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**Innovators or Disrupters? An Exploration of the Polemic on  
American MNCs and their HRM and Industrial Relations Practices  
in Ireland<sup>1</sup>**

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## **INTRODUCTION**

The economic and political influence of multinational corporations (MNCs) is now well established. Thus, for example, the UNCTAD (2002:14) estimates that there are some 65,000 transnational firms, with some 850,000 foreign affiliates engaged in international production. Consequently, MNCs may be viewed as key drivers in the increased internationalisation of business. Indeed, Ferner & Hyman (1998: xiii) have labelled MNCs "...the dominant actors in the internationalization process". An important issue in this debate is whether such firms are best described as 'innovators' or 'disrupters' with regard to host country industrial relations (IR) practice. In the case of the former, the MNC might be seen as displaying a healthy regard for such local established traditions and institutions and seeking only to build on such traditions through congruent and workable innovations. Conversely, in the case of the latter, the MNC might be seen to display a marked preference for jettisoning local established practices in favour of a headquarters imposed model. Thus, as Cook (2003:4) suggests: "In their persistent quest to optimise profitability, MNCs face a complex web of choices in configuring and reconfiguring their global operations". Not least of the choices facing these MNCs is the extent to which they utilise globally consistent practices in their subsidiaries (standardisation) vis-à-vis the extent to which practices are adapted to account for the local institutional context of subsidiary operations (localisation) (cf. Gunnigle et al, 2002a). MNCs which focus on the imposition of globally standardised practices are more likely to be disrupters in host environments, while those who pursue a localisation strategy are more likely to work with the grain of the host environment and thus any new practices are more likely to be build on current/accepted practice in that country

This paper<sup>1</sup> addresses this polemic through an examination of IR and human resource management (HRM) practices in two large American subsidiaries in Ireland with a view to further illuminating the debate about whether such MNCs are innovators in or disrupters with regard to established workplace IR practices (cf. Ferner, 2003; Gennard, 1974). Here we concern ourselves in particular with the extent to which IR and HRM practices in our case firms exhibit characteristics more proximate with the MNCs headquarters' preferences than local host location established practices. Apposite to this, it is also important to establish the extent to which MNCs embrace local institutional provision and incorporate it into HRM and IR practices. In this regard we explore whether IR practice has been adapted to take account of the Irish context through an exposition of patterns of union recognition and avoidance, collective bargaining and the IR 'climate', along with other contemporary Ir developments.

In advance of presenting our case studies and in order to establish the argument, we borrow from the extant literature on institutional and business systems. Specifically, we focus on three theoretically important questions: first, what is the logic of convergence?; second, bearing in mind the origin of the case companies under investigation, we briefly address the question of how distinctive is the American business system?; and finally, given that this system is seen to be set apart for the host environment, how have American MNCs interacted with the local host environment to date?

### **What is the Logic of Convergence?**

The issue of how MNCs manage HRM and IR across borders, the influences of national business systems on this process and the implications for host country IR systems has been a source of considerable debate in recent years (cf. Ferner & Quintanilla, 2002). Two streams of literature inform this debate. Firstly writers such as Harbison & Myers (1959) and Kerr et al (1973) have argued that developments in technology and economics are creating a less differentiated world order. At organisation level this manifests itself in 'a common logic of industrialism' or a common set of management requirements which are resulting in a

convergence of managerial techniques, regardless of cultural or national differences. (McGaughey & DeCieri, 1999). The logic of this argument is that the impact of national origin on management practices in MNCs will progressively decline as globalisation leads to the adoption of more generic, standardised practices. This convergence of business and organisational forms is commonly referred to as *isomorphism* (DiMaggio & Powell, 1983).

However, many observers reject the isomorphism thesis, finding that available research data suggest that national differences in relation to business forms and management practice endure. For instance, Guest & Hoque (1996:50) note “even in an increasingly global economy, we find persistent variations in the approaches to the management of human resources”. A number of reasons have been advanced to explain this continued divergence of management practice across national borders and between MNCs of different nationalities. Many such explanations rely on Hofstede’s notions of cultural difference, whereby variations in management practice are attributed to the embedded cultural characteristics of different nationalities. Such differences are measured on criterion such as power distance, masculinity/femininity and other such criteria used by Hofstede (1990) to explore differences in culture and management practice between nations. However, commentators such as Ferner & Quintanilla (2002) note that such explanations fail to highlight the influence of the business system in a MNC’s country of origin on management practices in the firm’s foreign subsidiaries. Consequently, a number of recent studies have focused on the notion of national business systems and their distinctive impact on management practices in MNCs (cf. Hall & Soskice, 2001; Whitley, 1999). These writers emphasise the cultural and institutional distinctiveness of different national business systems, industrial and societal orders and thus argue that globalisation may not lead to ever greater convergence of practice since many MNCs remain firmly rooted in the business systems in which they originate. Thus, as Harzing & Sorge (2003: 188) note, divergence is analogous to “..the embeddedness of organizations in regionally or nationally different societies” (cf. Whitley, 1999; 1992; Lane, 1994.).

More recent analysis has called for a more dynamic approach to the utilisation of the national business system approach in the study of management practice in MNCs. This involves a more nuanced exposition of the dynamics of the interaction of MNCs with home and host environments than a simple consideration of home and host contexts. For instance Almond et al. (2003) posit that the study of the impact of home and host institutional contexts on headquarter-subsidary relations in MNCs involves a more complex trade-off than simply balancing these two influences. Firstly, they point to the dynamic nature of institutions and business systems over time as institutions evolve in response to external stimuli and the influence of actors within the system. Secondly, they highlight the influence of third countries (those other than home and host countries). Specifically, MNCs operating in highly globalised environments must often look to a variety of business systems in an attempt to solve complex business problems. The regionalisation of global trade is also identified as an influence on management practice in MNCs, as organisations operating in regionally integrated market places may seek to implement a degree of integration in management practice. Almond et al. (2003) postulate that the impact of the European Union may be particularly significant in this regard, positing a potentially greater influence of European HQ in managing European subsidiaries, thus further complicating the dynamic. Finally they point to the danger of an over emphasis on extra-firm institutions while downplaying the role of internal corporate strategy in determining management practice: “Therefore, the development of corporate strategies is not just a rational response to external institutions, but rather it is shaped by power relations within the firm” (Almond et al., 2003:2). In a similar vein Edwards and Ferner (2002) identify four key influences on MNC behaviour, namely: dominance effects, home country effects, pressures for international integration and host country effects. In later work Edwards et al. (2004) point to the importance of including political dimensions in the analysis of MNC behaviour. By this they are pointing to the

significance of the power relations of different actors in negotiating the behaviour of MNC subsidiaries.

Our cases represent an interesting opportunity to examine the dynamic between the U.S. and Irish business systems and the impact of this on management practice in our case firms. Turning specifically to the IR sphere, it is necessary that we consider the institutional context relevant to the focus of our investigation, namely IR practice in foreign subsidiaries of U.S. MNCs. This institutional context is significant in helping clarify the interplay between the argued homogenising forces of globalisation and the enduring uniqueness of national business systems. It also allows us to identify what is distinctively 'American' about HR and IR in U.S. MNCs. To this end we now briefly consider the evolution of IR in the U.S.. In so doing we hope to provide a context for understanding the development of IR in the American business system and its likely manifestations in American subsidiaries abroad. In this next section we also summarily outline the main characteristics of IR and HRM in Ireland so as to inform our later analysis on the extent to which the case findings on U.S. MNC subsidiaries reflects evidence of innovation or disruption of established IR practice.

### **How Distinctive is the American Business System?**

There is little doubt that the American IR system is different to most other industrialised nations, leading Jacoby (1985: 173) to coin the term 'American exceptionalism'. Turning to specifics, Colling (2001:1) argues that 'the prominence of the non-union sector is the single most striking feature of American employment relations'. However, we are aware that there is also a tradition of unionisation and collective bargaining in the U.S.. Indeed, collective bargaining served as a key means of regulating IR in the twenty years following the introduction of the Wagner Act in 1935, the role accorded to organised labour in the U.S. has generally been characterised as 'modest' (Kochan et al, 1986; Colling, 2001). Indeed Colling (2001:2) posits that U.S. unions pursued their role "in ways designed to fetter management discretion and the ability to respond to external change". Explanations for low unionisation rates include the fact that initially industrial income in the U.S. was comparable to farm incomes and higher than factory workers in Europe. Other reasons include the absence of feudalism in the country, early mass enfranchisement, working class heterogeneity, high rates of social mobility, and a dominant value system which stresses individualism and personal achievement (Jacoby, 1985; Guest, 1990; Wheeler, 1993).

