Incorporating other concepts into path dependence: the persistence of decentralization within Philips

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Abstract

An empirical analysis of the Dutch multinational Philips' persistent decentralization shows how organizational path dependence can be combined with affiliated concepts. Initial conditions, in particular rising protectionism after World War I, imprinted Philips' international management structure as dominated by national organizations, while rising nationalism in the 1930s and the ensuing new world war strengthened these organizations' sense of having an own identity and their autonomy. A meta-routine of "local for local" made sense of this historically grown decentralization and served as a truce within Philips. That a high autonomy of national organizations was taken for granted for a long time supported the entrenched position of Philips' U.S. Trust. This idiosyncratic organizational structure originated from a specific event in the shape of the (looming) invasion of the Netherlands by Germany. Subsequent events – in particular changes in regulation in the United States – locked-in the Trust's existence and induced Philips to use it for new aims. The historically-grown high autonomy of national organizations worked to the detriment of Philips' agility, but eventually did not prevent adjusting its organizational structure in response to increasing competition in its main markets.

1. Introduction

In a refreshing contribution to the ever expanding literature on path dependence, Dobusch and Schüβler (2013, p. 617) note that critics consider path dependence as "vague and only narrowly applicable". As a remedy for this what can be called a paradoxical combination of (supposed) shortcomings, the two authors suggest to incorporate concepts often differentiated from path dependence, such as structural inertia and co-evolutionary lock-in, into a path dependent perspective. According to this view, positive feedback or self-reinforcing mechanisms (which does not necessarily implies increasing returns) remain centrepiece to path dependence. One might even go further and lessen the requirement that organizational path dependence necessarily implies outspoken self-reinforcing mechanisms, which are often hard to pin down in practice. Taking into account continuity-ensuring mechanisms which are not necessarily self-reinforcing (Beyer, 2010) may broaden the applicability of a path-dependent perspective, while sticking to the requirement that a path consists of distinct steps (sequences of events). After a concise overview of these mechanisms and a few empirical applications, the merits of such an encompassing approach are illustrated by a case-study of the persistent decentralization of the Dutch multinational Philips during a large part of the twentieth century.

2. Self-reinforcing and other continuity-ensuring mechanisms

In what may be called the major positioning paper on organizational path dependence, Sydow, Schreyögg, and Koch (2009) point to four self-reinforcing mechanisms of special relevance: coordination effects (following joint rules), complementarity effects (synergy resulting from interaction between activities), learning effects (skill accumulation leading to cost reduction), and adaptive expectation effects (interactive building of preferences). In an affiliated publication, Schreyögg, Sydow, and Holtmann (2011) also mention two other self-reinforcing mechanisms, economies of scale and network externalities. They note that these six mechanisms or effects are too restrictive in their implication of utility maximization and recommend to look for "other self-reinforcing patterns in organisations, for instance based upon emotional reactions, cognitive biases or political processes" (Schreyögg, Sydow, and Holtmann, 2011, 84).

Even then, in my view, these authors - although adhering to a “narrow” understanding of path dependence - need to draw upon factors other than self-reinforcing mechanisms to explain their case of the organizational rigidity of Bertelsmann’s book club. Schreyögg, Sydow, and Holtmann (2011) first very clearly and systematically identify the first two phases of the path dependent process involved. They highlight the long-term effect of initial “small” decisions on the scope of the assortment of books offered and the distribution policy. Economies of scale and complementarities subsequently served as “self-reinforcing mechanisms” sustaining the initial strategic choices. Regarding the resulting lock-in, the third phase of the process, however, the authors finally point to “proud tradition and the emotional attachment of the owner family” (p. 94) as an explanation of the book club’s lack of strategic adaptation to changing circumstances and conclude that:

> “The large-scale investments in the book club and its affiliated business, as well as their tremendous success, had fixed the practices reproducing the old business model both psychically and mentally” (p. 95).

Tradition, emotional attachment and sunk costs cannot be considered self-reinforcing mechanisms as it hard to see how these three factors constitute self-reinforcement in the sense that “the increase of a particular variable leads to a further increase of this very variable” (Sydow, Schreyögg, and Koch, 2009, p. 694).[1]

These comments do not make the empirical analysis of the case involved less valuable. Precisely for this reason it seems appropriate in empirical studies not to try to find self-reinforcing mechanisms at all costs, but – if needed - to incorporate other “continuity-ensuring” mechanisms (Beyer, 2010) in path dependence, in particular regarding the non-economic aspects Schreyögg, Sydow, and Holtmann (2011) refer to. The continuity-ensuring mechanisms discussed by Beyer (2010) which he does not necessarily consider self-reinforcing are sequences, functionality, power, complementarity, legitimacy and conformity.

