning the set up of strategic plans and how they ought to be presented:

> 'It is very clear how the shareholder wants the plan to be described. (...) There are guidelines like crude price etc (...) but there are (also) lots of guidelines in terms of "Well, you must in your plan address this issue or that issue and when you do, we want it reported like this." So there are lots of forms to fill in and it's quite regimented in terms of how they want the data reported.'

All in all, the manager states that Exxon prescribes what they want him to include in his plan and how this should be reported 'rather than "you have to do it like this." So, he feels that 'there's a fair amount of flexibility in terms of how we do it, not what we do, but how we do it'. Furthermore, the Refining Manager acknowledges the existence of expectations by Exxon which strongly influence his business. For instance, as he explains, '(...) their expectation is that you take the benchmark into account which they know you've got because they've got it as well (...). And, you know their expectation is that you will improve your performance (...). That's not a guideline as such but that's a sort of expectation.' After a strategic plan has been presented to Exxon, the latter might furthermore 'come back and say "well we don't think this is challenging enough." In this context, there is always the possibility for the manager of being replaced if the performance of his or her business unit does not come up to Exxon' s expectations. As the Refining Manager emphasises: 'I have to lay off workers, as if I provide job security, the likelihood is that I won't deliver profitability, and if I don't deliver profitability they'll put somebody else in who will.'Also the corporation's strive for efficiency is very clear to the refinery manager who states that ' (...) when Exxon looks at where it wants to invest its money in refining capacity, it'd sooner invest it in an efficient refinery than in an inefficient refinery.' To sum up, he explains:' we still manage the business, the manner of how we do it is very much left to the refinery. But what we have to do is in many ways dictated by Exxon guidelines, visits, requests, exhortations, OIMS.... .'

Also in the opinion of the Bitumen Manager, the guidance from Exxon is 'very top-level.' As he states, '(Exxon) say to Esso Petroleum "you can have £500 mill. of capital money to spend, and you can spend it on this and that and that." But they won't be coming to me and say "you should be selling your bitumen to this customer and not to that". However, as the Bitumen Manager acknowledges, the influence of Exxon is growing, 'as Exxon has a view that it can save a lot of duplicated effort by issuing rules. And there's an increasing tendency for Exxon to say 'this is how things should be done and this is how you're going to do it (...). They call it more "prescriptive".'

In the case of the Strategic Planning Manager, Exxon often initiates projects or enquiries for him or his group to work on. As the manager explains, 'Exxon Company International often ask us to do work. and are quite prescriptive about what they want us doing. 25% of what we do is prescribed that way. One example of this is the economics of shutting down a refinery. It's unlikely we'd volunteer that.' Projects like these are undertaken because Exxon 'want to preserve the business as best as (they) can, (so they) don't want to keep bad bits of the business.' Europe as a business location is at the moment a matter of concern to Exxon, as the corporation 'has got a big stake in Europe , and I think it would like to reduce that stake as it doesn't bring the return it could make elsewhere. (...)' He concludes that 'Europe definitely has a competitive disadvantage at the moment.'

One example of Exxon trying to maximise its return is the establishment of Esso Lubricants Europe which the corporation initiated and which serves to coordinate the policies of European Lubricants divisions of Esso affiliates. This has been done because 'it was seen as the best possible way of getting a satisfactory return out of the European market' (Lubricants Manager).

5.2.7 Esso Petroleum and Other Affiliates

Among Exxon affiliates 'there's very little operating interface with the other affiliates as (they) are all serving local markets' (Human Resource Manager). Nevertheless, in some areas cooperation exists on the one hand to formulate common approaches to issues which concern more than one affiliate (eg. in the case of Public Affairs) and on the other hand to achieve operational efficiency, as for example in the case of Esso Lubricants Europe (ELE), the European lubricants organisation. In the latter case, the European Lubricants Managers have reporting responsibility to ELE, and, as the Lubricants Manager points out, 'as the ELE-function is developing, we are more and more developing a European strategy, that's in its early days.' In addition to ELE, other pieces of organisation have been set up that serve more than one affiliate. One example of this is a European Computer Organisation which, set up in Britain, operates across national boundaries. Lastly, affiliates buy from and sell to each other products, and give advice.

However, there is not only an element of cooperation among the affiliates but also competition. This not within their markets but within the multinational corporation. As the Human Resource Manager says, 'we're not competing with Esso in Germany (...) *except for capital investment*.' And, as the Public Affairs Manager states 'you have to demonstrate that if there's an investment you should get the budget.' Especially in refining, major investments have been undertaken. The Refining Manager is thus concerned not only with increasing profitability relative to other companies' refineries. As he says, '(in the Salomon Survey) we can see clearly where we stand versus other Esso refineries (...) all of which I am competing with.' Efficiency is in this context the main criterion for the allocation of investments throughout Exxon Corporation. The most efficient organisation gets the most investment. Provided the efficiency is achieved, however, managers of Esso UK see comparative advantages for their company as far as the allocation of Exxon investment is concerned. Their view is well summarised in the above mentioned statement of the Human Resource Manager who says 'it's going to be interesting to see whether this nearly deregulated economy from the Exxon perspective will lead to the placement of more and more management functions in the UK.'

5.2.8 Perceived Differences between Esso in Britain and Germany From the Perspective of Esso Petroleum's Managers.

Human Resource Manager: 'The single biggest difference is the interface with employees. I think we're the only one who's not unionised. '

Strategic Planning Manager: 'One of the most important things which is now less so but still quite marked is we have a lot of generalists in the company, we don't have many specialists. We don't leave people in jobs for very long (...). If I talk to my (...) German counterparts they'll invariably be in their jobs for 3-4 years. They'll understand the business better than I do. Probably (we have got) more an American notion, although we do it more than (the Americans), really.' Furthermore: 'I would say we're a more relaxed organisation, certainly more than Germany (...). Relaxed in the way that it's pretty open, managers are very accessible. We don't have lots of protocols - the downside of that: we might seem to be amateur. The Germans (...) project a much more professional image. Sometimes we do as well. We are professional but we don't always project it very well.'

Public Affairs Manager : 'One of the big differences is that the central government is much more important in the UK than I suspect it is in Germany. By that I mean (...) you have the added complication of the significant role of the Länder in the politics of the country and the impact it has on regulations affecting the business. I sense too, although I can't be entirely sure about this, that the relationship between German industry and the government is much more government will tell you what to do and what the rules of the game will be and industry will comply. Whereas, I think, in the UK, there's a lot more of an ongoing dialogue and challenging what the government is seeking to do. Maybe a slightly unfair comparison but it's my perception from seeing how my colleagues in Esso AG behave and also how their industry association behaves.' Furthermore, he points out that there are 'tremendous similarities between the way Exxon thinks and the way the British government thinks, certainly that's *different in Germany* where you have a best technology of the world approach'.

Refining Manager: 'It's very clear from this benchmarking data that German refineries are significantly more efficient and effective than our refinery is. It's clear that they run the business with fewer people, it's clear that they have better energy efficiency, their maintenance costs are a lot less than ours (...).'

Lubricants Manager: 'The German market is very technical. The product in Germany is marketed and sold on technical properties, and people are prepared to pay an incremental margin. The UK is much less technical, more price sensitive. Lubricants in the UK are seen much more as a commodity. So you differentiate by what you've got around it whereas in Germany it's very much sold on the basis of its specification (...).'

Bitumen Manager: 'The markets are different in the way they're structured, to some extent. (...) The way the governments in each country specify road-building is very different.

5.3 Comparative Evaluation by Esso Petroleum Managers of Influences On Their Business

5.3.1 The Relative Influence of Different Institutional Environments

In this section, managers had to evaluate the influence of different institutional environments on their strategies (see Chapter Four). All in all, the managers interviewed considered the institutions within the General National Environment as relatively most influential with an aggregate of 11 points. This was closely followed by the Multinational Institutions with 9 points. The Sector-Specific Institutions got minus 8 points and the General International Institutions minus 12 points.

Within the General Institutional Environment, particularly the state and public opinion were mentioned by the managers as influential. The managers were aware that these factors are interdependent and thus both have to be considered. As the Refining Manager puts it, 'obviously, the state is very important to us. We take a commitment to operate within the laws of the lands, and the extent that those laws change. Public Opinion exerts pressure on the state, the state exerts pressure on us (...). '

As for the Multinational Institutions, the majority of managers perceived their influence as strong or very strong compared with the General International Institutions or the Sector-specific Institutions. However, the managers had difficulties in comparing the influence of the General National Institutions with those of the Multinational Institution. The comparison was considered as 'tough' (Refining Manager) or 'tricky' (Bitumen Manager), as 'very close call' (Refining

Manager). Managers mostly perceived the two environments as influential in different ways. The General National Institutions, in their eyes, shaped the context in which the company was embedded whereas Exxon and their guidelines and policies determines the way the company works. As the Refining Manager states, 'the General National Institutions are very important and very much create the *climate* in the way we work. The Multinational Institutions specify the *way* we work.' In this context, the Multinational Institutions are deeply ingrained in the business as the company culture. As the Public Affairs Manager notes, 'the Multinational Institutions are so much part of how the company is that I take it for granted, because it is what the Exxon culture is.'

As far as the Sector-specific Institutions are concerned, the managers named as important factors OPEC as well as sector-bodies issuing standards to which the company adheres. However, the influence of these factors is not perceived as prominent as the factors of the General National or Multinational Environment which are considered to be more influential and immediate in the daily work. As the Refining Manager puts it, 'the Sector-specific Institutions are much about standards, we have to be aware of these things, and of course OPEC could overrule anything... but on a day-to-day basis, the (General National Institutions) are much more important.' Furthermore, the sector-bodies are very much determined by the company itself and thus can be influenced to a considerable extent. As the Public Affairs Manager adds, 'when it comes to the sector-bodies we usually work them very hard..... if we work something, we work it hard.'

As for the General International Environment, the only pressure seen as influential on a day-to-day basis was the European Union which, according to the Public Affairs Manager, is of growing importance. As he says, today, the influence exerted is '70% the UK government, 30% the EU.... 10 years ago, it was 95% the UK government, 5% the EU.' Nevertheless, the pressures by the EU were considered as not as substantial as those from the state or public opinion. As the Refining Manager states, '(...) obviously, there are (EU) laws that are passed (...) that do influence us, but that's not an area that I worry too much about.'

5.3.2 Institutional Environment As a Whole relative to the Technical Environment and Power&Politics

Three managers answered this section. Two of them evaluated both the technical and institutional influence as very strong, one evaluated the technical as moderate with a tendency to strong and one the institutional influence as strong. As for

Power and Politics, the managers had difficulties identifying with this notion. Two managers regarded the influence as moderate.

Managers perceived the technical influence as having a very strong influence because of the growing importance of the improvement of relative performance as compared with the competitors (Refining Manager) and technological change resulting from changes in the government's financial policy (Bitumen Manager)* . With regard to the former, the Refining Manager explains that 'increasingly, we are looking at our competitors. We're not looking at absolute performance, but competitive improvement of performance, and increasingly at international competition. The likelihood of making money is dependent on competitiveness.'

As for the Institutional Environment, factors considered as of very strong influence were especially Exxon, the State and Public Opinion.

With regard to the notion of Power and Politics the Bitumen Manager pointed out that Power and Politics might affect other parts of the business more. As the explains, 'I've got the benefit of being in a profitable part of the company, otherwise it might be different.' The Refining Manager had particular problems with the notion: 'I've never seen us as a political company. Generally, I'd like to think that if people want to voice an opinion and are cogent about it, they're listened to. I don't think there's much politics....' As for the element of 'Power' he distinguishes two areas within the company where power can be exerted, in the personal sphere and the business sphere. As far as the business is concerned, he acknowledges that power resides in the Management Committee and in Senior Management, however he opposes the idea that 'power' is a determining factor in the allocation of investments throughout Exxon. As the manager explains, the investments are undertaken on the basis of efficiency criteria. He does not feel that there is favouritism for certain affiliates. Accordingly, Power and Politics play a minor role in the business sphere. However, as he explains further, at a personal level it might influence the activities in the company: 'I think we're not always as considerate about our people as we ought to be, and I think they get damaged, like me...Thus, from a business point of view, I think Power & Politics has no influence, but from a personal point of view, I think its influence is very strong..'

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* For comments on whether the factors named by the managers are purely technical, see Chapter 7.

5.3.3 Strategic Tendencies of Esso Petroleum/The Single Business Unit

In this section, managers had to explain the strategic tendencies of their unit/company by choosing among three options: efficient utilisation of resources, gaining legitimacy in the eyes of society, and gain acceptance by the shareholder and/or employees (see also Chapter Four).

All six managers interviewed answered this question. The majority found it difficult to choose among the options given (see Chapter Four), as they perceived the separation of goals as not realistic. Only two managers (Public Affairs Manager and Lubricants Manager) answered quite determined and quickly and chose the first option, efficient utilization. The other four managers concluded that all three influences have to be considered if the company wants to be successful in the long-term. The latter managers agree that the strive for efficiency only is impossible if the company want to ensure their long-term survival. All three factors have to be balanced. As the Strategic Planning Manager points out, ' we do actually seek consent, from the state, the public and the shareholder. Effective utilisation of resources is a very important strategy for us but we wouldn't do anything that was likely to reduce consent for our operators. If we shut down something and it would make our company seem less safe and environmentally friendly, we probably wouldn't do it. The first priority is thus consent, and the second is effective utilisation of resources. First rule: Don't do anything that gets yourself into the papers. Nobody likes the oil industry. There's very little good publicity. So the first thing to do is to ensure that anything you do has a very high integrity in any field.'

As the Bitumen Manager explains, depending on the issue, one factor might get more attention than the other. In his eyes, efficient utilisation of resources is important and is the overarching goal, however, it is pursued taking into account the needs of the stakeholders and society. Although, as the Refining Manager acknowledges, it is difficult to meet the needs of both, Exxon and the employees, as cost reductions are not possible at present without redundancies. As he says, 'efficiency is number one priority, because if I don't do that, the refinery doesn't have much of a future and then everybody suffers and not just a few of them.' The Human Resource Manager explains that society's values have to be adhered to even if they are not 'enshrined in legislation'. All in all, 'it's a complex world. So you can't try to maximise shareholders' value to the exclusion of all the other issues. So you must maximise the value in the long-term, not just in the short-term.'

5.3.4 Table of Adjustment to Institutional Pressures.

Three managers answered this section. They identified different ways of adjustment to institutional pressures depending on the institution. The institutions to which they would adjust fully* are the State (3) and Exxon (3), the European Union (1) and Rotterdam (1). As for the State and Exxon, in both cases managers pointed out that before a law and/or a guideline is imposed there is scope for influencing and negotiating with these bodies so that the final measure respects the interests of Esso UK. After a law or guideline has been finally agreed upon, there is, however, no room for negotiation. Other institutions such as public opinion, labour market institutions, pressure groups and the like were responded to in different ways, from 'seeking a compromise' to 'trying to manipulate the institution'.

5.4 Summary - The Overall Business Recipe of Esso Petroleum

As mentioned in Chapter Four, the following does not represent the complete business recipe of Esso Petroleum but focuses on those aspects of the recipe which were revealed to be distinctive relative to Esso AG and/or gave insights into the ways Esso Petroleum managers perceived their business.

The managers of Esso Petroleum have one overarching goal: to reduce costs and at the same time improve the company's performance in the areas of quality and reliability, safety and environmental protection, in order to increase their competitiveness. This is to be achieved partly by way of further redundancies and the improvement of management systems. Esso Petroleum managers strongly oppose measures which are not cost-effective, and unless the company is forced by law, its parent company or public pressure to do otherwise investments with inferior or no return are not undertaken.

Whereas Exxon guidance is accepted and not perceived as restricting, Esso Petroleum managers oppose any constraints to their business by either the UK government or other organisations such as the EU, which might lead to unnecessary expenses, from the point of view of cost-effectiveness. With regard to the EU, Esso Petroleum Managers believe that the efforts of the Union to harmonise regulations throughout Europe lead to unncessary expenses and little benefit. One of the concerns of Esso Petroleum is thus to be present in Brussels and exert influence on the European Commission in order to reduce the

* The number of managers choosing the respective institution is given in brackets.

disadvantageous effects the directives might have. The decisions of the EU should be based on sound science and technology and investments made should reflect the environmental gain they bring (eg Esso View, December 1993). The pledge for European-wide standards the achievement of which should be left to the discretion of the companies affected, shows the company's belief in 'self-regulation', in leaving the execution of environmental protection to the companies themselves.

As for the British State, Esso Petroleum managers perceive the relationship with the government as cooperative, however, emphasis is put on challenging and questioning government policies. Especially the Public Affairs Manager points out that Esso Petroleum participate in the policy-making process. Governments should ensure that legislation is based on the ideal of cost-effectiveness. Particularly in the areas of competition and the environment, Esso Petroleum managers oppose 'unnecessary' government regulations. Measures by the government to reduce state interventions during the 1980s have been very welcome by Esso Petroleum managers. Scope given to companies under the new legislation is fully used. One example of this is the fact that during the 1980s, Esso Petroleum became a non-unionised company (see also below). If the state interferes where the market fails, Esso Petroleum is prepared to adjust to the state policies. This becomes obvious in the area of Human Resources. Since the introduction of the National Vocational Qualifications Scheme Esso has offered vocational training at the operational level where staff have in general traditionally been trained 'on the job' only.

The interface with employees, described by the Human Resource Manager as the 'single biggest difference' between Esso Petroleum and Esso AG, is characterised by its focus on the individual rather than the collective. Employees have individual employment contracts which are negotiated yearly. Although site committees exist, their influence is limited to work-place related issues. Formal codetermination does not exist and is not seen as desirable, as it is believed to decrease the company's flexibility and thus to be disadvantageous in the long-term. Regarding the attitude towards trade unions, the managers believe that the non-unionised character of their company is an improvement to the previous situation (see eg. Human Resource Manager, Refining Manager). Unions are regarded as a third party who disturb the communication between management and staff. Managers believe that the communication between management and employees has improved being carried out via site committees and through direct communication with the managers. In this context, the reduction of union power and state intervention in general in the Human Resource area is seen as critical to the long-term survival of the company. Especially at present where competition becomes increasingly fierce and margins tight, the change which needs to be affected by the company, partly by way of redundancies, is believed to be easier to undertake under current legislation and thus to be beneficial for those employees who stay. The interface with employees reflects the company's belief that it is essential to ensure that employee participation may be subordinated to the end of achieving a satisfactory return.

As for management recruitment and development, Esso Petroleum believes that graduates preferably with an engineering degree satisfy the company's needs best. During their career with Esso Petroleum the young managers, most of whom are male, gain experience in different jobs which shows the company's focus on flexibility. Furthermore, they are encouraged to pursue further education, which the company believes increases their motivation as well as providing a 'quality assurance' to Esso. The recruitment of operational staff has so far been undertaken directly from school with training being provided 'on the job', apart from some areas in refining. As mentioned aboved, this has changed recently, and increasingly vocational training is offered for employees at this level.

Exxon guidelines and UK legislation are in general quite similar, and Esso Petroleum is only in a few cases forced to adjust Exxon policies to local needs or legislation. If, however, there should be a conflict, local legislation takes precedence unless the issue in question is of critical importance to the whole corporation. Esso Petroleum managers perceive the guidance by their parent company as 'top-level'. The guidelines and policies pervade all areas of the business and are engrained in the day-to-day operations of the managers. Exxon policies and guidelines are the 'culture' of the corporation and thus are perceived as 'the way things are'. Most policies supported by Esso Petroleum have been originated by Exxon. Examples of this are the Alcohol & Drug Policy, the Code of Conduct, or Exxon Ethics, or OIMS, the recently implemented Operations Integrity Management Systems. In a few cases, Exxon requires projects to be carried out or policies to be implemented which Esso Petroleum would not initiate itself because the projects or policies do not seem necessary under current circumstances (eg. Alcohol&Drug Policy), or because they point to a direction the company is resistant to follow (eg. analysing the economics of shutting down a refinery). Generally, the attitude of Esso Petroleum managers to Exxon show an overall strong belief in Exxon worldwide goals and the attempt to accommodate them to the greatest possible extent. Even in cases where local legislation and Exxon policies conflict, Esso Petroleum does not exclude the possibility of negotiating with the local government if the matter was important to Exxon corporation.

Esso Petroleum face fierce competition not only locally but also increasingly from abroad. In retail, the company has reacted nationally with a proactive and aggressive marketing strategy which reflects the belief of the managers that business is best made via the price (see especially the current Price-Watch campaign). Emphasis is put on the improvement of operational efficiency to help the margins, given the current low prices. As for the Refining side of the business, the Refining Manager believes that the best way to improve his profits is the increase in efficiency and the relative improvement against the Salomon refining benchmark in all areas of the business. He believes that there is a lot of potential for improvement due to the low labour costs and non-unionisation.

As to the national Public Opinion, managers are aware of the core beliefs and values of the British public and the company adjusts to them 'even if they are not enshrined in legislation' (Human Resource Manager). The managers believe that the adjustment to public pressures is beneficial, as it is important to try not to 'get into the papers.' Managers are aware that the public influence government policies to a considerable extent. An example of the adjustment of Esso Petroleum to public pressure is the support of charity organisations by the company which the British Public expect of large organisations. The commitment of Esso to helping the community is emphasised in all public brochures on the company. The company have 'Community Action Programmes' which encourage employees to become participate in local groups and activities. In their representation to the public, Esso Petroleum stresse as well their commitment to environmental protection and performance. The introduction of OIMS (Operations Integrity Management Systems) is presented as the tool for the improvement of the company's safety and environmental performance. The company especially stresse the importance of safety in its operations, which is one of the company's goals.

With regard to other Exxon affiliates, Esso Petroleum Managers acknowledge the existence of cooperation among the affiliates which, however, does not seem to be regarded as a prominent feature of their activities. Nevertheless, managers acknowledge that the affiliates compete for Exxon resources (see especially the Refining Manager). All in all, Esso Petroleum managers believe that compared with their continental European counterparts, they have a potential competitive advantage when it comes to the allocation of investments throughout the Exxon organisation. The nearly deregulated economy especially with little labour legislation and low total labour costs seems to represent a good basis for Exxon investments once efficiency has been improved, as lower costs imply higher profit margins.

As for the different institutional influences identified, Esso Petroleum managers believe that General National Institutions, and here especially the State and the Public Opinion, and Multinational Institutions, that is, policies and guidelines by Exxon and cooperations with other affiliates, have a very strong influence on their strategy formulation. Sector-specific institutions are adhered to when it comes to sector-wide standards, however Esso and Exxon's interests are represented quite well in sector-specific instititutions and the latter are not perceived as restrictive. OPEC is not seen as of critical importance in the day-to-day business, however, it is perceived as having the potential to 'overrule everything'. As for the General International Institutions, although the importance of the EU is believed to have increased, managers do not feel that the overall influence of General International Institutions is very strong.

The Institutional Environment and the Technical Environment are both perceived to have strong or very strong influence, as for Power & Politics, the results are difficult to analyse as managers had problems with the notion, and further research would be required to obtain more reliable results regarding the influence of Power & Politics.

Evaluating possible tendencies in their strategic conduct, Esso Petroleum managers believe that economic efficiency alone is not the key to success. Only if the needs of society and the shareholder as well as the employees are considered, the long-term satisfactory return to the company's activities is ensured. Esso Petroleum managers seek the consent of the public, the State and Exxon in everything they do. This is the company's primary goal. Public Opinion is respected as managers believe that bad publicity damages the business. However, as the Refining Manager acknowledges, when it comes to balancing the needs between Exxon and the employees, job security often has to be sacrificed for the aim of cost-effectiveness set by Exxon.

As for the adjustment to various institutional pressures, managers of Esso Petroleum identify three institutions to the pressures of which they would adjust fully** : the State (3) and Exxon (3), as well as the European Union (1) and Rotterdam (1). With regard to the State, Exxon and the European Union, they

** The number of managers choosing the respective institution is given in brackets.

believe that before a law or policy is passed, influence and lobbying is possible to adjust the law or policy to the company's needs.

The company as a whole sees future success as depending upon its ability to adapt to the current circumstances and to improve its safety performance as well as its efficiency and competitiveness. As expressed in the company magazine, 'we would be unwise to assume there will be an improvement in our business environment,* so it is incumbent on us to adapt, to improve our efficiency and our competitiveness, to maintain our emphasis on operational integrity and safety, and to remain alert to our customers and their needs. Our future depends upon our success in these areas '(Esso UK Plc, 1996b: 4).

* According to the company (Esso UK Plc, 1996b: 3-4), the current circumstances are characterised by a refining overcapacity, intense competition in the market-place, stagnating oil demand, an overall mature oil market and weak crude oil prices.

6 Esso A.G. - A Case Study

In this chapter, the results obtained from the data collection on Esso in Germany are presented. Firstly, general information on Esso AG is given. In the second part of this chapter, different parts of the business recipe of Esso AG are described drawing information from the interviews undertaken as well as documentary research. In this context, those parts of the business are presented which, in the interviews, were revealed as being handled differently in the two companies and/or as providing interesting insights into the managerial recipes of both companies. In the final section the overall business recipe of Esso AG as gathered from the data presented will be outlined.