These explanations have been subjected to a number of criticisms. Most notable in this regard is the criticism that many explanations focus solely on the impact of employee influences on union density in U.S. organisations whilst ignoring the obvious hostility of U.S. management towards unions (Jacoby, 1985). In this regard we witnessed the development of a distinctively American solution to the management of labour in the twentieth century, an approach which became known as 'welfare capitalism'. Jacoby (1997) describes welfare capitalism as a management paradigm which viewed the industrial enterprise as the source of stability and security in modern society. It developed in the U.S. in the early 1900s, and firms using this approach exercised their paternalistic responsibility through forming company (in-house) unions, paying good rates of pay and providing job security, good working conditions and elaborate recreational facilities (Jacoby, 1999; Colling, 2001; Ferner et al, 2001). As Finkin (1999) notes, the essence of welfare capitalism lay in security against unemployment, sickness and old age. The onset of the Great Depression led to the demise of welfare capitalism as firms were forced to rationalise operations and lay off workers. However, Jacoby (1999: 124) argues that welfare capitalism did not disappear at this time but rather 'went underground'. Jacoby (1997, 1999) found that welfare capitalism responded to the challenges presented by the New Deal and re-emerged in a modernised form in the post World War II era (also see Kochan et al, 1986). He argues that these welfare capitalist firms (including *Eastman Kodak*, *Sears Roebuck* and *IBM*) laid the groundwork for the modern non-union company, now the prominent model in

U.S. industry (Wardell and Towers 1997). Such non-union firms which emerged in the 1980s and 1990s represented a distinctively American approach to the management of IR, notably in regard to their emphasis on HRM practices.

Turning to the host country context, Ireland presents an interesting and somewhat distinctive host country context for examining the influence on U.S. MNCs. In particular, the IR context is seen to contrast the U.S. in a number of regards. The most obvious manifestations of divergence include the widely accepted legitimacy and considerable influence of trade unions in Irish society; the high levels of centralisation in collective bargaining, involving the negotiation of number of economic and social accords between Government, employers and trade unions; the higher levels of union density and recognition in Ireland, and the absence of a strong anti-union ideology/agenda among any of the major political parties (cf. Gunnigle, O'Sullivan and Kinsella, 2002; Roche 1992, 1997).

Over recent decades, Irish Governments of all political hues have been strong advocates of neo-corporatist type national level accords on pay and other aspects of economic and social policy, involving negotiations between the 'social partners'. Such agreements have ensured that organised labour has played a prominent role in public policy determination over the past three decades. This clearly contrasts the U.S. experience, particularly in the 1980s where the Regan led administrations adopted a strong anti-union stance and thus created a hostile socio-economic climate for organised labour. Since 1987 Ireland has had a series of centrally negotiated agreements, the most recent being the *Programme for Prosperity and Fairness* (2000-2003) and *Sustaining Progress* (2003-2005). Centralised bargaining also pertained for during the 1970s with a brief return of enterprise level (decentralised) bargaining in the period 1982-1987. It should be noted that - again in contrast to the U.S. - the Irish 'system' of collective bargaining is grounded in voluntary principles, relying on the moral commitment of the participants to implement agreements achieved through the bargaining process and there is no legal requirement on employers or trade unions, or to adhere to the terms agreed.

In international comparison, Ireland has reasonably high, if, falling, of trade union density. The most recent figures suggest that in 1999 workforce density in Ireland was just over 44 per cent, a figure considerably higher than in the U.S., where employment was approximately 13.5% and confined to a small number of industrial sectors (Roche & Ashmore 2001).

In explaining the relative lack of ideological divisions on the role of trade unions among Ireland's main political parties commentators point to the absence of clear class-based divisions between the major parties (cf. Roche 1997). Thus Irish trade unions have generally operated in a much more benign political context and have not been exposed to the dramatic oscillations that have characterised Britain or indeed the U.S. over recent decades. Roche & Turner (1994: 745) note this contrast is commenting on the place of organised labour in Irish society:

...The long established legitimacy of trade unions in Irish economic, political and cultural life has yet to be seriously or trenchantly challenged by any Irish Government, political party or any strong body of employer opinion...In the absence of a strong anti-union ideology in Irish politics and business, trade unions still hold a relatively high - if probably declining - degree of legitimacy in the eyes of employees...This pattern, combined with the high profile of leading union officials nationally, 'normalizes' unions and union membership in the eyes of employees to an appreciably greater degree than in the United States or even in the United Kingdom...

Indeed, in a more recent piece analysing the contemporary position of trade unions Roche and Ashmore (2001) comment that (in 1999) "...Irish unions occupy a pivotal role in Irish economic and political governance..". In summary therefore we say that, while recent years have witnessed a marked increase in union avoidance, IR in Ireland has traditionally been associated

with a strong pluralist orientation and extensive reliance on collective bargaining, often on a tripartite basis (Hillery 1994; Turner and Morley, 1995; Roche, 1992, 1997). Consequently, pluralist IR traditions are well ingrained in the Irish national psyche and manifest in comparatively high levels of union density and recognition, a reliance on adversarial collective bargaining, and IR as traditionally the most significant HR activity in most medium and larger organisations.

Thus Ireland is seen to contrast the U.S. on a number of IR dimensions. Many of these dimensions relate to institutional characteristics for which we may utilise Hall and Soskice's (2001) categorisation of different 'varieties of capitalism'. This theoretical approach focuses on firms as key actors in evaluating economic performance. According to Hall and Soskice (2001) five basic institutional systems form the heart of capitalist economies one of which is industrial relations (the others are education and training, worker reward and motivation, corporate governance and inter-firm relations) (also see Kelly 2003, Regini 2003). Different institutional configurations of these systems thus produce different 'varieties of capitalism'. At one extreme we find so called *Liberal Market Economies* (LMEs) where relations between firms and other actors are coordinated primarily by competitive markets. The main examples proffered are the U.S. and the U.K. At the other extreme we find *Coordinated Market Economies* (CMEs) where firms typically utilise non-market interactions, involving greater actor collaboration and dependency rather than competition/ confrontation. The most common examples of CMEs tend to be Germany and Japan. Given our focus on multinational firms, a critical issue is the extent to which the IR (and HR) approaches in U.S. MNCs are embedded in their home country business system (probably the main exemplar of LME) and thus form the core of IR practices in their foreign (Irish) subsidiary operations. For example, Schlie & Warner (2000:34) posit that:

American management values may be derived from deep-rooted societal norms endemic in their specific national culture, comprising a national business system ... Built on a free and capitalist system emphasizing property rights, the key features of American management contain a strong commitment to individualism and universalism.

The international literature highlights the importance of "economic dominance" effects in facilitating the transfer of management practices from the home to the host country (Ferner & Hyman 1998). The concept of economic dominance is based on the premise that organizations emanating from economically successful nations can most easily and credibly transfer and implement specific business policies and practices in their foreign subsidiaries (Smith & Meiskins 1995; Edwards & Ferner, 2002a). In essence, economic success in the home country gives that country's management practices a strong level of international legitimacy which in turn provides its foreign subsidiaries with considerable capacity to implement home country practices abroad. In EU countries, the concept of economic dominance engendered considerable debate during the 1990s, for two main reasons. Firstly, the huge surge in U.S. FDI into the EU led to increased consideration on the impact this might have in transferring, or otherwise, U.S. business practices to EU countries (Sparrow & Hiltrop 1994; Cooke & Noble 1998). Secondly, at policy level, the evident success of the U.S. economy during the 1990s, particularly in regard to employment creation and the contrasting poor performance of many EU countries in this regard, sparked considerable deliberation on optimal 'systems' of economic governance. In particular, the EU's preferred 'social market' approach, characterized by comparatively high levels of labour regulation, welfare provision and pluralist industrial relations traditions suffered somewhat in contemporary comparisons with the U.S. 'free market' approach, characterised by lower levels of labour market regulation which afford organizations and managers greater autonomy, and which, it is claimed, provide a greater stimulus for employment creation (Grubb and Wells 1993; Sadowski et al 1995). It is widely argued that U.S. MNCs have been to the fore

in promoting more free market/low labour regulation approaches (cf. Dunning 1993). Indeed Crouch and Streeck (1997) suggest that U.S. MNC can achieve a remarkable degree of autarky from their social and political environment, which among other things, enables them to cross national boundaries with great and growing ease. Consequently, they argue that the globalisation of markets and the over-dependence on MNCs as providers of employment and contributors to economic growth has led to the decline of the governing capacity of the nation state and the capitulation of Governments to the requirements of multinational corporations (Crouch and Streeck, 1997).

Given this theoretical context and turning specifically to Ireland, we saw earlier that its economy is more dependent on FDI than is the case in any other EU country. We also saw that the U.S. is by some way Ireland's largest source of FDI, and U.S. FDI has increased dramatically over the past decade. Consequently, a final theme which merits consideration is how MNCs in general, and U.S. MNCs in particular, interact with the Irish HR and IR context.