Among these mechanisms, sequences are or special importance for path dependence. The role of events is ambiguous in this perspective. Several authors

[1] One could argue that sunk costs in this case evolved from the repeated investments creating scale economies and complementarities described by the authors. Obviously, however, self-reinforcement was limited in the sense that constantly expanding production and distribution capacity would have been unsustainable even in the heydays of the book club.

ascribe a vital triggering role to events, while sequences of events, both reinforcing and reactive ones, may also embody the subsequent path (Mahoney, 2000; van Driel, 2013). Anyhow, by explicitly taking into account sequences of events, there is a possibility to sketch a path as consisting of a sequence of related, but distinct steps or events.

There are several other concepts which can be easily affiliated to path dependence, several of them which can be connected to the continuity-ensuring mechanisms mentioned by Beyer (2010). First of all the concept of imprinting comes to mind, where initial conditions or later “sensitive periods” leave a lasting imprint on the phenomenon studied (Marquis and Tilcsik, 2013). Imprinting plays a prominent role in organization ecology (Carroll and Hannan, 2000; Baum and Shipilov, 2006), just like “structural inertia” of core features of an organization and their “taken-for-grantedness”, which is inextricably connected to legitimacy. Next, (meta)routines serving as decision guidelines and/or as an organizational “truce” (Nelson and Winter, 1982; van Driel and Dolfsma, 2009) may be relevant for understanding the direction and stickiness of a certain path, including a tendency to conform to routines once established. Finally, a path can be analysed by using evolutionary perspectives emphasizing gradual rather than punctuated change of institutions, whereby existing institutions are used for new aims (conversion) or new institutional elements are layered upon extant institutions (Thelen, 2003, 2004).

Incorporating these concepts in path dependence can enhance our understanding of empirical examples of resistance to change in organizations. For instance, Blombäck, Brunnige and Melander (2013) argue that managers may consciously reinforce the organizational imprints of the founders of their firm by formulating company value statements. This “management of meaning” by agents may evolve into self-reinforcement when the founders’ values become to be taken for granted by organization members. In this interpretation “taken-for-grantedness” is eventually the outcome of a self-reinforcing mechanism.

This does not need to be the case however. A historical case-study of the persistence of decentralization within the Dutch multinational Philips, with a special focus on the sustained high autonomy of the U.S. national organization, illustrates the possibilities of incorporating in path dependence a broad set of continuity-ensuring mechanisms. The research question is to investigate in what sense continuity-ensuring mechanisms, which are not necessarily self-reinforcing, can help to understand Philips’ path to a persistent decentralized organization.

3. Case summary, representativeness, and sources

The degree of centralization is a vital aspect of organizations and its development should be a central topic of studies of organizational path dependence. The analysis of Philips' decentralization serves as an illustrative case-study. Founded as a light bulb company in the Dutch city of Eindhoven in 1891, after the First World War Philips not only diversified into consumer electronics, but also expanded internationally. In this process of internationalization, mainly to circumvent protectionist measures (import quota, import tariffs, and currency restrictions), Philips established so-called national organizations in several foreign countries, in particular within Europe. Rising economic nationalism and increasing tensions in the host countries during the 1930s induced Philips to let the national organizations strongly emphasize their national character, while poor or absent international communication during the Second World War further contributed to these organizations' sense of having an own identity and to their autonomy. Adding a special flavour to the high decentralization within Philips was the creation of two separate trusts in 1939, a British and a US one, to prevent eventual occupiers of the Netherlands gaining legal control over Philips' possessions worldwide. After the war several events led Philips to prolong the US trust's existence, culminating in a US national organization with having an even higher autonomy than the European ones possessed. Only with much difficulty the Philips top management managed to disband the separate US organization after nearly fifty years of existence, as part of a general program of centralization.

