

Subsidiary Strategy: The Embeddedness Component

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ABSTRACT This article develops the concept of internal subsidiary embeddedness as the canvas within which subsidiary strategy takes place. Developing an inductive model, we identify three hierarchical levels of embeddedness. The first level is operational embeddedness, which relates to interlocking day-to-day relations. The second level is capability embeddedness, which concerns the development of competitive capabilities for the multinational as a whole. The third level is strategic embeddedness, which concerns a subsidiary's participation in a multinational corporation's strategy setting. We derived our concept of embeddedness from an in-depth case study. Embeddedness is not merely an outcome of the institutional setting in which a subsidiary is situated, but is a resource a subsidiary can manage by means of manipulating dependencies or exerting influence over the allocation of critical resources. A subsidiary can modify its embeddedness to change its strategic restraints. Therefore, the development of subsidiary embeddedness becomes an integral part of subsidiary strategy.

INTRODUCTION

Theory and research have suggested that subsidiaries can develop strategy alongside their evolution (Andersson et al., 2005; Birkinshaw and Hood, 1998; Geppert et al., 2003). At the same time, the set of social relations of a firm in its business network, that is, its embeddedness, can have significant implications for its performance (Gulati et al., 2000; Rowley et al., 2000; Uzzi, 1996). In fact, a subsidiary's embeddedness in networks external to the multinational corporation (MNC) is a good predictor of the role a subsidiary may play within the overall MNC network (Andersson and Forsgren, 1996; Andersson et al., 2002). Meanwhile, a subsidiary's local embeddedness partially explains its level of knowledge creation (Andersson et al., 2005; Taggart and Hood, 1999). Nevertheless, the subsidiary strategy literature has focused on embeddedness as emerging from the interaction of a subsidiary with its local environment.

Although the development of subsidiary-specific advantages within an MNC's structure has been studied (Rugman and Verbeke, 2001), the process by which a subsidiary creates embeddedness within its internal network has received little consideration.

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Understanding this process is important because it may help shed light on how subsidiary-level initiatives can make their way to the MNC's broader priorities (Birkinshaw and Hood, 1998). It will also help understand how practices and capabilities are transferred from the subsidiary to the MNC (Edwards et al., 2005). We contribute to the subsidiary strategy literature by developing a generalized model that addresses our research question: How can a subsidiary develop its strategy through its internal embeddedness?

Accordingly, the purpose of this paper is to elaborate theory inductively, by linking subsidiary internal embeddedness and subsidiary distinctiveness, and by explaining how the process of developing the distinctiveness of a subsidiary depends on the nature of its internal embeddedness. We address these issues through a single longitudinal case study of a subsidiary of an auto components manufacturer where we not only measure embeddedness but also describe its historical context and evolution. This case study presents a struggling subsidiary that manages to turn around its performance by developing its own strategy. An analysis of this case provides us with unique insight into a previously undocumented process. To learn from this subsidiary's process of strategy development, which draws extensively on embeddedness, we use an inductive approach that lends itself to theory building (Yin, 1994). Importantly, we propose that internal embeddedness comprises three dimensions and that internal embeddedness can be used by a subsidiary purposefully to build its distinctiveness within its MNC. These theoretical constructs explain the process, as well as the extent, to which subsidiaries are able to develop their own strategy via internal embeddedness.

Subsidiaries, however, encounter constraints in developing their own strategy, given that they are embedded in differentiated networks that include all the other units of the MNC to which they belong, alongside customers, suppliers and other institutions (Nohria and Ghoshal, 1997). Moreover, subsidiaries typically have a pre-set business domain that limits their strategy options (Birkinshaw and Hood, 1998). Subsidiaries face corporate and resource constraints to establish lateral relations with other units of the MNC (Birkinshaw and Morrison, 1995). Still, subsidiaries do have the latitude to address their own future (Birkinshaw and Hood, 1998), improve performance (Subramaniam and Watson, 2006) and influence on the MNC as a whole (Andersson et al., 2007).

Subsidiaries build their strategy by balancing their own initiatives against requests from headquarters (HQ), while coordinating efforts across the MNC (Birkinshaw, 1996). How subsidiaries steer this process and negotiate the internal network of the MNC is the focus of this paper. Due to the intricacy and detailed nature of this process, we required a participant observer approach, in the form of a single case study, to examine its development (Lee, 1999).

CONCEPTUAL BACKGROUND

A Focus on Internal Embeddedness

Extant studies of subsidiary organizations have used the concept of embeddedness. In these studies the emphasis has focused on subsidiaries' external embeddedness. For

example, Andersson et al. (2005) found that external embeddedness had a positive impact on the development of products and processes in the MNC. The external environment, where the subsidiary is embedded, has also been shown to be a source of power within the MNC (Andersson et al., 2002; Birkinshaw and Hood, 1998; Geppert et al., 2003; Morgan and Whitley, 2003). Specifically, Forsgren et al. (2005) stress that an MNC is embedded in different environments – by virtue of its subsidiaries' business networks – each of which can be the source of competitive advantage. Andersson et al. (2007) found that externally embedded subsidiaries can provide access to a variety of competencies, but that such embeddedness might also reduce the subsidiaries' interest in contributing to the overall performance of the MNC.

Although internal factors or the internal structure of the MNC have been recognized as supportive of the subsidiary strategy, the significance of internal embeddedness has been somewhat overlooked. For instance, Rugman and Verbeke (2001) identified the drivers of subsidiary evolution as well as the importance of the MNC's internal structure to diffuse subsidiary specific advantage across the MNC. For Rugman and Verbeke (2001), unless the MNC has diffusion mechanisms in place, firm-specific advantages cannot be globally dispersed and remain location-bound at the subsidiary. The notion of internal embeddedness development by the subsidiary reduces the need for a top-down diffusion mechanism. In this paper, we argue that diffusion takes place as the subsidiary edges its way to become increasingly embedded in the MNC's internal network. Assuming an active subsidiary role in influencing the MNC, Mudambi and Navarra (2004) considered internal factors as sources of power, suggesting that the knowledge flows across the MNC are key factors for subsidiary power. However, they warn that the benefits of this power for the MNC (enhancing competitiveness) can be corroded by subsidiary's rent seeking behaviour. In this paper we claim that by embedding itself in the MNC, a subsidiary is able to generate influence.

In contrast to earlier contributions this paper focuses on the internal network of the subsidiary. This focus has led us to see a subsidiary as embedded in two different environments: first, the external business networks in which it is involved (Forsgren et al., 2005); second, the MNC to which it belongs or internal network. Our approach has resonances with the institutional theory perspective developed by Westney (1993), although we posit that subsidiaries can proactively define their strategy in both environments. Building on Granovetter (1985) we use embeddedness as the network of relations with other units of the MNC. Hence, to understand a unit's embeddedness we not only measure the network but also investigate its historical evolution.

The contribution of this paper is thus to present a model that uses the very internal embeddedness of the subsidiary as the key driver of subsidiary *distinctiveness*. We consider distinctiveness an integral part of subsidiary strategy as it builds the subsidiary's *raison d'être* within the broader multinational network (Ghoshal and Bartlett, 1990). The concept of distinctiveness emerged from the case data as an important factor influencing survival of the subsidiary, which is an intermediary to performance. The notion of distinctiveness has been used as a measure of differentiation of one subsidiary from the rest of the MNC (Monteiro et al., 2008), based on optimal distinctiveness theory (Brewer, 1993). This theory posits that one group's sense of self is shaped by the opposing needs for assimilation and differentiation between the self and others. Hence,

we have used distinctiveness as the search for in-group differentiation of one subsidiary within the MNC.

As subsidiaries gain distinctiveness they are able to develop a more active role within the strategy making process of MNCs (Birkinshaw, 1997, 2000). At the same time, however, this relatively more active role creates uncertainty that serves to complicate the alignment of collective understanding and particular interests (Mahnke et al., 2007). Multinational subsidiary evolution (Birkinshaw and Hood, 1998), subsidiary initiatives (Birkinshaw and Fry, 1998) and entrepreneurship in the global firm (Birkinshaw, 2000), all revolve around the idea of subsidiary choice and the change or maintenance of subsidiary 'charters' 'in terms of markets served, products manufactured, technologies held, functional areas covered or any combination thereof' (Birkinshaw, 2000, p. 86). This research stream emphasizes the optimal fit of subsidiary structures and processes with particular 'local environmental determinants', while taking into account social and communicational type issues such as the structuring of negotiations over charters. However, in Birkinshaw's account, these issues are not understood as being socially embedded. In contrast to Birkinshaw, we claim that a subsidiary's autonomy is gained through embeddedness.

More recently, other authors have linked the autonomy processes to the power of different actors in particular contexts, which derive from their location in distinctive national business systems. For instance, Kristensen and Zeitlin (2001) have shown how, within one multinational firm, different subsidiaries have distinctive powers to influence HQ decisions because of the particular pattern of skills and competences that exist within them. Andersson et al. (2002) claim that effects of external embeddedness impact positively on the subsidiary's expected performance and on the development of product and production processes in the MNC. Although Andersson et al. (2002) suggest that the transfer of capabilities from the subsidiary to the MNC increases the competence of the whole MNC, they do not address how such a transfer takes place. We argue that internal embeddedness is not only the vehicle but also the means for this transfer of skills and capabilities. A proactive and initiative-taking strategic behaviour (Andersson et al., 2005; Birkinshaw et al., 2005; Geppert et al., 2003; Prahalad and Doz, 1981) will be the result of subsidiary autonomy as it generates potential contributions to the MNC (Meyer and Lieb-Dóczy, 2003).