### **How have American MNCs interacted with the local host environment to date?**

Ireland's economy is more dependent on MNC activity than any other EU nation. Having initially pursued a protectionist approach to industrial development on achieving independence in 1922, Ireland reversed this policy stance in the late 1950s. With the objective of accelerating industrialisation and creating a more open economy, the country set out to encourage FDI through a package of financial incentives, particularly low tax rate on profits, and other attractions such as its young workforce and comparatively unregulated industrial relations environment (cf., Gunnigle & McGuire 2001; Gunnigle et al 2002b). The attraction of FDI thus represents a key plank of Irish industrial policy and the country has been extremely successful in this regard. The FDI sector accounts for some 50% of manufacturing employment, compared to an average of 19% for the eleven other member states for which the OECD presents data (Barry, 2002). MNCs contribute approximately 55% of manufactured output and a staggering 75% of industrial exports (O'Higgins, 2002; Tansey 1998, also see Hannigan 2000). In 2000 the FDI sector exported over €47 billion in goods and services and generated direct expenditure within Ireland of some €14 billion (IDA 2001). The key areas of MNC activity are electronics, pharmaceuticals & healthcare, software and internationally traded services. U.S. owned firms represent by far the largest source of FDI into Ireland, accounting for 70% of all industrial output (O'Higgins, 2002). The significance of U.S. FDI in Ireland was most pointedly highlighted in the *Economist's* (1997) finding that almost a quarter of U.S. manufacturing investment and some 14% of all FDI projects into Europe in the period 1980-1997 located in Ireland, while some 40 per cent of all new U.S. inward investment in the electronics sector located there.

Turning IR and HRM practice in the FDI sector we find evidence that MNCs have acted as an important vehicle for innovation, most notably in areas such as developing the role of the HR function and in the application of 'new' HR techniques such as performance related pay, performance management and high performance work systems (see Murray 1984, Mooney 1989, Gunnigle et al 2002b). However, we also find evidence of MNCs acting as a source of disruption:

...it is equally clear that that MNCs pose particular and unique challenges in the HRM/IR sphere, such as their potential for altering the balance of bargaining power (through, for example, threats to close subsidiaries or switch investment to other locations) and, more generally, their capacity to challenge, and potentially undermine, pluralist industrial relations traditions.

Gunnigle et al 2003: 7

Such capacity for disruption appears most pointed in the area of collective employee representation where we find considerable evidence of contrasts between MNCs of different national origins. Since the 1980s we have witnessed a significant increase in union avoidance in the FDI sector, most particularly among MNCs of U.S. origin (McGovern 1989; Gunnigle 1995, Gunnigle, O'Sullivan & Kinsella 2002, Roche 2001). In contrast European owned firms appear much more likely to recognise trade unions and engage in collective bargaining. The high level of union avoidance among U.S. MNCs over recent years contrasts with the experience of the 1960s and 1970s when union recognition was commonplace among the FDI sector. Wallace (2003: 7) argues that the pattern of union avoidance among U.S. firms which emerged in Ireland from the early 1980s mirrored the trend which had developed in the U.S. a generation earlier:

Essentially, non-unionisation started in a small number of U.S. companies. Notable early non-union companies were Digital and Wang Laboratories. Unions tended not to initiate vigorous recruitment campaigns in such companies for a variety of reasons. Pay and conditions were good and there may have been a poor prospect of gaining employee backing for recognition or/and the fear of unfavourable publicity. The successful maintenance of the non-union status of these companies over an extended period, produced a "demonstration effect", which challenged the conventional wisdom among personnel practitioners that unionisation was inevitable.

A number of factors facilitated the growth in union avoidance in the Irish context. We have already mentioned the increased scale of U.S. FDI into Ireland in the 1990s. Much of this growth was in the information and communication technology (ICT) sector, particularly electronics and software – areas widely seen in the U.S. context as hotbeds of opposition to union recognition (Lawler 1978; Foulkes 1980; Beaumont 1987; Kochan, Katz & McKersie 1986). A change in the policy stance of Ireland's state agencies with responsibility for attracting FDI was also a factor. During the 1960s and 1970s these bodies actively advised inward investing firms to recognise trade unions and engage in collective bargaining – an approach in line with practice in most larger organisations in Ireland at the time (McGovern, 1989). However, faced with increased international competition for FDI these agencies have, since the early 1980s, adopted a 'union neutral' stance, indicating to inward investing MNCs that they have the freedom to recognise or avoid trade unions in accordance with their preferred approach to HRM (McGovern 1989; Gunnigle, Turner & D'Art 1998). Thus, over time union avoidance has become a common strategy among U.S. MNCs.

## **METHODOLOGY**

This paper draws on data gathered from two detailed case studies of IR and HRM practice in the Irish subsidiaries of two U.S. MNCs in the pharmaceuticals and healthcare sector<sup>ii</sup>. This broad sector was chosen because it is largely dominated by MNCs, especially U.S. MNCs, and also because of its significance to the Irish economy. It has recently been targeted by Ireland's main agency for promoting inward investment, *IDA Ireland*, for further development and investment. The pharmaceutical and healthcare sectors contribute some €35 billion per year to exports (IDA, 2000). Both of our case firms are identified through pseudonyms to protect their anonymity.

*Pharmaco* as the name suggests, operates in the pharmaceutical sector and is in the top fifty global firms in this sector (UNCTAD, 2002). It features high up the *Fortune 500* list as well as being one of America's best companies to work for. Revenue in the year 2002 totalled over U.S.\$32 billion, and the corporation now employs some 90,000 people worldwide. In Ireland its subsidiary operations employ over 1,400 people. The *Healthco* Corporation boasts a product range incorporating pharmaceuticals, diagnostics, nutritionals and medical devices. It employs 71,000 people in over 130 locations around the world. In 2002, it was just outside the top 100 in

the *Fortune 500* list and one of the 'most admired' companies in their sector. Sales in 2001 amounted to over \$16 billion, making it one of the top ten healthcare companies in the world. In Ireland *Healthco* operates largely in the medical devices sector but is also involved in some pharmaceutical and diagnostics activity. Its operations are spread over eight different sites. It currently employs 1,800 people in Ireland and recently announced plans to create a further 950 jobs.

Access to both case companies was extremely good. The data used in this paper was collected primarily through interviews with company personnel. Information was also gathered through reviews of company documentation, web site data and observation. A series of in-depth interviews were held with all top management team members in the Irish subsidiaries, a reasonable cross section of middle ranking and front line managers/team leaders, shop floor workers and employee representatives (shop stewards). In *Healthco* a total of fourteen personnel were interviewed in the period between January and December 2002. The interviews included four 'top' managers, two 'middle' managers, four 'front line' managers, two general manufacturing operatives (GMOs) and two trade union representatives (Services Industrial Professional and Technical Union, SIPTU), one of whom was the Chief Shop Steward. The average length of service of the 14 interviewees was 16 years with the longest being 28 years and the shortest 7 years. In *Pharmaco* a total of nine people were interviewed. The interviews included three of the top management team (the MD, Head of Employee Resources, Director of Finance), a selection of middle managers (Production Manager, the Manufacturing Leader and a Production Supervisor), and a number of HR practitioners (HR Manager, HR Advisor, Senior HR Specialist). The average length of service of these employees was lower at just over 12 years. The maximum length of service was 30 years and the minimum length of service was one just over one year. Unfortunately due to the nature of the IR climate at the time of our research we failed to gain access to employee representatives. A summary outline of the interview schedules in *Healthco* and *Pharmaco* is outlined in Appendix 1.

Each interview lasted a minimum of one hour and was tape recorded for accuracy and later transcribed. Some people were interviewed more than once (mostly HR practitioners). Each interview was conducted by a minimum of two interviewers from the University of Limerick, while some of the 'top' team interviews involved a member of the UK research team. Interviewees were fully briefed in advance regarding the research agenda/nature of issues being investigated. The interviews were semi-structured and covered broadly similar themes in each instance. This involved the use of a number of standardised questions regarding the main issues being addressed. However, our discussions were quite open ended to allow interviewees expand on certain topics, bring their personal experiences within the company to bear, and generally address any issues which they felt were relevant to our investigation.

This methodology is particularly appropriate to the study of innovation in multinational subsidiaries. As was noted above we conceptualise innovation as MNCs displaying healthy regard for established IR practices and building on these practices through congruent and workable innovations. Disruption on the other hand is conceptualised as a preference for the jettisoning of local established practices in favour of a HQ imposed model. The very notion of innovation is however fraught (Ferner, 2003). Thus not only are issues of definition key but also methodological considerations. For example in the UK large scale surveys have failed to highlight significant differences between UK owned and foreign owned firms. Indeed this has led Stopford and Turner (1985: 146) to describe differences as "marginal in the extreme" (cited in Ferner, 2003; cf. Guest and Hoque, 1996). Ferner (2003) in attempting to explain the lack of difference between these firms as highlighted by the WIRS studies points to a number of possible reasons why difference may be understated. Firstly, he points to the possibility that innovations may have already diffused to indigenous firms in the UK context. Secondly he posits that the differences may be too subtle to be captured through survey methodology. A final key point is that innovations may be driven by the minority of firms, thus large scale survey

results might not pick up on the significance of innovations because their findings may be skewed toward less innovative firms which would represent the majority of the sample. Thus the case methodology is particularly appropriate to explore the nature of innovation in multinational subsidiaries.

