

The rise and fall of global players in construction – a UK perspective

Bernd A. Siehler

School of the Built Environment, University of Glamorgan
Prifysgol Morgannwg, Pontypridd CF37 1DL

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Abstract

This paper considers the trend towards globalisation over recent years. Construction companies have pursued globalisation through different strategies with different missions in mind. The dominant aim had been market share. There has been a switch in the last few years, triggered by the Asian crisis, from market share to profitability as the main objective.

The way in which British contractors have pursued global strategies is analysed and three case studies are drawn upon to demonstrate the current main objectives. One case concerns a company that is experiencing a fall in its position. Another has a growth company as its focus and the third examines a company that had been in decline but is now in ascendancy again.

Introduction

Undoubtedly, globalisation became the 'Zeitgeist' in the 90s and was expected to last an undefined time and a gradual continuing process towards an ideal form. As we all know changing political circumstances were major drivers to open new ways of thinking and the rapid advancement of modern technology in information was another main driver. The main focus was on the opening of the Eastern European countries and CIS states, and the economic miracles in East and South East Asia. For contractors this meant new opportunities and challenges around the world. In line with the 'Zeitgeist' of the 90s and the political circumstances, restricted countries became a rarity. Therefore, the word 'global' in many different contexts came in vogue. It also triggered new approaches by contractors in their already established world-wide activities. Contractors aspired to become global players and tried to adopt global strategies according to the modern school of thoughts in business. As it is shown later the UK contractors, adopting global strategies, are major players in the global construction industry.

However, the globalisation process did not progress as expected in political and economic terms. According to the Asian Development Bank (ADB,1999), globalisation took a step backward in 1998. The Asian crisis, recession in Japan, the fiscal problems in Russia and Brazil, and the political tensions in Europe are the causes. Contractors fully committed to globalisation, can be as vulnerable to those processes, which are of internal and external origin, as the countries or regions. And long term plans for global strategies must be replaced by emerging strategies in order to survive due to the recent unpleasant globalisation effects.

Global player: what is it?

Today the term '*global player*' is ubiquitously used for companies or organisations in connection to all sorts of world-wide activities. Although the term gained widespread acceptance in well recognised economic and business literature and in particular newspapers it has not been clearly defined or discussed in the academic literature to date. In general one would assume that global player is just a rather new expression for Multinational Enterprise (MNE), which was the term usually used to describe the big firms with world-wide activities. In addition many firms known as multinational enterprises consider or identify themselves with the more modern term global player. However, the widely proposed and accepted definition of a multinational enterprise by the academics for companies is straightforward and mainly based on a quantitative approach. For example Casson (1979) defines an MNE as an enterprise which owns and controls assets in more than one country and later in 1982 he defines a MNE as a firm which owns output of goods or services originating in more than one country. In 1984, Oman states that this has been necessary to accommodate new forms of international investment like licensing and management contracts. Similar views are shared by Buckley (1985) or Dunning (1987) who describe a multinational enterprise as one, which owns and controls value adding activities in two or more countries. This definition is widely accepted within the international business literature and dictionaries. As it becomes obvious this definition concerning the minimal requirements for a company to qualify for the status of a MNE would not reflect the actual meaning when the term is used by journalists or even by the academics themselves. In the academic publications about MNEs, companies that are active in just two or a few more countries are hardly or let's say never part of such publications. Paradoxically, MNEs considered as global players in the more modern journalistic and business world form the basis of their publications. Thus the application or usefulness of such a definition, when the gap between theory and practice is so wide, is in question. Therefore, in search for an explanation or even definition for a global player, the classical MNE definition fails to support or give an answer of what a global player is. Interestingly the United Nations (1984) renamed the common terms MNEs or multinational corporations to *transnational corporations*. Then in 1989 Bartlett and Ghoshal distinguished between four organisational forms of world-wide operating firms such as *multinational, global, international and transnational*. The transnational organisational form, which is equivalent to Omae's (1990) truly global organisation, is highlighted as the optimum to which a company should aspire for.