6.1 Esso AG. - General Information on the Company

Esso AG is a fully owned subsidiary of Exxon Corporation. The company receives all financial resources and main raw materials from its parent. Furthermore, Exxon has guidelines and worldwide policies to which the subsidiaries are expected to adhere. In this context, especially the ideal of cost efficiency is emphasised throughout the company and represents the basis upon which the affiliates' performance is evaluated (for further details on the history and policies of Exxon Corporation, see Appendix VIII). Currently, the major company goal is World Class 2,000, a goal according to which all affiliates have to reach world class standard by the turn of the century.

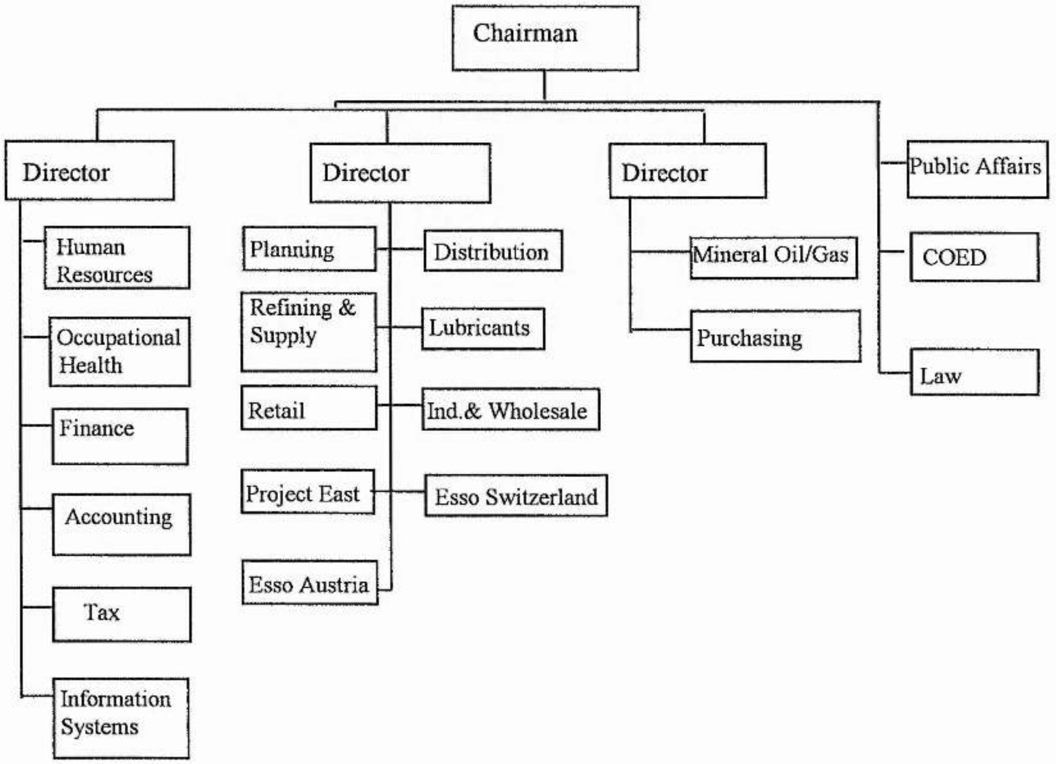
Esso AG has an overall market share of approximately 12%. Its main competitors are Aral, BP, DEA, Shell and VEBA. Esso AG owns two refineries, in Bavaria and Baden-Württemberg. As for the retail business, Esso owns 1,545 petrol stations which places it into the fourth position behind ARAL, Shell and DEA (Fachverband Tankstellengewerbe, 1996: 23).

The current number of employees at Esso AG is 2,052. The company have reduced the number of staff considerably, in 1980 it was as high as 4,500. Of the employees, two managers and three other employees are sent from Exxon. Since October 1995, the board member responsible for Finance and Personnel is from Exxon. In addition to its employees, Esso AG works with contractors. Employee turnover is low with approximately two to three percent. The average age of employees is quite high at 44 years.

6.1.1 Organisational Structure of Esso AG

Esso AG has various offices in Germany. The company's head office is in Hamburg. The company has on average five hierarchy levels from the board member to the team leader or foreman in the plants respectively. The business units are combined according to functions in the case of the service functions, and according to products for the line functions. The average span of control of managers and supervisors is from four to six subordinates. For both line and service functions, a functional link exists to corresponding departments at Exxon Company International. The product lines at Esso AG are organised as profit centres. Each board member is responsible for a variety of functions within the organisation. The business line and profit centre managers report directly to the board member, who are headed by the chairman of the board. The coordination of activities across the business units takes place at management level, partly through long-term project groups. Furthermore, short-term project groups are set up if necessary and can involve managers as well as subordinates. All in all, the organisational structure of Esso AG is shown in Figure 3.0.

Figure 3.0: The Organisation Structure of Esso AG



6.2 Components of and Contributors to Esso AG's Business Recipe

In the following, elements of the business recipe of Esso AG are outlined. These are beliefs of managers as to how to successfully conduct their business. The business recipe of Esso AG is manifested in the actions as well as attitudes of the company.

6.2.1 Esso AG. and its Employees

Management Recruitment and Development

The majority of managers at Esso AG. hold a university degree. However, increasingly, management potential is developed after graduation from school by way of work and study degrees in cooperation with the Hamburg Chamber of Commerce. Most managers stay with Esso AG. for their whole career. The majority of managers at Esso AG are of male sex. The number of women recruited and reaching management positions is increasing, however. At present approximately 50% of graduate intake are women.

The prominent types of degrees that managers hold are in Management (Betriebswirtschaftslehre), Economics (Volkswirtschaftslehre) and Engineering. Upon entering the company, graduates are trained on various jobs in the form of job rotation. This includes at least one stay abroad. The tenure of posts vary depending on age and career potential. Of the managers interviewed, four had worked in their current positions for at least 9 years, and the two remaining for 7 and 6 months respectively.

In general, Esso AG does not encourage further studies of young managers at an external organisation. Further training is provided 'on the job', as explained above, and within the company through seminars and the like.

Recruitment and Development of Employees at the Operational Level

Employees at the operational level are partly recruited after graduation from school and trained in cooperation with local Chambers of Commerce in apprenticeships, or they are recruited after the achievement of the skills necessary for their job. Vocational training is pursued extensively in both the administration as well as production /refining. Close cooperation with the local Chamber of Commerce ensures that the skills taught at the 'Berufsschule' (Professional School) corresponds with the requirements of the company.

Employee Participation

At Esso AG, employees participate at all levels via works councils on site as well as via representation on the supervisory board. The works councils, the members of whom are mostly -though not necessarily - union members, have wide-ranging powers with regard to personal and social matters as well as the right for information in economic matters relating to the company.

Esso AG is a unionised company. With its responsible union, IG Chemie, they negotiate pay for all employes included in the wage agreement. Generally, all other employees including those who do not belong to the union, are paid the same wage. Esso AG have an internal wage agreement (*Haustarifvertrag*) which means that they bargain with IG Chemie for Esso's employees only and not together with other companies. However, wage comparisons among companies in industry ensure that wages are adjusted to current trends. Management wages are not covered by union agreements and are thus agreed on an individual basis.

The works councils especially have a strong influence on the managers' business. As the Bitumen Manager explains, any plans regarding new positions and transferals of employees are first given to the Human Resource Department who forward them to the works council. If the latter does not agree to the plans outlined, the manager has to justify his plans in front of the councillors. Especially in the current times of rationalistaion, the works council has a strong position in trying to ensure that jobs are secured.

The managers interviewed at Esso AG view the activities of the works council positively. As the Human Resource Manager puts it : '(...) We need the consent of the works council in the entire social area, in safety, or, for example, the Alcohol & Drug Policy. But we don't perceive this as a restriction. It has the advantage that, once we've convinced the works council, the latter supports our policies which means the policies are not only accepted by the top but also by the bottom of the organisation. This leads to a much more constructive and harmonic working environment (...). In other words, when (the works council and us) support each other, it is very positive. Accordingly, when the works council is constructive - which they are mostly in Germany - it leads to the prominent social peace that we have in Germany.' Also the other managers acknowledge the importance of works councils. In this context, the Lubricants Manager explains that 'of course, I cannot violate the Works Constitution Act (*Betriebsverfassungsgesetz*), which is a limitation - however, I must say on the other hand that I have an outspoken relationship with the works councillors, and that I respect them. Because the works councillors have a strong position and I would do badly if I acted against the interest of my subordinates.'

Dismissals

Dismissals are not easy to undertake under German employment legislation. Prior to a dismissal, the works council has to be consulted. If the employer fails to do so, the dismissal is legally void. In the case of mass redundancies, a social plan has to be negotiated with the works council which influences the selection of employees laid off and ensures that the consequences of the dismissal are minimised for the employees affected. If staff is to be reduced, it is attempted to achieve this by way of natural turnover or financial compensation. This, however, has in the past not always been possible. A social plan was set up, for example, during the 1980s where, due to an enormous overcapacity, the number of staff was reduced to a great extent. To Esso AG, it is a primary concern that redundancies - as well as all other social policies - are undertaken in a socially acceptable (*sozialverträglich*) way for the employees in question. One of the purposes of the Human Resource Department is thus to help the functions in developing these socially acceptable policies.

6.2.2 Esso AG and the German Government

The actions of Esso AG are greatly influenced by the German government. The company's business recipe appears to be influenced especially by the environmental and employment regulation, by the tax regime and by the free market which hardly restricts imports and thus leads to greater competition.

With Germany being a federal state, however, not only the central government influences the way businesses operate. In fact, in many areas, Länder and communal governments have more direct influence than the federal government itself. One example of this is mentioned by the Bitumen Manager. The demand for his products is partly dependent on how many roads are built within Germany. In this context, the Federal Government has a share of merely 8% in the construction of roads, the Länder have 27%, and the communes have 65%. In the following, the term 'government' will represent the whole apparatus of Federal Government/Länder Government/ Communal Government, unless otherwise indicated.

Relationship Between Esso AG and the Government

The managers interviewed at Esso AG view the relationship with the government generally as cooperative. Cooperation and the exchange of information exists at all levels, for the company as a whole as well as for single departments.

Esso AG as a whole is in contact with the government by itself, but even more so by way of its national organisation, the Association of the Mineral Oil Industry (*Mineralölwirtschaftsverband*), established in 1946. This used to be different before the 1980s when all oil companies had representative offices in Bonn, the then German capital. These offices were closed in the effort to rationalise during the 1980s and their purpose was assigned to the Association. The aims of the contact with the government is the exchange of information. As the Bitumen Manager, formerly Public Relations Manager, explains, it was 'to collect information from the international arena, which Exxon governs partly as well, and to provide the German government with it, and in turn, to get to know the energy policy of the government in order to adjust our corporate policy to it.' As mineral oil products are toxic, the ministry of the environment has become especially important. Apart from this, regular contact exists with the Ministries of Economics and Finance, as well as Transport.

As for single departments at Esso AG, also these are mostly represented in national associations, such as the Association of the Bitumen Industry (ARBIT). In the latter case, the Bitumen association meets with government representatives six times a year in conferences.

Esso AG and Government Legislation

Managers interviewed at Esso AG do not question the existence of legislation and regulation as such. However, the activities of the German government are not only seen in a favourable way. In fact, the mineral oil industry as a whole and also the managers interviewed criticise the government for its excessive regulations especially in the area of environmental regulation. During the last decade, the German government has generally tended to implement stricter environmental legislation than its European neighbour countries. According to Esso AG and indeed the whole German mineral oil industry (Esso Report, 1995a: 12-13), the German industry can no longer afford the resulting comparatively high costs of this policy. In this context, the call for more economical solutions to environmental problems has become more and more urgent. As expressed in the Esso Report (Esso AG, 1995c) the Esso AG company magazine, 'it should be the goal of environmental policy to reconcile the ecologically necessary with the economically acceptable.' Apart from the environmental policy, also the competition policy is a matter of concern for the German mineral oil industy. As Jobst Siemer, the present Chairman of Esso AG explains (1995a: 19), the German mineral oil industry 'expect a legal and administrative framework which makes possible fair competition among the different sources of energy and the various national and international suppliers of energy as well as the free choice for the consumers among alternative energies and suppliers.'

As mentioned above, despite this criticism, however, the managers interviewed do not in general oppose regulation and legislation. On the contrary, the attempt by the Human Resource Manager to establish an acceptable legal framework for the Alcohol & Drug Policy (see below) shows the acceptance and support of Esso AG managers of legislation.

Most activities of Esso AG at present focus on compensating for the burden placed onto the company by rendering its operations ever more efficient. As the board member acknowledges, the high labour costs, the excessive environmental legislation as well as the relatively high taxation lead to a competitive disadvantage for Esso AG as compared with Exxon affiliates in other countries. As he says, 'we must live with these costs, and we must now try as Esso in Germany to make the best out of a bad situation. That means that the pressure to rationalise is greater for us than for others. We must try to work even more efficiently so that the higher costs (...) don't affect us in such a way. To put it more precisely, we must improve our productivity and, if possible, be better than the others. We have already succeeded in doing this to some extent (...). That way, we have created a counterweight. Nevertheless, it remains something which always needs observation.'

Exxon Guidelines and German Legislation

Exxon guidelines are modified quite frequently at Esso AG. This is on the one hand because, especially in the Human Resource Area, policies are subject to approval of the works council; on the other hand, in various areas, German laws are stricter than Exxon rules in which case the local laws are followed. As the board member explains, 'It goes without saying that we will modify (the Exxon guidelines) if it is necessary from a legal point of view. Local laws and regulations - and we internally have a clear understanding of this - have to be complied with . Nobody could come and say, do it differently. That's not possible.' He explains further that 'there are guidelines, recommendations, but overall we guide our policies along the national market.'

Also the Refinery Manager takes the German legislation, once set, as rule to which he has to adhere. As he explains, 'if the German Government implements a law regarding the quality of petrol, I don't need OIMS or Exxon guidelines - if I want to sell petrol in Germany I have to do that according to the specifications laid down by law.'

In the Human Resource area, policies are mostly subject to the approval by the works council. Thus, Exxon policies have to be negotiated between management and councillors and, if necessary, modified. As the Human Resource Manager states, 'if we didn't have works councils or our laws, the circumstances compared with the United States or the UK would be a lot more similar.' An example of this procedure is the implementation of the Alcohol & Drug Policy. As the Human Resource Manager explains at the time of the proposal by Exxon, in Germany 'there existed a legal environment with no experience with such random testing (as included in the policy). Neither the works council nor us could thus find a legal framework, and there was also nobody who could define us one. So we agreed on getting together with the president of the local Labour Court in Hamburg (*Landesarbeitsgericht*), and to formally establish a Committee of Agreement (*Einigungsstelle*) * . Together (...) we then defined a legal framework. With this, we deviate in many points from what Exxon originally wanted, but we can say, we have done what was legally justifiable, what may be demanded, but we cannot do any more.'

If, thus, there is a conflict between Exxon rules and local law, the local law is adhered to. As the Board Member concludes, 'when we compare the values and guidelines of the shareholder and society, we have got the rule that we'll always follow the stricter one.'

6.2.3 Esso AG and Its Competitors

The area presently most troubled at Esso AG is Refining. Retail, in contrast to Esso Petroleum, is the most profitable part of the German operations as

* According to §76 Works Constitution Act, the Committee of Agreement consists of an equal number of employer and employee representatives. In the case of disputes between the works council and the employer's representatives the committee has to be set up as a means of achieving a settlement.

Hypermarkets are not a prominent feature of the German oil market (see Appendix VI).

In Retail, the strategy currently focuses on establishing new petrol stations in East Germany as well as extending further the forecourt programmes at stations all over the country. This strategy is based upon market research which revealed that customers increasingly visit petrol stations for other purposes than purchasing gasoline (Esso AG, 1996a: 11).

The Esso AG Refining Manager is presently most concerned about local legislation and the effect it has on the international competitiveness of the German refining industry. Although fierce competition exists within the German refining market due to the existing overcapacity, the competition from abroad is seen as a major problem which induces the Esso refineries to try and render their processes ever more efficient. Due to the strict local legislation, the Esso AG refineries have for a long time already rationalised and improved their efficiency. At present, the German refineries are among the most efficient in Europe due to their investment in advanced technology. The cost-disadvantage of German refineries caused by the strict legislation has led to the strange situation that the most modern, environmentally friendly German refineries are at risk of being closed down whereas others, which have not invested as heavily, are less expensive to run (Kalkoffen, 1995). Nevertheless, the refining manager feels that a necessary prerequisite for the survival of Esso AG refineries is their superior performance. As the costs imposed by legislation can hardly be circumvented, the Esso refineries '(have) to concentrate on influencing and improving the things we can influence' (ibid.). In the manager's eyes, the better performance should be achieved by making the maintenance of the refining processes an equally important goal as the operations themselves. This can be achieved by better teamwork and the urge to perform exceptionally well. As Kalkoffen explains (ibid), 'we have to produce economically to reduce the damage for us and our environment. This is not new and has always been the philosophy of Esso. However, we must never stop to demand the most from ourselves. '

6.2.4 Esso AG and the Public

The managers interviewed identified the following features of German public opinion as most characteristic and as necessary to be considered in their business conduct. However, as the Bitumen Manager explained, it is difficult to measure public opinion and strategies are thus mostly based on assumptions about the concerns of the public.

- *The German Public are concerned about the current unemployment rate.* As the Bitumen Manager explains, the current unemployment is a prominent issue in the German Public. Accordingly, companies have to be aware that further redundancies can cause public criticism. Accordingly, the company generally attempts to decrease the number of staff by way of natural turnover. *

- *The German Public is concerned about 'Germany as a Business Location' (Wirtschaftsstandort Deutschland).* As the Bitumen Manager explains, Germans fear that in future, Germany will lose its superior economic position relative to its competitors. The company itself attempts to influence the government to improve the conditions for the German industry, a discussion which is carried out publicly.

- *The German Public distrusts multinationals.* The Public Relations Manager points out that there is a general suspicion concerning the activities of big multinationals. Coupled with the concern about environmental protection, this leads to the unfavourable position in which the major oil companies are, in the eyes of the public. The company place great emphasis on the integrity and environmental friendliness of their operations (see eg. Esso AG Annual Reports 1994; 1995).

- *The German Public is concerned about the environment.* As the Bitumen Manager explains, this concern is not always based upon facts. As he puts it, 'the Germans love their cars, but they dislike the oil companies for polluting the environment, for example through tanker accidents. And this, although the car is the polluter number one.' Environmental protection is among the corporate goals of Esso AG. The company 'participate in the constructive development of environmental standards where legislation does not yet exist' , as described in a company leaflet on the corporate goals and basic values (Esso AG, 'Ziel/Grundsätze. Wir verpflichten uns'). The emphasis on environmental protection becomes apparent in many ways, such as in the fact that the company's Annual Reports are printed on 100% recycled paper.

* To this must be added, however, that the pressure for Esso AG to lay off workers is presently not as strong as for Esso Petroleum, as the company rationalised heavily during the 1980s partly resulting from the strict legislation and high costs imposed.

6.2.5 Esso AG and the European Union

Esso AG managers are in general in favour of the European Union's goals but acknowledge as well the organisation's limitations in setting binding rules for its member states. As the Refining Manager puts it 'we would wish that the European Union was more important (than the German Government), as then we would get a harmonisation regarding our higher taxes and regulations where we in Germany are strictest.' Esso AG as a whole is thus very much in favour of common European policy approaches. Especially the current attempt by the European Commission in cooperation with the European car and mineral oil industry, the Auto-Oil Programme, is highly welcome. Esso AG hope that this cooperation will lead to a cost-efficient and rational solution. However, the Refining Manager points out that even if directives are accepted at a European level, 'the Germans already take the next step, so that the difference remains.' This, however, is not only the case with the German government. Esso AG itself has recently implemented a Europe-wide measure, the introduction of low-sulphur diesel fuel, *one year before* the deadline stipulated by the European Union (Esso AG, 1996a: 18). The Refining Manager, asked why Esso AG chose to do this, said that this seems to be 'culturally determined', but he could not find a definite answer.

6.2.6 Esso AG and Exxon

The influence of Exxon on the business of Esso AG is strong, however restricted by German legislation (see also above). Exxon provides the capital for Esso AGs operations as well as general data (on the crude oil price, for instance), crude oil and, finally, qualitative quidelines. Exxon influences all areas of Esso AGs business.

In the case of Bitumen, the responsible manager explains that Exxon exerts major influence on his business by way of resource allocation especially regarding the allocation of crude oil. As the manager states, at the time of the US boycott against the Iran, crude oil from this country was no longer available to Exxon. Instead of obtaining oil from other countries, Exxon decided not to subsitute for the high-quality Iranian oil and chose to make less business. As the manager says, 'these are the sort of guidelines which are formulated internationally by Exxon, and which are binding for us, by which we cannot pass.' In addition, worldwide policies such as World Class 2,000 (see Appendix VIII) influence the managers' business.

The Public Affairs Manager acknowledges that in some cases, decisions made by Exxon do not correspond with national rules or preferences. As he says, 'Exxon sometimes makes decisions which are rational, which are efficient, but which are accepted neither by our colleagues nor by the public. In these cases, *international rationality* (which derives from the maximisation of returns on a worldwide basis), and *national rationality* clash. The latter is often emotional, and not rational.'

This conflict is also seen by the refining manager who, referring to the Brent Spar 'conflict', states that '(the fact that Exxon is a rational, analytical organisation) is one of the major problems we have in public. The problem which arose with Brent Spar (showed) (...) that the public problem does not exist in our mindset, in our structure. Because we have mastered it on an analytical basis, this is the best solution, and that's that. And then, all of the sudden, we see that we have a problem with the public.' Furthermore, he explains that he receives his crude oils from Exxon, and that he thus is subject to Exxon's allocation of crudes. This might be decided in favour of other refineries across the world. However, he acknowledges that without being part of Exxon, he would not even have access to the high-quality crudes that Exxon allocates. Furthermore, in the refinery, worlwide standards and guidelines exist, such as OIMS, which 'I have no possibility to influence (...).'

With regard to the Lubricants business, the manager describes the influence of Exxon as an 'immensely narrow corset'. In his case, Exxon has induced the creation of ELE, Esso Lubricants Europe. This organisation coordinates the policies of European Lubricants departments of Exxon affiliates at the European level . The goal of the establishment of this institution is to reduce costs and to 'earn more money', as the manager explains.

As for the board member, he explains that 'there are certain things where it is said, for the sake of international harmonisation, it is important to move within a certain framework. This, however, changes as time goes on. (...) When there is a project to be undertaken, the shareholder comes and says 'see whether you cannot do that together, and if you don't do that voluntarily, then we'll have to implement guidelines." -Such guidelines exist, but not in the sense 'Do it this way and not differently'. This wouldn't correspond with the responsibility I have versus the German legislator, who requires from a board member that he acts independently and self-responsible. The shareholder cannot prescribe everything, this is not the way it works. '

In the area of Human Resources, the influence of Exxon varies according to the subject in question. As the Human Resource Manager explains, in terms of 'recruitment policies, it is difficult for Exxon to give guidelines, as the respective national labour market as well as the behaviour of other companies influence the respective Esso organisation very strongly, and is very different. We have thus, for example, guidelines regarding remuneration policies, that the shareholder accepts or doesn't accept.' The area of Human Resources, however, reflects well to what extent guidelines and policies by Exxon can be implemented. There are areas where Exxon opposes policies, and others where the multinational favours and policies and induces their implementation. One fitting example of the latter is the Alcohol & Drug Policy, which is outlined above. An example of the former is the question of part-time work which Exxon generally opposes. However, as the Human Resource Manager of Esso AG explains 'Due to the high unemployment in France and also here in Germany, the French as well as us have a real problem with this. In these cases, we have the possibility to enter into a dialogue with the shareholder (...)'. A further example of this is the bonus payment, a current trend in Germany which Exxon is against. The Human Resource Manager states in this context: 'Normally, if we operated by ourselves, we would say we follow this trend, as this means that you reduce extra costs in long-term. Exxon, however, opposes against this, as they have made experiences in the United States - in an entirely different environment - and have concluded that bonus systems can only with difficulties be implemented fairly (...) So we deviate at present from the general trend in Germany.' However, as he adds, not always does Esso AG follow Exxon's ideas. As he puts it: 'On the other hand, we have introduced the assessment of superiors 25 years ago, and Exxon is against it. They don't want subordinates to assess their superiors, as they say - from their American point of view - that then, superiors become the opportunists of their subordinates (...). Anyway, we have it , and we have just tightened it up, we have made it virtually obligatory, so that each superior has to do it - and then we have had big discussions with the shareholder who didn't want it. However, then our chairman spoke intensely in favour of it, and all of the sudden, they've accepted it. This despite of the fact that now, we are the only organisation within their mineral oil activities, that has the assessment of superiors.'

All in all, the Human Resource Manager views the restrictions from his local environment positively. As previously quoted with regard to the works council, he sees it as an advantage to base his decisions on a consensus with workers' representatives. Furthermore, he states 'The English have less legal restrictions, they can virtually implement everything at once (...). They have much more freedom. However, this means as well, that when Exxon wants to implement a policy worlwide, the English have fewer arguments not to implement it, so they have to implement it almost identically. In our case, those policies are mostly subject to the approval of the works council, ie. we have to negotiate with the works council (...).'