The autonomy granted to a subsidiary is partly a function of HQ imperatives (Rugman and Verbeke, 2001), partly a function of historical efforts by the subsidiary to earn additional degrees of freedom (Birkinshaw, 1996; Crookell, 1986), and, possibly, partly a result of strategic neglect or 'inattention' within the MNC system (Bouquet and Birkinshaw, 2008). Thus, our central argument is that subsidiary strategy can not only be traced to the consequences of internal embeddedness but also that it derives from autonomy. The reduction of embeddedness prompts elite-central actors to promote change, as they are exposed to contradictions (Greenwood and Suddaby, 2006). The reverse argument applies to the notion presented in this paper: through successive increases of embeddedness within the MNC the subsidiary can instigate change in the MNC, as it instils contradictory logics. Subsidiary autonomy is therefore the key driver to subsidiary strategy and is the point where our theoretical elaboration opens.

A Preview of the Model

The model presented here is the end-result of the theory building process developed in the remainder of the paper. For presentation purposes, we have used the suspense structure, which facilitates the expositional link between the inducted theory and the case data from where it unfolds (Yin, 1994), hence providing the reader with a summary of the outcome at the outset.

We argue that the internal subsidiary embeddedness in the MNC is the canvas upon which its strategy can be painted. Hence, the level of embeddedness of the subsidiary constrains its ability to develop distinctiveness. Distinctiveness in subsidiary strategy is analogous to position in competitive strategy. Our focus in this paper is not on the local embeddedness of the subsidiary but on its mirror image: the embeddedness of the subsidiary in the MNC. As our case data will show, the level of subsidiary embeddedness in the MNC accounts for the capacity of the subsidiary to have its own strategy and gain distinctiveness. We develop this argument into a theoretical model, schematically presented in Figure 1.

Our model has four interlinked main elements (see Figure 1). Headquarters' (HQ) imperatives are exogenous to the model and they influence autonomy, as widely recognized in the literature. The first element is the degree of autonomous behaviour of the subsidiary, which is a result of the autonomy it is granted. Through this behaviour, the subsidiary can develop embeddedness, that is, the capacity of the subsidiary to develop social action, which in turn helps the development of subsidiary strategy. The second element of the model is the levels of embeddedness developed by the subsidiary through its degree of autonomous behaviour. The resulting three levels of embeddedness in ascending order are operational, capability and strategic according to the level of social action achieved. Third, subsidiary distinctiveness is the outcome variable of the model, dependent on the level of embeddedness. Distinctiveness will be optimal when the subsidiary attains a balance between being similar and being different to the rest of the units of the MNC. Too great a similarity may make the subsidiary redundant (risking relocation) and too great a difference may make the subsidiary an outlier (risking being dismantled). Achieving distinctiveness within the MNC contributes to the survival of the subsidiary and fosters its further development. Finally, the extent to which the MNC as

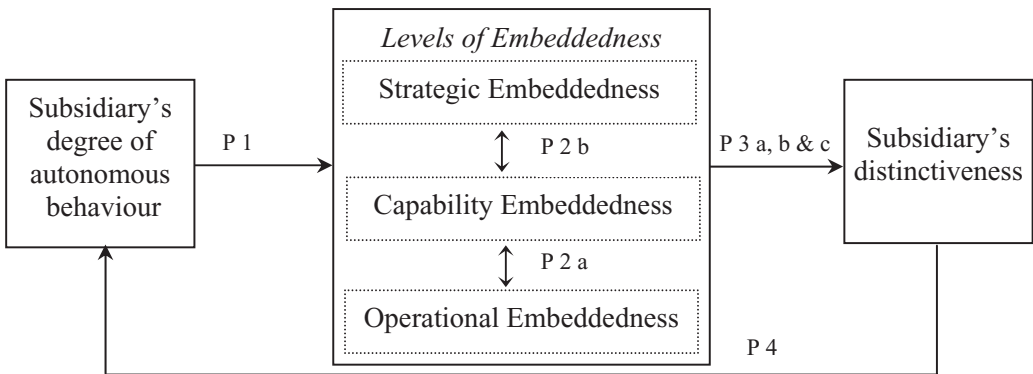


Figure 1. A model of subsidiary strategy as embeddedness

a whole accepts and recognizes its distinctiveness feeds back to the subsidiary's prospect of autonomous behaviour.

The three dimensions of embeddedness proposed here, and which the subsidiary can effect in order to increase its strategic importance, are explained next.

Operational embeddedness reflects the set of relations between the subsidiary and other units of the MNC, that concern the day-to-day activities. Coordination of worldwide manufacturing or product launch gives pace to a network of relations across the MNC, whose aim is to keep operational day-to-day activities afloat.

Capability embeddedness reflects the set of relations that comprise the development of capabilities (Teece et al., 1997). These capabilities are valuable for the subsidiary and can be transferred to other units. Benchmarking, best practices, or knowledge management efforts highlight the competitive proficiency of certain units. The diffusion of these practices generates a network of relationships among operating units. The more the subsidiary develops these strategic capabilities, the higher the chances of being called to contribute. Overall knowledge management processes will integrate the best actors within the subsidiary to contribute to the different strategic capabilities of the MNC.

Strategic embeddedness reflects the capacity of the subsidiary to influence the strategy of the MNC. Active participation of subsidiary members in the strategy process may influence the overall MNC's strategy. The subsidiary can build a set of relationships proactively towards this end by promoting participation from subsidiary executives in strategic forums. The more participation there is by the subsidiary in the strategic process of the MNC, the more dependencies will be encouraged among the different units in the MNC, and the higher the possible level of strategic embeddedness.

The proposed model posits an active and important role of subsidiaries in developing relationships with other members of the MNC. The nature of these relationships may range from operational, through capability content to a more strategic character. However, conversely the relationships with other members of the MNC can suffer decline, by losing strategic and capability embeddedness due either to subsidiary inaction or change in HQ's imperatives.

The remainder of the paper is organized as follows. The next section will introduce the research settings and describe the methods and sources of data. Then, we take the reader briefly through the story of the company, introducing both qualitative and quantitative data from which we develop the theoretical model. Finally, we discuss the limitations of our approach, including the relevant boundary conditions, and highlight implications of the model for future MNC research.

METHODS

This is an inductive theory building study (Snow and Thomas, 1994). We have used a single case study design to study the evolution of the subsidiary's strategy over a ten-year period. The study draws on four sources of data, including one quantitative source, which are presented in Table I. Informal interactions, coupled with participative observation, provided the bulk of data to construct the story. Participant observation, carried out from 1993 to 2003, was the result of one of the author's collaboration with the company. This type of data yielded rich insight into the genesis of strategic behaviour in

Table I. Four sources of data: interviews, measurement of social network, participant observation and archival data

Year	Interviews ^a				Measurement of social network ^b				
	Subtotal	Top man.	Middle man.	Informants	Sample	Ego-alter pairs ^c	Internal network	External network	Corporate network
2003	31	23	8	20	84	1.827	1.315	232	280
1998	37	22	15	18	50	1.411	734	322	355
Total	68	45	23	23 ^d					

Participant observation^e

- 1993–98 During the first two years (1993–95), the consulting project included more than monthly contact at all levels. From 1995 to 1998, the subsidiary's CEO used one of the authors as change agent, which intensified contacts, mainly spent in plants, to more than a day a week in 1996 and 1997. Overall, contacts varied from informal interaction, planning meetings with the top team of the company, to implementation meetings with middle management.
- 1998–2002 With the change of CEO in 1998, intervention moved to a more strategic stance. One author participated in all the planning meetings with the top 20 managers in the company (about four a year). He held numerous specific meetings with the subsidiary's CEO, the HR manager, and the plant managers, as well as with the project management head officer. Face-to-face contacts in this period ranged from weekly to monthly. However, it was not rare to have a telephone call every other day. The intervention was focused on the development of a new strategy, becoming a member of top management meetings that were held monthly. Its content was organized by the CEO, the HR manager and one of the authors of this paper.
- 2002–03 Since 2002, when the CEO retired, the new CEO, argued that given the new situation of the company, there was no need for intervention as in previous years. Thus, meetings were reduced to one meeting with the general manager every two months, and a monthly meeting with the HR director, some of which included the CEO of the *Brakes Spain*.

Archival data (examples)

Strategic objectives, Organizational change plans, Industry studies, Historic company records, Summaries of strategy meetings, Communication records with MNC's HQ, Strategic Plans

Notes:

^a Data collection included 68 in-depth half- to one-hour open-ended, in-person interviews with top and middle managers from the studied organization. These included two interviews each time with each of the three subsidiary CEOs. In 2003, two of these CEOs had left the company, but were still interviewed. Other interviewees were: Plant Managers 1 and 2, Purchasing Head, Product Testing Manager, Chief Engineering Officer, Human Resources Manager, Client 1 Account Manager, Application Engineering Liaison, Controller *Brakes*, Quality Manager, Purchasing Manager, Product Testing Manager.

^b The social network was measured in 1998 and 2003; both times via a questionnaire that measured work-based relationships as long-term patterns of interaction (Freeman et al., 1987). Questions specifically asked separately for relations with the subsidiary (internal), with the MNC (corporate) and with suppliers or clients (external) (Knoke and Kuklinski, 1982). The sample was selected using a 'reputational approach' (Scott, 1991), where information about the actors with higher level of reputation in the set is considered enough to determine the networks of relations of a set. Sampling was required due to both the natural inability of respondents to complete a massive questionnaire and the computational limitations of any network software.

^c Evident mismatches and incomplete entries were eliminated, resulting in 99.2% of usable data for both measurements. Response rates were 96% for 2003 and 95% for 1998.

^d Five interviewees, not present in 1998, were interviewed in 2003.

^e Participant observation was carried out from 1993 to 2003. Number of contacts was approximately 40 per year on average.

our case study, which in order to preserve confidentiality we have labelled *Brakes Spain*. We also collected network data and carried out semi-structured interviews in 1998 and in 2003. Another member of the research team carried out interviews in 2003, specifically to cross-check interpretations from the previous participant observation. A detailed account of this process follows, starting with the research setting.