The Philips case has a wider relevance, as other large Dutch multinationals such as Unilever and Shell adopted largely identical forms of decentralization. In particular in the case of Unilever the pre-war legacy of founding separate national organizations to evade protectionist measures was similar to Philips' legacy, resulting in high autonomy for national organizations in continental Europe, which was strengthened during the Second World War when these organizations operated in isolation (Jones, 2005, p. 24 and 38-39). For Bartlet and Ghoshal (1995) the difference between Proctor & Gamble and Unilever was exemplary for the comparatively high degree of decentralization of European multinationals after the war. Shell's history in the US shows interesting parallels with Philips' approach in this part of the world. Shell's interests in the US were consolidated into the Shell Union Oil Corporation in 1922. Having a majority stake in Shell Union from the beginning, Shell top management awarded the US subsidiaries much more freedom than its other subsidiaries. Renamed in Shell Oil Company in 1949 and fully acquired by Shell in 1985, the US organization retained an even for Shell standards high autonomy. There were several specific reasons for consistently emphasizing the autonomy of Shell Oil from the beginning, including the fear that anti-trust procedures in the US might involve the Shell Group as a whole and the need to protect interests of minority shareholders according to US law (Jonker and van Zanden, 2007, 239-244; Howarth and Jonker, 2007, 122 and 150; Sluyterman, 2007, 90-91).

What is lacking in the available accounts of Shell's organizational approach in the US are specific events leading to the establishment and subsequent survival of an entrenched national organization, which makes the Philips case of special interest for a path dependent analysis. The main empirical sources for this case analysis are several volumes of the Philips history written by one of its company historians (Blanken, 1992, 1997 and 2002) and a critical best-selling account of Philips' postwar history by an investigative journalist (Metze, 1991). The volumes of Philips company history resulted mainly from extensive research of the archives of Philips and other organisations; Volume III (Blanken, 1992) has been defended as a dissertation. Metze's book is based on published sources and a large number of background interviews with Philips managers up to the Board level, except the members of Philips' boards of managing and supervisory directors at the time of publication (Metze, 1991, 14 and 352). Metze has also published a follow-up book on the development within Philips after 1991 (Metze, 1997). The autobiography of Wisse Dekker who started his career at Philips in 1948 and functioned as CEO between 1982 and 1986 (van Lonkhuijzen, 1996) also provides inside information. In addition, I have used other secondary sources as well as Philips' annual reports between 1947 and 1986 (Philips, Jaarverslagen 1947-1986) for specific financial details on the U.S. Trust.

4. The creation and persistence of the national organizations within Philips

4.1 Introduction

Philips & Co. was founded in 1891 in the city of Eindhoven in the south of the Netherlands by engineer Gerard Philips and his father Frederik and transformed into a limited company under the name N.V. Philips' Gloeilampenfabrieken in 1912 (Blanken, 1992, 1997 and 2002; Metze, 1991).[2] By that time, Philips was one of the leading global players in the light bulb industry, participating in successive cartels and other market sharing agreements with large foreign firms such as General Electric (U.S.) and Siemens and AEG (both from Germany). Gerard's younger brother Anton Philips, who started working at the firm in 1895, was mainly responsible for the commercial successes of Philips during the first decades of the twentieth century. From 1927, Philips also acquired a leading position in the new industry of radio tubes within a few years and added other consumer electronics to its portfolio. After the Second World War, Philips also became involved in producing and selling household appliances and telecommunication and other electronic equipment for businesses.

4.2 The origins and persistence of the national organizations

After the First World War, Philips started to realize its international expansion by creating separate organizations for producing and selling goods in foreign countries rather than by exporting home-made products. As such, structural circumstances fed the drive for international expansion, i.e. the relatively small Dutch home-market and the founding of international cartels for light bulbs which limited opportunities for growth in foreign markets originally served by Philips and its competitors. An in retrospect more transient circumstance that co-induced this policy was the rise of protectionism in the world economy after World War I, which reached its zenith during the depression of the 1930s. Establishing new production facilities or acquiring existing ones in foreign countries was Philips' manner to circumvent the import tariffs and quota and currency restrictions.

In some cases, small events triggered the creation of Philips' own sales organization abroad (Blanken, 1992). For instance, after the French agent went to fight for his country in 1915, Philips discovered that he had temporarily used for his own private purposes financial funds belonging to Philips. Therefore Anton Philips decided to terminate the agency contract and establish an own sales office in France which was transformed into a separate limited company called La Lampe Philips SA in 1920 (Blanken, 1992, 29-34). Between 1919 and 1925, Philips thus founded its own sales companies in the European countries of Belgium, France, Spain, Italy, Sweden, Switzerland, Finland,

[2] In 1994, this name was changed into Philips Electronics N.V.; in 2013, after selling its consumer electronics activities to Funai Electric, the firm renamed itself as Koninklijke Philips N.V. (Royal Philips).