6.2.7 Esso AG and Other Affiliates

According to the managers interviewed, the exchange of information has always taken place among the affiliates. Regular meetings of business line managers have ensured a broader view of the business of Exxon in Europe and the World. Recently, more efforts by Exxon have been made to rationalise their European operations by initiating projects and the establishment of institutions involving various European affiliates. An example of this is Esso Lubricants Europe (ELE). The Lubricants Manager explains in this context that 'we are about not to think in terms of the 'affiliate Esso AG' anymore but to talk about ELE, the European organisation, and of local units. So we're already a step further..' He explains further that the exchange of ideas with other affiliates is beneficial as he can subsequently adopt some of their successful policies for his business in Germany.

Despite the overall communication and some (increasing) degree of cooperation, there is also an element of competition among affiliates which is very clearly felt by the managers of Esso AG. As the board member acknowledges, Esso AG has to try to compensate for the additional costs imposed on them by the state by rationalising and making their operations more efficient. Already in the past, common operations of affiliates have not been placed in Germany, instead Exxon chose other locations in Europe. As the board member states, '(...) we have created a common European purchasing department (for some products) (...). Of course, there was the question as to where to place the organisation. And the decision was 'Brussels', the decision was not 'Hamburg'. And one of the reasons for this was certainly that the latter would have been more expensive (because of the higher labour costs in Hamburg (...)'. He gives a second example, explaining that '(...) we have dismantled our large-scale computer, and all data is processed in England. This is a common project of England, Norway and us. Another central computer is in Paris for France, Italy and the Benelux (...). And (...) certainly Great Britain is less expensive than Germany. We wouldn't have been able to get the computer to Hamburg, as this would have been too expensive.'

Also the other managers state that Esso AG has to focus on efficient operations and high-value and innovative technology in order to be able to compete. As the

Lubricants Manager says, the higher costs existing in Germany are a 'big problem'. The fact that total labour costs, for example, are approximately double as high in Germany as in Britain will 'mean that we will probably focus on some products which require a high technical know-how, and that we won't necessarily make mass-products.' And the adds that 'compared with the other European markets in the area of lubricants, the German market is approximately 2-3 years ahead. (...) This is because our cars are more developed, and therefore it is necessary for us to have more know-how to meet the requirements of the market (...). '

6.2.8 Perceived Differences between Esso in Britain and Germany From the Perspective of Esso AG's Managers

Human Resource Manager: Regarding Human Resource policies, 'there are things that only we can do, where we deviate from the international policy either because our legislation sets a certain frame, or, because in cooperation with the works council we make agreements which also our parent company sometimes has to accept, though reluctantly (....). The British have much more freedom (...).' And further he explains: 'The big disadvantage we have are our high labour costs. The advantage, which we have had over many years, is few strikes - we have always had a very strong social peace - thus little loss of working time.'

Member of Board: 'The environment is very different. We have an open market with little regulation which internationally is very interwoven (...) A very international market (...). In Britain, it is (...) different. Britain was always less integrated in the international market (...). Another difference (among these countries) is the importance of oil exploration and production (...). As for the Esso affiliates, differences are not very big. (...) (Both) Esso affiliates have refineries, (both) have a complete sales organisation, (both) thus sell the oil products which are demanded in the market. (Both) are active in the upstream, mainly via partly owned companies. And (...) (both) have the same corporate philosophy: a reasonable rate of return to our capital and sufficient profits. The basic philosophy is the same. The respective execution is subject to national habits, customs and mentalities.'

Refining Manager: 'Our refineries are cleaner, because we have stricter environmental regulations. One example: the Mobil refinery in Wörth is about to be shut down, and it will be moved to France. And our regulations that we have in Karlsruhe, for example for the emission of sulphur dioxide, is about 3000t, and the French have times ten more, so you can have 28000t for a comparable refinery

(...). A substantial difference are thus the regulations, regarding those relating to the environment as well as those relating to the technology. Inspections by the authorities, all our rules are much more prominent and stricter than in (...) in Britain.... We also have less employees, much less than in Britain.... because the Germans are too expensive, that is the main reason.'

Lubricants Manager: '(Regarding the business of Esso AG as a whole), the British market is certainly less competitive. This is because it is an island, and because they've been very clever with their capacities in that they haven't allowed so many products to be imported. And what happens in Germany? Everybody dumps his products in the most liberal market, in Germany. And that happens also within the Esso corporation, eg. with the Benelux. There's a huge gas field in Groningen of which Exxon has a big share, and the Dutch government expects that we also invest money in the Dutch economy. So we have two big refineries there (...). The Dutch market is quite small, and the refinery is so big, the stuff has to go somewhere. So it goes from the Netherlands down the Rhine (into Germany).This, however, is different in Lubricants, as there are less locations of production, and as we try to organise the European business according to the best logistics.'

Bitumen Manager: 'No major differences. Both (Bitumen divisions) sell to both industry and road construction. Of course, though, we have different ways of constructing roads. In (...) (both) markets, Shell is the number one in Bitumen, and Esso the number two.'

6.3 Comparative Evaluation by Esso AG Managers of Influences on Their Business

6.3.1 The Relative Influence of Different Institutional Environments

Five of the six managers interviewed answered this section. As the board member differentiated his answers depending on a long-term and short-term view, two ranking lists of influences evolved. For the short term, the managers interviewed considered the institutions within the multinational environment as most influential with 14 points. This was followed by the sector-specific institutions with 3 points, the General National Institutions with 2 points and the International Institutions with -22 points. For the long-term, still the multinational was seen as most important with 12 points, the General National Institutions came next with overall 4 points followed by the Sector-Specific Institutions with 3 points, and finally the International Institutions with, again, -22 points.

As for the Sector-specific Institutions, managers pointed especially to the importance of the Rotterdam market which 'is decisive for the price as a whole in the mineral oil business' (Lubricants Manager). Furthermore, institutions such as the API were pointed out as setting standards to which naturally, one has to adhere, as well as the Association of the Mineral Oil Industry as Esso AG stipulate their position by way of this organisation.

As for the Multinational Institutions, their influence was mostly regarded as very strong. The comparison with the General National Environment was difficult for the managers. As mentioned above, the Board Member distinguished between long- and short-term influences: 'In this case, we have to differentiate between short-term and medium to long-term influence. The influence of Exxon is immediate, for example the budget guidelines directly influence our planning. The state sets the framework for us all, whilst the guidelines from Exxon only concern us at Esso AG. In short-term Exxon is more important, in medium to long-term, the state is more important. Because one thing is dependent on the other. Because, if the economic situation (in Germany) is bad, then also the budget guidelines will get more difficult.' Other managers pointed out that the influence of Exon is much stronger because 'Exxon have the alternatives, they can invest their capital worldwide. Esso AG has no influence on this' (Public Affairs Manager).

However, the importance of the General National Institutions is still considered as strong. Institutions mentioned mainly in this respect are the strict regulations and energy policy, labour market institutions and the works council.

As for the General International Institutions, managers commented that the influence of the EU was not very strong, however they wished it was. A harmonisation across Europe would be beneficial as then, the cost-disadvantages that German companies have to bear would be the same in the rest of Europe as well.

6.3.2 Institutional Environment As a Whole relative to the Technical Environment and Power & Politics

Three managers answered this section. The Technical Environment was perceived as very strong by all three. The Institutional Environment was seen as having a very strong influence by one manager, who viewed the influence of technical and institutional factors as equal, and two viewed it as strong. As for the notion of

Power and Politics, two managers viewed the influence of Power & Politics as moderate (Board Member and Refining Manager). One manager (Bitumen) evaluated it as 'strong'. The Refining Manager showed difficulties with the concept of Power&Politics (see below). Comparing the influence of Power & Politics and the Institutional Environment, the Bitumen Manager perceived the Institutional Environment as less influential than Power & Politics.

The Refining Manager had general problems with the notion of Power and Politics. As he explains, Exxon is first and foremost a 'rational corporation, which means that the allocation of our resources is based on rational criteria.(...) This has nothing to do with the distribution of power, but is purely rational (...). And if Exxon thinks, that Esso UK should get more money, because this will altogether be more beneficial for the corporation, then I might think , they have more money and a lot more power, but that's wrong. Up above there is the fact that we are, after all, only human beings with sympathies and antipathies within the organisation, that's the human factor. But that's nothing which I would call 'the distribution of power.'

6.3.3 Strategic Tendencies of Esso AG/The Single Business Unit

All six managers interviewed answered this question. The majority found it difficult to choose among the options given (see Chapter Four), as they perceived the separation of goals as not realistic. Only one manager (Refining) answered very determined and quickly and chose the first option, efficient utilization. The other five managers concluded that all three influences have to be considered if the company wants to be successful in the long-term.

In the eyes of the managers, the factors have to be weighed up against each other. Legitimacy is important as, as the Bitumen Manager explains, Esso AG want to be a 'good citizen'. As the Board Member points out, society and Exxon set the scope within which Esso try to make the best out of their resources. As he says, the separation into different factors as done in the question is difficult as it 'constructs conflicts which don't exist according to us'. He adds, 'of course we are a company with economic aims, that is we want to make profit, we want to achieve a sufficient rate of return. We won't do this to the detriment of society, though but only within the scope of the rules that are set by society and the state. So we would not violate any laws or modify them, or interprete them our own way only in order to achieve better profits. That cannot happen. In the scope of society within which we move, we want to make the best out of our resources. And it goes without saying that this must also be in correspondence with the strategy and values of the shareholder.'

6.3.4 Table of Adjustment to Institutional Pressures.

Three managers answered this section. The managers were asked to put different institutional pressures in a ranking order with regard to the adjustrment of their strategy to these pressures. The categories of adjustment are taken from the paper by Christine Oliver (1991). The managers identified different ways of adjustment to different institutions. The institutions to which they would adjust fully* were the State (3), the financial system (1), the labour market (1), the EU (2), OPEC (2), Rotterdam (3) and Exxon (3).

In the case of the state, all three managers mentioned the possibility of influencing government bodies before the law is implemented, in the case of Exxon only one manager mentioned this possibility. In the case of the EU, one manager mentioned the possibility of influence before the law is passed.

6.4 Summary - The Overall Business Recipe of Esso AG

As mentioned in Chapter Four, the following does not represent the complete business recipe of Esso AG but focuses on those aspects of the recipe which were revealed to be distinctive relative to Esso Petroleum and/or gave insights into the ways Esso AG managers perceived their business.

The overarching goal for Esso AG managers is to further increase the efficiency of their operations in order to compensate for the costs imposed by local legislation and taxation. This is essential in order to remain competitive within the Exxon corporation as well as relative to national and international competitors. A further focus lies on influencing the German government to improve the conditions for German businesses in the long-term in order to ensure the prosperity of Germany as a business location.

Esso AG managers describe the relationship with their government as cooperative. Nevertheless, the company criticises the German government for the high level of legislation in the cases where this is not cost-efficient (eg. Esso Report 6/95). Areas of especial concern to the company are the German environmental and

* The number of managers choosing the respective option is given in brackets.

competition policies. However, Esso AG managers do not in general oppose or desire to demolish the existence of legislation or regulation. Especially the German employment legislation is highly supported as, in the eyes of the managers, it leads to motivated and content employees and an overall pleasant and constructive working climate. The managers acknowledge increasing international competition and the competitive disadvantage of Germany as a business location. Attempts are being made by Esso AG in cooperation with the German Association of the Mineral Oil Industry to influence the German legislators to consider the cost-efficiency of their measures. Nevertheless, the basic values and regulations in Germany are not questioned and currently, the managers of Esso AG focus on trying to compensate for the high costs imposed on their business by their legislative environment, by remaining ahead of their international competitors especially in the area of techological innovation.

Regarding the attitude towards the European Union, managers of Esso AG are strongly in favour of the union. To them, Europe-wide harmonisation would imply that Germany would no longer have a cost-disadvantage as compared with her European neighbours. As expressed by the Refining Manager, though, the German government tends to always be a step ahead of the union, and thus the comparative disadvantage remains. The company, in cooperation with the German Association of the Mineral Oil Industry, tries to influence the government to abandon this proactive policy, one major concern being the potential introduction of an 'Eco-Tax' (see Appendix VI). Nevertheless, the fact that Esso AG itself has introduced low-sulphur diesel fuel one year before the deadline stipulated by the EU seems to show that the company believes in the rules once set and implements them as soon as possible, even if it seems more cost-efficient to take more time.

As far as the interface with employees is concerned, the focus is on the 'collective' rather than the individual, especially in wage agreements which are negotiated with the responsible trade union IG Chemie. Managers of Esso AG view the relationship with the union as cooperative and constructive. Employee participation is laid down by law and is highly formalised. It is carried out through works councils as well as in the supervisory board via employee representatives. Managers appreciate the importance of employee codetermination for a harmonic working climate. They acknowledge the power of the works councillors and integrate the latter's interests in their strategy formulation, this especially in the area of personnel. The Human Resource Manager sees an additional advantage in the works council as the latter's influence enables him to modify Exxon policies according to national circumstances.

German employment legislation makes dismissals very difficult to undertake as it requires the employer to carry out the dismissals socially acceptable for the employees involved, as well as close cooperation with the works council. The Human Resource Manager supports this legislation and sees one of the main roles of his department in advising other functions within the company on how to 'design' socially acceptable policies. As for management recruitment and development, Esso AG recruit their management potential primarily from university, however, develop managers also internally by way of work and study degrees or apprenticeships. The young managers are trained 'on the job' and are in general not encouraged to pursue further studies. Staff at the operational level are either recruited from school and trained as apprentices in cooperation with the local Chamber of Commerce, or are recruited after having obtained the necessary qualification.

Managers of Esso AG perceive the influence of Exxon as strong and are aware of the often conflicting interests of Exxon and the German government. In these cases, the company follows the stricter rule imposed. The worldwide Exxon rationality seems to clash frequently with the values and beliefs of the German public (see Brent Spar; Public Affairs Manager). The managers accept the existence of Exxon guidelines, however the remark of the Lubricants Manager who describes the guidelines as a 'narrow corsett' shows that they are to some extent perceived as restrictive. The Human Resource manager regards it as positive that some Exxon policies have to be adjusted to the German context and that, as a consequence, Esso AG often pursues policies which other Exxon affiliates do not have.

As for Esso AGs competitors, the area of especial concern is refining. Esso AG managers are especially concerned about competition from abroad. The Refining Manager is aware that his refineries are among the most efficient in Europe but that they are more costly to run than those refineries across the border which are less efficient and less environmentally friendly. He believes that the further improvement of his operations with strong emphasis on the maintenance of themachinery is the only way for his refineries to remain competitive in the long run.

As for the national Public Opinion, the managers of Esso AG are aware of the core values and beliefs of the German public, and the company considers them in their conduct. Especially the environmental concerns of the German public are considered and the company place a strong emphasis on the environmental friendliness of their operations. Nevertheless, as the Refining Manager acknowledges, the public concern is not always included in the decision-making within the Exxon Corporation, which might lead to problems once a decision becomes public.

With regard to other Exxon affiliates, Esso AG managers view positively the cooperation with their other European counterparts and see as beneficial the exchange of ideas and information among them. They are highly aware of the competition among the affiliates and believe that within Exxon corporation, Germany has a disadvantage as a business location due to the high costs imposed, and that the company has to compensate for this also within the scope of the multinational corporation. Already, Exxon investments have been placed in other European countries. The managers believe that the only way for Esso AG to remain competitive within the multinational context is to remain ahead of the other affiliates, especially in areas which require a high degree of technical know-how.

As for the evaluation of different institutional pressures, Esso AG managers perceive the Multinational Institutions as by far the most influential. Although the board member distinguishes between long-term and short-term influences with Exxon having an immediate influence, and General National Institutions setting the framework, the overall evaluation of influences leaves a wide gap between Exxon and the Sector-specific Institutions and/or the General National Institutions. With regard to the Sector-specific Institutions Esso AG managers emphasise especially the influence of the Rotterdam market which determines the oil prices and on which Esso AG thus depends. With regard to General National Institutions the managers believe that the State, Trade Unions and Works Councils have the strongest influence. The influence of the General International Institutions is generally perceived as not very strong.

Regarding the comparison of different environments, the technical environment is overall perceived as having a very strong influence, and the institutional environment is seen as having an overall strong influence. As for Power & Politics, its influence is overall seen as moderate. However, one manager had problems with the notion of Power & Politics explaining that Exxon corporation acted on the basis of rationality and thus, the notion of 'Power' was not an issue. *

* Overall, as will be explained in more detail in Chapter Seven, the influence of the notion of Power & Politics is difficult to analyse from the data gathered.

In evaluating the strategic tendencies of their units, the Esso AG managers generally pointed out that the consideration of the values of society, the national legislation as well as the needs of shareholder and employees is seen as essential. The strive for economic efficiency only is seen as impossible if one wants to ensure the company's long-term survival. Managers of Esso AG try to balance these needs, and to achieve the highest possible efficiency within the scope of Exxon guidelines and policies and societal values and regulations.

Regarding the adjustment to various institutional pressures, the Esso AG managers identified various institutions to the rules of which they fully adjust** : the State (3), Exxon (3), the Financial System (1), the labour market (1), the EU (2), OPEC (2), and Rotterdam (3). With regard to Exxon, the State and the EU, managers believe that influence and lobbying is possible before a law, directive or policy is passed.

All in all, facing a stagnating national oil demand, and a high level of legislation and competition, Esso AG believes that the only way to remain successful and competitive is to maintain a high level of technical expertise, innovations and efficiency in order to stay ahead of other countries. As Jobst Siemer, present Chairman of Esso AG puts it (Siemer, 1995a: 18), 'the (German mineral oil industry) faces the challenge to prove its capability to innovate, continuously improve their efficiency, and to adopt the structure and capacity appropriately, in order to compete successfully for international capital, against the dynamic and growing regions in other parts of the world.'

** The number of managers choosing the respective institution is given in brackets.

7 Comparative Analysis

The purpose of this thesis is to examine how far the business recipes of Esso Petroleum and Esso AG are influenced by their National Institutional Environment. In this context, research questions were formulated in Chapter Four. In this chapter, the case results are presented and analysed on the basis of these questions. The case results are firstly summarised in tabular form. Then, the key similarities and differences found between the two cases are outlined. In the following section, the research questions formulated in Chapter Four will be answered on the basis of the findings before the implications of the findings for Institutional Theories and the Concept of Business Recipes are analysed. In the conclusion then, the findings are overall summarised by answering the key question underlying this research, that is , whether the business recipes of both companies are influenced by institutions.

7.1 The Overall Business Recipes of Esso Petroleum and Esso AG

The overall business recipes of Esso Petroleum and Esso AG have been outlined in Chapters Five and Six respectively. The following table summarises the key features of the respective recipes:

Table 4.0: Key Features of the Business Recipes of Esso Petroleum and Esso AG

Area	Esso Petroleum	Esso AG
Attitude towards the State	Emphasis on challenging government policies Belief that business can best be undertaken with as little regulation as possible	No opposition against existence of legislation State should ensure prosperity of Germany as a business location in the long-term
Attitude towards the EU	EU brings increasing costs for no great benefit EU directives should be cost-efficient Emphasis on self-regulation of companies	Strongly in favour of EU Concern about pro-active EU policies of government *BUT: Introduction of low-sulphur diesel fuel one year prior to deadline*

Area	Esso Petroleum	Esso AG
Relationship with Employees	Interface: focus on the individual rather than the collective No codetermination Non-unionised, unions regarded as 'third party' Belief that codetermination decreases the flexibility of a company to adjust to changes Belief that employee participation has increased since de-unionisation	Focus on the collective rather than the individual Codetermination Unionised; constructive relationship with unions Belief that works councils enhance working climate, lead to social peace Focus on socially acceptable policies Advantage not to have to fully adjust to Exxon policies
Exxon	Seldom conflict of Exxon policies with local legislation Local legislation takes precedence if conflict - but: challenging of government policies possible Exxon guidance 'top-level'	Often conflict of Exxon policies with local legislation Stricter rule is always followed Exxon very influential; 'narrow corsett'
Competitors **Retail** **Refining**	Focus on price Improvement of relative competitiveness	Focus on convenience stores + new stations in East Concern about international competition; stay ahead of competitors
Public Opinion	Adjustment to core beliefs; Avoid adjustment if possible	Adjustment to core beliefs; Avoid adjustment if possible
Other Exxon affiliates	Potential competitive advantage versus European affiliates due to deregulated economy and low total labour costs	Competitive disadvantage due to strict regulations and resulting high costs
Different Institutional Pressures	General National Inst: +11p Multinational Inst: + 9p Sector-specific Inst: - 8p General Internat. Inst: - 12p	short tm /long tm Multinat Inst +14p +12p Sector Sp. Inst + 3p + 3p Gen. Nat Inst + 2p + 4p Gen Intern. Inst -22p -22p
Institutional Environment vs Technical Environment vs Power & Politics	Institutional and Technical Environment very strong; problems with Power & Politics	Technical Environment very strong, Institutional Environment strong, Power & Politics moderate - problems with notion
Adjustment to Various Institutional Pressures	Full adjustment to: State, Exxon, EU, Rotterdam	Full adjustment to: State, Exxon, EU, Rotterdam, Financial Market, OPEC, Labour Market
Tendencies in Strategic Conduct	Economic efficiency alone not key to success; consent number one priority	Achieve highest possible efficiency within scope of Exxon and Society
Determinants of Future Success	Improvement of efficiency and competitiveness; maintain emphasis on operational integrity, customer satisfaction	Maintain high level of technical expertise, innovations and efficiency; stay ahead of competitors

7.2 The Similarities and Differences

Esso Petroleum project an overall goal-oriented image. The needs of employees are potentially subordinated to business needs, as participation is hardly formalised and at the discretion of individual managers. The company is strongly in favour of self-regulation and individualism, and incorporates quite willingly and to the greatest possible extent the policies and guidelines of its parent Exxon. It seems that Esso Petroleum managers identify themselves more readily with the goals of their parent company than with those of the British state. Esso Petroleum managers have an overall positive perception of their situation as the cost-advantages of the UK system imply a potential competitive advantage.

Esso AG managers project an overall more means-oriented image. The socially acceptable character of their policies is a major concern especially for the Human Resource area, and the codetermination of employees is seen favourably and as constructive. The existence of legislation is not questioned. The emphasis of managers seems to be on the collective, within and outside the organisation. The fact that managers perceive Exxon as somewhat restrictive and that they are generally quite pleased with not having to comply entirely with Exxon policies leaves the impression that Esso AG managers quite readily identify themselves with the local environment. Esso AG managers believe that they have a competitive disadvantage and their main concern is to compensate for the high costs imposed by local legislation.

As above table shows, the business recipes of both companies are different in many aspects. The attitudes towards the state and regulation differ significantly, as does the interface with employees. We can also note a different perception of Exxon influence with Esso UK managers perceiving the influence as top level direction whereas German managers seem to perceive it as more restrictive. Lastly, the evaluation of the managers of the competitive position of their companies vary greatly.

7.3 Key Aspects of the Institutional Envionments of Esso Petroleum and Esso AG

The following gives an overview of important key issues of the institutional environments of both countries (for details, see Appendices V and VI).

The national institutional environment of Britain is characterised by a fairly centralised state-system. The power of local government, which was never a prominent feature in the system, has been reduced further since the 1980s (see for example Lane, 1989). Due to the electoral system, party coalitions are not common in Britain and policy direction can thus change dramatically from one legislative period to another. Government policy in Britain has, partly due to the electoral system, led to short-termism and piecemeal actions by the British government. The fact that legislation does, in addition, not involve many parties, reduces the legitimacy of the measures introduced by the government (Lane, 1989). Employers and trade unions have traditionally had an adversarial relationship. Trade unions were largely able to impose unilateral regulations on employers and enjoyed legal immunity from common law liabilities (Ferner and Hyman, 1992). Due to this, unions had the capacity to impede businesses to a great extent. During the 1980s, under Margaret Thatcher, union power was largely diminished, and many British firms chose to de-unionise (Metcalf, 1991). The fact that Britain underwent a lengthy period of industrialisation (Wiener, 1981; Lane, 1989; 1992) has allowed certain social-institutional patterns to persist. Among these is a strong belief in individualism and laissez-faire capitalism (Lane, 1989). Since the period of industrialisation the country has experienced no major disruption of institutional patterns. Another feature of the British institutional environment has been the low-skill profile of the British working population (eg. Bharmal, 1994a; 1994b; Lane, 1989). Theorists have established a link between low worker productivity and low skill profiles (Lane, 1989;1992). The lower productivity of British workers thus seems to be partly due to the education and training policies of the British government. Currently, Britain seems to base its competitiveness on its low-skill, low cost profile. Attempts are being made to improve the education and training policies but these have not as yet been very decisive (see eg. Bharmal, 1994a; 1994b).

In Germany, the state system is based on consensus and cooperation. The federal system with relatively autonomous Lander governments as well as the strong influence of unions, the federal bank and the fact that the electoral system encourages the establishment of party coalitions, ensures that legislation enjoys a high degree of legitimacy among the population (eg. Lane, 1989). The system has been subject to many disruptions and national crises, and institutional fabrics have thus frequently been destroyed and reformulated. This is especially apparent after World War II when the Allied Forces set up a new state system based on strong democratic principles to which the population has adhered since then. Trade Unions and employers have traditionally had a non-adversarial relationship and employers view the relationship with unions generally as cooperative (Lane, 1989). Employee codetermination is laid down by law at site level as well as in supervisory boards. Germany has since the war developed into a high-wage, high-skill economy. The high productivity of the German workforce has been explained as rooted in the comprehensive education and training policies of the German government (Lane, 1989). Recently, in the face of increasing international competition, the high costs imposed on German businesses have proved to be a potential competitive disadvantage (see also Appendix VI). There is general agreement by the German population and businesses that Germany has to focus on high technology and innovations in order to stay ahead of its competitors.