Returning to the basic question, what a global player is and the search for a definition, the explanation used in Financial Times' *global company* survey can be regarded as useful:

A global company operates, or actively aspires to operate on a global scale. It thinks and acts in terms of world market share, not just local or regional penetration. (FT, 1997)

In construction world market share even for the big contractors is rather questionable and only appears in specific specialised segments such as ground engineering. Therefore, the following attempt to categorise or define global players is also straightforward but no quantitative elements are included to set the scale, such as minimum levels, as for the MNE or global company. The proposed definition originates from the actual meaning of the two words global and player (Oxford dictionary).

A global player is one who is skilful and practised in his business and regards the whole world as his playing field. (Siehler, 1999)

The approach chosen defines the term in a more qualitative way, which gives scope to a broader and more limited interpretation. For example contractors operating in just two or three countries are not entitled to claim to be a global player. On the other hand contractors operating all over the world without having or aspiring to secure a significant world market share are entitled to be global players according to the proposed definition.

The previous chairman of ABB, Fritz Parvenik (1996), whose ambition was to transform ABB into a truly global company said: “If you want to be global player, you have to be an insider in Asia, in the Americas and in Europe.” This statement achieved widespread acceptance and also ABB served as an illustration for a global company (player) in most management books.

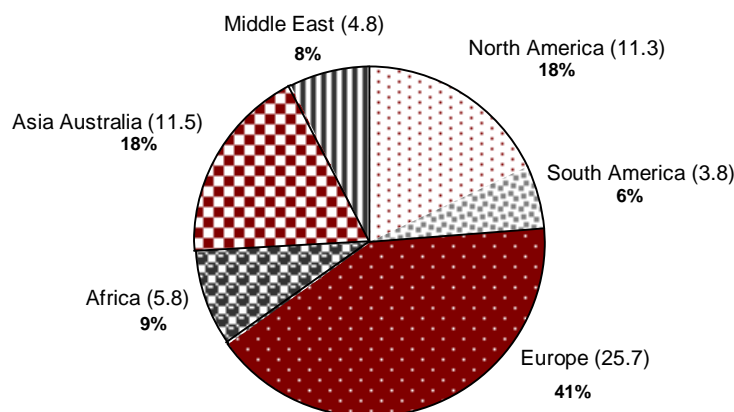
Strategies to become a global player

Certainly there are many different ways to become a global player. The most common way is the amalgamation of different companies, which then operate as one company or holding in a bigger or global scale. This path involves mergers, acquisitions and to a certain extent strategic alliances. The other path, known as organic growth means expanding of own resources and direct foreign market penetration. This approach, normally less spectacular, takes many years under normal circumstances or is even impossible in a strongly competitive industry such as the construction industry. However, as faced by the German contractors, under exceptional circumstances, which were externally forced, the opposite can be true. The unprecedented construction market boom in the Eastern part of Germany, meant for some German contractors the chance to increase their turnover substantially within a very short time period. The practical examples at the end of the paper, however, will show that two of them achieved remarkable growth or top positions within their industries via spectacular acquisitions.

European contractors in a global comparison

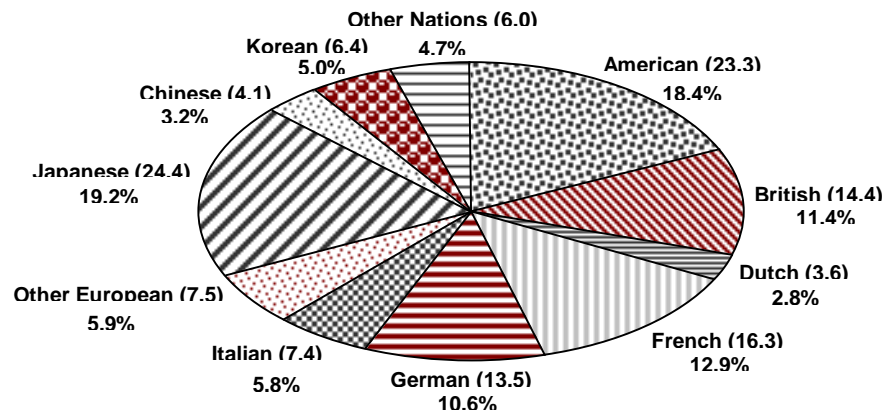
The figure below shows the international activities of European contractors in the respective regions. It becomes apparent that the highest proportion of international revenues is generated within Europe (41%). A quarter is generated in the Americas, which is similar to the Asian continent as a whole.