Czechoslovakia, Great-Britain, Denmark and Austria, as well as China and Brazil (see table in Blanken, 1992, 43). Fearing for increasing limitations on cross-border trade, Anton Philips consistently investigated possibilities to start or extend producing outside the Netherlands after the First World War (Blanken, 1992, 45). Between 1919 and 1939, Philips managed to get a foothold in the production of light bulbs in twelve European countries (the eleven ones mentioned minus Finland, plus Poland and Norway) and British India, Australia and New Zealand by partly or fully acquiring firms of by setting up joint-ventures with other companies (see table in Blanken, 1997, 2). In the early 1930s, an excepted increase of import tariffs was one of the reasons for Philips to participate in factories in France, China and Australia, which led to a massive reduction of manufacturing of light bulbs by Philips in Eindhoven (Blanken, 1992, 131-142).

In this process of internationalization, the foreign Philips organizations developed into institutions supervising both production and sales in their host country and thus accumulated in fully-fledged “national organizations”. In the 1930s, rising nationalism in the host countries and – in the case of Italy (occupation of Ethiopia) and Spain (civil war) sometimes also politico-military entanglements - forced Philips to let these national organizations emphasize more their identity as domestic firms, to lessen the chance of governmental interference (Blanken, 1997, 44-54, 103-104). During the Second World War, with poor or absent communication between the Philips top management and the national organizations, many national organizations got accustomed to an almost complete autonomy (Blanken, 1997, 178-180; Blanken, 2002, 17).[3]

[3] After creating separate British and American trusts (see below), to safeguard its possessions in neutral European continental countries and to defend its interests in occupied areas, Philips moved its registered office to Curacao (Netherlands Antilles) on 13 May, 1940, three days after the start of the German invasion of the Netherlands (Blanken, 2002, 135-136, 143). Except Frits Philips (son of Anton), who only briefly left Eindhoven after the start of the German attack, Philips’ top managers moved to New York. Formally representatives of the Curacao office, they tried to lead the parts of the group located in non-occupied countries in Europe in particular. Contrary to the initial intention, the management remaining in Eindhoven – supervised by German administrators – also felt forced to keep some contacts with the organizations in non-occupied countries, in particular because most of the foreign factories were dependent on the supply of components from the Netherlands. These confused authority relations contributed to the national organizations’ room for maneuver (Blanken, 1997). The list of ‘neutral’ or ‘free’ countries changed during the war. Per June 1, 1940, according to the Philips logic, it concerned Italy, Switzerland, Sweden, Finland, Hungary, Yugoslavia, Greece, Romania, Bulgaria, Estonia, Latvia, Lithuania, and Turkey. At that time, the British Commonwealth, France and colonies, and Spain came under the British Trust and Portugal under the US one (Blanken, 1997, 380).

After the Second World War, Philips built a product division structure on top of this organically grown international organization of its activities. Formally introduced in 1946, this divisional structure was in fact a matrix organization, in which Eindhoven based product divisions formed one dimension and the numerous national organizations the other one. In practice, due to their genesis, the national organizations were the most powerful actors (Blanken, 2002 and Metze, 1991). In practice, the autonomy of the national organizations could be very high. For instance, in 1958, the Italian national organization issued its annual report without consulting or even informing Philips' central office (Blanken, 2002, 221). At another occasion, the same national organization invited Philips top management for the official opening of a new light bulb factory, although "Eindhoven" had refused permission for building this factory fourteen months before (Metze, 1991, 65-66). Similarly, around 1952, the Belgian national organization acquired a refrigerator factory, without asking consent from Philip's top management (Blanken, 2002, 394).

In particular since business was prospering during the 1950s, Philips began to internalize a meta-routine of "local for local" as the appropriate way of organizing its businesses. Philips' top management accepted its identity as an "Industrial Democratic World Federation" in an official document drawn-up in 1954 (Blanken, 2002, 18). A Philips' company historian aptly notices that "…the federative idea was more an attempt to define a historically grown situation than an innovative organization principle." (Blanken, 2002, 19, translation by author).