Research Setting

Brakes Spain is a subsidiary of *British* and is managed via its division *Brakes*. *Brakes Spain* has undergone an organic process of growth and decline shaped by valuable and distinctive resources as illustrated in Birkinshaw and Hood (1998). For this reason, we have chosen it as a revelatory case (Yin, 1994). Using extant theorization in subsidiary evolution we have iterated from theory to data to develop our model (Berg, 2004).

British is a diversified MNC, active in more than 30 countries across Europe, America and Asia. *Brakes*, the MNC division, is part of the automotive industry and is considered a world leader with more than 25 per cent volume world market share. The *Brakes* division is *British's* largest business operating across 20 countries; most vehicle manufacturers are their customers. However, the concentration and consolidation of vehicle manufacturers (Womack et al., 1991) has limited the number of customers for *British* worldwide, thus tightening the market. Active R&D is, therefore, one key element for *Brakes's* strategy to satisfy this limited number of customers. *Brakes Spain* operates in an industry characterized by low diversification and high levels of internationalization (Meyer, 2006).

Turnover of *Brakes Spain* was in the region of €350 million in 2001, operating two plants with a total of 1800 employees. Amongst all *Brakes's* subsidiaries, the Spanish one stands out for three reasons. First, *Brakes Spain* has consistently been the better performing subsidiary, showing the highest return on sales, as well as one of the highest levels of flexibility and productivity. Second, all customers' decision centres are located outside Spain, leaving *Brakes Spain* in a disadvantageous position relative to other subsidiaries. This forces *Brakes Spain* to be especially active in developing its position within the global market and across the MNC. Third and most importantly, *Brakes Spain* has been not only a net cash contributor but also an important source of strategic initiatives and capability development for the division *Brakes*. As such, *Brakes Spain* has grown to be a unit of high strategic importance for the MNC.

Data Collection

Participant observation. Our involvement with the company studied started in 1993, when one of the authors was invited to attend a meeting at *Brakes Spain*. The objective was to aid the organization in its strategizing efforts. For the decade (1993–2003) following the initial meeting, at least one monthly contact was maintained with *Brakes Spain*. This included informal interaction, participation in meetings and discussions with managers across the company, which allowed direct, in-depth and ongoing contact with directors and managers (Jorgensen, 1989). Research data was collected from these meetings and interactions.

Direct participant observation allowed immersion in the organizational culture, an insider view of decision processes, an inductive understanding of actors' perceptions and worldviews, access to informal interchanges (rather than simply to public disclosures), and longitudinal observation of strategizing processes (Berg, 2004; Denzin, 1978; Jorgensen, 1989). Regularly written field notes provided a key resource to articulate the story and understand the linkages between facts during the period studied (Goodman and Kruger, 1988). The frequency of informal interactions and meetings varied iteratively from weekly to monthly; they were held across hierarchical levels, ranging from factory foremen through to managers and ultimately the CEO. For significant periods of time, frequent interaction was also held with four divisional level managers. This allowed the opportunity to contrast views from the group studied, *Brakes Spain's* managers, with their hierarchical superiors. This process helped the study garner greater plausibility and reliability (Eisenhardt, 1989).

Participant observation in this case was advantageous for several reasons. Since this is not commonly available data, it gave us the unique opportunity to witness subsidiary strategy in the making. In addition, the active participation approach facilitated access to informal discussions, which would have been unobtainable from passive observation, and helped to understand inductively the decision-making rationale. Finally, it allowed us to experience personal involvement and accountability of the subsidiary's top management.

Interviews. In parallel, and to gain a more formal understanding of the strategic evolution of the subsidiary, 37 in-depth interviews were carried out in 1998 and 31 in 2003. During both periods, interviews lasted between 45 minutes and one hour, and detailed notes were taken. A protocol was followed as guidance for the sequence of steps to follow and themes to cover aiming at reliability (Yin, 1994). The interviewees were key officers who had a role in the evolution of the subsidiary strategy, as shown in Table I. We interviewed 23 managers directly involved with the formulation and implementation of *Brakes Spain's* strategy. Two researchers were involved in developing the interviews to avoid a bias in interpretation and to assure coverage of all relevant issues (Seidman, 1998). Throughout the data collection and analysis, we aimed at internal validity, looking for alternative explanations between the researchers (Yin, 1994). After each round of interviews a critical discussion was maintained among authors to validate interpretation (Silverman, 2001). Whenever disagreement arose it was resolved by calling the relevant interviewees to check (Yin, 1994).

Archival data. This source included the following documents: (1) strategic and organizational documents, at both the national and the divisional level; (2) organizational charts and organizational change plans; (3) industry studies and competitive reports that analysed the position of *Brakes Spain*; (4) advice and communication records of external consultants; and (5) presentations and communications records with HQ and other business units, as well as historic records of the relationship with customers. These documents were instrumental in cross-checking with the other sources of data (Berg, 2004).

Social network analysis. Our aim was to determine the work-based pattern of relations that start at the units that make up *Brakes Spain*, both internally and externally. We measured

the network in 1998 and 2003. We included in the sampling every relevant player within the firm using a 'reputational approach' (Scott, 1991). As a result of this process, 50 managers were selected in 1998 and 84 in 2003. Questionnaires were handed out in the first wave and web-based administered in the second wave. Questions were formatted in a free-recall and fixed-choice design to allow respondents to name any actor belonging to any unit in *Brakes Spain* or the MNC with whom he or she had a work-based interaction in the last six months. As some people may tend to report work-based relations within members of his/her unit, we explicitly asked the respondent to report interactions with units at *Brakes Spain*, with other units of the MNC and with external agents such as clients and suppliers.

Data Analysis and Reduction

Combining participant observation, interview, archival and network data allowed us to understand not only the relationships between entities but also the content of these relationships (Granovetter, 1985). The analyses of qualitative and quantitative data were carried out separately and were linked later to develop our theoretical model.

Qualitative data. Having used various sources of data to develop the case of *Brakes Spain*, for consistency, we triangulated the information obtained through the interviews with the longitudinal database derived from our involvement with the company and the access to archival data (Yin, 1994). To make sense of such a vast amount of data we focused on constructing the story, making use of narrative to consolidate our understanding. Based on the record of participant observation, the two sets of interviews and archival data, the story was put in writing. This synthesis offered not only a more manageable basis for the analysis but also highlighted the logical links between events (Goodman and Kruger, 1988). Use of narrative proved useful in reducing large amounts of data into a coherent unit (Miles and Huberman, 1994; Pentland, 1999; Silverman, 2001). To develop a skeleton for the narrative, data segments from interviews and records of participant observation were organized into a sequential timeline matrix (Miles and Huberman, 1994). A summarized version of this timeline is presented in Table II, where the key events in the story are shown. To enhance the validity of the qualitative analysis, the researchers independently read the interview transcripts and participant observation records and plotted the changes in embeddedness over time, noting the key events and processes at each stage (Miles and Huberman, 1994). Using this diagrammatic representation, the processes of developing strategy and the key events that explained it became apparent.

We classified each key event into one of three time periods: 1993–98: *I Obeying Orders*; 1998–2002: *II Gaining Fitness*; and 2002–03: *III Losing Ground*. Next we devised a written document for each period, aiming at identifying the main outcomes of each period. Successive iteration, between the matrix and the text, while cross checking with archival data, produced a 34-page draft of the story of *Brakes Spain*. The main outcomes of each period indicated a link between subsidiary distinctiveness and embeddedness. From this temporal description we built the chain of evidence looking for coherent explanations of the outcomes from the narrative. In addition and aiming at reliability, we pursued

Table II. Timeline matrix for *Brakes Spain* (summary of key events)

Period	Key events operational	Examples	Key events capability	Examples	Key events strategic	Examples
1993–98	<p><i>Brakes Spain</i>'s main role is to execute orders either from head office or from other units of the MNC.</p> <p>Main threat: other plants are being relocated to lower cost</p> <p><i>Brakes Spain</i> develops manufacturing excellence</p>	<p><i>Brakes Spain</i> is only producing auto parts ordered by division <i>Brakes</i></p> <p>Main customers centralize decisions into their own HQ</p> <p>One part is produced in record time compared to all other units of the MNC</p> <p><i>Brakes Spain</i> develops their own R&D unit</p>	<p>Intention to deliver a strategy to gain identity within the MNC</p> <p>The aim is to develop relationships: 'cooperation and openness'</p> <p><i>Brakes Spain</i> stands out from the rest of the subsidiaries</p> <p>Cooperation relationships are established with the other units of the MNC</p> <p><i>Brakes Spain</i> is isolated from the rest of the MNC</p>	<p><i>Brakes Spain</i> defines its main goal as developing efficiencies that would call the attention of the MNC</p> <p>Develop relationships with other units of the MNC. Develop new relationships with customers' HQ</p> <p><i>Brakes Spain</i> shows the highest return on sales, as well as high flexibility and productivity</p> <p><i>Brakes Spain</i> develops their own HQ to coordinate both the internal processes and the relationships with the MNC.</p> <p><i>Brakes Spain</i> loses key managers and their R&D as well as their marketing and sales department</p>	<p>Strong emphasis in recruitment and development of employees</p> <p>Increasing participation of key managers in strategy setting forums</p> <p>Increasing participations of key managers in strategy setting forums</p>	<p><i>Brakes Spain</i> fosters good relationships with the workers and sets to develop international executives, who could aim at positions at Division <i>Brakes</i></p> <p>Developing influence in the strategy of Division <i>Brakes</i> is established as an aspiration for <i>Brakes Spain</i></p> <p><i>Brakes Spain</i> leads the European Operational Efficiency taskforce in charge of setting a plan to reorganize European Manufacturing</p> <p><i>Brakes Spain</i> leads conversations to established overseas divisional level JVs</p> <p><i>Brakes Spain</i> leads the taskforce on international assignments and cross fertilization of European management</p> <p><i>Brakes Spain</i> organizes the European mentorship programme</p> <p>The structure to develop and launch new product is copied across the MNC</p> <p>Asian expansion is assumed by the division</p> <p>R&D and Marketing and Sales are centralized at the division level</p> <p>Key executives from <i>Brakes Spain</i> are promoted to the division</p>
1998–2001	<p>Search for excellence in engineering to strengthen the identity of the plants</p>					
2001–03	<p><i>Brakes Spain</i> maintains excellence in manufacturing</p>	<p><i>Brakes Spain</i> is sought after when a challenging order needs to be produced quickly</p>				

authentication of the written case by two different informants from *Brakes Spain* (Yin, 1994). These two informants read, revised, and validated the narrative. After minor modifications, the case in narrative form was deemed as an accurate description of the events that occurred in *Brakes Spain* from 1993 to 2003. A synthesis of this narrative is presented in this paper.