Figure 1. **International activities of European contractors by regions** (in \$ bil.)



Source: ENR, Top 225 International Contractors 1997

Figure 2. **International construction market share by contractors' nationality** (in \$ bil.)

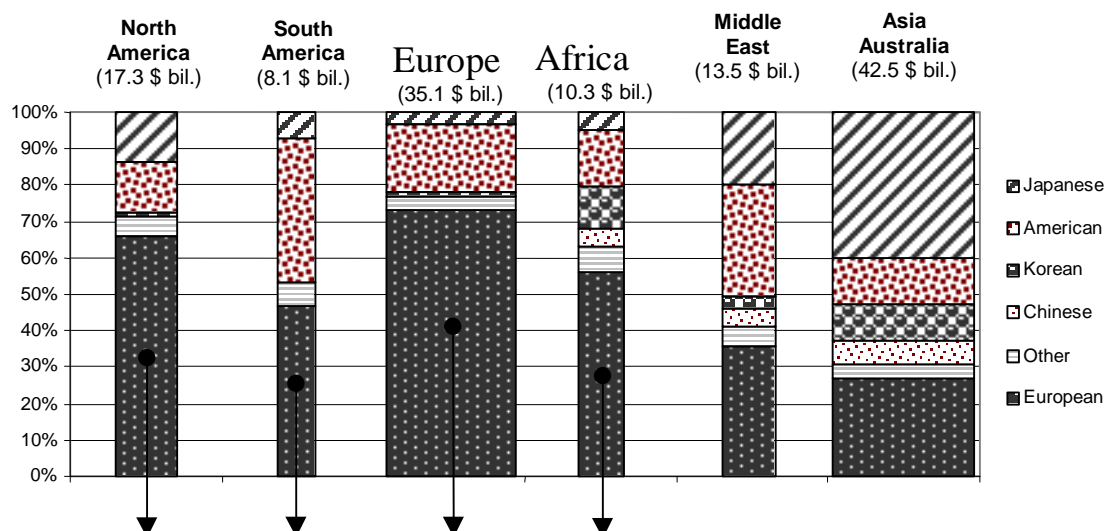


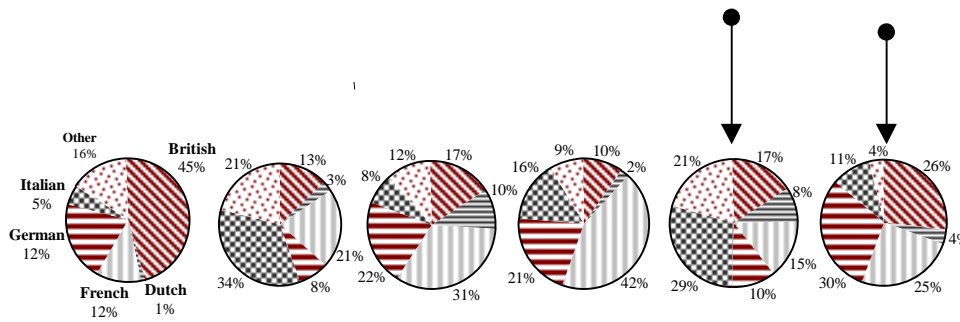
Source: ENR, Top 225 International Contractors 1997

The main contracting nations and their international market share are depicted in figure 2. The overall share of the European contractors is almost half of the revenues generated in construction internationally, with the triple nations France, Germany and the UK forming the major part. The other half of the pie is shared by the Japanese, who represent the biggest contracting nation, plus American, Korean and Chinese contractors.