7.4 The Research Questions

In Chapter Four, research questions were formulated with regard to Institutional Theories and the Concept of Business Recipes. These research questions will be addressed in this section.

7.4.1 Institutional Versus Technical Influences Versus Power and Politics

One key issue for the evaluation of Institutional Theory is the extent to which institutional as opposed to technical factors explain similarities and differences between organisations.

Contingency theorists emphasising the task or technical environments would expect both companies to act similarly unless certain contingencies such as the size of the company, the degree of dependency within the national environment or regarding a parent company, the number and power of competitors, the customers, the availability of resources, technological progress and the like were different.

Both, Esso Petroleum and Esso AG, however, are very closely matched in this respect: both are subsidiaries of Exxon, have the same degree of dependency on their parent in terms of the supply of financial resources and raw materials, the sizes of the company are matched roughly, and competitors are largely multinationals.

With regard to technical factors, the availability of resources, might seem an important difference given that Britain is endowed with large resources of crude oil in the North Sea. However, this does not prove to be the case for Esso Petroleum. Exxon evaluates the downstream and the upstream side of their business separately. Esso Petroleum obtains all raw materials from Exxon, and the origin of the crude oil plays a minor role in the resource allocation. A related point, however, is that Esso Petroleum's focus on challenging government policies might be rooted in the power of the sector within the economy (see Appendices V and VI for the respective power of the sectors in Germany and Britain). Esso UK, the holding company of Esso Petroleum, is approximately the sixth largest company in the UK, and its Exploration and Production division provides an important return to the government. Equally, the willingness of Esso AG to comply with government regulation might be derived from its not being as powerful within the economy. It has to be noted in this context, however, that due to mineral oil being the major source of energy in both countries, the oil industry has a fairly strong position in Germany as well as Britain (see also Appendices V and VI). There is some evidence, see Lane's (1989) analysis of the manufacturing sector, that the attitudes towards the government are engrained in the institutional frameworks of both countries. This does not exclude the possibility of Esso UK being able to influence the government more strongly than its equivalent in Germany.

Another major difference in the technical environment of both companies seems to be the hypermarket competition which Esso Petroleum faces. Fierce competition by the hypermarkets and a market survey showing the liking of customers for low prices have induced Esso Petroleum to follow a more price-oriented strategy than Esso AG. This different strategy seems to be a result of technical pressures, partly because Esso Petroleum is rewarded for providing their service at a competitive price, and hence suggests that to some extent Esso Petroleum's strategy is subject to influence from a technical environment. As we have seen from the data, though, the managers of Esso Petroleum do not think a strategy is feasible which goes against the values of society and the shareholder. Thus, we can assume that although the pressure by the hypermarkets is of technical character, the strategic response to this pressure is formulated within an institutional framework. The exposure of oil retail to technical pressures furthermore supports the argument by Rosenzweig and Singh (1991) that not all parts of an organisation might be affected equally by institutional pressures.

As for technological progress, it becomes clear from the data that the technology used in Germany is overall more advanced than in Britain. However, much of the technological progress seems to be a compensation for the strict regulations. Furthermore, we can note from the behaviour of not only Esso AG within its environment, but also from the German government, that the emphasis on technological progress seems part of the German way of 'going about things'. The

British Public Affairs Manager speaks of the German 'best technology of the world approach', and within the EU, Germany is an advocate of the 'Best Available Technology' approach to environmental regulations, which implies that countries should try to reduce the damage done to the environment with the most advanced technology possible. As the strive for technological progress thus seems to be an institutionalised practice in Germany, it has to be questioned whether this factor should be regarded as of technical nature.

Lastly, the emphasis placed by managers on the pursuit of efficiency goals, seems to suggest that both companies are facing a rather 'technical environment', as Scott (1987: 126; see section 2.3.1) defines the technical environment as 'those (environments) in which organisations produce a product or service that is exchanged in a market, so that they are rewarded for effective and efficient performance.' However, the data gathered gives the impression that managers strive for efficiency not mainly because the market dictates it, but because Exxon require their subsidiaries to operate as efficiently as possible. The managers know that their performance and thus future budget and resource allocation is subject to their efficiency performance. Cost-efficiency is presented as an ideal throughout the company (see Appendix VIII). It is the relative efficiency of the affiliates which is of primary importance within the corporation. It seems that various elements of the business recipe, for example the lobbying activities of both companies, are rooted in the strive for the improvement of this relative efficiency. This is supported by the fact that the Esso Petroleum Refining Manager speaks of improving his performance against the 'benchmark'. Thus, as argued in Chapter Two, it is the relative efficiency which plays a major role in Exxon and this is to a great extent institutionally determined. It seems as if the goal of efficiency is an institutionalised 'ideology' of Exxon as to how to sucessfully manage their business, rather than a market requirement. Of course, it may be that Exxon pursue this goal *because* the worldwide oil market is of technical character and thus rewards efficient performance. Literature on the European oil industry and their concerted efforts within the EU seems to suggest that all oil companies strive for efficiency (see, for example, Herkströter, C. A. J., 1995). However, further research would be needed comparing Exxon with other multinational oil companies in order to see to what extent the latter pursue the ideal of efficiency, and how far this is shaped by institutional and technical factors. In this study, the pursuit of efficiency seems more appropriately interpreted as an institutional requirement imposed by Exxon Corporation onto its affiliates.

The task of both companies seems overall the same, so why then do managers of Esso Petroleum prefer to do business without regulation? Why is the interface with employees organised so differently? Why is Esso AG overall more efficient? With regard to the latter, it seems that the oil business can be conducted with the less efficient measures of Esso UK. It thus cannot be the task which requires more efficient measures in Germany. Lastly, both companies do not pursue the goal of economic efficiency alone. Instead managers point out that it is essential to integrate the needs and values of the shareholder and society.

All in all, it seems that the differences found between the companies are to a great extent rooted in differences in their institutional environments. With the above criticism of technical determinism in mind, we will , in the following, analyse how the institutional environments of both companies may influence the latters' managerial recipes.

It is difficult to evaluate from the data gathered whether the notion of Power & Politics plays an important role in the recipes of Esso AG and Esso Petroleum. The notion was generally perceived as of moderate influence by the managers or as not influential at all. The fact, however, that managers did not feel that Power & Politics is important does not necessarily mean that it is not influential. In fact, some comments on the part of the managers seemed to show that this notion might be influential within the corporation. As an example, the German Bitumen Manager perceived the influence of Power & Politics as strong. This might be because his department is quite small and contributes only a little part to the overall business of Esso AG. We can thus not rule out completely that Power & Politics have an influence within Esso AG and Esso Petroleum or within Exxon corporation. Esso AG and Esso Petroleum are overall quite profitable companies within the corporation and research reported by Robbins (1991) suggests that this is not a situation which most promotes politics. More research would be needed to determined the influence of Power & Politics on the business recipes of the companies analysed.

7.4.2 Which Key Institutional Influences Exist and Why?

In Chapter Four we defined four levels of institutional influences: the General National Environment, the Multinational Environment, the Sector-specific Environment and the General International Environment. In the following, the influence of key institutions within these environments as well as the overall influence of the respective environment will be analysed.

The most apparent institutional influences on the business recipes of both companies are those exerted by Exxon and the respective government. We can see from the data that the Exxon rationality or institutionalised rules of behaviour, are engrained in the day-to-day activities and the strategy formulation of both companies. Examples of this are the Operations Integrity Management System (OIMS), the Exxon ethics or the ideal of cost-efficiency against which the performance of the affiliates is measured (for details on Exxon policies, see Appendix VIII). The influence by Exxon seems to be based on the company providing the affiliates with raw materials and financial resources. We can see from the data that both companies are aware that their future supply with resources is dependent on providing a superior return to Exxon. Meyer and Rowan (1977) explain the adjustment to the institutional environment as a 'fight for survival' on the part of the organisations. We can argue that this applies to the relationship between the affiliates and Exxon. By conforming to Exxon rules and goals, in this case achieving the highest possible efficiency, they ensure future resource flows which are necessary for the companies' survival. As Meyer and Rowan (1977: 349; see also section 2.2.1) describe organisations adjusting to institutional pressures as 'remaining successful by social definition', we could describe Esso AG and Esso Petroleum as trying to 'remain successful by Exxon definition'.

As for the requirements of the State, the data reveals that both companies incorporate national regulations in their recipes. Examples of this are the adoption of environmental measures in Germany, or the payment of mineral oil taxes by both companies. The influence of the state can be explained by its being the 'central coercive power' (Zucker, 1987; see also section 2.2.1) within the collective of a state system. Organisations within the collective have to adjust to the rules imposed coercively by the state, in order to be accepted and understood and thereby ensure their survival. Esso AG and Esso Petroleum both depend upon their national context in terms of the demand for their products. The adjustment to societal rules ensures future returns which - together with the supply by Exxon - are essential for their survival.

The fact that the companies have to balance the requirements of both, the state and Exxon, underpins the argument by Rosenzweig & Singh (1991; see Chapter Two) that subsidiaries of multinationals are subject to both, the pressures of the national institutional environment, and the rules and requirements which exist within the multinational corporation. This view is further supported by the fact that managers of both companies found it very hard to compare the influence of the Multinational

Institutions and the General National Institutions. They generally pointed out that both types of institutional environments influenced their businesses in different ways. Exxon seemed to be perceived as influencing the way the companies work, whereas the state is perceived as setting the framework, creating the climate.

Comparing the two cases we can see that the managers of Esso AG are more often subject to conflicting presures by the State and Exxon than the managers of Esso Petroleum. As the rules and guidelines by Exxon are the same worldwide, this difference between the countries is likely to be rooted in differences in the state-systems to which the companies are subjected. Rosenzweig and Singh (1991) point out that differences in the nature of the national institutional environment of a company from that of its parent may lead to differences in the way parent and subsidiary pursue their activities. Equally, similar institutional environments will lead to similar practices of subsidiary and parent company. As we can see from above cases, Germany with its coded law and focus on consensus politics, as well as influential unions and a comprehensive system of social security represents an environment quite different from the Anglo-Saxon systems. Britain and the United States, on the other hand, are quite similar as also acknowledged by the Esso Petroleum Public Affairs Manager. According to Rosenzweig and Singh (1991) we can expect a company subjected to a different kind of institutional environment to be more likely to become isomorphic with its local environment. Indeed, we can find that the German managers seem to identify themselves quite readily with their local environment. The acceptance of local regulation by German managers has furthermore been identified as a distinct feature of the German system (Lane, 1989; 1992) rooted in the underlying system of consensus. On the contrary, in Britain, the legitimacy of the local government is low, which partly explains the inclination to tend towards Exxon. This also seems to support Zucker's (1987) view that institutional interpenetration, in this case by the national institutional environment, is dependent on the legitimacy of external control. Furthermore, the fact that the business recipes are built on these underlying societal institutions shows that institutional pressures are not only exerted by way of regulations, but also at the cognitive level (Scott, 1995).

Both companies are not entirely isomorphic with their national environment. Many of their policies are required by Exxon and might, at the time of the implementation, be uncommon for the local context, as the case of the Alcohol & Drug Policy illustrates. On the other hand both companies are not entirely isomorphic with their multinational context either which becomes apparent through their having to adjust certain policies to the national context. On the basis of

Institutional Theories this can be explained by various factors. Firstly, it seems to show that conflicting pressures in the institutional environment decreases the ability of an organisation to conform fully with all the institutions exerting the pressure (Oliver, 1991). Secondly, the only partial isomorphism might be due to the fact that both organisations are vertically integrated from the refining to the marketing of oil products, as well as research, and that they both obtain their resources from Exxon. This renders them largely independent of their local environments, mainly on the supply side. The adjustment to institutions such as financial markets, thus is not of critical importance to ensure the companies' survival (see also Zucker, 1987). These institutions accordingly receive only a low rating by the managers in the evaluation of institutional influences (see Chapters Five and Six). Lastly, the fact that the companies do not comply fully with the rules and/or requirements by either Exxon or the state seems to suggest, in line with Scott's (1995) argument, that *responses* to institutional pressures are also institutionally determined. We can see how the differences in the institutional environments *enable* managers to adopt recipes different from their parent. This is supported by the Esso AG Human Resource Manager according to whom Esso Petroleum have less excuses not to implement an Exxon worldwide policy (see also Chapter Six). The findings suggest that Scott's view can be extended to different levels of institutional influences. In the case of Esso AG and Esso Petroleum, we can see that the way the companies react to the state is largely shaped by Exxon and vice versa. Thus, we can argue that if an organisation is subject to various institutional environments at different levels, the responses to either of these levels may partly be determined by pressures from other institutional environments.

The Exxon guidance is perceived differently by managers of Esso AG and Esso Petroleum. Esso Petroleum generally perceive the influence as 'top-level', whereas Esso AG managers seem to perceive the influence as more restrictive. All in all, the data seems to reinforce the above perception that Esso Petroleum are more inclined to identify themselves with Exxon, whereas Esso AG managers seem to more readily identify themselves with their local environment. This becomes especially clear from the interview with the Human Resource Manager of Esso AG, who, a few times, refers to policies Exxon has created 'in a completely different environment', or 'from their American point of view', which shows a cultural distance between the manager and the policies he has to accommodate. This seems to underpin the argument by Rosenzweig and Singh (1991) that another factor which influences the isomorphism of a company with its environment, is the cultural distance between parent and subsidiary.

In both cases, Public Opinion has a strong influence on the business recipes of the companies. Examples of this are the support of charity organisations on the part of Esso Petroleum, or the adoption of an environmental image by Esso AG. Public opinions represent cultural expectations. Organisations within a given context have to adjust to the public opinion if they want to be accepted and understood. As the managers are aware, public opinion is a very influential institution, especially in the societies of Britain and Germany as they have a considerable influence on policy-making. This circle of institutional reinforcement (see Lane, 1989) is very clearly seen by the managers. Non-compliance with public opinion may result in a loss of business (see, for example, the Brent Spar incident). The public expect an organisation embedded in a society to act as part of the collective, and adhere to the social order. In the case of public opinion the companies face conflicting pressures of Exxon and the public. The Exxon rationality prescribes the ideal of cost-efficient measures, with which the requirements of the public do not necessarily comply. The fact that managers try to avoid adjustments to public opinion, or to manipulate it where possible, as shown in the Tables of Adjustment (see Chapters Five and Six) seems to underpin Oliver's (1991) assumption that conflicting pressures force the company to decide which norms to follow* . In this context, the argument by Abrahamson (1991; see section 2.3.1) comes into play. The adjustment to public pressures is often not cost-effective at first sight as the company might jeopardise economically efficient procedures in favour of publicly required procedures. Equally, as seen in the case of Esso Petroleum, it might spend money on the support of charity organisations which apparently does not provide the company with a return. However, the adjustment to public pressure does, as becomes clear from the data, benefit the company in the long run, it is 'symbolically efficient' (Abrahamson, 1991: 609). Both companies try to obtain legitimacy in the eyes of society in which they are embedded. In the eyes of the British public, an acceptable, maybe 'ethical' company is expected to support charities. In Germany, an 'ethical company' is maybe expected to protect the environment. The companies act accordingly to ensure that they are understood and accepted.

It can be argued that to some extent the managers themselves, being part of a wider collective, believe in giving money to charity or in protecting the environment, and not only do so as a reaction to public pressures. However the partial awareness of managers of the public opinion and of the benefit an adjustment brings to the company seems to point in the direction of a more self-

* However, as the Esso AG Bitumen Manager points out, the measurement of public opinion is difficult to the company and the company thus often adjust to what they assume the public feel.

interested company. On the other hand, it is debatable, whether, in the case of Esso AG, the early introduction low sulphur diesel (see also Chapter Six) is part of a conscious decision to accommodate public interest or if it reflects managers' beliefs. More research would be needed to answer this question. Interestingly, the organisations generally perceive the public as 'emotional' and themselves as 'rational' (see Chapters Five and Six). In the eyes of institutionalists (for example Whitley, 1992a) we can argue that both Esso rationality and the rationality of the public are based on underlying, institutionalised beliefs about the 'appropriate way of doing things'.

7.4.3 The different levels of institutional influence

The business recipes show that the managers are influenced not merely by one level of institutions, but that direct influence is exerted by various levels of institutions. We have seen above that Exxon, the centre of the Multinational Environment, and the state as well as the national public opinion within the General National Environment have a great influence on the recipes. Furthermore, we have seen that an underlying societal rationality, as apparent, for example in the attitude towards regulations, seems to be reflected in both recipes.

Interestingly, in Germany, where the pressure exerted on managers can be traced back to a great extent to the state system and the distinct features of the General National Environment, managers rate the influence of the General National Institutions as relatively low compared with the Multinational Institutions and the Sector-specific Institutions. This seems to support the formerly mentioned view that managers of Esso AG identify themselves more with their local environment and do thus not perceive it as restrictive. In Britain, managers seem to rate the General National Environment as relatively high because their underlying rationality is the belief in self-regulation (Lane, 1989). These findings suggest that the *perception* of institutional influences is itself institutionally determined (see Scott, 1995, for a related view).

We can see from the data that the General International Institutions do not affect the business recipe greatly. The managers are concerned about EU politics, which they identify as the most influential institution within the General International Environment. They are aware that EU directives influence their government and undertake lobbying at Brussels, but for the day-to-day work and the strategy formulation, the EU is not decisive.

It is difficult to determine the influence of sector-specific institutions. If we followed Spender (1979; see also Chapter Three) we would expect that the industry recipe, the underlying institutionalised beliefs as to how to conduct business within a given industry, would be most influential and that socio-economic influences would 'act on the organisation through the industry recipe' (ibid: 66). How far this is correct with regard to Esso Petroleum and Esso AG, is difficult to determine. Both companies cooperate in trade associations within the industry. In Germany, the industry as a whole undertakes lobbying activities to improve 'Germany as a business location'. Furthermore, we see that standards within the national and international oil industry exist to which the companies adjust. In order to analyse the influence of sector-specific institutions, further study would be needed including other companies from the same sector in the two countries.

The above seems to suggest that not all institutions have the same influence. On the one hand, the data shows that institutions within a certain level exert different sorts of influences on the company, and on the other hand, we can see that the levels as a whole vary in influence as well. These findings support Oliver's assumption (1991) that not all institutional pressures are similar. As we will see in the following section, the nature of the institutional influence determines how an organisation reacts to it (Oliver, 1991). Considering the above findings it seems that the dependence of the company on the institutions in question and/or the potential consequences of non-compliance play a major role in the way the organisations adjust. This shows that Oliver's (1991) assumption that institutional adaption is partly due to the organisations' self-interest is supported. Both companies seem to adjust mainly to Exxon, the State, Public Opinion, because non-compliance could result in a deprivation of supply of resources or the demand for the final products. It thus seems that in the fight for survival, the consideration of what factors are perceived to be essential to the organisations' long-term survival, is a major influence on the business recipes.

7.4.4 How Do Organisations Act Facing Institutional Pressures?

The business recipes reflect adjustments to different levels of institutional environments as well as to different kinds of institutions. As far as the former is concerned, the Multinational Environment as well as the General National Environment have the most apparent influence on the recipes. Regarding the influence by the national institutions we have discerned coercive isomorphism (DiMaggio and Powell, 1977; Scott, 1995) resulting from rules and requirements by institutions such as the state and public opinion, as well as mimetic isomorphism (ibid.) at a cognitive level which is apparent as both recipes reflect cultural values (for example, the attitude towards state regulation, the focus on consensus versus individualism). In the case of institutions at a cognitive level, it does not seem appropriate to describe the organisation as 'facing' institutional pressures, as the institutions are engrained in the social patterns of the countries in which the companies are embedded. The managers adjust to these values unconsciously, the latter are 'taken for granted'. Managers of Esso AG and Esso Petroleum do not seem aware that they are incorporating these institutional values in their conduct. To them, their recipe is based on 'rationality' and is the appropriate way of doing their business. In this sense, even though the companies are subject to pressures from Exxon, the underlying societal rationality is deeply engrained in the business recipe.

As for coercive institutional pressures, both companies see no way but to comply with state legislation and Exxon rules once they are set. As we have shown above, non-compliance could imply risking legitimacy and long-term survival. With respect to Exxon, the state and also the European Union, managers of both companies point out that *before* a law is passed, negotiation with the respective institution is possible. This supports the assumption by Covaleski and Dirsmith (1988) that companies influence the institutional framework of which they are part. In fact, both companies have a subdivision 'Government Relations' whose purpose is the exchange of information and lobbying with the government.

Furthermore, various examples suggest that both companies influence institutions not only on their own behalf but also in cooperation with other organisations. Both companies are members of trade associations who formulate national responses to regulations. This supports Scott's (1995) assumptions that organisations are engaged in lobbying activities in groups of organisations as well as by themselves.

The willingness to adjust, is clearly influenced by the institutional framework. The underlying belief in self-regulation leads to the company challenging government policies more in Britain, than in Germany. We can thus argue in line with Scott (1995) that also the *response* of an organisation to institutional pressures is institutionally determined. This is also reflected well in the Table of Adjustment (see sections 5.4.4 and 6.4.4 respectively). Esso AG managers name seven institutions to which they would fully adjust, whereas Esso Petroleum managers name three.

As for public opinion, the companies do not see full adjustment as the most likely response (see sections 5.4.4 and 6.4.4). Managers of both companies see as more likely that they would 'try and manipulate', 'avoid adjustment', or 'negotiate'. The data seems to overall suggest, however, that the strive for consensus is a major component of the business recipe of Esso AG and Esso Petroleum. Both companies want to avoid attracting negative publicity, both want to be 'good citizens' which they understand as undertaking measures 'which have a high integrity in the field' (see section 5.3.3). This seems to imply adjustment to public pressures if it seems likely that it might lead to a bad image in the public eye. If the danger of risking bad publicity seems negligible, the adjustment accordingly does not seem to take place.

We thus see that organisations do act differently to different institutional pressures. Institutions at a cognitive level seem to be integrated without the managers actually being aware of it. In those situations where institutional pressure is exerted coercively the companies generally comply fully with the rule imposed - with the possibility, however, of exerting influence on the institutions before the imposure of the rule. Only if the pressures are conflicting or adjustment does not seem necessary - as it seems possible in the case of public opinion - the companies actively decide which norms to follow. In most cases, then, they try to balance the requirements of the institutions which exert the pressure.

7.5 Implications for the Theory

Considering the outline of Institutional Theories of Organisations (see Chapter Two), there seem to be a number of important issues in Institutional Theory:

1. Whether institutions provide a set of environmental conditions for organisations (Meyer and Rowan, 1977; Whitley, 1992a) or whether organisations are institutions (Zucker, 1987)

2. Adaption Versus Active Agency (Covaleski and Dirsmith, 1988; Oliver, 1991; Scott, 1995; Zucker 1987)

3. Whether the process of institutionalisation relates to three kinds of isomorphism (DiMaggio and Powell, 1983; Scott, 1995)

4. The effect of inconsistencies of institutional pressures (Oliver, 1992)

5 The decoupling of formal structures from informal structures under institutional pressures (eg. Meyer and Rowan, 1977; Zucker, 1987)

6 The respective influence of various levels of institutions (Calori et al, 1992)

7 The relative influence of technical versus institutional factors (eg Scott, 1987; Whitley, 1992a; 1992b)

8 The importance of history in understanding institutional influences (Lane, 1989; 1992)

9 The development of business recipes as a two-step process (Spender, 1989; Porac et al, 1989)

10 The most appropriate level of collective beliefs for analysing the strategy of an organisation (Spender, 1989; Huff, 1982)

11 How to perceive the environment in the business recipe concept

12 The key determinants of the success and failure of business recipes (Whitley, 1992a)

Issues 2, 4, 6 and 7 have been covered in the previous section of this chapter. In this section, the implications of this study for the remaining issues 1, 3, 5, 8, 9, 10, 11 and 12 are addressed below.

7.5.1 Whether institutions provide a set of environmental conditions for organisations or whether organisations are institutions

The 'Environment as Institution' approach views organisational environments as consisting of institutions which become reflected in the structures and processes of the organisations. In this approach, organisations are viewed as mainly adaptive to their institutional environment (eg. Lane, 1989). The 'Organisation as Institution' approach, on the contrary, pictures the organisation as an institution itself, creating its own distinct structures and beliefs (eg. Zucker, 1987).

This study has applied a largely 'environment as institution' approach and has shown that the business recipes of both companies reflect characteristic features of the institutional environments in which they are embedded. Nevertheless, it would be wrong to conclude as some institutionalists (eg Meyer and Rowan, 1977) do that organisations are mainly adaptive to their environment. Both Esso Petroleum and Esso AG are interrelated with their institutional environments and adaption seems, as the data has revealed, to be only one possible response. Given that managers of Esso AG and Esso Petroleum regularly face conflicting pressures imposed by the different levels of institutional environments to which they are subjected, it seems a realistic assumption that the recipe of the companies is based on some kind of rationale of how to resolve these conflicts. In line with Zucker (1987:454, see also section 2.2.2) we can argue that a mere 'environment as institution' approach would neglect the importance of these various social realities which force individuals and groups to balance the different demands they make.