The first outcome that became evident from the analysis of the narrative (key events in Table II) was the operational. This outcome is explained by the fact that *Brakes Spain* prevented production volume losses by pursuing efficiencies that added value to the MNC. Subsequently, they built relationships with other MNC units to block any attempt of *Brakes* to decrease manufacturing volumes, which could have led to relocation. The second outcome that became evident was the strategic. This is explained by *Brakes Spain* looking for new markets on behalf of the MNC. It became natural for management to take part in forums where the MNC's strategic issues were discussed and decided. In fact, at *Brakes Spain* management had purposefully established in 1998 the ambition to influence the strategy of the MNC (see Table II). While collating the key events to describe the story of *Brakes Spain*, it became evident that the respect *Brakes Spain* had earned across the MNC allowed them to play the strategy game at the MNC level. This respect had been achieved by continuously improving results and by the quality of the work that produced such results. The logical link, which explained the genesis of such respect, was the presence strategic capabilities of *Brakes Spain*. Capability development emerged as the link between the operational and strategic categories. In addition, it became apparent that the three outcomes were produced by a sequence.

This sequence followed a clear pattern: in the first time period the focus was on establishing operational relationships; in the second, capability enhancement relationships and strategic relationships were pursued; and finally these relationships were curtailed. Each outcome was achieved sequentially, level by level. At the same time, each level was achieved by creating the content first and then by establishing the relationships through which such content was transmitted throughout the MNC. Each category emerged as being constituted by different content and relationship dimensions. These dimensions suggest a formative rather than a reflective nature of the constructs (Hulland, 1999).

Next, and in order to cross check our interpretation of the story, we delved back into the raw data searching for any previously unnoticed elements. This effort confirmed the existence of the three categories anticipated from the analysis of the narrative, adding to the reliability of the constructs (Yin, 1994). Potential new categories did not improve our understanding of the story of *Brakes Spain* approaching theoretical saturation (Eisenhardt, 1989). Reflection on the nature of each category drove our attention to their key driver. The autonomy of the subsidiary to develop the levels of embeddedness depended not only on their own initiative but also on the leeway allowed by the MNC. Insightful examples of data describing the characteristics of each category are presented in Table III.

Network analysis. The most recurrent issue, which appeared during our interaction with managers, was the idea that *Brakes Spain* was losing contact with different counterparts of the business (other units of the MNC, units of the subsidiary itself, and clients). In order

Table III. Levels of embeddedness

Stage	Operational embeddedness		Capability embeddedness		Strategic embeddedness	
	Description	Examples (sources of data)	Description	Examples (sources of data)	Description	Examples (sources of data)
I. Obeying orders 1993–98	Mainly efficiencies in production standards and levels Operational excellence	'... until 1998, our role was to execute orders from HQ and other units, we were simply manufacturers, with simple plants and a marginal role within the group' (Int. 1)	High aspirations for the future	'We wanted to be someone within the group and be respected, not because of cheaper labour costs but because we did well, and were important for the whole group' (Int. 1)	<i>Brakes Spain</i> acting as flagship for the MNC	'Most likely our presence in Asia and Korea would have been just marginal if it had not been by you' (Part Obs. 1998) (Division CEO talking to <i>Brakes Spain</i> CEO)
II. Gaining fitness 1998–2002	Challenges and risks taken prove rewarding	'No other unit wanted to manufacture component X. It was too complex. We accepted the challenge at the end of 1997. As a result we now supply that component to the whole group and with a decent margin' (Int. 10)	Creating a core capability enhances power with the MNC	'... our production aimed at reducing labour by mechanization, which reduced time. The way we did it was so novel that they came from the US to ask for advice. We had to tell them what they had to change' (Int. 5)	Establishing relationships and managing with the MNC	'From the subsidiary viewpoint one moves in a political environment, within which you have to get what you want without upsetting others. So far nobody has felt that way with our moves, since <i>Brakes Spain</i> was not important within the group' (Int. 46)
III. Losing ground 2002–03	Coordination efficiencies Manufacture efficiently Constrains from HQ affect execution	'Our process of launching new products bases its flexibility on the direct control of all the functions related from quotation to mass production' (Int. 18) 'Currently, our advantage rests upon manufacturing, trying to keep that process on hand with the entire process that precedes launching of new products' (Int. 55) 'Not only have they taken away control over processes and have taken all our executives but also have made us reduce personnel in 10%, treating us like any other unit' (Int. 53)	Gaining control over key activities enhances their position Losing control over key activities weakens capability Distance from key activities weakens capabilities	'It was not only our control over marketing, sales and engineering, it was the integration of all those activities that made us strong at launching new products and put us in an advantageous position across the MNC' (Int. 41) 'At the same time we had developed a flexible structure to launch new products. Sales and engineering were tightly knitted amongst themselves and with the customers' (Int. 22) 'It is harder for us now, given that we're no longer responsible for key activities nor do we have control over them and global responsibilities are far away from us' (Int. 41)	Best practices adopted elsewhere provide reputation Influence over the MNC's strategy Lost interaction accounts for vanished strategic pursuit Losing key actors diminishes strategic potential	'Our structure was even copied in the US. From HQ the mandate was to follow the structure we had invented. We were recognized as skillful people' (Int. 31) 'At the end of the day, we [<i>Brakes Spain</i>] end up setting the agenda for discussion, because we are recognized contributors to the overall strategy' (Part Obs. 1999) 'When the division decided to centralize key engineering activities and its relationships with clients, we lost that control and, consequently, our flexibility for launching new products' (Int. 31) 'When they created the global account manager, the role of sales manager was devalued. We had no control over the customer, not even at product development. Our sales manager obviously decided to leave' (Int. 38)

to validate this claim, we performed a network analysis of the relationships started at *Brakes Spain* and oriented towards an outside sphere; namely customers, other operating units within the division and the divisional headquarters. Structural variables (Wasserman and Faust, 1999) were measured as work-based interactions. We performed the analysis at the aggregate functional level since our interest was on relations between functions rather than individuals. The results were separated into three. First, the internal network made by the relationships among units within the subsidiary, plant departments or local headquarters departments of *Brakes Spain*. Second, the corporate network showing the relationships of the departments within the subsidiary with different departments in other MNC units including *Brakes'* division headquarters. Third, the external network formed with customers and suppliers. These are illustrated in Figure 2.

The resulting network analysis produced a final database of 1411 pairs of *ego* and *alter* tied by a work-based relation entries in 1998, and 1827 entries in 2003 (see Table I). To identify the differences between the two periods, we calculated the proportion of relations in each network to test subsequently for the significance of their differences (see Table IV), and block-modelled (Borgatti and Everett, 1997) the two mode networks calculating density and centrality measures (see Table V). All calculations were done using UCINET.

BRAKES SPAIN: THE HISTORY OF ITS STRATEGY

The story of *Brakes Spain* is that of a commonplace subsidiary that was able to gain distinctiveness within the MNC. However, its strategic importance was put in danger as the MNC centralized key activities. The years from 1993 to 2003 witnessed a rise and then a decline in the strategic importance of *Brakes Spain* within the MNC. First, *Brakes Spain* moved from being a mere plant to becoming a strategic player within the global company. It then started to lose strategic relevance in such a way that its managers perceived the subsidiary was going back to its original operating role within the MNC.

Stage I: Obeying Orders

Prior to 1998, the business strategy of *British* had been one of optimizing operations, reducing costs and minimizing delivery time in a globalized marketplace. This globalization process, carried out by the MNC, distanced *Brakes Spain* from decision-making. In turn, the centralization of customers' decision centres, which were established distant to their operations, led *Brakes Spain* to lose touch with their market. This was compounded by 1993, *Brakes Spain* having few local customers and lacking both a proprietary technology and the team to develop it. This situation stood as a clear disadvantage vis-à-vis other European subsidiaries, which either had relationships with local customers or enough R&D to cope with developing new products. Managers of *Brakes Spain* felt its manufacturing operations were prime candidates for relocation to lower labour-cost countries. In order to overcome this dismal future, the subsidiary decided to design a strategy that could allow *Brakes Spain* to gain distinctiveness within the division. The subsidiary's CEO summarized this notion as:

Table IV. Evolution of relations in *Brakes Spain*

	1998 ^a		2003 ^a		1998 vs. 2003 ^b
	Number of relations	\hat{p}_1	Number of relations	\hat{p}_2	$\hat{p}_1 \neq \hat{p}_2$
All ego-alter relations (I, II & III)	1,183	1	1,705	1	
I. Internal Brakes Spain Network:	734	0.62	1,315	0.77	(+) ^{****}
Operational and Strategic Relations					
1) HQ Spain–Plants	106	0.09	185	0.11	(+)
2) Plants–HQ Spain	78	0.07	103	0.06	(–)
3) HQ Spain–HQ Spain	322	0.27	408	0.24	(–)
4) Plants–Plants	228	0.19	619	0.36	(+) ^{****}
II. Corporate Network:	325	0.27	292	0.17	(–) ^{****}
Operational and Strategic Relations					
1) HQ Spain–MNC Plants	156	0.13	136	0.08	(–) ^{****}
2) HQ Spain–MNC HQ	118	0.10	89	0.05	(–) ^{****}
3) Plants Spain–MNC HQ	39	0.03	14	0.01	(–) ^{****}
4) Plants Spain–MNC Plants	12	0.01	53	0.03	(+) ^{***}
III. External Network:	124	0.10	98	0.06	(–) ^{****}
Operational and Strategic Relations					
1) HQ Spain–Clients	114	0.10	58	0.03	(–) ^{****}
2) Plants Spain–Clients	12	0.01	40	0.03	(+) ^{**}

Notes:

^a \hat{p}_1 and \hat{p}_2 are the proportions of the total relationships in the category.

