This thesis investigates the role of organisational self-understanding in strategy processes. The concept of organisational self-understanding denotes members’ understanding of their organisation’s identity. The study illustrates that strategy processes in companies are processes of self-understanding. During strategy making, strategic actors engage in the interpretation of their organisation’s identity. This self-understanding provides guidance for strategic action while it at the same time implies understanding strategic action from the past.

Organisational self-understanding is concerned with the maintenance of institutional integrity. In order to achieve this, those aspects of self-understanding that have become particularly institutionalised need to develop in a continuous manner. Previous literature on strategy and organisational identity has put too much emphasis on the stability/change dichotomy. The present study shows that it is possible to maintain continuity even in times of change. Such continuity can be established by avoiding strategic action that is perceived as disruptive with regard to self-understanding and by providing interpretations of the past that make developments over time appear as free from ruptures. Self-understanding is hence an inherently historical phenomenon.

Empirically, this study is based on in-depth case studies of strategy processes in two large Swedish companies, namely the truck manufacturer Scania and the bank Handelsbanken. In each of the companies, three strategic themes in which organisational self-understanding has become particularly salient are studied.
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OLOF BRUNNINGE

Organisational self-understanding and the strategy process

Strategy dynamics in Scania and Handelsbanken
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Finally, Åsa-Karin and Oliver, I cannot express in words how much I love you! Psalm 106:1

Jönköping, April 2005

Olof Brunninge
Abstract

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# Table of Contents

1 Introduction ................................................................................................. 1  
1.1 Making a strategy for Finarom ................................................................. 1  
1.2 Strategy by self-understanding? ............................................................... 2  
1.3 Organisational identity – a lens for understanding strategy making? ........ 3  
1.4 Organisational self-understanding and strategy ....................................... 4  
  1.4.1 Organisational self-understanding as a lens for understanding strategy processes ......................................................... 4  
  1.4.2 Previous work on strategy and identity .............................................. 5  
  1.4.3 Strategy and self-understanding as dynamic concepts ....................... 6  
1.5 Purpose and contribution ........................................................................ 7  
1.6 Further outline of the dissertation .......................................................... 8  
1.7 Some advice for readers with different interests ........................................ 9  

2 Organisational self-understanding .......................................................... 11  
  2.1 What is organisational identity? ............................................................ 11  
    2.1.1 The origins ..................................................................................... 12  
    2.1.2 A growing field ............................................................................ 14  
  2.2 The diversity of organisational identity research .................................... 15  
    2.2.1 Is there anything substantial to identity? ....................................... 16  
    2.2.2 Who defines identity? ................................................................... 21  
    2.2.3 Does identity change? ................................................................. 24  
    2.2.4 How does identity relate to culture? ............................................ 29  
  2.3 An alternative concept: organisational self-understanding ..................... 31  
    2.3.1 What do I mean with organisational self-understanding? ............. 32  
    2.3.2 Organisational self-understanding as a system of meaning ........... 33  
    2.3.3 Organisational self-understanding as a hermeneutic phenomenon ... 34  
    2.3.4 Is it meaningful to draw upon the Albert and Whetten definition? .. 34  
    2.3.5 Do we need the self-understanding concept? ................................ 36  
    2.3.6 Organisational self-understanding as a historical phenomenon .... 37  
    2.3.7 The reciprocal relationship of self-understanding and culture ...... 39  