7.5.2 Whether the process of institutionalisation relates to three kinds of isomorphism

As outlined in Chapter Two, institutional theorists have explained similarities among various organisations by way of three different kinds of isomorphism (DiMaggio and Powell, 1977; Scott, 1995): coercive, mimetic and normative. Coercive, or regulative, pressures may be exerted via rules or laws. Mimetic isomorphism takes place at a cognitive level , for example by way of imitations among organisations, or by the adoption of culturally supported values. Normative isomorphism mainly results from the institutionalisation of 'appropriate' practices, for example advocated by consultancies or universities. As shown in section 7.4.7, evidence can be found in the case studies for coercive and for mimetic isomorphism. DiMaggio and Powell (1977) explain that mimetic isomorphism may also take place by way of imitation among organisations. It is difficult to discern from the data whether the companies are subject to this kind of mimetic isomorphism. The focus of this research has been on individual companies and their relation to their national institutional environment rather than to other organisations within the same context. Nevertheless, we can find some degree of imitation among the affiliates: they meet frequently in order to exchange ideas, and a remark by the Lubricants Manager shows that (see section 6.3.7) practices that have proven successful may be adopted other affiliates. The fact that successful practices are more likely to be adopted and become practice in other companies supports the view of Huff (1982) as well as DiMaggio and Powell (1977). According to Huff, successful practices are likely to become adopted widely by the companies in the same sector. Whether this is the case at Exxon, cannot be established from the data. Recent information from one of the German managers has shown that within the goal of World Class 2000, the affiliates are exchanging ideas and experiences in order to develop 'best practices' for the whole company.

As for normative isomorphism, we do find evidence for the adoption of practices advocated by institutions such as trade associations, universities, professions and the like. Trade associations do not only exist at sector level, but also in cooperation with other industries. One example of this is the wage comparisons which Esso AG undertake with other organisations in industry. Both companies seem to adjust to norms of behaviour by recruiting their managers mainly from university, or by providing apprenticeships in cooperation with local Chambers of Commerce as in the case of Esso AG. In all these cases the companies do not perceive the influences as very strong or as restrictive. This is likely to be due to the fact that they actively contribute to the norms being created by these institutions, as in the case of Chamber of Commerce.

7.5.3 The decoupling of formal structures from informal structures under institutional pressures

According to institutional theorists (eg. Meyer and Rowan, 1977), organisations which face conflicting technical and institutional pressures tend to decouple elements of their structure from their technical activities in order to be able to meet institutional as well as technical requirements.

It is not possible on the basis of the data gathered to evaluate whether Esso AG and Esso Petroleum are subject to conflicting technical and institutional requirements and whether their formal presentation, or recipe, is different from the way the companies actually work.

7.5.4 The importance of history in understanding institutional influences

From the above findings we can see that history plays a major role in understanding underlying rationalities of businesses. The business recipes are in both cases built upon a society-wide rationality which, as we have shown above, seems to have developed in the course of history. In both cases we find that institutional values are incorporated in the business recipes which are engrained in the respective society and are rooted in the historical development of the respective country.

7.5.5 The development of business recipes as a two-step process

Spender (1989) and Porac et al (1989) see strategy formulation as a two-step process whereby managers first create their own rationality on the basis of which they then analyse the strategic options of their company.

In both cases we can find an underlying rationality which is partly shaped by Exxon, and thus similar in both cases (for example the ideal of cost-efficiency), and partly influenced by the national institutional context. As explained in section 7.4.6, the influence of the sector-recipe, which is especially stressed by Spender (1979) is not clearly identifiable on the basis of this research. In the case of the underlying societal rationality it is interesting to note that managers do not seem to be aware of the social origin of their beliefs. When they were asked to name factors which they take into consideration when formulating their strategy (see Appendix I), they named primarily factors relating to the task environment. The only institutions they mentioned were Exxon and the state. This seems to show that the underlying rationality, that is institutionalised values in the respective society, is engrained in the way managers think. The strategy formulation seems to be undertaken on the basis of a rationality which is largely influenced by collective beliefs at society level and at the multinational level, which supports Spender's (1989) and Porac et al's (1989) view.

7.5.6 The most appropriate level of collective beliefs for analysing the strategy of an organisation

Business Recipe theorists (eg. Huff, 1982; Spender, 1989; Grinyer and Spender, 1979a; 1979b) posit that the beliefs at industry-level are most critical in influencing recipes of companies. Whilst this research does not provide sufficient evidence to contradict this assumption, it shows that other factors such as the influence by the parent company, or the societal context, are of critical importance, too. In both cases studies, it is the societal rationality which partly influences how managers perceive Exxon, the competitiveness of their industry or the strategy which ensures future success. In both cases, it is the Exxon rationality which partly determines the way the companies work, the processes they apply, the goals they work for. This demonstrates that the rationality of managers is influenced by multiple levels of collective beliefs. This underpins Calori et al's (1992) finding that managers are subject to various frames of reference. The managers believe that society creates the climate, the framework within which they work, and that Exxon influences the way the companies work. The study suggests, however, that this is not completely accurate. The societal rationality pervades both companies and thus influences the way they work, too. Exxon institutions and societal institutions are both represented in the business recipes of the companies.

7.5.7 How to conceptualise the environment in the Business Recipe Concept

Business recipe theorists have as yet failed to provide a convincing conceptualisation of the environment of an organisation (see Chapter Three). Despite their overall focus on collective beliefs and underlying rationalities, the theorists seem to follow a rather rigid distinction between organisation and environment with factors such as government policies defined as 'exogenous' constraints. As becomes clear from this study, the concept of environment needs to include institutional factors, as well as technical (as seen in the case of oil retail, see above).

This study suggests that the environment partly consists of institutions, collective belief systems which reinforce and influence each other. These belief systems operate at different levels and exert varying influence on the companies' business recipes. Whilst the study shows that organisations are subjected to different levels of beliefs, it is not clear how the actors with which the companies interact, are influenced by the collective beliefs of both companies. This would be essential knowledge for the analysis of whether a rigid distinction between the organisations and their environments, as seemingly posited by business recipe theorists (see Chapter Three), is sustainable. Further research would be needed in order to see whether the framework suggested in section 3.4 is appropriate.

7.5.8 The key determinants of the success and failure of business recipes

Business recipe theorists have so far failed to provide an convincing explanation of what determines the success or failure of business recipes. In this context, the first issue is how - in creating a business recipe - an organisation seeks to ensure that a recipe will succeed, and secondly, what factors determine the success or failure once this recipe has been implemented.

As for the creation of a business recipe, the findings show that managers do not view the strive for efficiency as sufficient to ensure the survival of their companies. Rather, they argue that they try to achieve the highest possible efficiency within the scope of the requirements of the shareholder and society (see sections 5.4.3 and 6.4.3). This seems to suggest that it is essential for the success of a recipe that the requirements of the institutional environments are fulfilled. These findings underpin Whitley's perception of success as being determined by the institutional context (1992a). However, the institutional environment might, as in the case of Esso AG and Esso Petroleum, consist of many and varied institutional influences. In this case, the success of the business recipe can be explained as depending upon the ability of the companies to balance the needs of the varying institutional environments, or in the words of one Esso Petroleum manager, the *consent* of the parties involved becomes the superior goal in the creation of the organisational business recipe.

It is impossible to establish from the case studies what determines the final success or failure of a business recipe. Business recipe theorists posit that business recipes become 'obsolete' when 'changes in the environment' occur (Grinyer and Spender, 1979b; Huff, 1982). However, neither are the nature of the changes explained nor do the theorists provide a convincing conceptualisation of the 'environment' (see also above). They acknowledge the cognitive construction of markets by actors within the market. Other factors, such as government policies, however, are viewed as 'exogenous' (Porac et al, 1989). This seems to suggest that the changes are most likely to be caused by 'exogenous' factors, because the market is pictured as an enclosed entity. This seems a rather inconsistent argument, as part of the environment is pictured as cognitively constructed and part seems to be depicted as of rather technical character. Since a government is a social construct, and should thus not be viewed as 'exogenous' to other actors within a society, it seems likely that it is the interaction and interdependence of different institutions within a society which leads to mutual influences and changes. If we thus assume the environment as largely consisting of institutions, the determinants of the success or failure of a business recipe are likely to be of institutional character. In fact, there have been examples where business recipes have failed due to institutional pressures: As the recent Brent Spar incident illustrates, the negative German public opinion induced Shell to withdraw their plan to dispose of the platform in the North Sea, although the company saw this as being the more economical and ecologically friendly option. In this case, we can see clearly how institutional influences determined the failure of Shell's recipe.

7.6 Conclusions

As shown in this chapter, the business recipes of both Esso AG and Esso Petroleum are to a considerable extent influenced by their national institutional environment. The differences between the business recipes are rooted to a great extent in the underlying societal rationality shaped by the state-systems of the two countries in which the companies operate. This rationality influences the way the managers view the actions of their government, manage the relations with their employees or evaluate the competitiveness of their companies. Especially as far as the latter is concerned, it seems that the ability of the organisations to achieve a satisfactory return to the shareholder Exxon is significantly influenced by the configuration of their national institutional environment to which they must adjust in order to gain legitimacy and survive. The balancing of the needs of the shareholder and society seems to be a primary concern of Esso AG and Esso Petroleum managers. Economic efficiency alone does not ensure the future success of the companies.

Considering the findings outlined in this chapter, we can conclude that the ways the companies operate, as manifested in their recipes, are different to the extent that their national institutional environment allows them to be different. The mutual dependence on Exxon as well as the similarities in their technical environment (see section 7.4.1) would suggest that both companies are quite similar in their operations. However, as we have seen the Esso Petroleum recipe seems overall more goal-oriented, based on self-regulation and individualism, characterised by a high degree of identification of the managers with Exxon goals and policies, and a positive evaluation of the competitive position of their company. The Esso AG recipe, on the other hand, seems overall more means-oriented, based on the collective and consensus, characterised by a high degree of identification with the national environment, and a fairly pessimistic evaluation of the competitive position of the company. On the basis of the findings we can argue, to conclude, that all these features are rooted in the configuration of the respective national institutional environment. Within their own contexts, both companies' recipes are likely to represent the 'taken for granted way of doing things'. The comparison reveals, however, that the key features of the recipes are socially determined, and that success is relative and determined by the institutional context in which the companies are embedded.

8 Conclusions

The purpose of this final chapter is to firstly summarise the contents of the previous chapters. Subsequently, a summary of the key results and implications of the research is provided. Thirdly, the adequacy and validity of institutional theories of organisations and the concept of business recipes in the light of this empirical research are assessed. Fourthly, the methodology applied is critically appraised before lastly, the scope for further study is outlined.

8.1 Summary of the Previous Chapters

This research set out to examine how far business recipes of organisations are influenced by the national institutional context in which they are embedded. In this context, institutional theories of organisations were described in Chapter Two showing that these theories provide an especially sound basis for cross-cultural comparisons. Furthermore, it was argued that organisations should not be viewed as mainly adaptive to their institutional context, as posited by many institutional theorists (for example, Meyer and Rowan, 1977), but that it seemed more realistic to assume that organisations and institutions are interdependent and engaged in mutual interaction. Chapter Three provided an outline of the concept of business recipes. It was shown that this concept in its focus on collective beliefs and underlying rationalities explains well the complexity of the managerial task. As the review rendered clear, though, the concept of business recipes does not provide sufficient explanations as to how to conceptualise the environment of an organisation, or the determinants of the success or failure of business recipes. In Chapter Four, the research task was defined and the methodology described.

Chapters Five and Six presented the case studies of Esso AG and Esso Petroleum focusing on the key components of and contributors to the business recipes of both companies. At the end of each chapter, an overall summary of the key features of the respective business recipes was provided. On the basis of these findings, an analysis was undertaken in Chapter Seven on the basis of the research questions outlined in Chapter Four. It is not the purpose of this concluding chapter to repeat what has already been said in Chapter Seven. Rather, an overview of the key results and implications of the research is provided, and the limitations of the underlying theories and the methods used are outlined. Lastly, the potential scope for further research is summarised.

8.2 Key Results and Implications of this Research

The case studies of Esso Petroleum and Esso AG, despite their common dependence on Exxon and a fair degree of similarity in the technical factors of their environments, demonstrate distinct features in their business recipes which are to a considerable extent rooted in the configuration of the respective national institutional environment. The institutional influences affect the organisations at different levels. This includes the cognitive level as the business recipes were shown in this study to reflect the underlying societal rationalities of the two countries. These findings thus support the assumptions of institutional theorists about the influence of institutions on organisations as well as providing evidence that institutions affect thinking and action at the strategic level of organisations, thereby extending the argument of institutional theorists.

Furthermore, the study illustrated how organisations act facing conflicting institutional pressures. The conflict between the parent company, Exxon, and the state as central coercive power (Zucker, 1987) of the national institutional environment was elaborated, and the need for the managers to reconcile these conflicting demands. The responses of the companies to these conflicting pressures were shown to be institutionally determined with the national institutional environment providing the scope for their actions. It was argued that the relative competitiveness of Esso Petroleum and Esso AG, and thus their ability to achieve a satisfactory return to Exxon is to a considerable extent subject to the configuration of key national institutions in their countries. Moreover, the case studies showed clearly that organisations do not merely strive for economic efficiency but that they pursue this goal within the scope of their institutional environment.

Considering the above key conclusions of this research, we can argue that the development of common business recipes across Europe seems only likely if the configuration of key national institutions becomes similar across boundaries. As Lane (1989: 293) posits, however, entire changes in national institutional patterns are only then possible if the whole institutional fabric is destroyed which requires an event equal to a 'national crisis'. Whilst this is not a probable option, the increasing similarity could take place more slowly with modifications of national institutions being fostered, for example, by the influence of multinationals, global networks and the like. For the moment, however, differences in business recipes are likely to remain prominent across Europe, which this study has illustrated.

The combination of institutional theories of organisations and the concept of business recipes in this thesis is important. Given that they both emphasise collective belief systems, these two sets of theories have similar approaches. However, the foci of their analyses are different: business recipe theorists focus on analysing organisational strategies, whilst institutional theorists have so far focused on the structures and processes of organisations. It was argued (in Chapters One and Four) that the concept of business recipes and institutional theories of organisations may thus well complement each other. This research has established a link between recipes and the broader belief systems as manifested in national institutions. Whilst Whitley (1992a) has brought together the two approaches before, his research dealt with the macro-structures, or business systems of various countries. This research was relatively unique in its focus on business recipes at the organisational level, or in other words, the analysis of the influence of the wider institutional framework on the 'micro-level' strategy formulation.

8.3 Adequacy and Validity of Institutional Theories of Organisations and the Concept of Business Recipes

8.3.1 Institutional Theories of Organisations

In Chapter Seven, institutional theories were utilised in explaining the similarities and differences in the business recipes of Esso AG and Esso Petroleum. The adequacy and validity of institutional theory stood up reasonably well in the light of this empirical work. There is no single approach within institutional theory, and Chapter Seven demonstrates which of the various concepts and theories offered the most explanatory power, and, conversely, those concepts and theories which were not well supported by the empirical evidence. Overall, there are three aspects of mainstream institutional theory which need to be questioned and adapted in the light of the research reported in this thesis. Each of these areas are outlined below.

Firstly, institutional theories have, to date, placed little emphasis upon the conflicts within the institutional environment which force managers to balance the various demands of this environment. Whilst this appears to be a 'normal' feature at Esso AG and Esso Petroleum, and is likely to be so in other companies, only few theorists in the institutional tradition (for example, Oliver, 1991; Rosenzweig and Singh, 1991) have elaborated this aspect of organisational life. This may partly be due to the fact that institutional theorists have only in a few cases analysed strategic actions of organisations, where the need to balance various institutional pressures is likely to be most pronounced. As mentioned in previous chapters, organisational structures and processes have been the predominant concern of institutional theorists. This is despite the fact that the strategies of companies are likely to be influenced by institutions to a considerable extent. More research is needed to elucidate the influence of institutions on the strategies and recipes of organisations and, in particular, the need to balance various institutional pressures.

Secondly, whilst this study has succeeded in showing that differences between the business recipes do exist, it has also demonstrated that the recipes of both companies are similar in many aspects due to the companies' common dependence on Exxon. To some degree the recipes of both companies are 'global' in character as they partly consist of rules and processes which are implemented worldwide by Exxon. Whilst the globalisation thesis has been hotly debated in both the organisational theory and strategy literature (for example, Ohmae, 1990; Whitley, 1994), institutional theorists have tended to focus their attention upon national institutions and national differences. Only a few theorists have drawn attention to the influence of multinational companies on local recipes (for example, Rosenzweig and Singh, 1991). The rationale for this approach is exemplified by Whitley who argues that the postwar internationalisation of firms and markets is limited in degree and significance as long as national institutions among countries vary. This echoes the argument made in section 8.2, above. However, this is not a reason for institutional theory to neglect the world-wide implications of multinational policies and practices.

Thirdly, institutional theory has frequently implicitly assumed the existence of a unitary organisation, the members of which are subject to similar institutional pressures. This study has shown that the various department managers of the two companies are subject to varying degrees of institutional influences (see section 8.3.2). It is equally possible that different institutional pressures will be found among organisational levels; that is, subordinates might have different institutionalised beliefs or 'recipes' to managers. Organisations consist of a variety of social groups and it is misleading to perceive organisations as a unity with common motives and beliefs. Whilst this study in its focus on business recipes at senior management level was unable to show how far institutionalised rules and beliefs vary among the various levels of the organisations analysed, it is important to recognise the possibility of such variations.

8.3.2 The Concept of Business Recipes

In this study, the concept of business recipes was found to be an appropriate means of exploring the interface between institutional pressures and strategy formulation. In this context, the concept has much to offer. However, the adequacy and validity of the concept of business recipes can be questioned on two fronts in the light of this thesis.

Firstly, whilst this study has been able to identify certain key features of the business recipes of Esso Petroleum and Esso AG (see Chapters Five, Six and Seven), the features identified cover only but a small part of the business of the two companies. In general, it is arguable whether there is an *overall* business recipe in organisations. Each department within an organisation is likely to have a distinctive individual recipe, tailored to the particularities of the business with which the department is dealing. The case studies of Esso AG and Esso Petroleum have already demonstrated that the area of Human Resources is subject to strong institutional pressures due, for example, to the specific configurations of the national labour markets in both countries. Areas such as Retail have been shown to be subject to strong technical pressures as well as to institutional pressures, and accordingly, their business recipe is different to that of Human Resources. This illustrates a likely variety of business recipes within organisations which has so far been neglected by theorists in the business recipe tradition. It also suggests that Scott's (1987) division of organisations into four categories (see Chapter Two) depending on their being subjected to varying degrees of institutional and technical pressures, is misleading. A thorough analysis of organisational business recipes seems to require research into the individual recipes of the different departments of the organisations, and, subsequently, an analysis as to whether common features can be identified amongst these individual recipes.

Secondly, it has been a difficult task to research business recipes in this study (for a more detailed evaluation of the methods used, see section 8.4 below). Business recipe theorists have used many different methods to identify underlying managerial rationalities (see, for example, Grinyer and Spender, 1979a; Calori et al, 1992). This difficulty is clearly one of the inherent weaknesses of the concept of business recipes and renders the validity of empirical investigation problematic.

In conclusion, this thesis suggests that institutional theory and the concept of business recipes are capable of improving the understanding of the content and formation of strategy in the two Esso companies. This is not to argue that these theories and concepts are capable of encapsulating all that is important in the strategy formation process; they have strengths and weaknesses. As Morgan (1986) argues, no one metaphor or theoretical approach is capable of illuminating the three dimensional nature of organisational process and outcomes, but different approaches can offer fresh and important insights.

8.4 A Critical Appraisal of the Methodology Applied

This study set out to identify the overall business recipes of both Esso companies and explore the origins of these recipes. In particular the influence of institutional pressure on the business recipe formation was sought. However, the study also wished to consider the possible influence of other factors such as the technical environment and power and politics. It soon became evident that this would not be an easy task.

One of the key methodological problems relates to the concept of business recipes. The research reported in Chapters Five and Six aims to identify a business recipe for each of the two companies. As discussed above, it is arguable whether a single corporate business recipe exists; rather the strategic direction of an organisation could be envisaged as arising out of a collection of business processes and recipes. Whilst it is argued that the broad brush business recipes outlined in Chapters Five and Six have validity, it is also acknowledged that a richer picture of recipe formation and content might have resulted from the application of a different research methodology. A possible method for researching the corporate business recipe would have been to undertake interviews with managers and potentially subordinates of different departments to subsequently identify potential similarities among departmental recipes. This comprehensive method was not possible within the limited time scope of this study.

However, just extending the number of people interviewed does not necessarily answer all the methodological problems. Institutional theory and business recipes seek to explore underlying rationalities and taken-for-granted values. These are not easy to research as the researcher needs to understand the underlying rationale of the behaviour and attitudes of the subjects analysed. The use of interviews in this research is certainly not the best method to identify recipes or the influence of institutions, as the subjects interviewed are unlikely to be aware of their underlying rationality and/or the potential institutional influences. In fact, the managers interviewed had obvious difficulties with the questions asked in Section III of the Standard Interview Schedule used in this study (see Appendix I). Due to the apparent weaknesses of the use of interviews the thorough documentary research undertaken in this study to complement the results from the interviews was essential to ensure to the greatest possible extent the validity of the data obtained. In an ideal situation, certainly, a method such as cognitive mapping, for example with the Senior Executive of the two companies, would have been preferred.

The methodology employed in researching business recipes can be said to focus on either the *process* of recipe formation (for example, the cognitive creation tradition of Spender, 1989), or the *outcome* of recipe formation (for example, the content of business recipes as identified by Whitley, 1992a, which are assumed to be rooted in institutional pressures). Whilst this thesis endeavoured to encapsulate both the content and process of strategy formation, it is acknowledged that the methodology employed means that more is revealed about the content of business recipes than the process of their creation.

Finally, as acknowledged in Chapter Seven, the methodology applied was not well suited to exploring the influence of power and politics on strategy formation. The interviews did not elicit much insight as to whether the business recipes of the two companies were subject to power and politics. Because of this, one may conclude that the two Esso companies could be harmonious entities with little in the way of power and politics. This, however, would be surprising given the empirical evidence to the contrary in other organisations (see, for example, Morgan, 1986). Therefore, it is more likely that the lacking evidence found for power and politics in Esso AG and Esso Petroleum was due to the fact that only little time in the interviews was devoted to revealing the influence of power and politics (see the interview schedules in Appendices I-IV). In addition to this, it could be argued that power and politics might be perceived as part of the private life of the organisation and hence not for discussion in the public forum of a research interview. Lastly, the level of awareness of power and politics amongst staff, particularly those from a technical background, might not be well developed and hence not easily articulated.

Overall, it is acknowledged that the methodology applied in this study has limitations in relation to the research questions which were being investigated. The choice of methodology was largely constrained by the time frame of the M.Phil thesis (one year). Having acknowledged the limitations, it is important to point out that the methodology employed did result in the collection of useful and valid empirical evidence which has shed light upon the core research issues addressed.

8.5 Scope for Further Work

This study has focused on analysing the business recipes of two companies within the mineral oil industry in two different countries. In order to establish whether the findings of Chapter Seven, the key conclusions of which are summarised above, are representative, further research is needed. Firstly, research should be undertaken into the managerial recipes of other oil companies within Britain and Germany and, possibly other European countries. This would reveal whether the findings represented general features of European oil companies. Secondly, research into the recipes of companies in different sectors should be undertaken, which would show whether the conclusions derived in this study are only representative for the oil industry. Thirdly, it would be interesting to expand this research into other continents in order to see whether and to what extent a distinct European institutional framework exists which is reflected in the recipes of European organisations. Lastly, the strive for efficiency of Esso AG and Esso Petroleum has in this study been explained as being an institutionalised ideology of Exxon (see Chapter Seven). Further research into the business recipes of other multinational oil companies would be required in order to see whether efficiency is a requirement of the oil market, as contingency theorists argue, whether it is particular to the Exxon Corporation, or whether it is an institutionalised belief throughout the oil sector.

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Appendices

Appendix I: Standard Interview Schedule

University of St Andrews

Department of Management

'The Effect of the National Institutional Environment on Strategy Formulation: Comparative Case Studies of ESSO in Britain, France and Germany'

Sibylle Hanemann, Betriebswirtin (WA) in submission for the M.Phil in Management, Economics and Politics

Supervisor: Dr. Sandra Nutley

January 1996

Interview-Schedule for the Interviews with Managers of Esso Britain

Date:

Position:

Gender:

Introduction

- *Brief explanation of my CV*
- *Purpose of the analysis*
- *Purpose of the interview (..to understand your business)*

The analysis of your answers will be more effective if I tape our conversation. Would you mind if I recorded this interview? All data will be treated as strictly confidential. You will receive a written out copy of the tape within the next 2 to 4 weeks. Furthermore, the summaries of these interviews as well as the final version of my dissertation will be presented to PA. Thereby it will be ensured that no secret information be published. (IF AGREED WITH,, SET RECORDER UP)

I. General Question Section

PREPARATION: TAPE

First, I would like to ask you some general questions regarding your business unit as well as your personal background.

1. **Tell me briefly about your area of work.**
   (- Span of control?)

2. How does it fit into Esso as a whole?

3. How long have you been in this position?

…………….years.

4. How long have you been with Esso?

……………. years.

5. Which kind of education did you pursue before/during your career with Esso?

II. Open Question Section

0.1. To come back to your strategy, within which time period do you normally have to present an updated strategy?

0.2 Do you normally present it to a member of board of ESSO A.G., or also to representatives of EXXON?

1. GET CARDS OUT (TO NOTE FACTORS)
TAPE!

Please take me through the process of strategy formulation which you underwent when you formulated your current strategy and name the factors that you took into consideration.