Figure 3 illustrates the distribution of the contractors' international revenues for the six specified regions and the European specific proportional shares. More than two-thirds (73%) of international construction activities occurring in Europe are executed by the European contractors themselves. Also strikingly high is the approximately two-third share of the European contractors in America. In Africa and South America the European business part is more or less half of the total generated. In the Middle East it is about a third and in Asia even less, due to the Japanese, that are controlling their home region. The share of the Americans, Koreans and Chinese combined is slightly higher to the Europeans. The Americans are strongest percentage wise in South America and the Middle East. The Koreans have only significant shares in Africa and Asia/Australasia. The shares of other contracting nations are not significant in any of the regions.

Figure 3. **Regional share by contractors' nationality** (revenue)





Source: ENR, Top 225 International Contractors 1997

From the European contractors' proportional perspective, the British generate almost half of the European contractors' revenues in America and slightly more than a quarter in Asia/Australia. Surprisingly the Italians are strongest in South America and the Middle East. The French seem to be most active in Europe and Africa. And the German contractors have their strongest presence in comparison to the other European contracting nations in Asia/Australia. A major contribution stems from German contractors' joint ownership of Australian contractors, whose home market is the Asian region.

UK contractors as global players

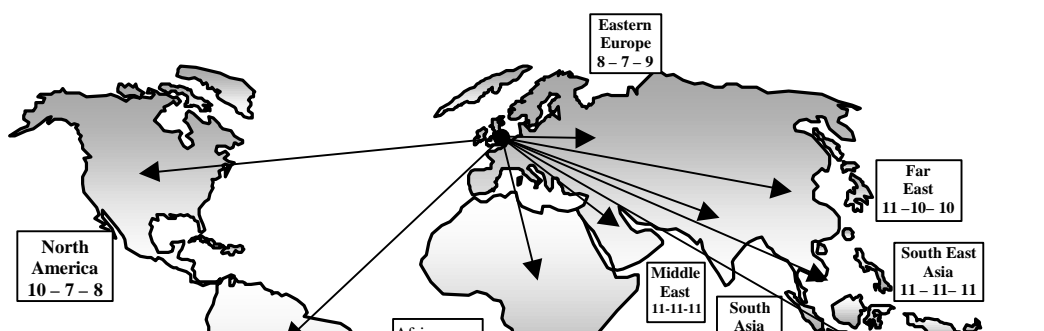
The top 11 internationally active UK contractors, which were interviewed as part of a PhD field research in 1997/98, have an impressive presence around the globe. Therefore the definition for a global player as proposed at the beginning would entitle all or at least most of them to be global players, due to their global coverage of the world markets or regions. In other words similar to the actual definition:

“The top 11 International UK contractors are experts in their contracting business and regard the whole world (or selected countries around the world) as their operating field.”

As indicated in figure 4 a very high number of the eleven British contractors interviewed are active in the respective regions around the globe. On the world map the three numbers in the boxes indicate the number of active contractors over time for the respective region. The first number stands for the amount of contractors active during the past. The second indicates the amount of contractors currently active and the third how many are going or planning to be active in the future. Many UK contractors withdrew from the markets in South America, North America, Africa and Australasia. Some will return to North and even more to South America, which regained particular attention as a market with future prospects after the Asian crisis. A further decline in number of contractors is expected for Africa and Australia. Strikingly all eleven contractors were, are and want to be active in the regions, Middle East and South East Asia, where the field research took place, except one contractor which withdrew from the Far East. In South Asia and Eastern Europe there was a temporary decline in number of contractors, but in the future more contractors have plans to enter these markets.