In general, the local-for-local approach worked well and one could argue that it generated coordinating effects by creating uniformity in the hierarchical relations between the head office and the national organizations. It should be emphasised however that this decentralized approach also implied significant (opportunity) costs. For instance, in 1951 Philips restarted an internal discussion about adopting the so-called Ribbon machine developed by General Electric for the production of light bulbs (Blanken, 2002, 269-275). The Ribbon machine represented a huge efficiency gain since it could produce 50,000 light bulbs per hour as compared to only 1,500 by the equipment employed by Philips at the time. However, applying the new machine required a concentration of manufacturing at a limited number of locations, which did not fit with Philips' historically grown fragmented production structure. Only in 1967, after some concentration of production facilities, the first Ribbon machine was taken into use by a joint-venture of Philips with French and British partners.

4.3 The creation and prolongation of an U.S. Trust

Through a series of events, the Philips organization in the U.S. developed into a very salient manifestation of the local for local-routine. In the late 1930s, the looming outbreak of war in Europe spurred the company to consider changes in its administrative structure. In May and August 1939, Philips created two foreign trusts, in Great-Britain and the U.S.A respectively (N.V. Philips, 1944; Blanken, 1997, 128-133). Philips thus anticipated on an *expected* event, that is, a possible occupation of the Netherlands by Nazi Germany. The new trusts enabled the company to transfer formal authority over its foreign subsidiaries outside the European mainland and prevent that government from other countries would define them as enemy possessions and acquire them after a German occupation of Netherlands. The British Trust covered Philips' companies in the British and French Empires, Argentina and Spain; the American Philips Trust took control over subsidiaries in the Americas (except Argentina) as well as Portugal. The Midland Bank and the Hartford National Bank respectively acted as trustees; the trusts were managed by people who followed the directions of the managers of the Philips company, who officially acted as "advisors". Both trusts served their purposes. They were meant to be temporary facilities, but Philips kept the British trust into existence until 1955, possibly because it wanted to keep open the option to use this trust for some other purpose. The trust for its U.S. activities was – in a restructured form - even dismantled as late as 1986, a long time after it had lost its original functions.

Several events were responsible for this unplanned enduring existence of a U.S. trust (Blanken, 1997, 337-353; Blanken, 2002, 320-329). Already in 1943, the Philips management foresaw that the Dutch government would introduce very tight currency restrictions after the war. As Philips wanted to keep its dollar holdings out of the hands of the Dutch government, it would have a continued need for a formally independent American trust. Therefore it decided to keep the trust intact after the war. Another event that extended the life of the American Philips Trust was the decision by the U.S.A government to withdraw the security clearance of the American Philips companies in 1947, since it suspected that Philips provided Russia and the Eastern bloc with secret military knowledge. This implied that the Philips could no longer acquire orders for military production. In response, Philips thought it wise to stress the American nature of its activities in the U.S.A by maintaining the trust. This remained a consideration for extend the trust's existence, even after Philips had regained the security clearance in

1950. Furthermore, in 1954 the U.S. law regarding trusts was changed. The U.S. administration posed that the American Philips Trust was not irrevocable and therefore not valid. Of course, Philips did not want to make the trust irrevocable which would have been contrary to the original motivation of founding it. As a compromise, Philips created a new U.S. Philips Trust specifically for its U.S. activities in 1956,[4] that could only be dissolved when it was at odds the U.S. security interests. This implied that the minimum lifetime of the trust was extended, the trust could for instance only be dissolved not earlier than one year after any of its “classified” contracts with the U.S. government had ended.

What is observable here is that several events can lock-in a selected solution, but at the same time may incrementally change its nature, constituting a process of conversion. Furthermore, the Philips-case also illustrates how events can align with more structural circumstances as well as meta-routines in creating lock-in. A vital circumstance was that since 1919 and 1925 respectively, Philips had a market division agreement with General Electric (GE) and RCA regarding its main activities, that is, light bulbs and radio tubes (Blanken, 2002, 305). The American companies would not operate on the Dutch market, while Philips would abstain from activities in the U.S.A. The revived U.S. anti-trust policy prevented the continuation of this market agreement after the Second World War. However, Philips was very hesitant to enter the U.S. markets in its main fields. The company did not want to put at stake its good relation with GE in particular and made new non-exclusive cross-licensing agreements with GE and RCA in 1953 and 1958 respectively. Anyhow, Philips feared it would have no chance to compete with GE and RCA in light bulbs and consumer electronics in the U.S. (Blanken, 2002, 306). This had several consequences. Firstly, it made U.S. security clearance relevant for the U.S. Philips activities since military orders represented an important possible alternative source of income, at least initially (Blanken, 2002, 321). Secondly and more importantly, since Philips considered itself not strong enough for autonomous growth outside its core activities, it focused on partnerships with domestic firms. This was another reason to stress the American profile of the Trust and the North-American Philips Corporation (NAPC), that was created early in 1942 as a new holding company for Philips’ industrial activities in the U.S.A. and that resorted under the American Philips Trust and Philips