WRITE ANSWERS ON CARDS - EACH FACTOR ONE CARD.

2. **Who was involved in the process of strategy formulation?**

3.1. To what extent are you given guidelines within which to develop the strategy of your unit?

3.2. What are they?

4. On these cards, I have listed the factors you mentioned in 1.. Which of these do you consider as most influential on your strategy? Please put the cards in a ranking order.

Ranking order:

5. Why do you think, these factors are more influential?

6. If you compare your business unit with those in Britain and Germany, which differences come into your mind?

7. **Do these differences lead to comparative (dis)advantages on your part?**

III. Closed Question Section

1. Institutions Relative to Institutions in Other Environments

Preparation! GET CARDS OUT: 'INSTITUTIONAL ENVIRONMENTS'

(Which institutions are more important/Rating?)

- **General National Institutions vs General International Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the general international institutions.

- **General National Institutions vs Sector-Specific Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the sector-specific institutions.

- **General National Institutions vs Multinational Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

- **General International Institutions vs Sector-Specific Institutions**

The general international institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the sector-specific institutions.

- **General International Institutions vs Multinational Institutions**

The general international institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

- **Sector-Specific Institutions vs Multinational Institutions**

The sector-specific institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

2. In the organizational literature, a number of statements can be found regarding the way organizations adjust to institutional pressures. Could you please tell me in which of the following situations this pattern of adjustment actually corresponds with the way you adjust your own strategy?

HAND HIM/HER THE SHEETS OVER

EXPLAIN DIFFERENCES BETWEEN WAYS OF ADJUSTMENT

EXPLAIN HOW TO FILL SHEETS IN (RANKING ORDER IF POSSIBLE)

3. **As mentioned above, theorists in organizational analysis determine different kinds of influence on the strategy formulation of a company/ of a strategic unit. Among others, there are**

- **The Institutional Environment**
- **The Technical Environment**
- **The Power and Politics Within the Organization**

In this last section, we would like to find out how influential you perceive these categories of factors relative to one another when it comes to your strategy formulation.

GET CARDS OUT.....

- **TECHNICAL ENVIRONMENT**

Influence

5	4	3	2	1
Very strong	Strong	Moderate	Weak	None

- **INSTITUTIONAL ENVIRONMENT**

Influence

5	4	3	2	1
Very strong	Strong	Moderate	Weak	None

- **POWER AND POLITICS**

Influence

5	4	3	2	1
Very strong	Strong	Moderate	Weak	None

Please put numbers from 1 to 6 into the brackets according to your own ranking order of likely responses to the institutions specified (1= most likely way of adjustment; 6 = least likely way of adjustment).

INSTITUTIONS	CATEGORIES OF RESPONSE TO INSTITUTIONAL PRESSURES					
	I adjust fully to the rules set by this institution find a compromise	I try to address the institution; to enter into negotiations; to	I try to avoid adjustment	I ignore the institution	I try to actively manipulate the institution; to exert pressure; to shape its rules	Other (Please specify)
I. General National Environment						
THE STATE *(laws, recommendations, cooperations)*	( )	( )	( )	( )	( )	( )........... ....
THE FINANCIAL SYSTEM *(banks, capital market)*	( )	( )	( )	( )	( )	( ).................................
THE LABOUR MARKET INST.	( )	( )	( )	( )	( )	( ).................................
PUBLIC OPINION	( )	( )	( )	( )	( )	( ).................................
EDUCATIONAL SYSTEM (vocational training, universities ...)	( )	( )	( )	( )	( )	( ).................................
PRESSURE GROUPS (e.g. Greenpeace, B.U.N.D)	( )	( )	( )	( )	( )	( ).................................
PROFESSIONS	( )	( )	( )	( )	( )	( ).................................
....	( )	( )	( )	( )	( )	( ).................................

Comments:

Please put numbers from 1 to 6 into the brackets according to your own ranking order of likely responses to the institutions specified (1= most likely way of adjustment; 6 = least likely way of adjustment).

INSTITUTIONS	CATEGORIES OF RESPONSE TO INSTITUTIONAL PRESSURES					
	I adjust fully to the rules set by this institution	I try to address the institution; to enter into negotiations; to find a compromise	I try to avoid adjustment	I ignore the institution	I try to actively manipulate the institution; to exert pressure; to shape its rules	Other (Please specify)
II. General International Environment						
EUROPEAN UNION *(laws, commitees, recommendations...)*	( )	( )	( )	( )	( )	( ) ....
OECD *(Committees, ...)*	( )	( )	( )	( )	( )	( ) ....
INTERNATIONAL PUBLIC OPINION	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
III. Sector-Specific Environment						
OPEC	( )	( )	( )	( )	( )	( ) ....
ROTTERDAM	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....

Comments:

Please put numbers from 1 to 6 into the brackets according to your own ranking order of likely responses to the institutions specified (1= most likely way of adjustment; 6 = least likely way of adjustment).

INSTITUTIONS	CATEGORIES OF RESPONSE TO INSTITUTIONAL PRESSURES					
	I adjust fully to the rules set by this institution	I try to address the institution; to enter into negotiations; to find a compromise	I try to avoid adjustment	I ignore the institution	I try to actively manipulate the institution; to exert pressure; to shape its rules	Other (Please specify)
IV. Multinational Environment						
OIMS	( )	( )	( )	( )	( )	( ) ....
ANY EXXON GUIDELINES	( )	( )	( )	( )	( )	( )..................................
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....

Comments:

4. ----> ONLY IF ANSWERS TO **QUESTION 3** NOT SATISFACTORY:

Which factors are more influential?

- **Technical Environment vs Institutional Environment**

The technical environment has ...

much more	more	the same	less	much less

influence on the strategy formulation than the institutional environment.

- **Technical Environment vs Power & Politics**

The technical environment has ...

much more	more	the same	less	much less

influence on the strategy formulation than power & politics within the organization.

- **Institutional Environment vs Power & Politics**

The institutional environment has ...

much more	more	the same	less	much less

influence on the strategy formulation than power & politics within the organization.

5. **What strategy does your business unit tend to pursue ....**

( ) *A strategy which achieves the most efficient utilization of resources.*

( ) *A strategy which has legitimacy in the eyes of society.*

( ) *A strategy which is acceptable to all stakeholders (i.e. in this context: interest groups within ESSO (including shareholders and employees) at the national/international level).*

<u>Appendix II:</u> Interview-Schedule for Human Resource Manager

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University of St Andrews

Department of Management

'The Effect of the National Institutional Environment on Strategy Formulation: Comparative Case Studies of ESSO in Britain, France and Germany'

Sibylle Hanemann, Betriebswirtin (WA) in submission for the M.Phil in Management, Economics and Politics

Supervisor: Dr. Sandra Nutley

January 1996

Interview-Schedule for the Interviews with Managers of Esso Britain

Date:

Position: **Personnel Manager**

Gender:

<u>Introduction</u>

- *Brief explanation of my CV*
- *Purpose of the analysis*
- *Purpose of the interview (..to understand your business)*

The analysis of your answers will be more effective if I tape our conversation. Would you mind if I recorded this interview? All data will be treated as strictly confidential. You will receive a written out copy of the tape within the next 2 to 4 weeks. Furthermore, the summaries of these interviews as well as the final version of my dissertation will be presented to PA. Thereby it will be ensured that no secret information be published. (IF AGREED WITH,, SET RECORDER UP)

I. General Question Section

PREPARATION: TAPE

First, I would like to ask you some general questions regarding your business unit as well as your personal background.

1. **Tell me briefly about your area of work.**
   (- Span of control?)

2. How does it fit into Esso as a whole?

3. How long have you been in this position?

................years.

4. How long have you been with Esso?

.... years.

5. Which kind of education did you pursue before/during your career with Esso?

II. Open Question Section

1. Do you provide a yearly personnel strategy?
If Yes, which factors do you take into consideration when formulating your strategy?

2. Do you normally present your strategy/ your plans to a member of board, or also to representatives of Exxon?

3. Who was involved in the process of strategy formulation?

4. Do you consult any external organisation/are there any cooperations with other companies within the sector/among sectors?

5. How is the influence of the state on your personnel strategy / plans?

6. To what extent are you given guidelines by the board/by Exxon within which to develop the strategy of your unit?

7. **Does it happen that an Exxon guideline is not implementable in France?**
If yes, why? What happens in these cases?

8. On these cards, I have listed the factors you mentioned in 1.. Which of these do you consider as most influential on your strategy? Please put the cards in a ranking order.

Ranking order:

9. If you compare your business unit with those in France and Germany, which differences come into your mind?

10. Do these differences lead to competitive (dis)advantages on your part?

11. Does your company undertake vocational training of employees?
( ) Yes ( ) No.

11.1. If Yes, which professions are trained?

Do you cooperate with external organisations?

Where are former trainees placed?

11.2. If No, why not?

12. **Does Codetermination exist in Esso Britain?**
( ) Yes **( ) No.**

12.1. **If Yes, how are the employees organised?**

12.2. How influential are these employee formations?

13. How is the influence of unions on your business?

14. **How do you set...**
1. Wages
2. Welfare Benefits?

(To what extent are they set **internally?** (insurance and pension schemes eg.), influence of **state**?)

15. What strategy does Esso Britain tend to pursue ....

( ) *A strategy which achieves the most efficient utilization of resources.*

( ) *A strategy which has legitimacy in the eyes of society.*

( ) *A strategy which is acceptable to all stakeholders (i.e. in this context: interest groups within ESSO (including shareholders and employees) at the national/international level).*

<u>Appendix III:</u> Interview Schedule for the Public Affairs Manager

University of St Andrews

Department of Management

'The Effect of the National Institutional Environment on Strategy Formulation: Comparative Case Studies of ESSO in Britain, France and Germany'

Sibylle Hanemann, Betriebswirtin (WA) in submission for the M.Phil in Management, Economics and Politics

Supervisor: Dr. Sandra Nutley

January 1996

Interview-Schedule for the Interviews with Managers of Esso Britain

Date:

Position: **Public Relations Manager**

Gender:

<u>Introduction</u>

- Brief explanation of my CV
- Purpose of the analysis
- Purpose of the interview (..to understand your business)

The analysis of your answers will be more effective if I tape our conversation. Would you mind if I recorded this interview? All data will be treated as strictly confidential. You will receive a written out copy of the tape within the next 2 to 4 weeks. Furthermore, the summaries of these interviews as well as the final version of my dissertation will be presented to PA. Thereby it will be ensured that no secret information be published. (IF AGREED WITH,, SET RECORDER UP)

I. General Question Section

PREPARATION: TAPE

First, I would like to ask you some general questions regarding your business unit as well as your personal background.

1. **Tell me briefly about your area of work.**
   (- Span of control?)

2. How does it fit into Esso as a whole?

3. How long have you been in this position?

................years.

4. How long have you been with Esso?

.... years.

5. Which kind of education did you pursue before/during your career with Esso?

II. Open Question Section

In the following, I would like to get some information regarding the relationships between

A. Esso - Exxon / Esso - Other Subsidiaries
B. Esso - Public
C. Esso - Government

A. Esso - Exxon / Esso - Other Subsidiaries

1. To what extent is Esso given guidelines by Exxon within which to develop its corporate strategy?

2. If you compare Esso Britain with your sister companies in France and Germany, which differences come into your mind?

3. Do these differences lead to competitive (dis)advantages on your part?

4. Who are the main interest groups within Esso at the ...

4.1. national level

4.2. international level

B. Esso - Public

1. How would you describe the current national public opinion? How does the public perceive the mineral oil sector and Esso in particular?

2. **Are there any areas in your business where the British public opinion are in conflict with the guidelines of Exxon? What happens in these cases?**

C. Esso - Government

1. How do you rate the importance of the mineral oil sector within the British economy?

2. What is the character of your relation to the government?

(3. What is the attitude of the British government towards you as multinational?)

III. Closed Question Section

1. Institutions Relative to Institutions in Other Environments

Preparation! GET CARDS OUT: 'INSTITUTIONAL ENVIRONMENTS'

(Which institutions are more important/Rating?)

- **General National Institutions vs General International Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the general international institutions.

- **General National Institutions vs Sector-Specific Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the sector-specific institutions.

- **General National Institutions vs Multinational Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

- **General International Institutions vs Sector-Specific Institutions**

The general international institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the sector-specific institutions.

- **General International Institutions** **vs** **Multinational Institutions**

The general international institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

- **Sector-Specific Institutions** **vs** **Multinational Institutions**

The sector-specific institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

2. **In the organizational literature, a number of statements can be found regarding the way organizations adjust to institutional pressures. Could you please tell me in which of the following situations this pattern of adjustment actually corresponds with the way you adjust your own strategy?**

   HAND HIM/HER THE SHEETS OVER

   EXPLAIN DIFFERENCES BETWEEN WAYS OF ADJUSTMENT

   EXPLAIN HOW TO FILL SHEETS IN (RANKING ORDER IF POSSIBLE)

Please put numbers from 1 to 6 into the brackets according to your own ranking order of likely responses to the institutions specified (1= most likely way of adjustment; 6 = least likely way of adjustment).

INSTITUTIONS	CATEGORIES OF RESPONSE TO INSTITUTIONAL PRESSURES					
	I adjust fully to the rules set by this institution find a compromise	I try to address the institution; to enter into negotiations; to	I try to avoid adjustment	I ignore the institution	I try to actively manipulate the institution; to exert pressure; to shape its rules	Other (Please specify)
I. General National Environment						
THE STATE (*laws, recommendations, cooperations*)	( )	( )	( )	( )	( )	( )........... ....
THE FINANCIAL SYSTEM (*banks, capital market*)	( )	( )	( )	( )	( )	( )................................
THE LABOUR MARKET INST.	( )	( )	( )	( )	( )	( )................................
PUBLIC OPINION	( )	( )	( )	( )	( )	( )................................
EDUCATIONAL SYSTEM (vocational training, universities ...)	( )	( )	( )	( )	( )	( )................................
PRESSURE GROUPS (e.g. Greenpeace, B.U.N.D)	( )	( )	( )	( )	( )	( )................................
PROFESSIONS	( )	( )	( )	( )	( )	( )................................
....	( )	( )	( )	( )	( )	( )................................

Comments:

Please put numbers from 1 to 6 into the brackets according to your own ranking order of likely responses to the institutions specified (1= most likely way of adjustment; 6 = least likely way of adjustment).

INSTITUTIONS	CATEGORIES OF RESPONSE TO INSTITUTIONAL PRESSURES					
	I adjust fully to the rules set by this institution	I try to address the institution; to enter into negotiations; to find a compromise	I try to avoid adjustment	I ignore the institution	I try to actively manipulate the institution; to exert pressure; to shape its rules	Other (Please specify)
II. General International Environment						
EUROPEAN UNION *(laws, commitees, recommendations...)*	( )	( )	( )	( )	( )	( ) ....
OECD *(Committees, ...)*	( )	( )	( )	( )	( )	( ) ....
INTERNATIONAL PUBLIC OPINION	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
III. Sector-Specific Environment						
OPEC	( )	( )	( )	( )	( )	( ) ....
ROTTERDAM	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....

Comments:

Please put numbers from 1 to 6 into the brackets according to your own ranking order of likely responses to the institutions specified (1= most likely way of adjustment; 6 = least likely way of adjustment).

INSTITUTIONS	CATEGORIES OF RESPONSE TO INSTITUTIONAL PRESSURES					
	I adjust fully to the rules set by this institution	I try to address the institution; to enter into negotiations; to find a compromise	I try to avoid adjustment	I ignore the institution	I try to actively manipulate the institution; to exert pressure; to shape its rules	Other (Please specify)
IV. Multinational Environment						
OIMS	( )	( )	( )	( )	( )	( ) ....
ANY EXXON GUIDELINES	( )	( )	( )	( )	( )	( )................................
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....
....	( )	( )	( )	( )	( )	( ) ....

Comments:

3. **As mentioned above, theorists in organizational analysis determine different kinds of influence on the strategy formulation of a company/ of a strategic unit. Among others, there are**

- **The Institutional Environment**
- **The Technical Environment**
- **The Power and Politics Within the Organization**

In this last section, we would like to find out how influential you perceive these categories of factors relative to one another when it comes to your strategy formulation.

GET CARDS OUT.....

- **TECHNICAL ENVIRONMENT**

Influence

5	4	3	2	1
Very strong	Strong	Moderate	Weak	None

- **INSTITUTIONAL ENVIRONMENT**

Influence

5	4	3	2	1
Very strong	Strong	Moderate	Weak	None

- **POWER AND POLITICS**

Influence

5	4	3	2	1
Very strong	Strong	Moderate	Weak	None

4. ----> ONLY IF ANSWERS TO **QUESTION 3** NOT SATISFACTORY:

Which factors are more influential?

- **Technical Environment vs Institutional Environment**

The technical environment has ...

much more	more	the same	less	much less

influence on the strategy formulation than the institutional environment.

- **Technical Environment vs Power & Politics**

The technical environment has ...

much more	more	the same	less	much less

influence on the strategy formulation than power & politics within the organization.

- **Institutional Environment vs Power & Politics**

The institutional environment has ...

much more	more	the same	less	much less

influence on the strategy formulation than power & politics within the organization.

5. **What strategy does Esso SAF tend to pursue ....**

( ) *A strategy which achieves the most efficient utilization of resources.*

( ) *A strategy which has legitimacy in the eyes of society.*

( ) *A strategy which is acceptable to all stakeholders (i.e. in this context: interest groups within ESSO (including shareholders and employees) at the national/international level).*

<u>Appendix IV:</u> 'Information-Interview' Schedule

University of St Andrews

Department of Management

'The Effect of the National Institutional Environment on Strategy Formulation: Comparative Case Studies of ESSO in France, Britain and Germany'

Sibylle Hanemann, Betriebswirtin (WA) in submission for the M.Phil in Management, Economics and Politics

Supervisor: Dr. Sandra Nutley

September 1995

Interview-Schedule for the 'Info-Interview' with the Esso Public Relations Department

This interview will be divided into two sections: A general and a specific question section. First, I would like to get some more information on ESSO A.G..

The analysis of your answers will be more effective if I tape our conversation. Would you mind if I recorded this interview? (IF NO, SET RECORDER UP)

I. General Question Section

<u>1. Employees</u>

1.1. What is the current size of Esso? (Number of employees)

1.2. What is the current yearly turnover of personnel?

1.3. How many employees of ESSO A.G. are sent from EXXON?

1.3.1. Among the management ....

1.3.2. Among the other employees ....

1.4. What is the nature of the managers?
(trained vs untrained; specialistic vs generalistic)

2. Organizational Structure

2.1. Which is the basis upon which the business units are combined?
(Function, Product, Geographical Area, Market Segment)

2.2. What is the character of these business units?
(e.g. profit centre)

2.2. How many hierarchy levels does Esso A.G. have?

2.3. What is the average span of control of managers of the business units?

3. Coordinating Mechanisms Among Business Units

( ) only at the management level

( ) through project teams consisting of managers or other employees or both

( ) other ....

4. Organizational Politics

4.1. Employees

4.1.1. Does codetermination exist in ESSO A.G.?

( ) Yes

( ) No

4.1.2. If yes, how are the employees organized?

4.1.3. How powerful are these employee formations within ESSO A.G.?

4.2. Shareholders

4.2.1. Who owns ESSO A.G.

	Percentage
( ) banks	....
( ) competitors	....
( ) EXXON	....
( )	....
( )	....
( )	....

4.2.2. (IF NOT CLEAR FROM 4.2.1.)

Is ESSO A.G. largely owned by Germans or by Foreigners?

4.2.3. (IF NOT CLEAR FROM 4.2.1.)

Which group of shareholders is most influential?

5. **How do you rate the importance of the mineral oil sector within the German economy?**

II. Specific Question Section

1. Which institutions do you think affect the strategy of ESSO A.G.

1.1 ....within the General National Environment ?

1.2. ....within the General International Environment?

2. Which institutions are specific to the mineral oil sector?

3. Which rules/norms exist within the multinational corporation?

4. How would you rate the institutions mentioned in the previous section regarding their influence on the strategy of ESSO A.G.?

4.1. Within the **General National Environment**

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

• Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

• Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

• Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

• Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

• Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

• Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

• Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

4.2. Within the **General International Environment**

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

4.3. Within the **Sector-Specific Environment**

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

4.4. Within the **Multinational Environment**

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution:...

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

- Institution: ....

Influence.......

5	4	3	2	1
Very Strong	Strong	Moderate	Weak	None

5. How do you rate the influence of institutions in one environment relative to the institutions in an other environment on the strategy of ESSO A.G.?

Preparation! GET CARDS OUT: 'INSTITUTIONAL ENVIRONMENTS'
ADD NEW INSTITUTIONS, IF NECESSARY.

- **General National Institutions vs General International Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the general international institutions.

- **General National Institutions vs Sector-Specific Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the sector-specific institutions.

- **General National Institutions vs Multinational Institutions**

The general national institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

- **General International Institutions vs Sector-Specific Institutions**

The general international institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the sector-specific institutions.

- **General International Institutions vs Multinational Institutions**

The general international institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

- **Sector-Specific Institutions vs Multinational Institutions**

The sector-specific institutions have...

much more	more	the same	less	much less

influence on the strategy formulation than the multinational institutions.

As mentioned in the outline sent to you, theorists in organizational analysis determine different kinds of influence on the strategy formulation of a company/of a strategic unit. Among others, there are

- **The Institutional Environment**
- **The Technical Environment**
- **The Power & Politics Within the Corporation.**

SHOW DIAGRAM

In the following section, I would like to get some more information on the latter two environments.

6. Which technical factors exist in the environments of ESSO that affect its strategy

6.1. Within the **General National Environment**

Factor	Features (Nature, Influence...)

6.2. Within the **General International Environment**

Factor	**Features (Nature, Influence...)**

6.3. Within the **Sector-Specific Environment**

Factor	**Features (Nature, Influence...)**

6.4. Within the **Multinational Environment**

Factor	Features (Nature, Influence...)

7. Who are the main interest groups within ESSO at the

7.1. National level

7.2. International level

8. Which of these groups do you consider as most powerful and why?

8.1. At the national level...

Group (Ranking list)	Reason for power

8.2. At the international level...

Group (Ranking list)	Reason for power

9. Which is the strategy that Esso pursues?

( ) *A strategy which achieves the most efficient utilization of resources.*

( ) *A strategy which has legitimacy in the eyes of society.*

( ) *A strategy which is acceptable to all stakeholders (i.e. in this context all interest groups within ESSO A.G., including employees and shareholders)*

( ) *Other*

10. In your opinion, is this (9.1/2) how ESSO presents itself to the public?

Appendix V The General Environment of Esso UK Plc

1 Economic Profile of Britain

For most of its post-war years Britain's economy has been characterised by a low level of productivity relative to its competitors, low rates of investment and economic growth, a lack of skilled labour and high levels of inflation. According to writers such as Wiener (1981) or Crafts (1992), these problems which became increasingly visible from the 1960s onwards were caused by institutional inertia rooted in the process of industrialisation through which Britain had gone a century before. Examples of this are the system of Industrial Relations, the centralised character of British policy-making as well as the system of education and training, as well as an overall focus on individualism and pragmatism.

The first post-war government, headed by the Labour party, broke with the long laissez-faire tradition of British economic policy by introducing an interventionist notion. This included the nationalisation of key industries and the overall transformation of Britain into a 'welfare state'. Subsequent governments did not change this overall interventionist stance thereby following a 'consensus policy'. This changed when Margaret Thatcher came to power as she was determined to reverse Britain's economic decline by way of decisive structural reforms. In the following years, the Thatcher government broke with the tradition of consensus as well as reduced the notion of a welfare state. Since 1979 numerous formerly state-owned companies have been privatised (eg. British Gas, British Coal, British Telecom), union power has largely been reduced and a strict monetary policy has been followed to keep inflation low (eg. Michie, 1992). Nevertheless, in the 1980s Britain experienced two recessions - the first from 1980 to 1982 caused by high interest rates coupled with a highly overvalued sterling and a world recession following the 1979 oil crisis. Firms, especially in the manufacturing sector, were forced to increase productivity by laying off workers and making more efficient use of their capital. Despite the thus achieved increase in productivity, investment and output growth in the manufacturing sector remained low. This weak national industrial output faced a rapid expansion of consumer demand. This resulted in a trade deficit and a high inflation rate which led to the second recession in 1989.

Since September 1992, the date of Britain's exclusion from the European Exchange Rate Mechanism, the British economy has been recovering. The rate of unemployment was 8.2% in 1995 (Turner, 1996: 3)* which is low compared with Britain's European competitors. The growth in GDP was 3.8% in 1994, and public sector borrowing was reduced. Nevertheless, commentators criticise the still inherent structural weaknesses in the UK economy (Bharmal, 1994a; 1994b;The Economist, June 8, 1996) and the overall short-termist, stop-go nature of British policy making.

In this context, Britain's economy is still characterised by a low investment especially in the manufacturing sector. Furthermore, productivity in absolute terms still lags behind countries like Japan, the United States, Germany and France (The Economist, May 28, 1994). In addition, investment in overall R&D as proportion of GDP is low and the economy is still lacking skilled labour. With regard to the latter the British government is attempting to reform the system of Education and Training. However, decisive reforms in this area would most likely end the present labour-cost advantage which Britain enjoys relative to its European neighbours, as more skilled labour would be more likely to demand higher wages and thus labour costs would increase.