^b Significance of difference of proportions has been calculated using a normal distribution.

**** p < 0.0001; *** p < 0.001; ** p < 0.002.

If we were to avoid plants' relocation, something that was happening to other plants of the group, it was vital for *Brakes Spain* to be able to add value to the MNC; we decided to transform our unit in order to make it able to contribute greatly to the division; we wanted to base our prestige in efficiency, the best manufacturing and high flexibility.

The strategy designed to overcome the stage we labelled *obeying orders* was based upon three pillars. First, *Brakes Spain* aimed to develop a strong local HQ in order to improve coordination and knowledge transmission among plants. Fulfilling this function, they expected to serve as a filter between its plants and other units of the MNC. Second, they invested in R&D subsidiary capabilities, giving emphasis to the engineering department. Several young engineers were recruited with the objective of generating novel manufacturing processes, more efficient plant layout designs, and better product applications. It was also expected that this investment would indirectly give *Brakes Spain* a better position compared to similar units in countries such as France and Germany. *Brakes Spain* anticipated that if this strategy was successful it would enable the subsidiary to establish immediate and fluid relationships with both the engineering departments of other units of the MNC and those of its clients. Finally, the strategy aimed at developing the sales department, in order to bring customers closer to *Brakes*

Table V. Corporate network *Brakes Spain* towards brakes: density image matrices 1998 and 2003

	1998 ^a		2003 ^b
Two-mode network density	0.196		0.156
Block Modelling/Density Matrices per Block: <i>Brakes Spain</i> towards <i>Brakes</i>:		Block Modelling/Density Matrices per Block: <i>Brakes Spain</i> towards <i>Brakes</i>:	
Strategic units at <i>Brakes Spain</i> (Group X 1998) with strategic and operational units at <i>Brakes</i> Division (Group A 1998)	0.722 (1)	Strategic units at <i>Brakes Spain</i> (Group X 2003) with operational units at <i>Brakes</i> Division (Group A 2003)	0.515 (1)
<i>Brakes Spain</i> (Group Y 1998) with most strategic units at <i>Brakes</i> Division (Group B 1998)	0.098 (0)	<i>Brakes Spain</i> (Group Y 2003) with strategic units at <i>Brakes</i> Division (Group B 2003)	0.096 (0)
Mostly strategic units at <i>Brakes Spain</i> (Group X 1998) with most strategic units at <i>Brakes</i> Division (Group B 1998)	0.234 (1)	Mostly strategic units at <i>Brakes Spain</i> (Group X 2003) with strategic units at <i>Brakes</i> Division (Group B 2003)	0.149 (0)
<i>Brakes Spain</i> (Group Y 1998) with strategic and operational units at <i>Brakes</i> Division (Group A 1998)	0.169 (0)	<i>Brakes Spain</i> (Group Y 2003) with operational units at <i>Brakes</i> Division (Group A 2003)	0.070 (0)
Block density: Density of relations among the actors in <i>Brakes Spain</i> and <i>Brakes</i> Division belonging to a specific block. (0) or (1) indicate whether that density is higher or lower than the average density of the matrix, that is, whether it is significant in network terms.			
Number of alter^c per year		Number of alter^c per year	
Departments from <i>Brakes</i> Division HQ related to strategic units in <i>Brakes Spain</i> (Group X 1998)	5	Departments from <i>Brakes</i> Division HQ related to strategic units in <i>Brakes Spain</i> (Group X 2003)	0
Departments from <i>Brakes</i> Division HQ related to <i>Brakes Spain</i> (Group Y 1998)	7	Departments from <i>Brakes</i> Division HQ related to <i>Brakes Spain</i> (Group Y 2003)	9
Total	12	Total	9
Departments from <i>Brakes</i> Division Plants (Other MNC units) related to strategic units at <i>Brakes Spain</i> (Group X 1998)	2	Departments from <i>Brakes</i> Division Plants related to strategic units at <i>Brakes Spain</i> (Group X 2003)	4
Departments from <i>Brakes</i> Division Plants (Other MNC units) related to <i>Brakes Spain</i> (Group Y 1998)	7	Departments from <i>Brakes</i> Division Plants related to <i>Brakes Spain</i> (Group Y 2003)	7
Total	9	Total	11

^a **Composition of Groups 1998**

Group X (*Brakes Spain* actors, mainly strategic units): HQ-Product Engineering, HQ-Marketing and Sales, HQ-Research and Development, HQ-Purchasing, Plant-Process Engineering

Group Y (*Brakes Spain* actors, mainly operational units.): HQ-testing, HQ-controlling, Plant-Purchasing, Plant-quality, plant-purchasing, Plant-controlling, Plant-general management, Plant-manufacturing, plant-Human resources, HQ-Quality

Group A (*Brakes* actors, mainly strategic units): HQ-Product Engineering, HQ-Research and Development, HQ-Manufacturing, HQ-Purchasing, Plant-Product Engineering, Plant-Purchasing,

Group B (*Brakes* actor, mainly operational units s): HQ-Marketing and Sales, HQ-Testing, HQ-Human Resources, HQ-Control, HQ-General Management, HQ-Quality, HQ-Product Engineering, Plant-Quality, Plant-Controlling, Plant-General Management, Plant-Testing, Plant-Research and Development, Plant-Process Engineering, Plant-Logistics.

^c 'Alter' specifically stands for the units that are related to *Brakes Spain*.

^b **Composition of Groups 2003**

Group X (*Brakes Spain* actors, mainly strategic units): HQ-Product Engineering, HQ-Marketing and Sales, HQ-Research and Development, HQ-Testing, HQ Quality, Plant-Quality, Plant-Process Engineering

Group Y (*Brakes Spain* actors, mainly operational units): HQ-Controlling, HQ-Human Resources, HQ-General Management, HQ-Purchasing, Plant-General management, Plant-Manufacturing, Plant-Human Resources, Plant-Controlling, Plant-Logistics

Group A (*Brakes* actors, mainly strategic units): Plant-Quality, Plant-Marketing and Sales, Plant-Product Engineering, Plant-Process Engineering.

Group B (*Brakes* actors, mainly operational units): HQ-Quality, HQ-Marketing and Sales, HQ-Purchasing, HQ-Controlling, HQ-General Management, HQ-Testing, HQ-Human Resources, HQ-Research and Development, HQ-Engineering, Plant-Controlling, Plant-Testing, Plant-Manufacturing, Plant-General Management, Plant-Human Resources, Plant-Research and Development, Plant-Logistics.

Spain. The production department and its plant managers were directed to bargain internally within the MNC to gain projects and products. In order to compensate for their geographically isolated position, *Brakes Spain* decided to direct its sales department towards developing the Asian market, hiring international and well-prepared managers who were able to be directly in touch with customers and engineers of other units of the MNC.

The overall strategy was advocated by *Brakes Spain* in the form of a suggestion to the divisional head. The rationale used was that the integration of the subsidiary within the group activities would allow *Brakes Spain* to produce faster, respond more quickly and add more value to the division as a whole, while staying closer to the customer and the division. Despite the apparent logic of *Brakes Spain's* strategy, the process employed to gain the division's authorization was eclectic. In the words of the 1993–98 CEO:

. . . Sometimes you negotiate these things with head office, some they grant and some they don't . . . sometimes you just do not make a proposal, you simply act and head office would have to endorse it after the facts.

The results of the implemented strategy were evident in 1998, when as a consequence of solid management by the CEO of *Brakes Spain*, he was promoted to a higher position within the MNC. Additional results attributed to this strategy determined the second stage of *Brakes Spain's* strategy.

Stage II: Gaining Fitness

Brakes Spain of 1998 stood in stark contrast to the parlous situation of 1993. With a share of 11 per cent of the total MNC's turnover, it had become the largest subsidiary of *Brakes* in its cash-flow contribution. During the period 1998–2002, several managers from the Spanish subsidiary were promoted to divisional responsibilities. Managers' promotions were driven by the perception at the divisional level that *Brakes Spain* had grown more capable of contributing strategically to the global organization. For example, *Brakes Spain* was able to put a prototype into mass production in record time. What is more, from the selling perspective, customers from distant countries such as the USA or Japan would ask specifically to be served by *Brakes Spain*. Similarly, after a global benchmarking process, the MNC decided to 'clone' across subsidiaries the task forces model to launch new products designed by *Brakes Spain*. Likewise, the MNC decided to transfer to the US operations the layout designs developed by *Brakes Spain*. Besides, after negotiating with the division, plant managers at *Brakes Spain* were able to secure the production of important parts, which had been rejected by other units of the MNC. This negotiation left *Brakes Spain* specialized and responsible for the production of high-margin brakes system parts within the group.

Consider, for instance, the effect that *Brakes Spain* had on HQ via its involvement in the strategy of Asian expansion. In different European meetings, HQ declared the importance of serving Asian customers. However, none of the subsidiaries of the MNC felt confident enough to overcome problems derived from cultural matters, geographic

distance and language differences. After this difficult beginning, the decisive involvement of *Brakes Spain*, which started with one client in Japan and one in Korea, rendered the Asian expansion feasible.