Figure 4. **Activities by global regions, Past – Present – Future**

(UK contractors)



Source: Field survey, PhD research B.A. Siehler (1999)

A global index has been developed to indicate to what extent the European contractors are globalised. Two of the parameters chosen are based on the United Nations transnationality index in their World Investment Reports. These are the ratios of total overseas sales to total sales and employees to total employees. The third parameter, foreign assets to total assets, used by the UN to determine the transnationality, is omitted due to the differential nature of international construction activities, which are still predominantly project based and therefore not very asset intensive. This is also reflected in the financial statements, where foreign assets are usually not listed separately. In addition to the basic parameters of turnover and employees, the activities in regions and countries were added. The regions in total are equal to the defined 9 regions in the PhD survey and the 133 countries chosen as total are based on the World Development Report 1997 of the World Bank. Thus the global index is calculated as the average of the ratios of overseas to total turnover, number of regions active to the total number of nine, number of countries active to the total number of countries of 133 and overseas to total employees. An interesting figure about construction activities within the EC is also given, although it is not a part of the global index. The data are based on the 96 annual reports, since the numbers for the regions and countries are partly drawn from the actual field survey, which took place in 1997 and early 1998. The first table shows the extent to which British contractors are global, the list being topped by Kvaerner. Bovis, with the highest presence in the EC, and Keller, with the highest percentage of overseas turnover are coming next. Costain, placed fourth, generated more than half of its turnover overseas in 1996. Laing despite being at the bottom of the table is a real international contractor, however it can be concluded that a more selective global approach is chosen.

Figure 5. **Global index for the UK contractors**

UK Contractors	Turnover 1996			Regions		Countries (of current activities in 1997/98)		Construction Activities in the EC	Employees			Global Index
	Total In £ mil.	Overseas		No	In %	No	In % (out of 133 WDR)		Total	Overseas		
		Total In £ mil.	In %							total	In %	
1 Kvaerner	5818	4725	81.21	8	88.9	50	37.59	4	71166	62117	87.28	73.75
2 Bovis	1838	1139	62.00	9	100.0	35	26.32	9	4800	3550	73.96	65.57
3 Keller	235	193	82.13	7	77.8	30	22.56	7	2100	1589	75.67	64.53
4 Costain	744	387	52.02	6	66.7	16	12.03	0	8929	6564	73.51	51.06
5 Taywood	1190	448	37.65	6	66.7	30	22.56	0	10525	5755	54.68	45.39
6 Amec	2769	814	29.39	9	100.0	40	30.08	4	24269	2700	11.13	42.65
7 B. Beatty	2118	536	25.31	6	66.7	40	30.08	1	20402	6121	30.00	38.01
8 Mowlem	1409	410	29.10	6	66.7	20	15.04	7	12555	3767	30.00	35.20

9 Kier	615	71	11.56	6	66.7	20	15.04	1	4883	1629	33.36	31.66
10 Tarmac	2638	730	27.67	3	33.3	30	22.56	3	23803	7305	30.69	28.56
11 Laing	1255	227	18.09	4	44.4	15	11.28	3	8393	2491	29.68	25.87
Average	1875	995	41.47	6.36	70.7	30	22.28	3.5	17438	9417	48.18	45.66

Source: Annual reports, PhD field research

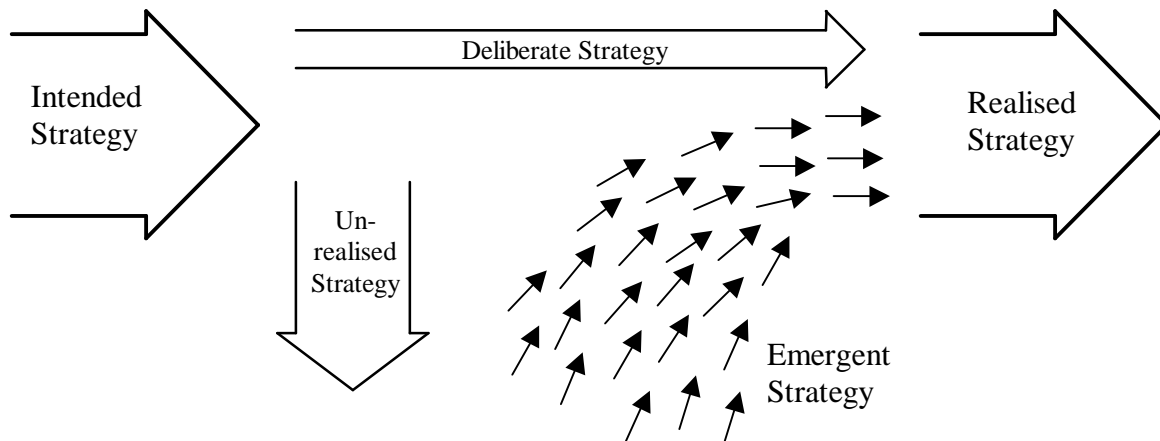
The highlighted contractors have been chosen to serve as examples in the final sections.