Despite these conflicting ends of the British government, Britain has overall been deemed a relatively favourable environment for business, characterised by little labour legislation and low total labour costs as well as an overall non-interventionist state system. With these features, Britain has attracted more foreign investors than most other European countries (OECD, 1995a).

2 British Energy Policy

The United Kingdom has large resources of oil, natural gas and coal. The importance of coal for the British economy has decreased considerably since the first major oil and gas findings in the North Sea. Gas and oil exploration and production form an important part of the British economy. In fact, the country is the sixth largest oil producer in the world (Encyclopaedia Britannica, 1993). In '1994, overall primary fuel consumption was fully met by indigenous production' (Department of Trade and Industry, 1995: 9). Accordingly, the energy independence of Britain is high, being 98.7% in 1992.

* During 1996 the unemployment rate has increased. However, as interviews were undertaken in 1995/early 1996, reference will not further be made to more recent figures.

Up to the 1980s British energy policy was largely based upon the protection of domestic coal production. Three of the energy industries - coal, electricity and gas -were nationalised up to the 1980s and 1990s respectively. The justification for this policy was the goal of security of supply and diversification of sources of energy. After the discovery of huge oil and gas fields in the United Kingdom Continental Shelf the importance of coal for the British economy decreased considerably. The two major oil crises of the 1970s led the British government to change their policy towards encouraging the use of lighter, more economical oil products or other sources of energy, and advocating energy efficiency. Despite a halt in the increasing oil demand (see below) following the crises the overall support for oil and gas exploration and production did not decrease. Under the Thatcher Government, then, British Coal finally lost its influence on local energy policy, and plans to privatise the company were formed along with the privatisation of British Gas and the electricity industry.

Despite this development, competition is still restricted in the energy sector and since its privatisation the electricity industry as well as the gas industry have been subject to regular enquiries by the Monopolies and Mergers Commission and OFGAS, the regulator for the gas industry, as well as by the respective electricity regulator.

As for the oil industry state presence was long ensured through the British National Oil Corporation (BNOC) from 1975 to the mid 1980s. Also the British Petroleum Company (BP) was state-owned. However, the state started selling the latter's shares in this company as early as 1979. In 1982, the downstream and upstream activities of BNOC were separated and later on privatised. Since the privatisation of these companies, the influence of the state on the oil industry has been exercised generally by way of licensing, environmental and safety controls and the fiscal framework (IEA, 1994a: 465). Oil prices generally follow the world markets. However, the government directs the consumption of certain oil products by way of taxation and in accordance with environmental and energy efficiency goals. An example of this is the higher level of excise duty for leaded fuel relative to unleaded fuel and diesel fuel. From April 1995, leaded petrol was subject to an excise duty of 36.1 pence per litre, and unleaded as well as diesel of 31.1 pence (Smith, 1995: 100). In fact, this duty is meant to increase in the following years in line with British environmental goals. As Smith (ibid: 101-102) explains, 'the government (in Britain) has made a commitment, as part of its strategy to curb greenhouse gas emissions, to a steady annual increase in motorfuel duties, of 3% in real terms.'

This policy is a matter of great concern for the British oil industry. As Keith Taylor points out (in Esso UK plc, 1995b: 3), 'taxation on motor fuels (...) has increased by 30% over the past two years, and in the Chancellor's November Budget statement the duty on domestic and industrial heating oils and fuel oil was increased without any change in taxation on competing fuels. This trend towards increased levels of taxation on fuel products is a cause for concerns.' In this context, the oil industry fears especially the decreasing international competitiveness of the UK due to additional costs.

3 The UK Oil Demand

Over the past 30 years, UK oil demand has experienced a fundamental change. Whilst the demand for oil increased steadily before the first oil crisis in 1973, this crisis and the 1979 crisis led to a decline in the demand for oil by about 1/5 from the early 1970s to about 83 million in mid 1995 (Esso UK,1995a). Furthermore, the structure of demand has changed. These developments are a consequence of the oil price rises following the oil crises which led to the above explained re-orientation in British energy policy. Whilst heavier fuels have largely been replaced by other sources of energy, oil products like petrol, diesel and aviation fuels, used in transport were not substitutable and have accordingly experienced steady growth. In this context, British energy policy has encouraged the increased use of environmentally friendly products (see above). Recent years have witnessed the increase in the demand for unleaded petrol and diesel fuel to the detriment of leaded petrol. In fact, the proportion of unleaded petrol has risen 'from a negligible share of total petrol sales in 1986 to about half of total sales in 1993' (Smith, 1995: 109), and to about 61% in the first quarter of 1995 (Department of Trade and Industry, 1995: 62).

4 The Petroleum Industry and the British Economy

The mineral oil sector in the UK has a share of GNP of approximately 3-4% (Esso UK Public Relations Manager). The industry is clearly dominated by the North Sea oil production. Since the discovery of major oil fields in the United Kingdom Continental Shelf in the 1970s the upstream side of the British petroleum industry has contributed an important part to the UK economy as a whole. This especially in terms of its contribution to the UK's energy independence (see above) and trade. North Sea oil is of high quality as it is light and low in sulphur, and thus can be sold at high prices on the international markets. The export of North Sea crude has accordingly been very beneficial for the UK balance of trade. Furthermore, due to a variety of taxes regulating the offshore activities (such as the Petroleum Revenue Tax up to 1983 for all oil fields and since then only for the already existing ones) the upstream side of the oil business has been a significant revenue raiser for the government.

As for the downstream side of the oil business, the refining and marketing of oil products has long been established in the British market. Esso UK's forerunner, the Anglo-American Oil Company, was established as early as 1888. Also the downstream industry has led to fairly substantial revenues for the British state. In 1990, 'motor fuel taxes (alone) accounted for 5% of total tax revenues in the UK' (Smith, 1995: 100).

The petroleum industry is a capital rather than labour-intensive industry. The overall number of employees in the petroleum industry has furthermore decreased largely since the 1970s when, as a reaction to the oil crises, oil companies rationalised their operations.

5 Actors and Current Issues in the UK Petroleum Market

Due to the characteristic features of the oil industry (see Appendix VII for details) the companies active in the upstream and downstream in the UK are primarily multinationals. Nevertheless, this might change in the longer term as several formerly state-owned refining-marketing companies such as Elf, Total, Statoil or Agip are increasing their share in the European market. Furthermore, several independent private companies exist which, however, hold a negligible share of the British market.

As far as the upstream is concerned, firms like Shell, Exxon, and BP have a large stake in the North Sea operations. In recent years, the North Sea industry has been subject to increasing difficulties rooted in the gradual depletion of existing oil and gas fields and the depressed world crude oil price. Since the oil price collapse in 1986 when there was a huge surplus of crude oil on the world market, the price of crude oil has been subject to short term fluctuations. In 1994 oil prices averaged $15.8 a barrel (£ 10.3) a 10% decrease from 1993 (Esso UK plc, 1995b).

As for the downstream side, also this is clearly dominated by internationally active companies. In refining as well as retail , Esso, Shell and BP are at the top of the list of oil companies in Britain followed later on by multinationals like Mobil Oil or Gulf Oil. However, some independent companies are represented in the market as well as, in the retail sector, retail chains.

With regard to the latter, in recent years the development of hypermarkets has been of rising concern to the British oil industry. Hypermarkets are large supermarkets that sell petroleum products at a very low price (as so-called 'loss-leaders') to attract customers to their retail stores. Since 1990 the hypermarkets in Britain have experienced a threefold increase in market share and currently hold a 25% share of the British market (The Economist, January 27th, 1996:66).

As for the refining industry, the changes in oil demand have led to two major challenges for the oil industry. Firstly, the refineries face an increasing consumer preference for lighter oil products. Secondly, the overall decrease in oil demand has led to an excess capacity on the refining side and thus to increased competition worldwide. The latter results in very low refinery margins throughout the world including Europe. In Western Europe, there is an overcapacity of 10 refineries (approximately 10%), and in Britain alone the capacity is exceeded by two refineries.

The current difficulties of the European downstream industry have recently led BP and Mobil Oil to merge their refining and marketing operations in Europe. Whether this will be a trend throughout the European oil industry is not certain. Cooperations have as yet primarily been in the upstream part of the oil business (Petroleum Economist, April 1996: 38-39).

Appendix VI The General Environment of Esso AG

1 Economic Profile of Germany

From its establishment in 1949 until the German reunification in 1990, the Federal Republic of Germany was overall characterised by a superior economic performance relative to its European neighbours. Inflation was low, the German living standard was high with high wages and a comprehensive social security system. Despite a slow-down of economic growth during the 1970s and early 1980s with recessions from 1974-75 and 1980-82, this performance was sustained up to 1990 when West Germany's GDP ranked fourth in the world after the United States, Japan and the former Soviet Union (Encyclopaedia Britannica, 1993). However, during the 1980s already, structural weaknesses of the West German system became visible which were mainly rooted in the principle of consensus politics on which the German system is based (Hauser, 1995).

The Federal Republic of Germany was created in 1949 under the control of the Allied Forces USA, Great Britain and France. In order to prevent the system from being abused by a totalitarian power, as previously experienced, and to separate it clearly from the Communist notion, the Federal Republic became based on strong democratic principles. An underlying system of 'Social Market Economy' (Soziale Marktwirtschaft) 'combined elements of a market economy with strong labour market regulations, with worker co-determination in big companies, with a social security system based on social insurance principle and geared to maintaining the living standard in case of events that were recognized as social risks' (Hauser, 1995:45). Furthermore, a system of consensus politics evolved where the economic actors such as the parties, trade unions, employers, Länder governments or the Federal Bank discuss and negotiate matters of common concern to ensure that all opinions be heard and integrated.

During the post-war years governments adhered to the principles of the social market economy and the development of policies by way of consensus among different parties involved. From the 1950s to the beginning of the 1970s West Germany witnessed the 'German Economic Miracle' with an exceptional rise of GNP and product exports. As Germany is endowed with relatively few natural resources its economic activity became focused mainly on the production and export of goods 'which aimed to compete by offering advanced technical design, high quality and good 'after-sales' service' (Lane, 1989: 7). Within only a few decades Germany developed into a country with a high living standard characterised by high wages and an extensive system of social security, and an innovative and strong manufacturing sector primarily geared towards the export of products. However, resulting from the 1970s oil crises and the collapse of the Bretton Woods system, the country witnessed a slow-down of economic growth. During this time period, West Germany experienced two recessions, from 1974-75 and from 1981-82. Both recessions induced the industry to rationalise and modernise its production in order to keep up with the high-quality and costly image of their products. In fact, the focus on high quality became more and more a prerequisite for the success of a high-wage country like Germany. As the Council of Economic Advisers *(Sachverständigenrat)* stated in 1981 (quoted in Ferner and Hyman, 1992: 221): '(...) A high-wage country (like Germany) cannot afford to fall back on second-hand innovation.'

During the 1980s the inherent structural weaknesses of Germany became increasingly visible. Increasing production costs due to excessive regulation and high taxes as well as labour costs, and the build up of a corpulent welfare-state proved to be an increasing impediment for business activities and threatened the competitiveness of German industry, the most important sector in the German economy. The discussion on Germany as a business location ('Wirtschaftsstandort Deutschland') became a prominent public issue, not just in the face of increasing global competition from low-wage economies of the developing world. From the mid-1980s, the government under Chancellor Kohl became committed to supply-side reforms encompassing deregulation, a business-oriented tax reform, and privatisation. However, the measures undertaken were not as far-reaching as first envisaged, partly due to the strong opposition by the unions. Nevertheless, West Germany experienced a new phase of growth resulting from the rationalisation of industrial production during the recession.

In 1990, Germany was re-unified and the former German Democratic Republic (DDR) was fully integrated into the West German economy. The transformation of the command economy of East Germany into a social market economy proved harder than anticipated due to the underestimated backwardness of the East German economy which, in addition suffered from losing its main export markets of the crisis-ridden Eastern Bloc. Immense financial support has been necessary to modernise the production technology and infrastructure to encourage the development of a service sector and to change the organisation of industrial relations and labour processes (Ferner and Hyman, 1992: 224). Furthermore, there have been considerable problems of unifying the peoples of the East and West, a task still not fully completed.

Since a recent recession from 1990-93 *, the German economy has been recovering, again helped by export growth and rationalisation. Although in 1994, the OECD recorded (1995b: 126) 'the first (...) absolute fall in economy-wide unit labour costs since the end of the war' several challenges to the German economy remain as firms become more internationalised, more knowledge-based firms become established, and the requirements of the new Länder still exist (OECD, 1995b: 131).

Although inflation has been kept low, Germany is now lagging behind other countries in areas such as growth of business productivity, export market share and growth in GDP. Production is still high, as well as R&D as share of GDP, however, unemployment is higher than in Britain with 9.9% in early 1996 (The Economist, February 10th, 1996: 24). Most telling, however, is the fact that Germany has attracted the least foreign investment of European countries (OECD, 1995b: 34). As the OECD (ibid.) states, 'competitiveness is among the factors affecting international direct investment flows. Foreign direct investment in Germany, already small, turned negative (....) in 1994'. Germany 'besides Japan, (...) is the only major OECD country to receive only negligible foreign direct investment.' In addition to this, 'almost 2/3 of manufacturing firms intend to expand outside Germany.' (OECD, 1995b: 37). The discussion of the competitiveness of German industry remains thus on top of the German policy agenda. The call for decisive structural reforms, in this context, has not ceased yet.

2 German Energy Policy

Germany is endowed with relatively few natural resources. Its main natural resources are brown coal (lignite), salt and potash. The indigenous oil production meets only 2% of national demand (Petroleum Review, 1995: 496). Accordingly, energy independence is low at 47.3%, compared with the OECD average of 74%, or for OECD Europe, 61% respectively (IEA, 1994b: 245).

The dependence of Germany on imports of oil and gas have for a long time had a considerable impact on its energy policy. Especially since the oil crises of the 1970s

* Germany experienced the economic recession later than its neighbours as the integration of the five new Länder led to a boom in demand for firms in the West

the focus of energy policy has been on the diversification of sources of supply and sources of energy to ensure the security of supply, the increase in energy efficiency and the support of indigenous sources of energy, ie. coal, and more recently nuclear power. In addition, since 1990, the energy agenda has been dominated by the need to integrate the five new East German Länder with the main goal of privatising the formerly state-owned industry.

The overall aim of secure supply plays, however, a greater role for the government than the cost-effectiveness of energy supply (Brockhaus, 1991: 372). The support of domestic hard coal as well as the lack of competition in the gas and electricity markets do not comply with the principles of cost-effectivenesss and of market-oriented energy policy. Furthermore, the future of nuclear energy is at present an unresolved issue of German energy policy, due mainly to public pressure.

As far as the oil industry is concerned, in recent years, the industry has been taxed to an increasing extent. The government believes that high taxes and thus high energy prices encourage the implementation of energy efficiency measures mainly in the car industry as well as in the oil industry. As a consequence, the consumption of fuel oils is expected to decrease. Furthermore, the tax increases provide the state with further financial means needed to continue the restructuring of the East German Länder. Accordingly, taxes on gasoline were increased by 17% on 1 January 1994 and by 13% on diesel fuel. The taxation on leaded fuel is higher than on unleaded fuel. Also some restructuring in motor vehicle taxes were being considered where tax should be based on emission levels of cars rather than their engine size. In addition, fuel is subject to a Value Added Tax (VAT) of at present 15%. Moreover, the oil industry is subject to comprehensive environmental regulation. In the area of refining alone, there are more than 2000 environment-related laws to be followed (Esso A.G., 1995c: 10). The costs for environmental protection in the Esso refinery at Karlsruhe account for 15% of total costs (ibid: 13). According to a study by Chem Systems on behalf of the German Ministry of Economics in 1995, German refineries bear a cost disadvantage relative to their European competitors of three to four Deutsche Mark (approximately £1.30 to 1.80) (Esso AG, 1995e). For a newly built petrol station, environmental costs amount to almost 20% of investment expenses' (Esso AG, 1996a: 18). Currently, the German government is considering the introduction of a so-called 'Eco-Tax' (Öko-Steuer) to be imposed on local energy industries. This measure is opposed strongly by the German Petroleum industry as it would render business in Germany too costly for the industry to stay in the country.

3 The German Oil Demand

In the post-war years up to the 1970s the oil demand in Germany rose steadily as oil increasingly replaced coal as major source of energy. From 1950 to 1973 the oil demand increased from 4 million tonnes to 134 million tonnes (Siemer, 1995a: 16). This resulted in and was accompanied by a considerable expansion of the national oil industry. However, the oil crises of the 1970s reversed this development as increased oil prices induced governments to rethink and reformulate energy policies and to largely try and substitute oil for other, cheaper sources of energy. Furthermore, the use of lighter oil products was supported. The increased prices and the change in energy policy had an adverse effect on the consumption of mineral oil products. From 1973 to the beginning 1990s national oil demand fell by 1/5 (ibid.). These developments led the German mineral oil industry - like that in the whole of Europe - to decrease capacity in the refining and marketing of products, and in turn to reduce the number of staff.

After 1986, the year of the international oil price collapse, the situation of the German oil industry improved to some extent, helped temporarily by the German unification and the resulting expansion of the German market by 1/4 (ibid.). However, the rising demand for oil in East Germany, largely a result of the substitution of traditionally used lignite for heating, as well as the increase in transport, can be expected to be exhausted by the end 1990s. After this date, the demand can be expected to be subject to the same development as that in West Germany. With regard to the latter, the consumption of mineral oil, now at just over 40%, is expected to roughly stay constant. This is due to the fact that the German population is likely to stagnate, and, in longer term, decrease; furthermore, West Germany is a highly developed country in which the demand for energy is nearly saturated and where the improvement of energy efficiency and the increasing consciousness to save energy leads to a reduction in demand. Lastly, only few energy intensive industry are likely to remain in Germany in medium-to long-term (ibid).

4 The Petroleum Industry and the German Economy

The mineral oil sector in Germany has a 1% share in the General Domestic Product (GDP). The importance of the mineral oil sector derives from mineral oil being the main source of energy in Germany with a share of over 40%, and the revenue it brings to the state via Mineral Oil Tax and VAT. In fact, the Mineral Oil Tax has a share of about 18% of the total German tax revenue (Mineralölwirtschaftsverband, 1996b:46). The German state has no shares in the mineral oil market.

The upstream activities of Germany are relatively minor only accounting for 2% of national demand. As for the downstream side of the oil business, the refining and marketing of oil products have been undertaken in Germany since the last century. Esso AG's forerunner, the 'Deutsch-Amerikanische Petroleum-Gesellschaft' was established as early as 1890.

5 Actors and Current Issues in the German Petroleum Market

As the oil business is an international business (see Appendix VII), the companies operating in Germany are largely multinationals. Among these, the Deutsche Aral whose international headquarters are in Germany is the only 'really German' company, according to the Esso AG Public Relation Manager. Most 'foreign' multinationals, however, have been in the German market for about a century. The only company which is merely domestically represented is SRS which, however, has negligible market share.

As explained above, the German oil industry has to bear especially high environmental costs as compared with other countries. The Mineral Oil Tax is among the highest in Europe. Furthermore, Germany has high labour-costs and employment regulations. Accordingly, the current most prominent issue in the German Mineral Oil Industry is the industry's international competitiveness. The area presently most troubled in the German oil business is refining. In contrast to Britain, Hypermarkets do not yet play a dominant role in the German market.

As for the refining industry, the decrease in oil demand and the prospect of the latter's stagnation in the medium-term have led the refining industry to adjust by investing in facilities able to produce the lighter oil products that are in demand. Furthermore, the fall in demand and the resulting overcapacity in Europe have squeezed refining margins. In addition to this situation, which the European refining industry faces as a whole, the German refining industry bears an additional burden with above mentioned excessive regulations in the areas of the environment and labour.

Appendix VII The Petroleum Industry

The purpose of this section is to outline the character of the petroleum or mineral oil industry focusing on its characteristic features as well as on its development and overall influence.

1 Features of the Oil Industry

1.1 International Character

International trade in oil is essential. In fact, 'petroleum is the single most important commodity in international trade, both by volume and by value' (British Petroleum Co. Ltd, 1977: 13). This is mainly due to the following:

Firstly, in the oil industry, the geographical distance between producers and consumers has traditionally been large. The major oil producing area still today is the Middle East, and the major consumers can currently be found among OECD countries, especially in Western Europe and North America.

Secondly, each crude oil explored is of different quality. Depending on the preference of the end-consumers, refineries have to obtain different crudes to ensure the development of finished products of a sufficient quality. As M. Brown (BP Exploration Co. Ltd, 1994: 37) explains: 'If you haven't got the right crude for your refineries then you must buy it in, and sell your own crude to those who prefer it.' The international trade of oil, however, does not merely take place on the commodity market. A substantial part of the oil explored is shifted around within and among the big multinational oil companies.

1.2 Dominance of Big Oil Companies

Since the beginning of the modern oil industry, the latter has been dominated by international oil companies, in particular by the Seven Majors, ie. Exxon, Chevron, Texaco, BP, Gulf Oil, Shell and Mobil. Apart from these, other types of oil companies have been established in the course of the century. These operate, for instance, within national borders, eg. Elf and Total in France or Aral in Germany or the nationalised companies in OPEC countries, or focusing on specific activities within the oil business, like independent refineries. The latter, however, have experienced very challenging times especially during the oil crises as unlike the integrated oil companies they were unable to diversify their risks being dependent on solely one activity. All in all, the national and independent companies have never attained the same importance and international dominance as the 'Seven Sisters', as the major oil companies are often called.

1.3 Roots of the 'Seven Sisters'

As early as 1880, the Standard Oil Trust which had been established by John D. Rockefeller only 10 years before, dominated 90% of the American refining capacity. Thanks to Rockefeller's expansive policy, his business grew to such an extent that in 1911, the US Supreme Court ordered the break up of the Standard Oil Imperium dividing the corporation into entities in accordance with state borders. This break up marked the beginning of three of the seven major oil companies; **Exxon** Corporation evolved from the Standard Oil Company (New Jersey), **Mobil** Oil Corporation developed in 1931 from the merger of the Standard Oil Company(New York) and the Vacuum Oil Company, and **Chevron** has its roots in the Standard Oil Company of California.

Texaco, formerly known as The Texas Company, as well as **Gulf Oil** evolved when the Mellon brothers found an oil well in Texas in January 1901. Within only a few years, both companies expanded greatly their product then being primarily gasoline for the newly developing automobile industry. **Shell** , or correctly, The Royal Dutch/Shell Group has two parent companies, Royal Dutch Petroleum Co. and Shell Transport and Trading Co.. These first operated as rival organisations in the late 19th century but merged in 1903 and 1907 respectively. **BP** was established in 1909 as the Anglo-Persian Oil Company. It was the first company which developed the oil reserves of the Middle East. In 1954 the company changed its name to British Petroleum (BP).

These seven companies are known as the 'Seven Sisters', an expression first used by Enrico Mattei, first president of the Italian state energy group ENI.

1.4 Why Do Big Oil Companies Exist?

The oil business is very capital intensive and risky. Large investments are required by the oil companies before any returns ocur. The returns themselves, however, are subject to constant change.

Capital Intensity

Most stages of the oil business - on the upstream as well as on the downstream side - involve large investments before any returns ocur. Firstly, the exploration for petroleum is a costly process and does not always lead to success. Seismic surveys undertaken prior to the oil drilling can only determine rock formations under the surface that are favourable for oil deposits. The actual presence of oil can only be discovered by way of drilling. In this context, the chance of finding oil is 'no higher than one in ten' (BP Exploration Co. Ltd, 1994:10). Furthermore, not only the exploration for oil is costly, but also the installation of production facilities that follows if crude oil has been explored. Once the crude has been produced it is transported to refineries via pipelines or tankers. The building and running of a refinery requires large capital investments, especially if the refinery is not to be specialised solely on certain oil products. Finally, an extensive distribution network is required to supply the consumers with the products needed.

For most of these processes, especially the exploration, production and the refining, large and constant investments in technology and science are required to ensure the economically most efficient results and the meeting of the customers' needs.

Risks in the Oil Business

As any type of business, the oil business faces risks on the supply and on the demand side of their operations. Each chain of the oil business faces the risk of the changing availability of crude oil and/or finished oil products and of the varying demand for the latter. The following examples will show this:

As the chance to actually find oil is relatively low , an exploring company is never able to estimate confidently how much crude oil it will have available in the future. After the production, if the crude oil is traded on the international commodity markets, the prices of crudes are subject to the oil demand. As we could witness since the 1970s, the latter has undergone substantial changes and the present oil price is weak. A producing company can thus not be certain that the crude oil produced will provide the return required to cover the fixed cost that have arisen during exploration and production. Refineries run similar risks, as they first need to ensure that the right kinds of crudes are available at a competitive price, and after the products are finished, they are dependent on the demand for their products on the market.

Apart from these factors, however, there is one distinct feature of the oil business that renders it much more risky than most other businesses in the economy, and that is the political nature of oil. The availability of the latter is highly dependent on political stability in the producing countries . Not seldom, oil has been a major factor in political disputes and has even been a cause for war, as we could see during the Gulf War in 1990. Political conflicts in the producing countries have often led the consumer countries to impose sanctions on the former as a political means. Oil companies have to be able to cope with these political risk inherent in their business.