Our primary objective in this research was to explore the extent to which American MNCs act as IR and HRM disrupters in the Irish context vis-à-vis the extent to which practices were adapted practices to account for the host context and thus represent innovations. In so doing we also hope to inform the extent to which we can discern a distinct 'American footprint' on IR practice. We also hope to add to the literature on the nature of headquarter-subsidiary relations in multinational corporations. Finally we attempt to explore other influences on the nature of IR and HR practice in our case firms, such as: the role of sector, the role of firm strategy, etc. Our paper will also add to the emerging literature on the impacts of home and host business systems on management practice in MNCs, including the emerging literature on 'varieties of capitalism'. Our main findings are outlined below.

## CASE STUDY FINDINGS

### Trade Union Recognition and Avoidance

In our earlier discussion on the IR and HRM practices of U.S. MNCs firms we found that the extant research suggests that U.S. firms are commonly characterised by antipathy towards trade unions and preference for more individualised management-employee relations and non-union status (Jacoby, 1997; Kochan et al, 1986). Both *Healthco* and *Pharmaco* entered into union recognition agreements for operator and craft grades on establishing their first operations in Ireland. Thus collective bargaining arrangements were set in train from the outset and remain the main vehicle for handling IR issues in these original plants to the present day. We explored the reasons why both firms opted to recognise trade unions from the outset, given that the great majority of their plants in the U.S. and abroad were non-union at the time. Indeed of the General Manager of *Healthco* reported that all seventeen *Healthco* plants in the U.S. were 'staunchly non-union', in some cases moving to rural areas partly as a method of union avoidance. The Head of Employee Resources in *Pharmaco* indicated a similar trend, indicating that, at the time, the company was 'a typical American multinational' and 'solidly non-union in the States'.

We found that both firms took the advice of the Industrial Development Authority (the predecessor of *IDA Ireland*) during original start-up, and embraced a strategy of union recognition using post-entry closed shop arrangements with specific trade unions prior to the start of production. This was also the line adopted by Ireland's main employer's association, the Federated Union of Employers (FUE<sup>iii</sup>), at the time. We noted earlier that union recognition via pre-production agreements with specific trade unions was the predominant pattern among inward investing firms during the period when *Healthco* and *Pharmaco* established their first Irish subsidiaries. Thus new MNC subsidiaries of that era voluntarily agreed to deal with trade unions and engage in collective bargaining, even where this was at odds with company tradition in the home country. This pattern formed the basis of the so called 'convergence thesis' in Irish IR, which argued that there was little discernable differences between IR approaches of MNCs and comparable indigenous firms (cf. Enderwick 1986, Kelly & Brannick 1985). Also significant in the decision of both firms to recognise trade unions was the highly publicised and failed attempt by *EI* (a subsidiary of General Electric) to establish a non-union plant in Ireland in 1968 (cf. Roche and Geary, 1997). A final contributory but arguably much less significant factor may have been the fact that both firms had a requirement for craft workers, such as fitters, which tend to be among the most highly unionised occupational categories in Ireland (see Gunnigle, 1995). The HR Director of *Healthco* observed that craft unions tended to be quite protective of their craft by ensuring that only 'card-carrying [unionised] workers were permitted to undertake certain types of work'. Interviewees pointed to a range of these factors in explaining the decision

of these traditionally non-union firms to recognise trade unions. The following quote is illustrative of the opinions we elicited:

When they first came to Ireland in the late 1960s they would have done an assessment about whether to go union or non-union, but the climate at the time in Ireland was very much union. There was that firm's case of union recognition in Shannon where a company was shut down through failing to recognise a union [the EI dispute referred to above]. This was prominent in the minds of management at that stage so they took the advice of the FUE and recognised the unions.

Head, Employee Resources, *Pharmaco*

Similar views were expressed by managers in *Healthco*. Thus the overall IR strategy adopted by both *Pharmaco* and *Healthco* was to recognise trade unions representing operator and craft categories from start-up. Pay increases for both these grouping are subject to collective bargaining involving separate negotiations with general and craft groups on a plant by plant basis. We also found that both firms operate outside the terms of nationally negotiated agreements which have been the predominant mechanism for setting set pay norms for unionised workers for much most of the past thirty years in Ireland (see Gunnigle, McMahon & Fitzgerald, 1999 for an outline of agreements). Looking first at the case of *Healthco*, we find that it has consistently agreed pay increases above the norm set down in national agreements. A case in point is the most recent pay settlement in Plant 3 where a pay claim by the trade union representing general workers, was referred to the Labour Court which recommended pay amounted to a total award equivalent of 15.5% which an Industrial Relations News (Industrial Relations News (IRN) 2002) analysis found was "a good deal higher than the final phase pay award under the Programme for Prosperity & Fairness" while a related IRN analysis found that that *Healthco* concluded the largest number of 'above the norm deals' during the second year of the *Programme of Prosperity and Fairness* [PPF] (IRN 2002).

A similar trend is evident in *Pharmaco*. Indeed recent negotiations on the implementation of the final phase of the PPF operatives in *Pharmaco* received a 16% pay increase in excess of the PPF. The deal also incorporated significant improvements in sick pay schemes (IRN 2002). The report further indicated that *Pharmaco* had agreed pay increases significantly above the norm set out in national agreements even before the 'Celtic Tiger' boom of the 1990s.

### **The Industrial Relations Climate**

In evaluating the IR climate in our case firms, we find quite a contrasting picture. In *Pharmaco*, the evidence points to quite an adversarial climate of management-union relations, particularly the older plants. Indeed, the IR landscape in *Pharmaco* is quite complex with seven different trade unions recognised for collective bargaining purposes. Our interviews with management at various levels found the trade unions in *Pharmaco* are seen being extremely tough and aggressive in negotiations with industrial action not uncommon. Management did report a desire to avoid strikes, but not at all costs. The Production Manager reported that the corporate management in the U.S. had a large say in whether the company could stand its ground and risk a strike. Referring to one particular incident he noted:

The last thing you want is New York saying, 'What the hell is going on, that you are in dispute?' But at times you have to take a stand or else you are going to be seen as very weak management as well. So you have to give people every option you can ... but some people just dig their heels in ..and they keep pushing. That comes to a breaking point eventually. Disappointing, but I think you can't give in all the time either... One of the guys from New York called a lot of the shots as regards to whether we could or could not

have a strike. We'd advised him that we think this is an issue we can make a stand on, but New York said, 'I'm sorry but you cannot afford a strike now.'

Many of the interviewees pointed to the long legacy of industrial disputes and at the time of writing unions and management were in a cooling off period following the settlement of a recent dispute. The heavy day to day IR demands on management were mentioned by a number of people: for example, the Production Director estimated that he spent 'fifty to sixty per cent of his time on IR issues', while the Head of Employee Resources commented that "you could never relax nor take your eye off the ball" when it came to IR issues. This is at odds with much mainstream literature which suggests a decreasing emphasis on IR issues at workplace level over recent decades (cf. Milward et al, 2000; Purcell & Ahlstrand, 1994). At a minimum it certainly reflects the enduring significance of IR in the management of *Pharmaco* Ireland.

The *Healthco* experience provides quite a contrast. Management, union and employee respondents felt that management-employee relations were 'very good' and all pointed to the positive IR climate which existed in the facility. For example, the Chief Shop Steward (general workers) gave management-employee relations a score of '8 to 10 out of 10', when asked to rate such relations on a 0 to 10 scale. Both sides spoke of respect for one another and a "great" working relationship. When asked to elaborate, the Chief Shop Steward commented as follows:

There would be the occasional blip but all in all, we [union and management] find that we get on very, very well. It is all down to respect - respect for one another's roles. We know they have to manage, they know we have to represent the people. But all in all, I can honestly say that there is a lot of respect there on both sides. We give it and we get it. It's not posturing.

In our discussions with managers, employees and union representatives in *Healthco*, we came across numerous instances of union-management co-operation. At the time of our investigation the manufacture of certain products was being transferred to third party suppliers in Eastern Europe, a decision based on the lower cost of production there. We found that the trade unions in *Healthco* had co-operated with this move, while at the same time lobbying senior management to secure replacement products and maintain employment in the Irish facility. Another example of union-management co-operation related to the recruitment of students to work over the Summer period to compensate for the level of absenteeism at the time. Management initially anticipated union opposition but as it turned out, the unions were happy to accept this approach. We also came across instances where union representatives in *Healthco* helped to 'actively manage' work related problems on the shop floor, as illustrated in the following quote from a SIPTU shop steward:

I think we (the union) get a lot of respect here from management because we really do try to enforce what we promise on the floor and deliver on it. You'd often hear our head shop steward telling some of the girls to get back to work if they were sitting around chatting and there was no supervisor around.