To summarize, *Brakes Spain* achieved a high reputation across the MNC, based upon its manufacturing excellence, its skilled sales team, its flexibility at launching new products, its high profile engineering team and the fact that it was now the largest subsidiary of *Brakes* in terms of net cash contribution. The strategy proposed in 1999 at *Brakes Spain* aimed to keep and strengthen the advantageous position achieved. It focused on maintaining the state of the art in organization and techniques of mass production, added a search for excellence in engineering to strengthen the identity of the plants, fostered good relationships with the workers, and developed international executives who could aim at positions at division *Brakes*. More than anything else the strategy strengthened their R&D department by looking for recognition within the group while helping develop the Asian expansion. Nevertheless, the future was going to prove different from that originally intended.

Stage III: Losing Ground

In the middle of 1998, a new divisional head was appointed at *Brakes*. His self-styled strategic goal was to attack the Asian market through the European operations given their level of technology, efficiency, reliability and geographical location (which was closer than the USA, for example). At the same time the new head thought that in order to achieve this goal, a higher level of centralization was needed. Consequently, by 2002, purchasing, launch of new products, engineering applications processes and sales activities were centralized. The division also imposed a certain level of rationalization at the manufacturing level, trying to leverage specialization of plants. The espoused rationale behind these decisions was to keep control over key business activities, to better coordinate R&D investment among units and to obtain lower manufacturing costs (Hill et al., 2000).

This set of measures trimmed back the relationships *Brakes Spain* had established with customers as well as with other units of the MNC, damaging *Brakes Spain's* degree of autonomous strategic behaviour. The establishment of global managers and functions displaced their counterparts. Global managers made key decisions; only jurisdiction over low-level decisions was retained at the country level. For instance, under the new structure, *Brakes Spain* was not allowed to contact a customer directly when the customer decided to include a small change in the design of a new product or application. That function was, in full, the responsibility of the new Global Account Manager, who, in turn, had to coordinate with global project leaders. Apart from losing contact with customers and managers from other units of the MNC, *Brakes Spain* was forced to narrow its strategy towards the achievement of operational excellence. The strong pressure to reduce staff numbers was unseen in an organization that had always been focused on customer strategy and growth. In the aftermath, the strategic role played by *Brakes Spain* was diminished as its strategic activities were appropriated by centralized functions. In the words of the 2002–03 CEO:

. . . a great part of our reputation within the group was due to our closeness to the customer and the flexibility of our product launching teams. From 2000, when European representatives are appointed to these activities, it is them who want to address the customer, while we barely reach the customer indirectly . . . now we don't control the business and we have gone back to pre-1998: we are simply manufacturing plants.

A MODEL OF SUBSIDIARY STRATEGY AS EMBEDDEDNESS

The story of *Brakes Spain* shows the transition of a marginal unit to one that shaped its destiny. It did so by taking an active role in building valuable relationships. The subsidiary managers designed and implemented a strategy that allowed the unit to gain distinctiveness within the MNC. As illustrated in Figure 3, taken from the 1998 strategic plan presentation, cooperation and openness with the rest of the MNC were purposefully devised to channel products, processes and projects towards the whole MNC. However, a constraining level of centralization, promoted at divisional level in mid-2000, reduced the strategic space that *Brakes Spain* had enjoyed.

Underlying the process of cooperation and openness that appears in Figure 3, there was a change in the network of relationships from *Brakes Spain* towards other units of the MNC and its clients. The content of the new relationships was based on improving the product offering first, then on developing new improved processes and finally on offering new projects (see Figure 3). First, it responded to operational excellence, integrating it to the MNC by developing a network of relations, generating Operational Embeddedness. Second, it leveraged its operational efficiencies into distinctive capabilities establishing relations across the MNC, generating Capability Embeddedness. As seen from *Brakes Spain's* viewpoint,

Our structure is flat, we base our contribution on the relationship of our managers with HQ, with the customers and with our plants. (CEO, *Brakes Spain*, 1998)

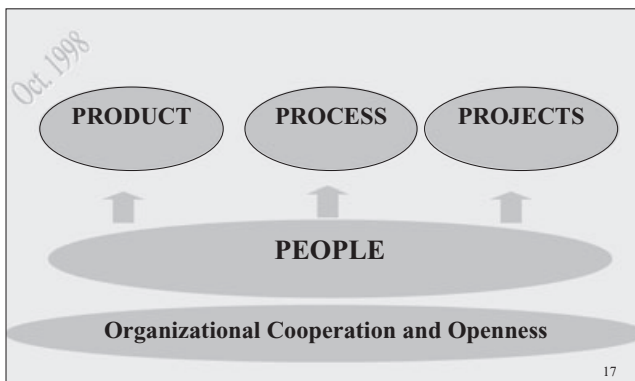


Figure 3. Structure of the future strategy in October 1998

Source: *Brakes Spain*.

These capabilities in the form of relationships, in turn, helped develop a strategic role. *Brakes Spain* championed new markets and developed new products and processes, which were copied across the MNC, hence reaching Strategic Embeddedness. In the last stage, they lost control over key business processes by losing customer relations together with their product development capacity. Centralized key activities brought them back to Operational Embeddedness, as their network of relationships was trimmed back. Each embeddedness type was built on top of the previous one. Next, we will describe each of the constructs that make the theoretical model that emerged from the study data, as presented in Figure 1.

Constructs Comprising the Model of Subsidiary Strategy

Operational embeddedness. By operational embeddedness we mean the set of relations between *Brakes Spain* and the rest of the MNC that involve operational and manufacturing content and activities. Stated in the case of plants by the Technical Director,

Plant 1 and 2 have been doing better because they have specialized in a series of joints, going down a steep learning curve and reducing time and cost of production.

To develop this initial type of embeddedness it was basic to develop a suitable structure, as the HR director noted:

. . . one of my key challenges is to find people in the factory floor that can relate to our German, French or Italian counterparts, as we clearly need to integrate in divisional operations. (1993)

As can be seen in Table III, the subsidiary concentrated on developing efficiencies in operation, manufacturing and coordination amongst plants initially. In a similar fashion, towards the end of this study operational embeddedness was prevailing. This is reflected in the significance of the relationships among Spanish plants (36 per cent of all relations), and the increased significance of the relations between the Spanish plants and those of the customers (3 per cent of all relations) (see Table IV). Operational embeddedness is highlighted in Table V as most of the relations appearing in the only non-zero block in 2003 are directed towards units in other divisional plants (block density = 0.515). As data in this study suggests, operational embeddedness implies more relationships among plants within the division and a lower level of relations between local HQ and divisional HQ.

Capability embeddedness. Capability embeddedness is the set of relationships resulting from the efforts to develop further strategic capabilities of the MNC. First, *Brakes Spain* was able to develop operational embeddedness. Then, through its increasing participation in both best-practice transfer from *Brakes Spain* and general best-practice workgroups within the MNC, it aimed at capability embeddedness. *Brakes Spain* had made every effort to play a central role amid the MNC. In words of the R&D director in 2000,

Well, I cannot deny there is a bit of envy from other units of the MNC. We are more flexible and faster in launching new products. We end up having better results on our projects, which is more important when half of the projects we take have been ditched by other units.

Best practice transfers were informally developed at *Brakes Spain* through know-how sharing. Work group relations emerged as other units in the MNC asked for interaction with *Brakes Spain*. Next, via recruitment of R&D and engineering staff, the subsidiary was able to develop its own capability in product development. Coupled with this, it created a sales department that would work in tandem with R&D and engineering, catering for specific customers' requirements. This structure, together with manufacturing excellence, increased its position to capability embeddedness. As expressed by the CEO in 2003,

It was not only our control over marketing, sales and engineering, it was the integration of all those activities that made us strong at launching new products and put us in an advantageous position across the MNC. (More examples appear in Table III)

This observation is supported by the network measurement of a high number of interactions between *Brakes Spain* and customers in 1998, as shown in Table IV. The non-zero value of the block XB in the 1998 block-model (and density of 0.234) highlights the existence of relations between *Brakes Spain* and different departments in division *Brakes*, both at the plant and the HQ level (see Table V). The fact that all these relations came from *Brakes Spain's* head office, illustrates that top management purposefully managed relations. Through this process, *Brakes Spain* became an integral part of strategic capability development in the MNC.

Strategic embeddedness. By strategic embeddedness we mean the set of relations that *Brakes Spain* established with other units of the MNC and with the division *Brakes* in order to influence the MNC's strategy. In other words, strategic embeddedness is becoming a key player in the strategy of the whole MNC. The fact that *Brakes Spain* had consistently good performance within *Brakes*, had developed distinctive capabilities and had gained customer recognition, allowed them to be a significant player within the MNC. They were perceived as a set of skilful executives that had transformed their organization; hence they could transform the MNC. For instance in 1998, the MNC's CEO, talking to *Brakes Spain's* CEO, stated: 'Most likely our presence in Asia and Korea would have been just marginal if it had not been for you' (further examples appear in Table III). Their intentions of achieving a distinctive character to avoid being relocated reached fruition when their customers' service structure was copied across the MNC. Moreover, *Brakes Spain's* distinctive character became evident when they were the flagship for the exploration of the Asian market. In this way:

Our management development plans include their participation on divisional forums to be able to increasingly contribute to the strategy development in division *Brakes*. (Human Resources Management of *Brakes Spain*, March 1999)

The pattern of being key actors in the MNC's strategy can also be seen in the social network analysis. Table V shows that the number of *alters* in 1998 was higher among division *Brakes*' HQ departments (12) than among other subsidiaries departments (9). *Brakes Spain*'s relations with the MNC at the level of HQ and Plants were significantly higher in 1998, as shown in Table IV (156 vs. 136, 118 vs. 89, and 39 vs. 14). In addition, the number of relationships of the entire corporate network was significantly higher in 1998, indicating a peak in strategic embeddedness (325 vs. 292). Overall, strategic embeddedness was developed through the increased presence and relevance in the strategic forums in the MNC, which is shown in the different patterns of relations within the MNC. As can be seen in Tables II and VI, during the last part of 1998–2001 period, *Brakes Spain* influenced the strategy of the MNC, achieving strategic embeddedness.