2 Features of the Oil Industry as a Result of Cost and Risks

2.1 High Vertical Integration

To reduce the risk of their operations and to ensure an overall satisfactory return, oil companies have traditionally tended to be highly vertically integrated. By this means they provide 'internal markets' at all stages of production up to the finished product. Downstream operations can then count on stable and guaranteed oil supplies to balance their refining and marketing needs; and the upstream side will have an outlet for its crudes. The risk can then be reduced and lies mainly in the finding of crude and the markets which are finally presented with the finished products.

As in the big oil companies, this integration takes place across borders, it has the additional advantage that market needs can be met on an international basis by providing affiliates with the crude oils that meet the needs of their markets best. Thereby, the multinationals attain an international optimum of resource allocation.

2.2 Large-Scale Operation

Furthermore, companies in the oil sector generally operate on a large-scale basis. Their unit costs can be reduced substantially through economies of scale. A fitting example of this notion is the increase in size of oil tankers up to the present 'supertankers' or the set up of large-scale refineries.

2.3 High Stock of Crude Oil

In order to be able to react to changes in the market more flexibly, oil companies generally hold a stock of crude higher than the current demand would require.

2.4 Cooperations

Moreover, the high risk involved in exploration, coupled with the requirements of large investments for the production of oil and finally the benefit of large-scale operations have led to close cooperations among oil companies. An example of this is the joint upstream operation of Shell and Esso UK in the North Sea and the close cooperations in OPEC countries by way of consortia before the 1973 oil crisis.

In addition, the contact between oil companies and the government is in general quite close as the availability of oil is one of the major concerns in today's politics.

2.5 Competition

The capital intensity of their business requires the oil companies to ensure a return to their investments high enough to cover their fix costs in the long-term. As a result, competition among oil companies has always been strong. Especially today in times of overcapacity, this fact and the weak oil prices lead to fierce competition.

3 The Development of the Petroleum Industry

Petroleum has been known to mankind since the antiquity. In those days bitumen, a form of petroleum, was used by ancient peoples to caulk ships or to build roads. However, the availability of bitumen was subject to it emerging on the surface through seepages, and it was no sooner than in 1859 that the drilling for oil began.

The history of the modern petroleum industry started with Edwin Drake who accidentally, drilling for salt, discovered oil near Titusville, Pennsylvania in 1859. The advantages of petroleum to other sources of energy were soon realised. Compared with the oil recovered from oil shale or the much used whale oil, petroleum was found in greater quantities and it thus represented a cheaper alternative to the former kinds of oil. Furthermore, its liquid nature made it more economical to exploit than coal once the production facilities were installed. Finally, petroleum is easier to transport and contains some 50% more heat per unit of weight than coal (British Petroleum Co. Ltd, 1977: 13).

The main purpose of petroleum in the 1860s was to provide kerosene for fuel lamps, but as the industrial revolution went on more sophisticated refining processes were invented to produce various kinds of petroleum products for many different purposes. The expansion of the oil industry took first place mainly in the United States. However, by the end of the 19th century, the industry had spread worldwide with oil drilling being undertaken in Europe, the Middle East and East Asia.

The invention of the petrol engine in the beginning of the 20th century led to an increased demand for petroleum as it became the primary source of gasoline. The supreme position of petroleum to other sources of energy was enforced during the two world wars where it was used extensively by all parties for the running of battle ships, tanks, cars and aeroplanes. After World War II, the reconstruction and expansion especially of Western Europe states led to a further increase in the demand for oil. From the mid-fifties until 1973 the oil consumption increased yearly by on average 7.5% (Matthies, 1990: 6).

The Oil Crisis of 1973

The year 1973 brought about considerable changes for the oil industry. After 1945 petroleum had been found increasingly in countries of the Eastern Hemisphere such as Saudi Arabia, Iran, Iraq and Kuwait. 'By 1960 45% of the world's oil outside the USA and USSR was produced in the Middle East and over 50% of that internationally traded was exported from that area' (British Petroleum Co. Ltd, 1977: 19). However, until the beginning 1970s, the exploration and production of petroleum lay primarily in the hands of the oil companies. Especially the seven majors had a large stake in the management of the world oil reserves. 'By 1971, United States oil concerns had either controlled or acquired rights associated with more than half the world's proven petroleum reserves' (Choucri, 1976: 31). The prominence of the oil companies in the upstream business was a consequence of their superiority - compared with the oil producing countries - in the fields of technology, knowledge and general skills as well as the capital they were able to provide for the exploration and production activities. In order to make use of the oil reserves within their borders, the oil producing countries thus had to rely on the big oil companies who in turn were able to gain increasing control over the oil resources and the latters' management. The companies mainly operated in collaboration with other oil companies in so-called 'consortia'. One example of this was the 'Iraq Petroleum Company (IPC) which included BP, Shell, La Compagnie Francaise des Petroles (TOTAL), Exxon and Mobil. Each of these held a share in the territory stipulated in a concession agreement with the Iraquian State.

In the Middle East, the oil producing countries became more and more dissatisfied with the consortia as, although the 'ultimate ownership of petroleum resources (...) rested with the State (...)' by way of concession agreements, the companies were 'permitted (...) to establish their own development programmes, levels of production and export and, critically, their own pricing policy' (British Petroleum Co. Ltd, 1977: 19). With regard to the latter, 'posted prices' were set by the companies at which crude oil was available for sale on the market. This price also represented the basis on which royalties and taxes to producing governments were calculated.

When due to a surplus of production in the aftermath of the Suez Crisis 1956/57, the market price of oil fell posted prices were reduced accordingly. This meant a sharp decrease in revenue for the producing countries. As a reaction, the countries of the middle East set up the Organization of Petroleum Exporting Countries (OPEC) in 1960, established to 'coordinate the petroleum policies of its members and to provide the member states with technical and economic aid' (Encyclopaedia Britannica, 1993: 345). According to Choucri (1976: 39) 'OPEC emerged as an institutionalized response to a changing petroleum market and to the greater negotiating capabilities of exporting states. The highly concentrated structure of the industry, its vertical integration, and the nature of the concession system all proved ready targets for the dissatisfaction of the producer governments with their role in the petroleum market and their share of profits accorded to them by the oil companies'.

Thirteen years later, the policy of the OPEC members led to the first big oil crisis of the 20th century. In the beginning 1970s, the governments of oil producing countries introduced new laws and regulations according to which the formerly industry-controlled oil production became nationalised and either governed by the state or state-owned companies. This meant the end of control by international oil companies ' over the development, production and price of the bulk of the world's internationally traded oil' (British Petroleum Co. Ltd., 1977: 19). In 1973, the

OPEC members agreed on raising their prices for crude oil by 70%. Another price rise followed at the end of the same year, this time by another 130%. The price increase was used as a political weapon against the Western countries who supported Israel against its Arab neighbours in the Yom Kippur War of October 1973. An embargo on oil shipments to the United States and The Netherlands followed. The political crises in Iran in 1979 brought about further dramatic oil price increases. In the years up to 1980 the oil prices were raised from US $ 3.00 in 1973 to $ 30.00 in 1980 (Encyclopaedia Britannica, 1993).

The crude oil price increases of the 1970s coupled with the nationalisation of oil exploration and production in OPEC member states brought about considerable changes for the consuming countries, for oil consumption in general as well as for the international petroleum industry.

4 Effects on the Consuming Countries

The events of 1973 showed the consuming countries that a complete dependence on oil supplies from OPEC members could prove problematic. In the following years, the consuming countries thus adjusted their energy policies. Their main aim became to minimise the dependence on OPEC countries and diversify in general the risks of oil supply as well as to make the most efficient use of energy available at present. The main notions of the new policies are briefly outlined below:

4.1 Energy Efficiency

The consumers, mainly member states of the OECD, became advocates of the efficient use of energy . The use of heavy fuel oils was decreased in favour of cheaper and more efficient sources of energy like gas, coal or lighter oil products. Where possible, oil products were substituted completely by alternative sources of energy. Further efficiency was achieved through investments in the areas of technology.

4.2 Cooperation among Consuming Countries

In 1974, the International Energy Agency (IEA) was established within the framework of the Organisation for Economic Cooperation and Development (OECD). The IEA has 21 members among which are Britain, France and Germany as well as the United States. The basic aims of the IEA, which characterise well the main concerns of the OECD members, are defined as follows (International Energy Agency, 1991: 2):

'i) co-operation among IEA participating countries to reduce excessive dependence on oil through energy conservation, development of alternative energy sources and energy research and development;
ii) an information system on the international oil market as well as consultation with oil companies;
iii) co-operation with oil producing and other oil consuming countries with a view to developing a stable international energy trade as well as the rational management and use of world energy resources in the interest of all countries;
iv) a plan to prepare Participating Countries against the risk of a major disruption of oil supplies and to share available oil in the event of an emergency.'

4.3 Search for Oil Outside OPEC

New areas of oil exploration and production were investigated and established to diversify the risks of oil supply. A major improvement was the development of oil fields in the North Sea in the 1970s. In this context, the oil exploration in the North Sea rose from 0% of the world production in 1973 to 6% in 1988 . All in all, the non-OPEC countries extended their oil production from 1973 to 1988 by all together 676 Mio t'(Mattthies, 1990:12), which represents a 51% increase within that time period. OPEC countries, in contrast, reduced their share in the world oil exploration from 1547.7 Million tonnes to 1030.5 million tonnes, which is a decrease of 33.5%.

5 Effects on Oil Consumption

Energy consumption in general is dependent on the level of population, economic growth, energy policy, the absolute and relative prices for energy and the technological developments as a means to measure the use of energy. The demand for oil in this context is subject to its price relative to other sources of energy. The events of the 1970s had considerable effects on both the energy consumption in general and the demand for oil in particular:

Whereas world oil demand had witnessed an annual increase of on average 7.5% until 1973, after 1973, the annual increase fell to 2% until 1979 when the oil prices experienced a second big rise (Matthies, 1990: 6). After the latter, oil demand decreased until 1986 when due to a lack in production discipline among OPEC members the oil price collapsed. Since then, the oil consumption has increased slowly again, albeit to a lesser extent during the Gulf War and in 1994 lay at 67 million barrels per day. All together, since 1976, the demand for oil has increased by 14%. In this context, it has to be mentioned that in non-OECD countries the energy consumption and the oil consumption accordingly hav risen more rapidly than in OECD countries (Shell International, 1995:1-3).

Apart from a decrease in oil consumption and energy consumption in general the structure of the oil and energy demand has changed. Within the range of oil products, the demand for lighter products such as gasoline or kerosine has increased whereas heavier fuels have been substituted by alternative sources of energy. Especially the demand for gas has experienced a considerable growth of 65% from 1976 to 1994, compared with an increase in demand for coal of 47%, and in demand for oil of 14% within the same time period (Shell International, 1995: 1).

6 Effects Within the Oil Industry

6.1 Disintegration of the Petroleum Industry and Integration in OPEC-States

As immediate consequence, the major oil companies faced a situation of partly disintegration and a high dependence on OPEC states for their crude oil supply. The politically unstable character of the OPEC countries increased the risks on the supply side. The considerable increase in oil prices forced the companies to rationalise and implement more efficient processes.

Whilst the western oil companies faced disintegration, a process of integration took place in the oil producing countries of OPEC. Before 1970, the refining capacity had primarily been located in the western countries. After 1973, the OPEC members started building up their own downstream operations.

Nevertheless, the major oil companies have remained vertically integrated (Matthies, 1990: 39). Their exploration and production activities are now mainly situated outside OPEC. Some of them cooperate as well with OPEC member states. This especially, as some of the members of OPEC have realised that cooperations with oil companies ensure a safe outlet for their crudes and products. Saudi Arabia, for instance, has already acquired refinery capacity in joint ventures with oil companies (Matthies, 1990: 24). According to Matthies, this development might lead to closer cooperation of OPEC members with consumer countries. In addition, however, it might result in an overall disintegration of OPEC whose members have witnessed mutual disagreements since the existence of this institution.

6.2 Refining Overcapacity and the Need for Investment

On the refining side, the falling oil demand following the oil price increase has led to a refining overcapacity worldwide. As a result, refining margins are very low and competition is fierce. In addition, refineries had to adapt to the changing demand structure by investing in facilites able to produce the lighter oil products that are in demand.

7 An Outlook - Energy Consumption and the Demand for Mineral Oil

Despite the considerable increase in demand for gas, mineral oil is expected to 'remain the major source of energy for at least the next 25 years' (Shell International, 1995: 1). As far as the consuming countries are concerned the rise of major consumers outside Western Europe and the United States can be expected. Especially Latin America and Asia are likely to increase their worldwide share in the energy consumption and the demand for mineral oil (The Economist, June 18th 1994: Survey 'Energy').

Although after the oil crises of the 1970s other oil reserves have increasingly been explored, eg. in the North Sea, the prominence of the East in oil exploration and production is not likely to change in the long- term. However, increasing cooperation with OPEC members might indicate a more stable oil supply (Matthies, 1990).

Appendix VIII The Exxon Corporation

1 History

The history of Exxon Corporation dates back to January 1870. It was then that the Standard Oil Company of Ohio was established by John D. Rockefeller. The company expanded rapidly, thanks to Rockefeller's expansive and innovative business policies. By 1880, the company owned 90% of the American refining capacity. In 1882, the Standard Oil Trust was founded one company of which was Standard Oil (New Jersey), later to become Exxon. In 1899 Exxon's forerunner became 'the holding company for all companies previously grouped in the trust' (Encyclopaedia Britannica, 1993). In the following years, the trust experienced increasing legal attacks due to its dominance of the US-American market. In 1911, the US Supreme Court finally ordered the break-up of the Standard Oil Imperium. Subsequently, Standard Oil (New Jersey) divested itself of 33 of its American subsidiaries. Nevertheless, it kept its interest abroad in Britain, Germany and Canada and expanded into various other countries within the following years. In the mid-1920s Standard Oil (New Jersey) first used the phonetic version of its initials, that is, 'Esso' for some of its brands. However, other Standard Oil companies induced the American courts to barr the use of the Esso brand in several states. Outside the United States, though, Esso became a major name for Standard Oil (New Jersey)'s affiliates and their products. In 1972, Standard Oil (New Jersey) finally changed its name to 'Exxon'.

Today, Exxon Corporation operates in the United States and over 100 countries worldwide (Exxon Corporation, 1994: 1). The corporation is the largest US-based integrated petroleum company, with large-scale operations in all areas of the petroleum business and related areas of the energy sector such as coal, minerals and power. Finally, the company has a major worldwide petrochemical business (Exxon Chemical). Exxon has 86,000 employees worldwide of whom 55,000 are employed outside the United States (Exxon Corporation, 1994) The headquarters of Exxon are situated in Irving, Texas.

2 The Organisation Structure of Exxon

Exxon Corporation has a matrix organisation structure. Its operations are divided according to functions and geographical responsibilities respectively. Underneath the board of directors, various advisory committees exist for several areas of the business. Examples of this are the Executive Committee which is responsible for the selection of executive managers or the Compensation Committee which advises the corporation on remuneration policies etc. Below this level is the board that actually leads the business. Also the board which is headed by the president has advisory committees, the Management Committee and the Compensation and Executive Development Committee. Apart from these, the board has several subordinated service functions like the secretary, the Environment and Safety Department or the Tax Department. Down to this level, Exxon employs approximately 250 people. Below this level, finally come the geographically and functionally divided worldwide business functions.

As for the geographically divided business areas, Exxon U.S.A. is responsible for all business activities in the States, Exxon Imperial is responsible for Canada and Exxon Company International (ECI) is responsible for the activities in the rest of the world, i.e. outside North America. Concerning the functional business areas, there are Exxon Research and Engineering, Exxon Chemical, Exxon Coal and Minerals and Exxon Exploration. Each of these subdivisions has a president and further advisory committees and staff functions respectively.

Exxon Company International (ECI)

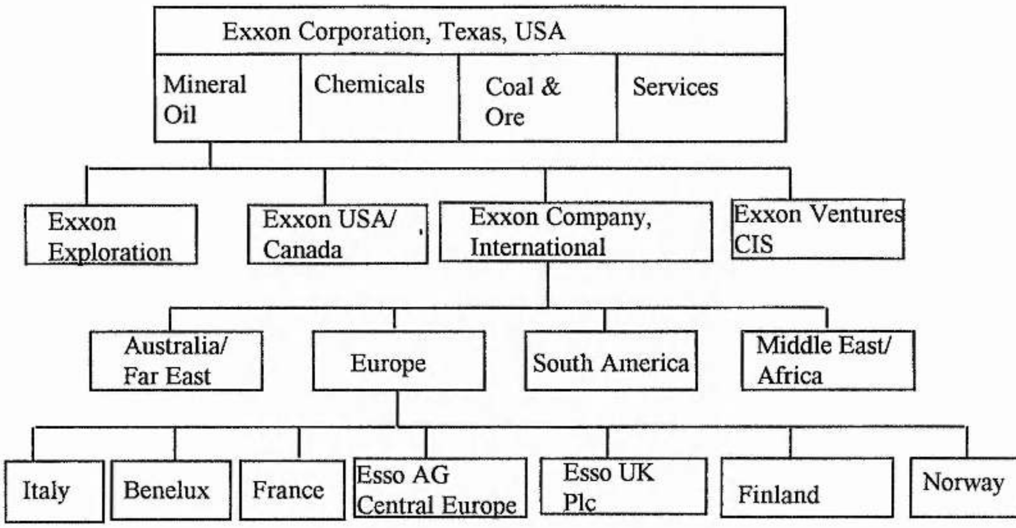
The activities of ECI are further subdivided geographically; there is a division for Australia/The Far East, Central and South America, The Middle East/Africa, and Europe. Also in the European division, activities are divided further according to geographical responsibilities. The responsibilites of the companies that are analysed in this study are as follows:

Esso UK Plc	responsible for all activities in Britain and Ireland;
Esso AG Central Europe	responsible for all activities in Germany, Austria, Switzerland, Poland, Hungary, Czechia and Slovakia.

Within these companies, activities are divided according to products and services respectively.

The overall organisation structure of Exxon Corporation is depicted in Figure 5.0 in a simplified way.

Figure 5.0 **The Overall Organisation Structure of Exxon Corporation**



3 Exxon Business Goals

As defined by Exxon (Exxon Corporation, 1993: 6), the company's 'continuing objective is to be the world's premier petroleum company and to provide shareholders a secure investment with a superior return.' At present, this policy is further emphasised by a worldwide policy goal 'World Class 2,000' according to which the company want to reach world class standard in all its operations by the turn of the century. To achieve this goal, Exxon strives for excellent performance in all areas of its business* . In detail, this implies:

3.1 Operational Excellence

'Exxon is dedicated to safe, reliable and efficient operations that are compatible with the balanced environmental and economic needs of the countries in which it operates' (Exxon Corporation, 1993: 6).

The concept of safety of operations is considered vital not only to fulfil the needs of the communities but also to protect the 'health and safety of employees and customers' (Exxon Corporation, 1995: 4). Furthermore, this aim comprises the supply of quality products and services to customers.

* The information in the following sections is based on Exxon brochures and official reports.

Exxon achieves this goal by way of company-wide safety projects and standards, and by devoting a large part of its R&D expenditures on safety, technology and environmental protection. An example of this is the implementation of the Operations Integrity Management System (OIMS) which helps to ensure 'that all elements of a sound operation are continually addressed' (Exxon Corporation, 1995: 4). Furthermore, Exxon has various oil spill response teams all over the world which in the case of spills help reduce the environmental damage caused. Moreover, Exxon is committed to reducing emissions by eg improving energy efficiency or participating in US-wide emission-reduction programmes. In addition, Exxon tries to develop new products which can reduce environmental damage, like air emissions, cost-effectively and undertakes investments in refineries so that they can produce more environmentally friendly products. In the United States and Europe, Exxon takes part in cooperations with governments to improve engine and fuel technology to define 'cost-effective routes to environmental protection' (Exxon Corporation, 1995). Finally, in various refineries, a programm to reduce waste was introduced in 1992/93.

3.2 Investment Selectivity

Exxon follows a very strict investment policy to ensure the highest possible worldwide return. In selecting where to invest they follow very high investment standards which are standardised throughout the corporation. Thereby the company determines 'whether (new investments) will be sound economically even under adverse conditions' (Exxon Corporation, 1993: 6).

3.3 Asset Management

Exxon has rigorous criteria for their asset management. Assets are assessed and evaluated continuously and those that are not longer considered strategic are divested. By these means Exxon ensures that the assets under its management generate an overall satisfactory return. Examples of this policy are the overall reduction of staff from 104,000 in 1990 to 86,000 in 1994 representing a decrease of over 17%.

3.4 Technological Leadership

Exxon devotes a large part of its capital to the R&D of new technology. In all areas of its business the change of technology follows a fast pace and only by constantly attempting to stay ahead of technological advances, technological leadership can be ensured.

The expertise in R&D lies with the Exxon affiliate Exxon Research & Engineering that is also responsible for the worldwide coordination of R&D activities and the transfer of R&D results. Exxon Research and Engineering integrate ideas from Exxon affiliates worldwide in their programme and ensure that the results of the latter are implemented on a large scale basis. Apart from ideas developed during the work processes, Exxon draws its technological leadership from R&D specialists who contribute their knowledge to the R&D procedures. Apart from Exxon Research & Engineering, several Exxon research centres exist throughout the world (for example, the Esso Research Centre at Abingdon, UK) that contribute their knowledge and results.

3.5 Sound Financing

Exxon follows a conservative and strict financial management which is visible in the asset management and the selection of investments but also in the financing side (The Economist, March 1994: 83). This has led to the company's 'triple-A-credit rating (Exxon Corporation, 1994: 1). Low-cost financing and flexibility are top priorities within the Exxon financial management. The latter is especially important as investment opportunities might arise that require large sums of money at short notice.

3.6 Flexibility and Objectivity

Management style throughout the Exxon Corporation is characterised by flexibility to the changing environment, in which the company operates and by objectivity in the evaluation of business decisions and results. Business conduct is revised constantly and mistakes are taken as an incentive for future improvement.

3.7 Highly Qualified People

Exxon understands that the 'success of (its) strategies, organisations and operations depends on the company's employees' (Exxon Corporation, 1993: 6). Great emphasis is put on the recruitment of highly qualified staff as well as on their ongoing training and development. Furthermore, Exxon is an equal opportunies employer 'in all aspects of the employment relationship including recruitment, work assignments, selection for training, transfer and promotion' (Exxon Corporation, 1993: 6). A means to motivate its employees is to promote management from within the company. Most managers enjoy a life-long career with the corporation.

Approximately half of the employees in managerial, supervisory or professional functions have a scientific or technical background.

4 Exxon Ethics

Exxon places great emphasis on the fact that the achievement of above business goals are made on the basis of ethical standards. Exxon's ethics is based on integrity, honesty, fairness and individual responsibility. The compliance with the business ethics is a major concern throughout the corporation, worldwide. Every year, Exxon employees sign statements of compliance with the ethics.

5 Management at Exxon

Exxon places great emphasis on the delegation of responsibility to its divisions and affiliates. As the company states 'the authority given to line managers is an important feature of Exxon's organization and management philosophy' (Exxon Corporation, 1993: 5). Nevertheless, the compliance of affiliates and divisions with the company's rules and strategic guidelines is ensured by providing them with 'broad policy guidance (...) by senior management under the general direction of Exxon's board of directors' (Exxon Corporation, 1993: 5). In addition, the business policy as outlined previously is engraved in the activities and operations throughout the organisation. Indeed, as Mr Raymond, the present chairman points out, the ideal of cost-efficiency 'is built into the thought process. People understand it... and they know that they'll be judged on that basis' (The Economist, March 5, 1994: 84). The judging takes place by way of 'obsessive auditing at every level' (ibid). Every year at least, the strategies and performance of affiliates and divisions are reviewed.

In this context, the auditing process is undertaken in a 'bottom-up approach'. Within affiliates and divisions , business unit managers present their strategies - formerly developed in cooperation with their subordinates - to their local boards. On the basis of the business unit strategies, a corporate strategy is developed which the board subsequently presents to their superiors in the

United States. In the case of the Euopean Exxon affiliates, the auditing function at Exxon is undertaken by Exxon Company International (ECI) at New York. ECI then puts together the various strategies of all affiliates outside the United States and presents these to the board at Irving. At headquarters, the strategies and performance of divisions and affiliates are finally reviewed by the chief executive officer who in cooperation with his management committee devotes special attention to the '1) long-range business strategy and related financial plans and capital budgets; 2) operating results; 3) the identification and development of human resources and their effective use throughout Exxon' (Exxon Corporation, 1993: 6).

Investment strategies of affiliates and divisions are decided on the basis of a ranking list encompassing all investments suggested by affiliates and divisions worldwide. Only those projects are chosen that promise superior returns. Apart from this, investments and strategies for activities that cross geographical and functional lines are generally coordinated and determined at headquarters.

Within the strategic framework set at headquarters and under regular control by the superiors, it is left to the affiliates' and/or divisions' discretion to 'design and implement their own plans and programs to fit the special conditions of their geographic regions or business functions' (Exxon Corporation, 1993: 5).

An example of this is the employment policy. Exxon puts great emphasis on keeping the local identity of its divisions and affiliates. As the company points out: 'Each of (the) units follows its country's laws and is staffed primarily by its country's citizens' (Exxon Corporation, 1993: 2). More than 98% of Exxon employees are 'citizens of the countries where they work' (ibid).