Shop Steward 2

On the issue of the autonomy of the Irish management team in dealing with IR issues she felt that 'by and large' the power existed within local management to deliver on most agreements. The second shop steward responded:

Oh, we have lots of rows but we get a lot done....We've done more than we ever get credit for. People on the floor say 'go on, give them hell'. There is only so much they can give us. They're not God, we're not God....Its better to have a good working

environment and still get a reasonable amount of money. We get on very well and there is a good relationship between the management and us...

Looking at the IR history of *Healthco* Ireland, the HR Director spoke of a “them and us type situation” in the early days of Plant 1. He said that young managers and young people in general populated the plant and that some “people management mistakes were made along the way”. He felt that *Healthco* Ireland “had got ahead of itself” by the mid 1980s and management decided to undertake a rationalisation programme in 1987. Some one hundred employees took the voluntary redundancy package on offer at the time. We found that Corporate HQ in the U.S. was initially reluctant to go down this route, as they feared for the IR repercussions. However, they eventually acceded to the Irish senior management team’s insistence that it ‘needed to happen’. The General Manager (country leader) claimed that a ‘cultural change’ also began at this time to reduce ‘demarcation and inflexibility’. This was partially expedited through a Total Quality Management (TQM). A change in organisation structure was also embarked upon involving a reduction in the number of hierarchical layers from six to three. During the implementation of this ‘flatter structure’ and TQM initiative a six week strike ensued involving the trade union representing craft workers. Our interviews with members of the management team suggested that while the explicit perception was that this strike related to a demarcation issue (general operators doing some work which had previously been seen as the responsibility of craft categories), the real issue was more procedural in nature. Management wanted craft workers to sign a form indicating when and how they had fixed a particular machine, thereby taking responsibility for it. In response the craft union submitted a claim for additional pay on the basis that this would extend their job description. Significantly, the general workers union did not support this action. According to the HR Director, management did not change their position and the strike ended with little or no lost production.

It would appear that the Irish management team, acting on their own initiative, deliberately set out to face down the craft union on this particular issue. Since then, both management and employee interviewees indicated that IR had largely ‘calmed down’ to what now pertains. Nevertheless, *Healthco* still have a number of IR issues to deal with from time to time. Most recently, a dispute with the general trade union in Plant 3 resulted in a Labour Court hearing. This related to a comparability claim whereby the general union argued that their members should receive the same increases as that awarded to employees in Plant 2. Management counter argued that it was not ‘like work’ and so could not be rewarded in the same way. The issue failed to be resolved at conciliation stage and, when brought to the Labour Court, the union’s claim was upheld. The Court recommended an increase of in excess of 15 percent over two years. Initially, this was rejected by union members in Plant 3 but when they were balloted for strike action, nearly two-thirds voted against a strike. At the time of writing it seemed likely that SIPTU members will accept the Court’s decision.

All in all, the nature of IR in *Healthco*’s unionised plants add up to a picture of conformity with what up the 1980s would have been considered traditional Irish IR traditions. All of these plants were highly unionised and most IR issues handled through collective bargaining of a pluralist-adversarial nature. Eschewing the corporate tradition of union avoidance, *Healthco* entered into pre-production recognition agreements with a general and craft union and under the guidance of local management have continued to handle IR issues affecting the great majority of its workers through collective bargaining.

As we have discussed, the *Pharmaco* IR experience is somewhat different and arguably more adversarial in nature, a characteristic of IR there from the early days. In the early 1970’s the company experienced a number of industrial disputes, which the HR Advisor described as ‘crazy strikes over nothing’ and ‘little more than horse-trading’. Indeed the Head of Employee Resources indicated that he had been faced with seven unofficial disputes within seven weeks of joining the company in 1973. Murray’s (1984) research also pointed to a higher level of strike

activity and other forms of industrial action in companies that recognised more than two trade unions. The Director of Finance noted that:

At the time I moved into my job, we had a known, tough, streetwise group of shop stewards on this site...when we needed anything on this site, we'd sit down and touch base and communicate with them...they'd generally strike and then we'd have to come back again.

The Production Manager concurred:

Regularly they [the employees] used to go out and come back in again. They would do it to make a protest, you get this kind of stuff.

The Head of Employee Resources observed that the names of militant shop stewards were known to senior corporate level managers in the US and that within about three or four years of him joining, several of these stewards had left *Pharmaco* with redundancy packages. Indeed the Head of Employee Resources expressed the fear that the future of the Irish operation could have been in jeopardy if the IR climate had not settled down:

I think that if things hadn't changed it would have had major implications for the site, but it did change later on in the early 1980s and settled down.

This may be reflected in the traditionally high levels of demarcation which have been evident in the Irish operation. Indeed the HR Advisor went as far as to suggest that the pharmaceutical sector in Ireland was "the last bastion for demarcation". This view is echoed by the Production Supervisor who noted:

I think the lines are fairly clearly drawn. If we wanted to take something on, to try and challenge something, if someone says that a particular task is not their job and we don't agree then we are going to try to challenge that in some format. But to be honest about it the lines are clearly drawn and we know what's allowed and what isn't allowed. We just don't ask people to do something that isn't one of their tasks. For instance, if you have to use a spanner to disconnect lines, that's a fitter, it's not an operator. You don't ask an operator to do it. Whereas if an operator turns a valve with his hand, if there is a lever on it, that's an operator's job, he doesn't need a tool. On a day-to-day basis you don't challenge it and it goes on month-to-month and year-to-year. It's really only when the agreement comes up for renewal.

However, our findings suggest that IR in *Pharmaco*'s unionised plants retain comparatively militant characteristics to the current day. Management observations on the negotiations which were taking place at the time of our investigations were indicative of the perceptions we found. At this time *Pharmaco* was in the midst of complex IR negotiations relating to the recent acquisition of one of its main competitors, and the integration of the acquired company's Irish production sites into the *Pharmaco* Ireland portfolio. The HR Manager outlined some of the key issues in the negotiation:

The old (*Pharmaco*) unions didn't want that. They didn't see why the new guys (in the acquired sites) should be brought up to their rates. It's a tough negotiation. We're negotiating the integration and harmonisation, we're negotiating the PPF and with some groups we're negotiating substantial change...It's highly frustrating for me. Some of our unions are as near as you'd get to public sector unions. Incredible stuff.

Looking at the preparation for, and conduct of, these negotiations, it appears that Corporate had significant involvement and are kept well informed during the process:

The strategy would have been agreed up front with them [corporate]. There's a serious 100 page document covering the negotiations and from the start of the negotiations they would be updated and as we made less progress they became involved and now they're seriously involved in the decision. I'm still on the negotiating team and obviously if we have a problem on any of the sites it will spill over to here regardless of whether I'm dealing with it or not...I'm actively involved in it. But right now they're saying we're actively involved in helping you solve this problem.

HR Advisor

In summarising the nature of IR in our case companies, we can point to a number of interesting trends. Firstly both subsidiaries conformed with traditional host country IR practice through recognising and negotiating with trade unions when they initially established their Irish operations. We point to a number of factors which influenced this decision, namely: the advice of Governmental agencies charged with attracting inward investment, and employers organisations, to do so; the legacy of the high profile failed attempt of a large U.S. firm to establish on a non-union basis in Ireland; and the fact that both companies required a number of craft employees, a cohort which traditionally has a high propensity to unionise. In relation to collective bargaining, we find that both firms have traditionally operated outside national agreements and generally negotiated pay increases above the norms laid now in such agreements. We also see a pattern of increasing corporate influence over IR issues in *Pharmaco*, a trend which had not emerged in *Healthco* to date. Looking at the IR climate, differences between both firms emerge: while in the early years of both firm's operations in Ireland, IR took on fairly traditional pluralist-adversarial characteristics and involved considerable industrial unrest (more so in *Pharmaco* than *Healthco*). More recently we have seen IR in *Healthco* move to a more co-operative basis while in *Pharmaco* an adversarial IR climate pertains.

### **Contemporary Developments**

Turning to contemporary IR developments, perhaps our most significant finding relates to the decision of both companies to adopt a non-union strategy in their more recently established plants. In both cases we find a trend of increased union avoidance over recent years. This trend is particularly pronounced and consistent in *Healthco*. Initially, union avoidance occurred in relation to the opening of Plant 4, established as an ancillary service operation to the main hospital devices plant (Plant 1). More significantly, the Plant 5 which opened in 1994, and the Plant 6, opened in 2003 were also established on a non-union basis. Less surprisingly, the sales and marketing group, based on the east coast has always been non-union. The non-union status of these new plants, all established in geographic proximity to the older unionised plants, represent a significant departure from the initial policy of union recognition via post-entry closed shop agreements. Our research in *Pharmaco* also indicated a trend towards union avoidance in a recently established plant. We noted earlier that corporate management in *Pharmaco* appeared to accept the presence of unions in the Irish operation, although interviewees did indicate that U.S. management did not fully understand the union situation and had a certain distrust of unions. The following quote from the Managing Director is indicative of the opinions we elicited:

Yes, I would say that the U.S., New York company has a level of suspicion, distrust, dislike...whatever you want to call it, of unions.