[4] The South American organizations, that were of much higher strategic importance for Philips than the U.S. ones at that time, resorted under the existing American Philips Trust until the latter’s discontinuation in 1959, when the South American possessions again became formally directly under control of Philips.

U.S. Trust respectively. Finally, Philips thought that stressing the independent status of its U.S. organization would make it less vulnerable to the revived U.S. antitrust-policy (Wilkins, 2005, 221). However, both the U.S. courts and the business watchers were not misled by this and considered the NAPC as a subsidiary of the Dutch multinational Philips in anti-trust cases and other issues (Wilkins, 2005, 226-228, 244). In this respect, the Philips strategy failed.

NAPC became loss-making from 1944. The Philips top management finally concluded that a main cause of this underperformance was that it was still too much involved in the way the U.S. business was run (Blanken, 2002, 313-319). Therefore, after 1950, the NAPC got much more autonomy, in particular in acquiring other companies. Contrary to Philips' practice in other countries, NPAC made use of rather speculative financial engineering to realize these takeovers. In the second half of the 1950s, NPAC thus was converted into a conglomerate of electronics companies that according to U.S. standards could be called "middle-sized". Since, as planned, these activities were outside Philips' core areas, the autonomy of the U.S. organization and policy was considered an asset rather than a problem. Moreover, the high autonomy of the U.S. organization, originating from and locked-in by specific events, was legitimized by Philips' meta-routine of "local for local" (Blanken, 2002, 329).

However, from the early 1960s, partly because GE more became active on the European market, Philips began to revise its policy and wanted to bring its U.S. activities more in line with existing ones elsewhere (Blanken, 2002, 336-338). This finally resulted in the acquisition by NAPC of Radiant Lamp Corporation (1969) and the much larger ones of TV maker Magnavox (1974), chip producer Signetics (1975), and the lighting activities of Westinghouse (1983). Since NAPC was not able to finance large takeovers, Philips donated large sums to the U.S. Trust at these occasions (Blanken, 2002, 338; Philips Jaarverslagen 1969-1983). Since the money was donated and not loaned, the U.S. Trust/NAPC paid no interest to Philips (Metze, 1991, 48). Furthermore, except for one year, no dividend was paid to Eindhoven and the U.S. Trust/NAPC, unlike other Philips national organizations, did not incur costs worth mentioning for technical support by the Eindhoven based Philips product divisions (Blanken, 2002, 338-343).

All this made the NAPC profit contribution look rather rosy, which – although the sales of a few Philips products (in particular electric razors) imported from the Netherlands were in fact the main profit makers (Blanken, 2002, 339-343) - strengthened the sense of independence of the U.S. management (Metze, 1991, 46-50). Even after Philips had acquired U.S. companies in its core areas, the NAPC management frustrated involvement from the product divisions in the strategy on the U.S. market. The U.S. managers thus had reason to continue expecting that Philips top management and the production division managers would not interfere with their decisions. Adaptive expectations kept this high U.S. autonomy in tact at the other side of the Atlantic ocean too. gradually, the product division managers began to ignore the U.S. market altogether in developing global strategies, thus contributing to the “self-fulfilling prophecy” that the U.S. organization did not get (and thus did not need) any support from “Eindhoven” (Metze, 1991, 47). In other words, Philips had a loose grip on its American organization’s strategy. A spectacular example of the NAPC’s autonomy occurred around 1980, when NAPC flatly refused to start selling the new V-2000 video recorder developed by Philips and instead opted for the VHS-recorders produced by Philips’ Japanese partner Matsushita (Metze, 1991, 45-46). In hindsight, it was a decision that was considered a wise one by Philips top management too, but it was telling of the autonomy of a subsidiary of one of the largest consumer electronics companies in the world. Sony’s CEO Akio Morita, who was negotiating with Philips about a harmonization of Sony’s Betamax with the V-2000 system at that time, was flabbergasted when he heard that the Philips Board could (or would) not overrule the NAPC’s decision to abstain from selling V-2000 recorders (Van Lonkhuijzen, 1996, 267). Again, the meta-routine of “local-for-local” prevailed.