The rise and fall of strategic planning

In 1994, Henry Mintzberg, a guru in strategic management, published a book with the provocative title: “*The rise and fall of strategic planning.*” According to Mintzberg, the story of the rise and fall of strategic planning teaches us how organisations function and how managers do and don’t cope with that functioning. Earlier the concept of corporate strategy was articulated and became popular by Ansoff (1965). His school of thought, one of ten identified by Mintzberg (1994), is named planning and regarded as prescriptive and builds on the design school which is also called SWOT (for internal strengths and weaknesses to be compared with external opportunities and threats). The third prescriptive school of thought is Michael Porter’s analytical positioning which is mainly based on economics.

The general understanding or equivalent to strategy is method or planning. Mintzberg suggests that strategy is also a pattern over time. This includes at the beginning the intended strategy as planned and the actual realised strategy, what is the outcome after a certain period of time. As it is shown in figure 4 the emergent strategy, which is not planned at the beginning, contributes most to the realised strategies at the end. The smaller contribution is given by the deliberate strategies, which represent the intentions that are fully realised.

Figure 4. **Forms of Strategy**



Source: Henry Mintzberg (1994), *The rise and fall of Strategic planning*

The model shown above is particularly relevant for companies failing to get across their vision. As discussed later, Kvaerner serves as a perfect example where the actual planning or vision did not materialise and the emerging strategies became prevalent. An interesting statement in a slightly different context about what is planned and what is actually happening was given by the ex-CEO of Kvaerner:

Whatever you think about an alliance, it is always on the move to something else. I will be disappointed if what I believe will happen tomorrow, today, is what will happen.

(Erik Tonseth, in Krogh and Roos, 1996)

And Mintzberg (1994) concludes that too much planning may lead us to chaos, but so too would too little, and more directly. Therefore careful planning in advance and at the time can prevent companies from further pitfalls.

Rise of a global contractor: Amec

In November 1995, Kvaerner launched a hostile takeover bid, which was rejected by Amec's board and in return shareholders were promised an increase in profitability. At the beginning of 1996, Peter Mason, ex-Balfour Beatty chief executive, became the new chairman of the group. Later in the year 'Amec aims to go global' was the headline of an article by John Leitch (1996) in the *Contract Journal*. It reports that Amec wants to transform itself from a big fish in the UK market to a major world player by a series of acquisitions and alliances. In Peter Mason's own words:

"By European standards we are medium sized. In order to secure our growth objectives we need to reposition Amec's international business via strategic international alliances."

Based on a new expansion strategy, Amec moved from hunted to hunter (Billingham, 1996) and announced plans to acquire stakes in the French company Spie Batignolles. These two companies combined would make the seventh largest in Europe. At the beginning of 1997 Amec struck a deal with the French contractor in buying a 48.6% percent stake with an option to get a majority stake in 2003 (Building, 10.1.97). This move can be understood as a move towards a European company and also a wider world-wide coverage due to Spie's historical extensive international activities despite a decrease of one third between 1992 and 1997.

After rumours about further expansion in acquisitions, group chief executive, Peter Mason (1999) commented on strategy and outlook:

" . . . We have considered transactions in the U.K. construction sector but we have no particular interest in acquiring volume in traditional building and civil engineering in the U.K. market. This would bring yet more exposure to the same economic cycle and take us back into sectors which, although they may be our history, they are not our future. For AMEC, I believe that strategic consideration needs to encompass the likely future European industry consolidation. It seems to me quite clear that, over the next few years, only a very small number of major European players will emerge powerful enough to be able to deliver the full life-of-asset service, from private finance all the way through to maintenance and operations."