This suggests that senior management in *Pharmaco* demonstrate a sense of anti-unionism, which is commonly identified in the literature as distinctive of U.S. companies (cf. Jacoby, 1985; Kochan et al., 1994). The establishment of the company's tablet plant which opened on a greenfield site in 2000, employing 200 people, is based around the concept of autonomous work teams and operates as a non-union site which may be interpreted as a further indication of the company's reluctant acceptance of trade unions in the other Irish *Pharmaco* facilities.

In explaining the non-union status of *Healthco*'s newer plants, senior management indicated that Plant 4 largely employed technicians, while Plant 5 was their high tech facility, which initially only employed engineers and other qualified technical categories, all of whom, management claimed, 'were not pre-disposed to take up union membership'. While Plant 4 is still largely staffed by technicians, Plant 5 now employs a significant number of general operatives, posing the conundrum of why these have not sought to unionise. Here the management argument was twofold. They suggested that the operative level employees in Plant 5 were mostly quite young and thus 'not all that pushed' about union membership (HR manager). Secondly, they argued that the company treated employees well, both in terms of pay and the general quality of work life, and thus employees had little incentive to unionise.

A few years ago they [a section of employees in Plant 5] made moves to say they wanted to join a union but that was overcome with increased communication. The plant had grown so fast and I think they were disgruntled at how things had changed.

HR Director, *Healthco*

By and large, it appears the company encountered little serious union opposition to its decision to go non union, initially in plant 4, later in Diagnostics and most recently in the new Plant 5. The opinion of the Chief Shop Steward is instructive here:

Not once did [the general union representing the workers] even make a play for the pumps plant or the new one. It surprised me to say the least.

While pursuing a non-union strategy in the Plants 4, 5 and 6 is clearly a departure from tradition for *Healthco* Ireland, it is very much in line with the recent practice among new inward investing companies (see Gunnigle, 1995 and later discussion). However, the concurrent employment of union recognition in some (older) plants and union avoidance in other (newer) plants, often called 'double breasting', represents a surprising departure in the Irish context (cf. Beaumont & Harris 1992). Hitherto, the conventional wisdom was that older MNCs, which had recognised unions from the outset, largely maintained this approach, while newer MNCs, particularly those in the ICT sector, tended to opt for non-union status (Gunnigle 1995, Gunnigle, O'Sullivan & Kinsella, 2002, Geary & Roche, 2001, Roche, 2001; Roche & Ashmore, 2000). The *Healthco* case raises the spectre of union avoidance becoming a growing trend among longer established MNCs with a record of active engagement with collective bargaining and associated pluralist industrial relations traditions. To date use of 'double-breasting' appears to have been relatively unproblematic for *Healthco*. However, this may not always be the case. An immediate issue facing the company is the impending move to re-locate the non-union (Plant 4) facility to the site of the unionised plant (Plant 1):

The challenge for us is that we're looking to move our pumps operation from two miles away and bringing it up here [Plant 1]. Then you'll have union and non-union side by side. That would cause concern. We'd have a separate entrance for them but they would be in the same canteen. I still think we'll get away with it. If you were a union rep

coming in to recruit in this area, it's very hard to tell the engineer from the technician. They are both doing a very similar job.

So what was the management rationale for going non-union in the more recently established plants and what specific approaches, if any, did management use to expedite this policy? Perhaps the most immediate question which springs to mind, given our findings on the existence of 'good' management-employee relations in *Healthco*, is why might management diverge from a tried and trusted approach which appears to have worked well, and, most pertinently, from where did the decision to go non-union emanate? Interestingly, our findings suggest that the decision to go non-union was largely initiated by the Irish (top) management team:

It was the preference of Irish management but it was also what U.S. (corporate) management want. If local management had wanted to go the union route, we could have convinced corporate to agree. It was our preference.

HR Manager, *Healthco*

Our discussions with the management team further indicated that while the decision was made locally, without corporate direction, it was one which the Irish management team knew would 'go down well' at corporate level. On the question of 'why go non union', this seemed largely a management decision conditioned by a number of factors. Firstly, as mentioned above, management seemed fairly confident that they would encounter limited union opposition to such a policy. Second, they felt that, on balance, it would make management's task easier in the new facilities. In our attempts to get management to elaborate on this latter rationale, it seems that management felt that even small changes are sometimes difficult to implement in unionised plants and that non union status gives management the 'ability to get changes done quicker' (HR Manager). However, as we have mentioned, the choice to go non-union was not an absolute priority with the Irish management, simply a preferred choice which they would implement if it could be achieved in a straight forward manner. The following comment from the HR manager with responsibility for both unionised (Plant 1) and non-union plants (Plants 4 and 5) largely reflects the balance of opinion among the management team on the decision to go non-union:

It is not a huge issue though, just a preference. We don't have militant unions here. We get on fine. Going non union is less hassle, especially with the operators. Here (plant 1) we meet with [the general union representing employees] formally once a week and informally almost every day. The [craft union] situation is much easier, we meet formally once a year and have good relations with them. Demarcation can be a bit of an issue between the two operator grades but it's not huge.

In elaborating on the management argument that going non-union made the implementation of 'minor changes' easier, the HR manager gave the following recent example:

Just recently at Christmas, we didn't want to work the Monday before Christmas, so we wanted our people to work the equivalent of a short day – 5 hours – the previous week, at the normal hourly rate, to get the production done. In the non union plant it was no problem. In union plant the [general union's membership] couldn't agree - some would, some wouldn't. The craft workers said no: they would have to work the Saturday and normally expect time and a half. It was just too much trouble and took up a lot of time (in the union plant).

We have earlier seen that another element in the management rationale for going non union in the new facilities was the suggestion that since these plants initially employed mostly

technicians (Plant 4) and engineers/scientists (Plant 5). They claimed, were less pre-disposed to unionise, which meant there was little pressure to recognise unions of the outset. Such use of ‘staff’ categories to carry out work traditionally done by craft employees reflects a broader trend identified in the early 1990s and we consider this issue more fully in our discussion later (Gunnigle 1995; Gunnigle, McMahon & Fitzgerald 1999).

## DISCUSSION AND CONCLUSIONS

Earlier we noted that MNCs may act as sources of both innovation and disruption in regard to host country IR practice. Previous evidence demonstrates that MNCs in Ireland have acted as HR/IR innovators in number of areas, particularly in the diffusion of new HRM/IR techniques and in expanding the role and status of the specialist HR function (Murray 1984; Gunnigle 1998). However, we also find evidence of MNCs posing particular challenges in the HR/IR field, particularly the progressive tendency of MNCs in Ireland to establish on a non-union basis.

In Ireland the issue of public policy in regard to trade union recognition and avoidance is an area of intense current debate. This stems from the significant fall in levels of trade union density experienced over the past two decades or more. The most recent data indicate that employment density in Ireland was 43 percent in 2001 (Wallace, 2003). This represents a fall of 17 percentage points since 1980 when employment density in Ireland reached its high water mark of 60 per cent. An important factor in this decline has been the increased level of union avoidance in the MNC sector, most especially among U.S. MNCs (McGovern 1989, Gunnigle 1995). A study of firms which established at greenfield sites in Ireland over the period 1987-1997, found that 65 per cent of firms were non-union (Gunnigle, O’Sullivan & Kinsella, 2002). Non-unionism was by far the most prevalent among U.S. MNCs: only 14 per cent recognized trade unions compared with an equivalent figure of 80 per cent among European owned MNCs. Roche (2001) similarly found a sharp increase in union avoidance in U.S. workplaces established since 1980. This trend of U.S. MNCs opting to establish on a non-union basis contrasts the research evidence on IR practice among inward investing firms up to the 1980s. This research found that such MNCs generally recognized unions and engaged in collective bargaining (Enderwick, 1986, Kelly & Brannick, 1985). This may be explained by the fact that there was a lack of a “demonstration effect”. Companies attempting to set up on a non-union basis would have been in the vanguard in the Irish context and thus may be persuaded to conform with traditional IR traditions. Also significant was that during the 1960s and 1970s Ireland’s industrial promotions agencies encouraged union recognition among new inward investing firms. These agencies now adopt a ‘union neutral’ stance and thus inward investing firms are placed under no obligation, moral or otherwise, to recognise trade unions and conform to pluralist IR traditions.