4.4 The end of the U.S. Trust and efforts to centralize the Philips organization

The conditions that had invited for the worldwide “local for local” approach in general and the independence of the U.S. Trust/NAPC in particular disappeared from the 1960s. In particular growing competition from Japanese firms and the development of a common European market made Philips local-for-local routine increasingly unsuited for managing the company (Blanken, 2002, 431-442; Metze, 1991, 53-54). In 1972, a committee installed by the newly appointed CEO, Henk van Riemsdijk, identified the unbalanced relation between product divisions and the national organizations as Philips’ most pressing problem and advised to increase the power of the product divisions. However, Van Riemsdijk firmly believed in the merits of the existing informal practices within Philips, which implicated dominance of the national organizations, and declined to take radical measures in the direction suggested by the committee (Metze, 1991, 65-69; Grosman and Metze, 2005).

Only hesitatingly, requiring a lot of wheeling and dealing with the national organizations, Philips began to close or relocate factories here and there to achieve more economies of scale in production and tried to achieve more standardization of product specifications worldwide (Metze, 1991, 70-71). This centralizing policy also concerned U.S. operations since they had increasingly become of strategic importance to Philips. The resistance from the U.S. organization to more coordination by “Eindhoven” was particularly vigorous. The U.S. Trust/NAPC was in fact financially completely dependent on Philips and could not survive on its own; Wisse Dekker, CEO of Philips between 1982 and 1986, ordered detailed investigations that showed that NAPC was actually loosing heaps of money (Metze, 1991, 48). By that time, the U.S. Trust had lost its original functions. Military orders had become of marginal importance and thus considerations regarding security clearance were no longer relevant. Moreover, stressing the U.S. nature of the organization was no longer needed, because Philips now had a major presence in its core areas in the U.S. and its main strategy was no longer cooperation with and acquisition of medium-sized domestic firms in other areas.

Still the special legal status of the U.S Trust was at least a serious psychological barrier for a swift transfer of direct formal power to “Eindhoven”. On January 1, 1982, Pieter C. Vink - resigning as NAPC’s CEO after 13 years of tenure - had become chairman of the U.S. Trust’s governing committee, that – like the “advisors” of the earlier Trust - had full decision power over the Trust’s possessions and policy and that counted Philips’ CEO as a regular member from 1974. Together with Cees Bruynes, who had succeeded him as CEO of NAPC, Vink tried to keep independent as much as possible an empire he himself had helped building (Metze, 1991, 36-54). Dekker, who stressed his decisiveness in his autobiography (Van Lonkhuijzen, 1986), started talks with the other members of the governing committee about ending the Trust in July 1985 (Metze, 1991, 50), but could not settle this issue before the end of his tenure in April 1986. His successor as CEO, Cor van der Klugt (1986-1990), later told that only after many meetings he could convince his fellow members in the governing committee that it was in the best interest of the formal beneficiaries of the Trust, Philips’ shareholders, that Philips should gain direct formal control over its U.S. activities (Van Lonkhuijzen, 1996, 269-270). In this process, he needed to put considerable pressure on the unwilling persons at the other side of the ocean (Van Lonkhuijzen, 1996, 270 and Metze, 1991, 50-53). The governing committee decided to dissolve the U.S. Trust on 17 December

1986, so that the American activities could be integrated in the regular Philips organization.[5]

Still this was not the end of Philips' struggle with the legacy of decentralization. After dissolving the U.S. Trust, in 1987, Van der Klugt forcefully tried to "tilt the matrix" within Philips in general by shifting decision making responsibility from the national organizations to the product divisions (Metze, 1991, 255-258; Metze, 1997, 110-116). But in practice, although initially overwhelmed by this move, the national organizations possessed enough staying power to cripple the introduction of new products pushed by the product divisions or at least delay the closing of factories and the relocating of production to other countries. Ten years later, the matrix still was not tilted, but was positioned in a delicate "balance" between production divisions and national organizations (Anonymous, 1997). At that time, a new CEO, Cor Boonstra, was busy to finally get rid of what he called the "spaghetti" structure of Philips and relegate the national organizations to an inferior position (Metze, 1997, 237-239). His efforts ended the persistent territorial decentralization within Philips.