In general Amec is a fully integrated engineering, construction and development group, which offers clients a complete service from initial concept development, through design and construction, to aftercare. For example Amec offers an integrated approach to designing and constructing pharmaceutical buildings in the UK and internationally. The portfolios of Amec's activities consist of capital projects, services and investments. Amec has turned loss making capital projects, which had been secured on a traditional basis, to margins of around 1 per cent with new contracts based on a different form of procurement. Over 60 per cent of new orders in 1998 were achieved on a negotiated basis, which was generally, design-led. The group's current margins in services are around 4 per cent. This shows a well thought out and balanced strategic approach of expansion and profitability.

Rise and fall of global player: Kvaerner

Kvaerner, originally a Norwegian based international technology group, had its best year in 1995 in terms of profits. The main activities were in Shipbuilding, Oil & Gas, Mechanical engineering and Pulp & Paper. Based on the success Kvaerner was looking for expansion and aimed to be a technology-based engineering, contracting and construction company that covers all international markets in an efficient manner, according to Erik Tonseth (ex-President and CEO). First steps were taken in November 95, when Kvaerner launched a hostile take-over bid, accounting for £360 million, towards AMEC. As mentioned in the previous section this attempt was repelled and the remaining stake of 26% was sold in May 1997. After the failure to take over Amec, Trafalgar House, a leading British construction and shipping conglomerate (making £700 million pre tax losses in their last five years) was targeted. In March 96, Kvaerner paid an astronomical sum of £904 million to take-over the loss making Trafalgar House group.

Thus 1996 became a pivotal year for Kvaerner. After the acquisition of Trafalgar House, Erik Tonseth said:

“We now have a firmly focused organisation and management team which will provide the foundations for our goal of creating a Kvaerner global engineering and construction business which is second to none”.

Following this the group's management was relocated to the new international headquarters in London. Subsequently the merging of the two organisations resulted in doubling of the operating revenues in 1996. The employees outside Norway even quadrupled, thus making Kvaerner an international diversified business group, registered in Norway with a London based international operational headquarters. This move put Kvaerner on top of the international contractors in terms of international revenues. Kvaerner's international activities excluding Norway and Britain still amounted to 67% of total turnover. The global index achieved by Kvaerner is highest among the top UK contractors. (It is debatable since the UK activities are considered as overseas). The group employed more than 55,000 people in over 100 countries. Kvaerner provided world-wide service in shipbuilding, process technology and construction. Future plans included a Millenium Tower (400 metres) in London, a 1,600 metre sea based airport for the US Pentagon, the world's first sea based satellite launching system and super luxury cruise liners. The mission statement was, 'to be a truly global engineering and construction company'. The mission incorporated creating value for its shareholders by developing leading edge technology solutions for engineering, contracting and construction services. The diversification strategy concentrated on related businesses, and it was argued that there is justified hope to fully exploit synergies. The operations were organised in six core business areas, shipbuilding, process engineering, oil and gas, metals, pulp and paper and construction, which amounts to just 16,5% of the group's total revenue. Other businesses, such as thermal power, hydropower, cruising and property development, contribute another 16.1 % to the group's revenue.

Another distinct corporate philosophy in its acquisition strategy was to have one brand name and full control of its acquired companies (Siehler, 1998). For example, the Trafalgar House brand name, despite historical value, was skipped soon after the acquisition in order to appear as one powerful global identity with one name. Below an interesting statement of Erik Tonseth:

The need for a truly global engineering and construction company with the vision and expertise to create innovative solutions has never been greater, especially as financial pressure mount. Kvaerner fulfils this role. (Erik Tonseth, 1997)

However, the objective to create value for its shareholders based on the expected synergy between the related portfolios did not materialise. In 1998 Kvaerner struggled to resolve its massive £904 million debt problem. None core businesses worth £240 million have been sold, but this move has been seen as too little and too late. The share price has crashed from £38 in August 1997 to less than £6 in October 1998. Therefore, the chief executive, Erik Tonseth with great visions for a global player, was forced to resign as a result of poor performance (Leitch, 1998).