Looking at the specific evidence from our case firms we find what appears on initial review to be a relatively traditional picture in both companies. *Healthco* initially recognised two trade unions representing manual and craft categories. *Pharmaco* entered into similar pre-production agreements with three trade unions, one representing manual and two unions representing craft categories. Pay and other major IR issues in these plants are handled via collective bargaining, conducted separately for each of these employee categories and handled on a plant-by-plant basis in both firms. We have seen that the practice of entering into union recognition agreements at start-up stage was a standard feature of IR practice in the FDI sector in the 1960s and 1970s. These ‘sweetheart deals’ as they became known, allowed new firms prescribe which trade unions they wished to deal with. Such agreements were based on post-entry closed shop arrangements, whereby workers were required to become and remain members of a particular union while in that firm’s employment (Kelly and Brannick 1984, Enderwick 1986; Fennell & Lynch 1993). In the *Healthco* case, on taking up an offer of employment, all general workers were obliged to join the general workers union, while a similar proviso applied to craft workers

joining their particular trade union. A similar pattern emerged in *Pharmaco*. The decision to recognise trade unions and engage in collective bargaining in both these firms clearly aligned their IR approach to the prevailing trend among inward investing MNCs of the time. It also represented a departure from both companies' non-union status in the U.S. It seems that the advice of the local Irish management team, the IDA, and the main Employer Association in the country (Federated Union of Employers) convinced Corporate HQ to go the unionised route.

While it is therefore evident that collective bargaining goes on as normal in *Healthco's* and *Pharmaco's* unionised facilities, the shift to non-union status in its newer plants represents by far the most significant evidence of disruption in IR terms since these firms arrived in Ireland. Having first established Plant 4 on a non-union basis in 1993, *Healthco* has since opted for non-union status in both its Plant 5 (1994) and Plant 6 (2003). Again this decision appears to have been driven by the Irish management team, albeit in the knowledge that it accorded with the preference of corporate management. Likewise the decision by *Pharmaco* to take the non-union route seems to have been primarily driven at subsidiary level. Regardless of the source of these decisions, the adoption of union avoidance strategies by both these major MNCs gives support to the argument that host country effects are increasingly being overridden by the country of origin effects with regard to HRM practice in the MNCs (Roche & Geary, 1994; Turner, D'Art & Gunnigle, 1997). We earlier referred to the evidence of a general growth in resistance to trade union recognition in Ireland during the 1980s and 1990s, most particularly evident in U.S. MNCs (McGovern 1989, Gunnigle 1995, Gunnigle, O'Sullivan & Kinsella, 2002). However, it is also important to point out that increased resistance to union penetration is not exclusive to Ireland, but also evident internationally. Even in the U.S., where employers have traditionally opposed union recognition, we find evidence of an increased intensity in opposition since the 1980s (Blanchflower & Freeman 1992; Kochan et al, 1986), while the UK Workplace Industrial Relations Surveys indicate a fall in union recognition among newly established companies (Cully et al, 1999).

However, the concurrent adoption of union recognition and avoidance in sister plants does appear novel in the Irish context. We know that union de-recognition<sup>iv</sup>, which Bassett (1986) identifies as the "sharpest form" of union avoidance, is quite uncommon in Ireland, although the UK witnessed some important cases since in the 1980s (Gall and McKay, 1994). While neither case entails de-recognition, they are examples of so called 'double-breasting' arrangements whereby a multi-plant organisation recognises trade unions in some (long established) plants but does not concede union recognition in other (more recently established) plants (Kochan et al, 1986; Beaumont & Harris, 1992). In addition to the progressive trend of increased union avoidance among new MNCs in Ireland, any widespread use of 'double breasting' among older MNCs would create additional problems for trade unions, particularly given the recent industrial policy focus on getting existing MNCs to deepen their roots in Ireland.

On the reasons why *Healthco* has chosen to operate on a non-union basis, our earlier analysis pointed to three major factors. Firstly, management believed they would encounter little union opposition to this decision; secondly, management felt 'on balance' going non-union would make their managerial task easier in the new facilities; and finally, they believed that because the initial employees in the new plants were either technicians or professional/managerial grades, these would not seek to take up union membership. Although not explicitly advanced as a reason for going non-union, a plausible explanation for *Pharmaco's* decision could be the need to avoid disruption to production as a result of strike action, a desire which is probably increasing at corporate level, given the increasing significance of the Irish operation to the *Pharmaco's* portfolio. The HR Advisor pointed to the fact that the worldwide production of one of the company's most successful products was concentrated entirely in Ireland with the consequence that the implications of any possible industrial action would be

extremely problematic. Similarly, the Senior HR Specialist pointed to the primacy of the production process in the minds of corporate HQ.

Clearly a key factor in both subsidiaries decision to go non-union was the Irish management team's capacity to choose this alternative. Numerous commentators have noted Ireland's long track record in competing aggressively for FDI. Having pursued a protectionist approach to industrial development since independence, Ireland reversed this policy stance in the late 1950s. With the objective of creating a more open economy, the country sought to attract FDI through a series of incentives, including a generous subsidy programme based partly on the promise of jobs but also including, where appropriate, grants and subsidies, together with an extremely attractive, low tax rate on profits. An additional attraction of Ireland, especially for U.S. MNCs, is its comparatively lightly regulated industrial relations environment. Given its public policy emphasis on attracting FDI, successive Irish governments have sought to position Ireland a 'new' economy: pro-business and enterprise, and an attractive location for FDI (Gunnigle, O'Sullivan & Kinsella 2002). As we have seen earlier, this has resulted in the industrial development agencies promoting Ireland as a 'union neutral' location, allowing employers to choose to unionise or not. Ireland thus competes for FDI on a number of dimensions, one of which is the absence of constraining IR institutions which might impose alien HR/IR [host country] practices on inward investing MNCs, as is seen to be the case in countries such as Germany (Royle, 2000). Indeed the opposite is the case: like the UK, Ireland has a comparatively weakly regulated IR environment with the consequence that U.S. MNCs experience little institutional pressure to adapt or alter their HR/IR practices. This is particularly evident in regard to union avoidance where U.S. MNCs have long been to the fore. Similarly regulation in areas such as works councils, employee participation and employment rights are significantly less developed in Ireland than in countries such as Germany.

Such conditions are likely to continue to have a positive impact on Ireland's attractiveness as a destination for FDI as several commentators have identified the density of labour regulation in particular EU states as a negative factor for many inward investing MNCs, particularly those of U.S. origin (Dunning, 1993; Cooke, 1997; Sparrow & Hiltrop, 1994). Cooke (1997) found a strong negative correlation between the extent of labour regulation and levels of FDI, while related work pointed to the influence of labour regulation on the location of U.S. FDI (see Cooke & Noble 1998). Traditionally, MNCs have been averse to labour regulations seen as interfering with the mechanics of the market and restricting their freedom to manage (Dunning, 1993). In Ireland, a qualitative study of U.S. MNCs which had chosen to establish significant subsidiary operations in Ireland found a "high degree of satisfaction with levels of labour regulation in Ireland", with the majority indicating that Ireland compared favourably with other destinations: i.e. they experienced comparatively lower levels of labour and the country was perceived as having a 'pro-employer' focus, particularly in contrast to certain other European countries (Gunnigle & McGuire 2001).

Although to a significantly lesser extent, we also find evidence of disruption in relation to collective bargaining. Both companies operate outside national agreements, and have separate plant level agreements at each of their unionised sites. To put some context on this approach, let us briefly revisit the nature of collective pay bargaining in Ireland. We saw earlier that collective bargaining has traditionally been the major activity area for HRM practitioners and thus a major consideration for most larger Irish organisations. Probably the most distinctive feature of Irish IR over the past two decades has been the negotiation of a series of national level agreements between the so-called 'social partners' (principally Government, employers and trade unions) covering pay increases but also dealing with a range of other social and economic issues (such as tax and welfare provision). We also saw earlier that, since 1970, pay bargaining in Ireland has largely been conducted through a series of centrally negotiated agreements. The most recent phase of centralised bargaining began with the Programme for National Recovery (1987-1990): since then there have been five subsequent agreements, the most recent of being Sustaining

Progress (2003-2005). As also noted earlier, collective bargaining in Ireland is voluntary in nature, relying only on the moral commitment of the parties to carry out agreements entered into. Employers and trade unions are therefore free to adhere to, or deviate from, the terms of such agreements and there is no legal compulsion involved with firms having the capacity to agree pay increases above or below the terms laid down in centralised agreements.

In their review of the extent to which MNCs conform to the terms of centralised agreements, Roche & Geary (1994) found that during the 1970s, MNCs preferred to engage in enterprise level bargaining and enter into enterprise agreements which were more likely to exceed the terms of centralised agreements (also see Geary & Roche 2001). The trend for MNCs to be more likely to exceed national wage norms continued during the era of de-centralised bargaining (1982-1987). However, it is argued that MNCs largely fell 'into line' and adhered to centrally agreed wage norms during the most recent period of centralised bargaining (Geary & Roche, 2001). This change was largely related to increased product market pressures on MNCs resulting from increased competition and forcing them to become increasing cost-conscious and giving them less scope to agree generous wage increases (Sparrow and Hiltrop, 1994).

