Subsidiary Strategy Process:
Autonomy, Distinctiveness, Competitive Advantage and Performance

INTRODUCTION

> "Until the lions have their own historians, the history of the hunt will always glorify the hunter."
>
> Chinua Achebe (1994)

The extent to which a subsidiary of a multinational company (MNC) can shape its destiny depends on a range of factors (Kostova, et al., 2016; Strutzenberger & Ambos, 2014; Paterson & Brock, 2002). Initially, a subsidiary was seen simply as an agent acting on behalf of an MNC in a host country. Theoretically, the HQ-subsidiary relationship was elaborated in a top-down fashion; problematized in terms of how a subsidiary can best be managed by the HQ and integrated into the larger whole to provide the most value to the MNC. More recently there has been a mushrooming of interest in research that seeks to understand strategic management issues from the subsidiary point of view. There is even some recognition that less top-down interference can be beneficial to both the subsidiary and the MNC.

Of particular interest within current research is a recognition that an MNC's HQ and its subsidiaries are linked up through a network of relationships that often extends beyond the orthodox ownership model (Figueredo, 2011; Yamin & Andersson, 2010; Garcia-Pont, et al., 2009). A few scholars have investigated the process by which a HQ-subsidiary relationship develops as a consequence of a subsidiary's embeddedness, that is the subsidiary's relationships within and outside of the MNC that it is a part of (Delany, 2000; Dörrenbächer & Gammelgaard, 2006; Garcia-Pont, et al., 2009). Yet, such research assumes a subsidiary's embeddedness as a determinant of subsidiary strategy. However, emerging evidence of the "firm as a system of interconnected choices" (Siggelkow, 2011) – "choices with respect to activities, policies and organizational structures, capabilities, and resources" (Siggelkow, 2001, p. 838) that shapes both its 'internal' and 'external' fit and consequently its performance, has challenged this assumption.

Therefore, rather than assuming a unilateral causal relationship that takes a subsidiary's embeddedness as a determinant of subsidiary strategy, we would argue for a recursive causal relationship between what a subsidiary does and the situation the subsidiary finds itself in. Accordingly, how a subsidiary is positioned within an MNC and its competitive environment is both cause and consequence of how it interacts with HQ, other subsidiaries, and the wider environment. However, beyond the realm of theoretical speculation, there exists a paucity of research that explores the process by which subsidiary strategy takes shape as a subsidiary positions itself within the MNC and the wider competitive environment. Thus, our paper aims to investigate and illuminate this process.

For this, we explore the fluctuations in strategy of Polaroid UK, a subsidiary of Polaroid Corporation. Polaroid was founded by Dr Edwin Land in 1937 to commercialise the synthetic light polarizing material he had developed while an undergraduate at Harvard University. The firm is credited for pioneering a range of consumer products including the simple black and white Swinger, the world's best-selling camera -Model 1000 and the sophisticated Image System. Polaroid UK was established in August 1962 to distribute sunglasses and the first instant cameras within the UK. This distribution operation soon expanded to include manufacturing when Polaroid established a small instant film factory in the Vale of Leven in Scotland in 1965. Our paper traces the journey of the evolution and subsequent demise of Polaroid UK. By chronicling the underlying strategy process and investigating how this process shaped the realised strategy at Polaroid UK, we highlight the role played by subsidiary strategy in influencing organisational outcomes. In doing so, we contribute towards a better understanding of how subsidiary strategy can be understood as deliberate effort by subsidiary's management team to realise both its performance as well as its potential to perform (Sminia & de Rond, 2012).

LITERATURE REVIEW

Subsidiaries taking on a more active role in an MNC has been investigated under several labels including, initiative-taking (Birkinshaw, 1999; Delany, 2000; Strutzenberger & Ambos, 2014), role development (Dörrenbächer & Gammelgaard, 2006), entrepreneurship (Scott, et al., 2010; Williams & Lee, 2011), and autonomy (Cavanagh, et al., 2017). Research into subsidiary strategy from a subsidiary's point of view moves away from the initial assumption that a subsidiary was just an executive agent of an MNC, with the dominant concern being about how an MNC's HQ can add to a subsidiary's competitive advantage and performance, for the MNC to then extract value from it. Subsidiaries have been observed as seeing their interests aligned with but also separate from the MNC they are part of; on occasion embarking upon activities beyond their remit (Delany, 2000; Dörrenbächer & Gammelgaard, 2006; Garcia-Pont, et al., 2009).