Relationships in the Model of Subsidiary Strategy

Subsidiary's autonomous behaviour. The evidence from the case presented here clearly shows that *Brakes Spain* was allowed to behave autonomously (see Table III). Subsidiary autonomy is due partly to HQ imperatives or assignment, partly to strategic neglect by the rest of the MNC and partly to its own effort. Perhaps more important was that the subsidiary capitalized on this leeway, building a vast network across the MNC and with external entities. Behaving autonomously was decisively pursued by *Brakes Spain* as one interviewee asserted:

. . . if we wanted not to be relocated to a low cost country, it was necessary to look for value adding alternatives. We decided that *Brakes Spain* would contribute significantly to the whole group.

Table V shows that there is a higher density between strategic departments of *Brakes Spain* and the MNC in 1998 than in 2003 (0.722 vs. 0.515 and 0.234 vs. 0.149), illustrating a retrenchment of the subsidiary in its international relations. Between 1998 and 2003, *Brakes Spain* intensified the relations among its units while decreasing significantly the effort to relate to other units in the MNC. Hence, the percentage of overall relations between *Brakes Spain* and *Brakes* (0.27 vs. 0.17) or its customers (0.1 vs. 0.06) decreased significantly (see Table IV). Linking these results with the accepted notion of autonomous behaviour (Birkinshaw and Hood, 1998; Birkinshaw et al., 2000; Burgelman, 1983) serves as a platform for the development of the levels of embeddedness, leading to the following:

Proposition 1: The degree of the subsidiary's autonomous behaviour is positively associated with the generation of operational, capability and strategic levels of embeddedness by the subsidiary.

From operational to capability to strategic embeddedness. As the subsidiary was allowed leeway to develop relationships with customers and other units of the MNC, *Brakes Spain* was able first to develop operational embeddedness, engaging in quality control with other units of the MNC (see Table III). Next, the subsidiary, through recruitment of R&D

and engineering staff, was able to develop its own capabilities, increasing its relations with the MNC, i.e. capability embeddedness. This sequence suggests that constructing embeddedness is a process where establishing one level of embeddedness enables the building of the next. In the case of *Brakes Spain*, initial operational efficiency and establishing a strong internal network led to building new capabilities and establishing a corporate network. Then, the subsidiary was able to develop strategic embeddedness by gaining influence in the overall decision-making within *Brakes*. As the subsidiary grew into developing its own strategy, it gained degrees of distinctiveness within the MNC. Operational embeddedness led to capability embeddedness and then to strategic embeddedness, as data shows in Table VI. The argument of the model presented here is that in order to move from one level to the other, the subsidiary has to become proficient in the previous level of embeddedness. Conversely, as shown in Table V, when centralization of activities was imposed, the network of relations was cut back for *Brakes Spain*. It is significant that the number of *alters* in *Brakes Spain*'s network from *Brakes*' HQ decreased from 12 to 9, while the relations with *alters* belonging to other MNC plants increased from 9 to 11 (see Table V). The following propositions highlight the sequence necessary to achieve the three levels of embeddedness.

Proposition 2a: Establishing operational embeddedness is a necessary condition for the subsequent achievement of capability embeddedness.

Proposition 2b: Establishing capability embeddedness is a necessary condition for the subsequent achievement of strategic embeddedness.

This theoretical sequence is clearly portrayed in the following episode. The Spanish plants of *Brakes Spain* achieved the status of Global Product Centre, within the MNC, for one important brakes system. This achievement was due to its high level of production expertise [*operational*], its higher dynamism in processes that involved other units of the MNC [*operational*], control over all stages of the process (R&D, production and testing) [*capability*], and instruction and training of employees across the MNC [*capability*]. Having achieved this status, *Brakes Spain* enhanced its reach, becoming a sender in the MNC's network of know-how transfer [*strategic*]. The strategic importance of contribution of capabilities from *Brakes Spain* towards the MNC is revealed in the following comment, made by the 1999 CEO during a top management meeting. Talking about technical developments taking place within *Brakes Spain*, he asserted,

This [activity] has to contribute to 'sell' *Brakes Spain* within the Division. In this way, they will see us as providers of technology development.

The decreasing role of *Brakes Spain*'s head office in this last phase of the study illustrates the path back to operational efficiency. Operational embeddedness emphasizes 'operational excellence'. This term was used by the 1993–98 CEO as his motto and was reclaimed by the 2000–03 CEO as a directive for its local managers. Operational excellence is reflected in the higher importance of 2003 relations within *Brakes Spain* (77 per cent of all relations in Table IV). Network data with other units of the

Table VI. Interaction of roles of HQ and subsidiary determine type of embeddedness

<i>Period</i>	<i>HQ's stance</i>	<i>Brakes Spain's stance</i>	<i>Relations of Brakes Spain</i>	<i>Subsidiary distinctiveness</i>	<i>Examples of significant events^a</i>
I. Obeying orders 1993–98	Indifferent	Operational effectiveness	Internal	Low differentiation, high similarity	One of the plants is granted the status of Global Product Centre by HQ. The reasons are: high know how, high dynamism between subsidiary's units, control of manufacturing and training. Manufactured products are designed in Germany, the UK and France. The local engineering team is skilled but only in solving technical problems, not in design or training.
II. Gaining fitness 1998–2002	Open	Capability development	Internal and corporate	Medium differentiation, medium similarity	Increase investment in engineering, basically in recruiting new talent for new products. This was partially negotiated with HQ, but most times <i>Brakes Spain</i> preferred to say sorry than to ask for permission in a highly political environment. <i>Brakes Spain</i> is relatively small so it is not perceived as troublesome at HQ.
	Open	Strategic development	Internal, corporate and external	High differentiation, low similarity	Coupling R&D and sales, <i>Brakes Spain</i> is able to work developing product with the customer. The intent is to launch new products to satisfy the customer, maintaining excellence in operations and in processes. Accepted by HQ, the intent is realized to an extent by the way in which <i>Brakes Spain</i> outperforms all other units of the MNC.
III. Losing ground 2002–03	Restrictive	Left only with operational effectiveness	Internal	Low differentiation, high similarity	Centralization of engineering together with centralization of relationships with customers at HQ leaves <i>Brakes Spain</i> defenceless. Joint action of sales and engineering is copied from <i>Brakes Spain</i> to HQ as the best way to serve the customer and most of these employees move to HQ.

Note: ^a Key events have been extracted from interviews, participant observation and archival data to deduce the chain of evidence.

MNC shows that the network was denser (0.196 vs. 0.156 in Table V) and with a significantly higher proportion of relations (0.27 vs. 0.17 in Table IV). This, coupled with the fact that most of the relationships to HQ's functions came from their plant equivalents, denotes a loss of strategic relationships. Once again, *Brakes Spain* had operational embeddedness.

Levels of embeddedness as the subsidiary strategy. In all, the evidence suggests that *Brakes Spain* gained degrees of distinctiveness within the MNC via generation of embeddedness and then lost it by command of HQ. Recalling the time in 2002 when they had achieved strategic embeddedness within the MNC, the CEO commented:

We were respected people back then. They noticed us even if we were just one more subsidiary.

Differentiation from other MNC units meant that they had been perceived as capable. They capitalized on being noticed as different until they were able to affect the strategy of the MNC. This very difference had them denied their R&D and commercial units, a more centralized system was imposed and several key personnel redeployed to the MNC. Network analyses strengthen the evidence suggesting that decline in subsidiary distinctiveness was produced by the loss of relations within the corporate and external network (see Table IV). As levels of subsidiary embeddedness decreased, the degree of differentiation it achieved was less and the similarity to other MNC units became relatively stronger. These factors were synthesized by the CEO in 2001:

When the division decided to centralize key engineering activities and its relationships with clients, we lost that control and, consequently, our flexibility for launching new products.

Hence, a medium degree of distinctiveness tends to be associated with an essentially nondescript degree of difference and similarity. A higher degree will comprise relative higher differentiation while lower degrees will comprise lower degrees of differentiation. This insight is consistent with optimal distinctiveness theory (Brewer, 1993). Medium and high degrees of distinctiveness are associated in the case data with capability and strategic embeddedness respectively, as shown in Table VI. The strategic development of *Brakes Spain* suggests that the mechanism used by *Brakes Spain* to develop strategy, i.e. an increase in relations, had the effect of enhancing its differentiation. The relationships that the subsidiary developed with the MNC were the vehicle to develop their own strategy. The next propositions synthesize this observation.

Proposition 3a: A low degree of subsidiary distinctiveness within the MNC is positively associated with operational embeddedness.

Proposition 3b: A medium degree of subsidiary distinctiveness within the MNC is positively associated with capability embeddedness.

Proposition 3c: A high degree of subsidiary distinctiveness within the MNC is positively associated with strategic embeddedness.

The situation as shown for 2003 was radically different to that of 1998, when *Brakes* had asked the Spanish subsidiary to replicate its new product launch organization within the whole MNC. Evidence in Table VI suggests that *Brakes Spain* thereby lost important degrees of distinctiveness as it lost its capability and strategic embeddedness. It could be argued that the MNC's perception of higher relative differentiation of *Brakes Spain*, or high degree distinctiveness, triggered the withdrawal of the privilege of leeway for autonomous behaviour. While a medium degree of distinctiveness was present, *Brakes Spain's* autonomous behaviour was reinforced, encouraging new product development and search for new businesses. When HQ curtailed their strategy and enforced subsidiary compliance, the feedback did not encourage autonomous behaviour. This insight is synthesized in Proposition 4.

Proposition 4: The acceptance of the subsidiary's level of distinctiveness by the MNC's HQ is positively associated with higher degrees of autonomous behaviour.