However, both of our case study companies have consistently agreed 'above the norm' pay deals with its unions as illustrated by the IRN's recent study which found that in 2002 both of our case firms negotiated 'key local pay deals' above the terms set down in the PPF, a trend which continued into 2003. Later IRN reports found that *Pharmaco* agreed pay increases of over 4 per cent above *Sustaining Progress* toward the end of 2003. *Healthco* also agreed an increase of 9 percent over the terms of the same agreement over the period 2003-2004 for craft workers in one of their sites. In this regard, the IRN reports identified the pharmaceutical and healthcare sectors as the sectors with the largest number of 'above the norm deals', labelling them as 'normally recession-proof' sectors which appear to be 'carrying on business as usual' even in recessionary environments. Thus, it seems that the tendency for these firms to agree 'above the norm' deals relates as much to sectoral factors as to managerial choice. Nonetheless, we view the operation of these firms outside the terms of national pay agreements as further evidence of disruption in the IR arena.

In finally considering the broader implications of our findings, we begin by revisiting our initial theoretical discussion in the context of our research findings. Firstly, we agree with Ferner's (2003: 88) assertion that "the notion of innovation is fraught" and while it may be considered semantic we argue that a change in terminology is required in future studies on the impact of multinational subsidiaries on IR and HRM in host countries. The basic problem of dichotomous descriptions such as disruption versus innovation (Gennard, 1974) is that the use of the term 'innovation' is associated with positive connotations (Ferner, 2003) while in reality to innovate is defined as: "[to] bring in new ideas" (Concise Oxford Dictionary, 1995 edition). Thus rather than distinguish between innovation and an alternative, the distinction should possibly be between types of innovation as any new departure is innovative. Indeed practices which are initially well received and considered positive innovations may in the longer term turn out to have disruptive effects. In this regard we propose a dichotomy which differentiates between adaptive and disruptive innovation. Thus innovation is not a value-laden concept and can refer to either positive or negative departures in industrial relations policy and practices in multinational subsidiaries. The distinction is between whether the innovations are adaptive or disruptive in the context of the host industrial relations system. Adaptive innovation can be defined as where MNCs display a healthy regard for local established traditions and institutions and seek only to build on such traditions through congruent and workable innovations. In other words they work with the grain of the host IR system. In contrast disruptive innovation is defined as where the MNCs might be seen to display a marked preference for the jettisoning of local established practices in favour of a headquarters imposed model. In other words they attempt to buck the system and work against the grain of the established host industrial relations

system. Further research may utilise these terms to explore the interaction of foreign multinational subsidiaries with their host environments.

In addressing our initial polemic of the American MNCs as innovators or disrupters in the context of the nature of their IR and HRM practices we make a number of observations. Firstly, there is clear evidence of the evolving nature of business systems and the resultant impact on management practice in our case firms. Specifically we point to the evolution of 'double-breasting' recognition arrangements in both of our case firms. Arguably the ability of these firms to choose the non-union route and introduce disruptive practices more generally in their recently established plants was closely linked to the change in conditions prevailing in the Irish business system pointed to above. In essence, both these cases demonstrate the capacity of U.S. MNCs in Ireland to implement HR policies (in this instance, union avoidance), which align with corporate HR practice. Such capacity emanates from Ireland's weakly regulated IR/HR context which allows inward investing U.S. MNCs much greater scope to implement their home country practices than is the case in a number of other EU States. It also reflects reluctance on behalf of trade unions in Ireland to actively engage employers on the issue of union recognition, even in instances where the employer has a track record of recognising trade unions and engaging in collective bargaining in other sites.

Turning to the broader import of our findings in relation to IR and HR practice, it is clear that Ireland conforms to the LME (liberal market economy) variety of capitalism (Hall and Soskice 2001). While this is unsurprising given that most analyses usually identify Ireland as standard exemplar of the 'Anglo-Saxon' model (Hall and Soskice 2001), a detailed review of the IR characteristics of LMEs paints a more complex picture. Normally IR regimes in LMEs are expected to be quite de-centralised with collective bargaining coverage reflecting union density and levels of pay inequality quite high. On the other hand IR in CMEs (Coordinated Market Economies) normally involves more centralised collective bargaining arrangements, a greater likelihood of firms engaging in strategic interactions with trade unions, high levels of collective bargaining coverage and lower levels of pay inequality. At the macro institutional level, Ireland, in IR terms, appears more like a hybrid variety of capitalism than a stereo-typical LME. We have seen how collective bargaining tends to be quite centralised, while collective bargaining coverage is quite extensive. We also saw earlier how the prevalence of centralised bargaining provides for significant trade union influence in shaping economic and social policy. Furthermore, most of the recent centralised agreements explicitly promoted partnership based IR arrangements at enterprise level (including strategic interactions between trade unions and employers) with the first of these agreements providing for the establishment of a *National Centre for Partnership*<sup>v</sup> with a mandate to advance partnership at enterprise level in both the private and public sector. However, at micro level it is clear that firms operate in a classical LME context. Our evidence suggests that U.S. MNCs encounter relatively few impediments in implementing policies which are congruent with home country traditions. This is the case because many of the Irish institutions which might be seen as characteristic of CMEs (centralised bargaining, promotion of partnership arrangements, encouragement of trade union-employer engagement) are comparatively toothless, and thus have little impact on the MNC sector. In this regard the Irish case seems to resonate with the UK experience where as Ferner (2003: 99) notes "the deregulation of swaths of economic life, including labour markets and industrial relations, has increased the 'permeability' of the British system: that is, it has removed some of the institutional impediments to the absorption of outside influences". This study points to the emergence of more disruptive practices in IR and HRM terms in U.S. MNCs in Ireland in recent years. A particularly important disruptive development is the emergence of double-breasted union recognition arrangement in our case firms. This has the potential to substantially impact on union penetration levels in the private sector and is a significant departure from Irish IR practice. A few years ago the Tanaiste (Deputy Prime Minister) indicated that it was in Ireland's best interests to be "a lot closer to Boston than Berlin". Our

research suggests that in IR terms this certainly is the case. The fact that the country is more dependent on FDI, especially U.S. FDI, than any other EU State in large part explains why Ireland has so embraced LME type capitalism: the country needs to both attract new U.S. FDI.

## Appendix 1: Interview Schedules

<b>Pharmaco</b>				<b>Healthco</b>			
<i>Gender</i>	<i>Position</i>	<i>Years with company</i>	<i>Years in current role</i>	<i>Gender</i>	<i>Position</i>	<i>Years with company</i>	<i>Years in current role</i>
Male	Managing Director	17 years	7 years	Male	General Manager	28 years	1 year
Male	Head, Employee Resources	23 years	9 years	Male	HR Director	23 years	5 years
Male	Director of Finance	30 years	7 years	Male	Financial Controller	16 years	6 years
Male	Manufacturing Leader	23 years	3 years	Male	Product group manager	22 years	5 years
Male	Production Manager	7.5 years	3 years	Male	Department Manager	9 years	1 year
Male	Production Supervisor	3 years	3 years	Male	HR Manager	5 years	1.5 years
Female	Senior HR Specialist	1.5 years	1.5 years	Female	Team Manager 1	18 years	2 years
Male	HR Advisor	2 years	2 years	Male	Team Manager 2	8 years	4 years
Male	H R Manager	4 years	4 years	Female	Team Manager 3	16 years	1 year
				Female	Team Manager 4	21 years	3 years
				Female	GMO (Chief Shop Steward)	20 years	20 years
				Female	GMO (Shop Steward)	25 years	25 years
				Female	GMO 1	9 years	8 years
				Female	GMO 2	7 years	7 years

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## END NOTES

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<sup>i</sup> This paper draws on a study of IR and HRM practice in Irish subsidiaries of U.S. MNCs. It is part of a larger comparative study covering four European countries: Germany, Spain, the U.K. and Ireland. The overall project is co-ordinated by Professor Anthony Ferner, De Montfort University, U.K., and involves researchers from De Montfort, Kingston and Warwick Universities, U.K., University of Trier, Germany and IESE Business School, University of Navarre, Spain, in addition to the University of Limerick, Ireland.

<sup>ii</sup> In this report we have not provided the full references to any documentation which would reveal the name of the company.

<sup>iii</sup> The FUE (Federated Union of Employers) was the primary employers organisation in Ireland at the time. The name changed to the Federation of Irish Employers (FIE) in 1989 and later the FIE merged with the Confederation of Irish Industry in 1993 to form the Irish Business and Employers Confederation (IBEC).

<sup>iv</sup> Claydon (1989) defines union de-recognition as “a decision to withdraw from collective bargaining in favour of other arrangements for regulating employment relations”.

<sup>v</sup> This has more recently been established as the National Centre for Partnership and Performance, headed by Peter Cassells, former General Secretary of the Irish Congress of Trade Unions.