Subsidiary performance and its potential to perform has been elaborated as being a consequence of a subsidiary's internal and external embeddedness (Andersson, et al., 2002; Figueredo, 2011; Taggart & Hood, 1999). In a general sense, embeddedness as the set of social relations of a firm, which forms its business network has been associated with firm performance (Gulati, et al., 2000; Uzzi, 1996). In particular, for a subsidiary external or local embeddedness refers to a subsidiary's network of relationships in its host country and allows it to generate the knowledge by which it is able to exploit its competitive advantage locally. Internal embeddedness refers to a subsidiary's network of relations within the MNC it is part of. Internal embeddedness is sub-divided into strategic embeddedness, capability embeddedness, and operational embeddedness (Garcia-Pont, et al., 2009). A subsidiary's position in the MNC is understood as its distinctiveness. Distinctiveness, in turn, is a function of what a subsidiary's operations and activities contribute to the MNC, what the subsidiary contributes to the development of the MNC's capabilities and what the subsidiary contributes to the MNC's strategy. Subsidiary performance then is twofold in that it is based on its competitive advantage in its host country and it is based on its distinctiveness in what it contributes to the operations, the capability development, and the strategy of the MNC.

Yamin and Andersson (2010) suggest that internal embeddedness and external embeddedness interact with more of one leading to less of the other. Although their research remained inconclusive with regard whether this is the case, we believe it is part of a larger concern that the subsidiary in question, or other subsidiaries for that matter, can be expected to actively work on their distinctiveness and competitive advantage while the HQ tries to manage the subsidiaries' contributions to the larger whole. This largely plays out over the degree of autonomy a subsidiary gets assigned by the HQ and the autonomy subsidiary management assumes (Cavanagh, et al., 2017; Garcia-Pont, et al., 2009; Taggart, 1997). In doing so, over time, we expect that autonomy, distinctiveness, competitive advantage, and performance of a subsidiary will vary and mutually affect each other, leading to periods of fit and mis-fit of the subsidiary within the MNC as a whole (Siggelkow, 2001). Therefore, we aim to understand how the dynamics of a subsidiary's strategy plays out in practice? We anticipate that this process will never lead to a permanent resolution because economic changes in host countries or technological developments and innovations will lead to successive initiatives and reactions by subsidiaries and by the MNC's HQ.

METHODOLOGY

In order to explore the distinctive role played by subsidiary strategy within the context of the wider MNC, we undertook a longitudinal, process study of Polaroid UK. The choice of firm is apt for our research question because it not only allowed us to chronical the rise and subsequent bankruptcy of Polaroid Corporation but it also allowed us to reconstruct the strategic journey of Polaroid UK, the British subsidiary of the MNC. We gathered extensive historical data about Polaroid UK including corporate records maintained by various managers, internal publications, strategic reports, PowerPoint presentations and interviews with key stakeholders including two former Managing Directors of Polaroid's Scottish manufacturing facilities and an external consultant who was extensively involved in the formulation and implementation of the site's strategy. These interviews were transcribed and combined with the historical data for analysing how and why the subsidiary's strategy unfolded.

FINDINGS

Our preliminary analysis reveals an interesting pattern in the realised strategy of Polaroid UK as the site made a transition from manufacturing small instant films in 1965 to sunglass lens in 1972, consumer cameras in 1974 and finally Electronics Imaging and Industrial Hardware in 1994 before the operations were wound down in the early 2000s. What started off as Polaroid Corporation's manufacturing based in the UK with a "remit to service the Commonwealth and EFTA countries" (Manufacturing Director, Polaroid UK) grew by 1995 into a 1300 people strong operation exporting a range of Polaroid products "to more than 100 countries worldwide" (MD Polaroid's Vale of Leven). In 1995, the subsidiary was awarded the prestigious Queen's award to Industry for Exports Achievement for the 4th time in its history.

However, the "pattern in a stream of action" (Mintzberg & Waters, 1985, p. 258) paints a more complex picture on the links between a subsidiary's assigned and assumed autonomy (Cavanagh, et al., 2017) and the impact of the various corporate and subsidiary strategic initiatives on both the internal and local embeddedness (Garcia-Pont, et al., 2009). For instance, an example of this tension can be found in the following remark made by the MD of Polaroid's Vale of Leven site in 1995:

> "In some ways though, we believe we are really running our own business and we have taken very strong personal ownership for the wellbeing of this operation here in Scotland. As far as possible we want our future to be in our own hands"

The statement reveals both the tensions between assigned and assumed autonomy and about how this tension manifests itself within the context of wider technological, strategic and economic change. The remainder of the paper focuses on exploring these intertwined issues from the perspective of subsidiary strategy.

CONCLUSION

With a view to illuminate the complexities involved in subsidiary strategy, Cavanagh, Freeman, Kalfadellis, and Herbert (2017) have urged scholars to develop "a more detailed, specific and contemporary understanding of subsidiary autonomy that is reflective of two key, contrasting types: assigned and assumed autonomy" (p. 1169). Assigned autonomy refers to how much autonomy a subsidiary has been granted by HQ. Assumed autonomy refers to how much autonomy subsidiary managers assume. Our preliminary findings suggest a more complex picture of the subsidiary strategy process with fluctuations within the assumed and assigned strategy impacting the extent to which the subsidiary is internally and locally embedded. This recursive relationship impacts the dynamics of a subsidiary's strategy process and influences both its performance and ability to perform.

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