DISCUSSION AND CONCLUSIONS

We have developed a model of subsidiary strategy that presents internal embeddedness as the key driver for the subsidiary to generate degrees of distinctiveness within the MNC. We have also identified three levels of embeddedness that can create distinctiveness for the subsidiary within the MNC. We contribute to the literature of subsidiary strategy (Andersson et al., 2005, 2007; Birkinshaw and Hood, 1998, 2000; Taggart, 1999), by highlighting the importance of distinctiveness and internal embeddedness for developing subsidiary strategy. We build on the identification of subsidiary initiative by emphasizing the ability of the subsidiary to develop proactive behaviour that changes its distinctiveness and role within the MNC, and thus, its strategy. While the extant literature has emphasized the importance of the external embeddedness of the subsidiary, that is, the relations with the local environment where it competes, we emphasize the importance of internal embeddedness, which is the set of relations with other units in the MNC. The theoretical development presented in this paper sheds light on both the effect that internal embeddedness has on the strategy of the subsidiary and the developmental process a subsidiary carries out when generating such strategy.

Discussion

This paper, by taking an internal embeddedness approach, moves into the relation between subsidiary strategy and performance, focusing on subsidiary distinctiveness as an intermediary outcome variable. Distinctiveness is not linearly related to the subsidiary's strategic behaviour. Rather, it operates as an outcome of subsidiary behaviour in such a way that when exceeding a certain threshold, the strategic behaviour of the subsidiary is trimmed back by HQ. The relation between subsidiary importance and subsidiary influence was found to be significant by Andersson et al. (2007), which is

consistent with our findings. However, in addition to the identification of the positive relationship we present the process and rationale describing such relationship.

The process by which subsidiary strategy can be constructed from internal embeddedness is in itself a novel approach. For instance, to Andersson et al. (2005), external embeddedness is critical for subsidiary strategy development and has a significant impact on subsidiary performance. Though consistent with their findings, our theoretical development adds the critical driver of internal embeddedness and the intermediate dimension of distinctiveness. Internal embeddedness can be critically managed by the subsidiary to seek its continued existence. Contributing to performance is not only an exercise of adding the contribution of the subsidiary to the MNC, but also a process through which the subsidiary gains distinctiveness by contributing to other MNC units and through them to the MNC as a whole.

The influence of the network position of firms on their performance has been widely recognized (Dyer and Singh, 1998; Gulati et al., 2000; Håkansson and Snehota, 1989; Hung, 2002; Rowley et al., 2000; Uzzi, 1996; Zukin and DiMaggio, 1990). Birkinshaw and Morrison (1995) translate this view into the multinational context, emphasizing the importance of lateral relationships between subsidiaries, which has been found to have a significant influence on performance (Subramaniam and Watson, 2006). Our paper extends such work by applying this perspective to the network view of the MNC (Andersson and Forsgren, 1996; Ghoshal and Bartlett, 1990), identifying network embeddedness as the canvas through which the subsidiary can build its distinctiveness within the MNC. Our model emphasizes that these lateral contributions can be designed by the subsidiary, enabling it to become a specialized contributor (Birkinshaw and Morrison, 1995). It also shows how these interdependencies are created via operational, capability and strategic embeddedness, which constitute a logical sequence for the evolution of embeddedness.

This paper adds to the effect of external embeddedness the importance of three different levels of internal embeddedness to the development of a subsidiary strategy. Birkinshaw and Hood (1998) emphasize the importance of the interaction between the development of subsidiary capabilities and HQ's assignment in explaining subsidiary evolution. Our model builds on their development by emphasizing that the subsidiary capability evolution flows through different levels of internal embeddedness, which respond to the subsidiary's degree of autonomous behaviour, given an assignment by HQ. Subsidiary autonomy may yield three levels of embeddedness, which are drawn from the internal network within the MNC that the subsidiary develops. Operational embeddedness grows parallel with the development of basic operational capabilities. The integration of worldwide operations for an MNC implies a minimum level of operational capabilities for global coordination to work efficiently. When the subsidiary has achieved a certain level of integration, the development of strategic capabilities follows. This development allows the subsidiary to contribute to the worldwide learning effort, as emphasized by Bartlett and Ghoshal (1989), but adds the theoretical description of one process to achieve this contribution. As recognition of such contribution grows across the MNC's internal network, the subsidiary might start to gain voice in different forums, achieving a certain level of strategic influence through the development of strategic embeddedness. This process provides a compelling logic to the link between the interest

of a subsidiary to provide access to a variety of competences and the potential reduced interest of the subsidiary to contribute to the overall performance, as shown by Andersson et al. (2007). As long as the subsidiary strategy benefits from creating and transferring competences creating its own strategy through embeddedness, the contribution to the overall performance will not take centre stage. As such, the evolution of competence transfer and development by the subsidiary parallels the progression through the three different levels of embeddedness identified in this paper. Whereas the contribution of previous research has emphasized the positive effect that external embeddedness has on the development of product and processes (Andersson et al., 2005; Forsgren et al., 2005), the contribution of our paper focuses on how such developments can be transferred across the MNC to benefit the distinctiveness of the subsidiary.

Our model also acknowledges the critical relationship between HQ and subsidiary (Andersson et al., 2005, 2007; Taggart, 1999) by including it as a triggering element. However, it describes theoretically how HQ may alter this relationship by curtailing the subsidiary's autonomous behaviour when a certain level of distinctiveness is exceeded. As the different stages of embeddedness are developed, the degrees of subsidiary distinctiveness change. This, in turn affects the relation between the subsidiary and HQ. This insight from our theoretical development goes beyond the positive correlation between subsidiary importance and influence on the MNC (Andersson et al., 2007). By presenting a multilayered process of subsidiary embeddedness development, we have illuminated the degree of influence that the subsidiary can have on the MNC. The relationship, though positive overall, may vary according to the level of importance of the subsidiary (type of embeddedness achieved in our model). This theoretical development invites future research on the correlations each type of embeddedness may have on the influence on the MNC.

Limitations of the Study

Care must be taken before discussing the results of the present study. First, it has been carried out within a Spanish context and cultural elements could explain part of our findings. Second, network effects tend to be industry specific (Rowley et al., 2000), and a single case can address only one industry partially. Third, being a single case study, conceptual generalization has been attempted through the model presented. Although we have used quantitative data to supplement our analysis, the use of qualitative data entails interpretation. While this approach is highly powerful for developing theory, it does not provide unequivocal results. Although known precautions have been taken to strengthen validity and reliability, further quantitative designs in future research may strengthen the framework and concepts presented here.

Two specific characteristics of the case studied make it worth studying but constitute a caveat worth considering for future theory development. First, its geographic situation removes the case study company from the decision making centres of its customers. Thus, the effort of the subsidiary to gain distinctiveness within the MNC cannot be based on customer intimacy, as a German or the French organization could argue. The Spanish organization needed a bigger effort based on its capabilities to differentiate itself within the MNC. In this way, the Spanish organization had more to gain by embedding

itself in the MNC rather than other units in the internal network. This notion might result in a theoretical overstatement of the importance of internal embeddedness. Second, the auto component industry is globalized – the three biggest players in *Brakes* Division market have more than 75 per cent worldwide market share – which encourages coordination among *Brakes*' units. Although these characteristics bias the theoretical development presented in this paper, they also encourage future research aimed at exploring the optimal balance between the development of external and internal embeddedness. The importance of being locally embedded in the market and the characteristics of the industry might call for larger or smaller levels of subsidiary embeddedness within the MNC.

Conclusions

The main contribution of this paper is to show how embeddedness can become the subsidiary strategy. The development of relationships with other units of an MNC is the strategy of the subsidiary. Our model centres on the ability of the subsidiary to develop its own strategy and, in so doing, impact on the MNC's norms and particularly its strategy. Although the power to design a strategy for the subsidiary may be vested in the HQ, conflicting logic or interests from the subsidiary may reshape the strategies of both the subsidiary and the MNC. The social action of the subsidiary is not only shaped and conditioned by the context of action – determined by HQ and the activities of other subsidiaries – but also by the dynamic feature of social action itself. Increasing differentiation increases distinctiveness, the corollary of which may be detrimental for the subsidiary. However, if the subsidiary is able to exercise strategic choice by developing an active role in strategy making, the effect of this proactive behaviour may extend beyond the subsidiary to the whole MNC. This insight is of particular importance when the strategy promoted by the MNC endangers the existence of the subsidiary itself. The overall degree of distinctiveness achieved by a subsidiary will depend largely on how the subsidiary manages the three types of embeddedness.

Practising managers may benefit directly from the theoretical elaboration in this paper. That organizational strategy can be developed along the product/market/capability lines is well established. To this, we propose that subsidiary managers can develop strategy on two further dimensions. The first dimension is distinctiveness. Subsidiaries in MNCs have to develop their own individuality, which differentiates themselves from the MNC. The second dimension is embeddedness. By developing operational, capability and strategic embeddedness, subsidiary managers can contribute positively to the development of the overall strategic position of their MNC business. In turn, subsidiaries can develop a virtuous cycle from their distinctive capabilities, contributing to the creation of the multinational network.

In summary, while the extant literature on subsidiary strategy has focused traditionally on the role it plays within the multinational company, no work, to our knowledge, has operationalized the concept of embeddedness in concrete strategic and organizational issues. This paper aims to redress this silence. Thus, we introduce a new and important component for subsidiary strategy. Our model highlights three dimensions of embeddedness that result in increasing the degree of subsidiary distinctiveness. The type of

embeddedness concentrated on in this paper is best characterized as internal embeddedness – that is, social and organizational relations within the MNC itself. This paper should not be read as a reductive attempt to explain all subsidiary strategy through the attempt by a subsidiary to manage its embeddedness level. Instead, the central message of this paper is that developing embeddedness can help a subsidiary achieve distinctiveness which, in turn, may help a subsidiary develop a strategy to strive.

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