Diverse opinions were expressed whether Trafalgar House or Kvaerner's own businesses were the main causes for the fall. Obviously to buy a loss making conglomerate as part of an excessive growth strategy or one can even say for the size's sake to be on top of the rankings cannot be of interest for shareholders that are looking for a reasonable return on capital employed. The new appointed chairman Kjell Almskog, previously deputy chief executive of global engineering group ABB, apparently gives Kvaerner a new direction and a short term problem solving strategy:

Our priorities for 1999 are to significantly reduce the burden of debt and to establish a solid base for a return to profitability.

In April 1999 Kvaerner unveiled a radical restructuring strategy to regain profitability at the beginning of the new millennium. Kvaerner pursues a total exit from shipbuilding and all loss making businesses. The aim is to re-establish the group as a world class provider of engineering, contracting and construction services. The construction business which aims to differentiate itself as a leading D&B contractor was showing improved performances during the last years and therefore is likely to remain within Kvaerner (Contract Journal, 21-April-1999). However, the strategic plan envisages the closure or significant downscaling of three general construction offices in South East Asia (Press release, 13 April 1999).

Fall of a global player and recovery: Costain

The Costain group is a well-known international engineering and construction group with a reputation for technical excellence in building, civil engineering and specialist process contracting. Costain has been associated with the world's largest projects such as the Thames Barrier, Channel Tunnel, Hong Kong's new airport and the Tsing Ma suspension. Despite the impressive achievements in engineering, the group has encountered a very difficult period in the 1990s and effectively disposed in 1997 the last non-core businesses to concentrate on the group's core engineering and construction businesses. The overall turnover decreased to £392m, which is just a quarter of the value generated in 1990. There was a change in the ownership structure, that became mainly foreign (Malaysia). After a successful restructuring and downsizing, Costain wants to strengthen the overseas presence in South-East Asia, Southern Africa and the Middle East. Major shareholders of Costain are from Malaysia and therefore the new appointed chairman of Costain in 1997 is of Malaysian origin. Also in 1997, Skanska of Sweden acquired a 7.6% stake of Costain with the option to increase to 40% over the next three years, which could trigger a full take-over bid. In 1999 the Costain Group has appointed a second non-executive director from Sweden's Skanska. In terms of international activities Skanska has a joint venture agreement with Costain to bid for major projects worldwide. Based on the current facts of Costain, which came close to collapse at the end of 1997 (FT, 1-Apr-1999), it can be said, that Costain might not be a big player any

more. However, its return to profitability in 1998, the first time since 1993, made Costain a sound player. Therefore, Costain falls under the category of a falling and finally recovered global player.

Conclusion

The top 11 International UK contractors are experts in their contracting business and regard the whole world (or selected countries around the world) as their operating field, which is reflected in the high scoring in the global index. Therefore the top 11 international UK contractors can be described as global players, despite not having significant world market shares individually. The combined market share of the UK contractors in the international construction market amounts to around ten percent. The British share among the Europeans is highest in North America with 45%, which is followed by the Asian region. In terms of presence in regions over time, there was a fall in numbers of contractors in the Americas, Eastern Europe and South Asia, but there will be a rise in the future. There will be a decline in Africa and Australasia. More or less all top UK contractors have a stable presence in the Middle East, Far and South East Asia.

The rise of Amec as a global contractor shows that the intended global strategies were balanced with profitability in the final realised strategies. In the case of Costain, global strategies were refocused away from turnover to profitability. The rise and fall of Kvaerner reflects Mintzberg's model best, where the emerging strategies suddenly replaced the intended to a great extent. Global visions were put aside in order to rescue the company.

As the examples show it appears that at the end of the 90s the prevalent 'Zeitgeist' globalisation expressed in enthusiasm for world market share by the contractors is replaced by a simple search for profitability.

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