5. Discussion and conclusion

The Philips story illustrates that it may be fruitful to combine path dependence with other concepts to understand the persistence of organizational phenomena. Initial conditions, in particular the rise of protectionism after World War I, set Philips on the path of decentralization of its international operations and thus left a durable imprint on the firm's structure. The own identity and the autonomy of many of the national organizations thus created was amplified by rising economic nationalism in the host countries during the 1930s and the lack of communication with headquarters during the Second World War. Furthermore, the specific event of the (looming) German occupation of the Netherlands triggered Philips to the shift formal control of part of the group to trusts with their registered offices outside the Netherlands. From 1943, various events, in particular

[5] To complicate matters, due to a wholesale streamlining of Philips' U.S. operations in relation to the acquisition of the Radiant Lamp Corporation and a donation of 50 million dollar to the Trust by Philips, the U.S. Trust only possessed around 60% of the NAPC stock since 1969 (Blanken, 2002, 338). The rest of the shares became publicly owned and got a quotation on the stock exchange. Philips bought these other shares after the U.S. Trust was dissolved and thus got full ownership of NAPC.

regulative decisions by the US government, which were not foreseen at the time of deciding to establish a trust in the U.S., induced Philips to prolong its existence and to start using it for new purposes (conversion). The U.S. Trust subsequently developed a life of its own and became entrenched, making it difficult to align the U.S. operations with the general Philips strategy when market conditions and strategic considerations changed. The high level of decentralization at Philips and the typical shape it took thus were the result of imprinting as well as a series of events. These events consisted both of environmental changes and decisions made by its executives. In this sense, the path consisted of a sequence of related, but not identical steps.

Next to sequences of events, looking for an explanation of the persistence of the decentralization at Philips, a researcher might identify several self-reinforcing mechanisms as they are regularly understood in the literature on organizational path dependence. One could for instance point to coordination effects as the local for local-approach paradoxically created uniformity in the hierarchical relations between the head office and the national organizations. It was however in a very limited sense that this coordination effect enhanced efficiency as the decentralized approach not only implied a complex organizational structure, but also the underutilization of scale economies and possibilities for synergy. Adaptive expectations are a more neutral concept in this sense. In the Philips-case, adaptive expectations were discernable, as the national organizations, in particular the U.S. one, developed the habit of trying to maximize their autonomy, expecting – often correctly - Philips' top management to accept this as a manifestation of the general "local for local"-approach. From their side, the leaders of the product divisions began to expect not any alignment from the U.S. organization and thus left the US market out of consideration in the formulation of their strategies.

The Philips-example shows however that this operationalization of self-reinforcing mechanisms come very near to those of other concepts. One could also say that taking-for-grantedness was instrumental in sustaining Philips' decentralization, legitimizing it and setting a norm to conform to. In this case, mental models or meta-routines did not precede the practice of persistent far-reaching decentralization. It was the other way round: the meta-routine of "local for local" was a way of sense-making after the fact. It offered a rationalization of Philips' very decentralized organization as the outcome of a specific historical process. This routine for a long time also functioned as a "truce" between the top management and the national organizations. The conclusions thus reached are quite similar to identifying coordination and adaptive expectations effects, without however implicating that all decisions conforming to the routine of high autonomy for national organizations were self-reinforcing (in particular by enhancing efficiency) in sustaining decentralization. Trying to identify self-reinforcing mechanisms might generate superior insights into the nature of the path dependent process. But it may also lead to a forced and cumbersome search for a self-reinforcing repetition of identical steps, whereas the use of the alternative concepts leading to similar conclusions imposes less demanding requirements on the researcher in this respect. Analytically constructing path dependence in this way also acknowledges that a few critical events (including management decisions) rather than a large series of identical steps may shape and sustain the path.

In the end, lock-in proved to be not absolute and Philips managed to dismantle the idiosyncratic organization of its U.S. activities and finally, in general, to “tilt the matrix” towards product divisions rather than national organizations dominating Philips. Such situations are probably much more common than examples of absolute lock-in predominantly sustained by self-reinforcing mechanisms.

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