3 Strategy ....................................................................................................... 42  
  3.1 What is strategy? .................................................................................... 42  
  3.2 How is strategy made and who makes it? .............................................. 43  
  3.3 The dynamics of strategy ..................................................................... 44  
  3.4 Views on stability and change in strategy literature ............................... 46  
    3.4.1 The rational deductive view ............................................................ 46  
    3.4.2 The incremental view .................................................................. 47  
    3.4.3 The political and cultural view ....................................................... 49  
    3.4.4 The garbage can view .................................................................. 54  
    3.4.5 The population ecology view ....................................................... 55  
  3.5 My personal view: Strategy as a process characterised by dynamics and tensions .............................................................. 57  
    3.5.1 Dynamics and tensions in relation to strategic thinking and acting .... 58
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5.2</td>
<td>An interpretive view on dynamics and tensions</td>
<td>59</td>
</tr>
<tr>
<td>3.5.3</td>
<td>Strategy in relation to past, present, and future</td>
<td>61</td>
</tr>
<tr>
<td>3.5.4</td>
<td>The dynamics of strategy: stability, change, and continuity</td>
<td>62</td>
</tr>
<tr>
<td>4</td>
<td>Strategy and organisational self-understanding</td>
<td>64</td>
</tr>
<tr>
<td>4.1</td>
<td>Organisational self-understanding and the dynamics of strategy</td>
<td>64</td>
</tr>
<tr>
<td>4.1.1</td>
<td>The case for self-understanding as a stabiliser</td>
<td>65</td>
</tr>
<tr>
<td>4.1.2</td>
<td>The case for self-understanding as a change mechanism</td>
<td>66</td>
</tr>
<tr>
<td>4.2</td>
<td>Institutional theory and organisational self-understanding</td>
<td>69</td>
</tr>
<tr>
<td>4.2.1</td>
<td>Tensions between self-understanding and isomorphism</td>
<td>70</td>
</tr>
<tr>
<td>4.3</td>
<td>Dynamics in organisational self-understanding and dynamics in other systems of meaning</td>
<td>74</td>
</tr>
<tr>
<td>4.3.1</td>
<td>Different types of change</td>
<td>75</td>
</tr>
<tr>
<td>4.3.2</td>
<td>Different types of change in organisational self-understanding?</td>
<td>77</td>
</tr>
<tr>
<td>4.4</td>
<td>History in organisations</td>
<td>77</td>
</tr>
<tr>
<td>4.4.1</td>
<td>Processual and mythological historical consciousness</td>
<td>78</td>
</tr>
<tr>
<td>4.4.2</td>
<td>Processual and mythological views of history in organisations</td>
<td>79</td>
</tr>
<tr>
<td>4.4.3</td>
<td>Using history in organisations</td>
<td>81</td>
</tr>
<tr>
<td>4.4.4</td>
<td>Self-understanding and uses of history in organisations</td>
<td>84</td>
</tr>
<tr>
<td>4.5</td>
<td>From theory to the interpretation of empirical cases</td>
<td>85</td>
</tr>
<tr>
<td>4.5.1</td>
<td>Visualising the dynamics of strategy and organisational self-understanding</td>
<td>85</td>
</tr>
<tr>
<td>4.5.2</td>
<td>The purpose revisited: Questions for data interpretation</td>
<td>87</td>
</tr>
<tr>
<td>5</td>
<td>Researching strategy and self-understanding</td>
<td>90</td>
</tr>
<tr>
<td>5.1</td>
<td>My working paradigm</td>
<td>90</td>
</tr>
<tr>
<td>5.1.1</td>
<td>My personal background and my own experiences of self-understanding</td>
<td>91</td>
</tr>
<tr>
<td>5.1.2</td>
<td>My world view</td>
<td>92</td>
</tr>
<tr>
<td>5.1.3</td>
<td>My conception of science and my role as a researcher</td>
<td>94</td>
</tr>
<tr>
<td>5.1.4</td>
<td>My research strategy</td>
<td>97</td>
</tr>
<tr>
<td>5.2</td>
<td>The research design of my study</td>
<td>99</td>
</tr>
<tr>
<td>5.2.1</td>
<td>Unit of analysis</td>
<td>99</td>
</tr>
<tr>
<td>5.2.2</td>
<td>Choice of organisations</td>
<td>100</td>
</tr>
<tr>
<td>5.2.3</td>
<td>My field work</td>
<td>101</td>
</tr>
<tr>
<td>5.2.4</td>
<td>Interpreting data and constructing empirical accounts</td>
<td>107</td>
</tr>
<tr>
<td>5.2.5</td>
<td>Further interpretation and contribution to theory</td>
<td>108</td>
</tr>
<tr>
<td>5.2.6</td>
<td>Quality criteria</td>
<td>109</td>
</tr>
<tr>
<td>6</td>
<td>Scania</td>
<td>113</td>
</tr>
<tr>
<td>6.1</td>
<td>1891-1918: VABIS and Scania</td>
<td>113</td>
</tr>
<tr>
<td>6.2</td>
<td>1919-1945: Crisis and regained strength</td>
<td>114</td>
</tr>
<tr>
<td>6.3</td>
<td>1946-1967: Scania-Vabis goes international</td>
<td>114</td>
</tr>
<tr>
<td>6.4</td>
<td>1968-1995 Saab-Scania</td>
<td>115</td>
</tr>
<tr>
<td>6.5</td>
<td>1996-2004: Ownership turmoil and profitable growth</td>
<td>116</td>
</tr>
<tr>
<td>6.6</td>
<td>Scania’s self-understanding</td>
<td>116</td>
</tr>
</tbody>
</table>
7 The modular system – a cornerstone of Scania’s self-understanding... 118
7.1 The origins of the modular system.............................................................. 118
7.1.1 Component standardisation.................................................................... 118
7.1.2 Systematic research in component properties ................................ ...... 119
7.2 The first modularised product range........................................................ 121
7.2.1 Modularisation succeeds standardisation .......................................... 121
7.2.2 Project Q ........................................................................................ 122
7.2.3 Implications of modularisation............................................................. 123
7.3 The limits created by modularisation....................................................... 124
7.3.1 Medium-sized trucks: a reoccurring issue.......................................... 124
7.3.2 Buses ................................................................................................ 128
7.4 Preserving the modularisation heritage.................................................... 132
7.4.1 A systematic approach to working with modularisation .................... 133
7.4.2 Modularisation today and in the future .............................................. 135
7.5 Scania’s self-understanding and the modular system .............................. 137
7.5.1 Modularisation and the understanding of Scania’s strategic position.............................................................................................. 137
7.5.2 Re-discovering modularisation............................................................ 141
7.5.3 The dynamics of strategy and self-understanding in the modularisation case........................................................................ 142

8 The bonneted cab – how do products reflect Scania’s self-understanding? ............................................................................ 146
8.1 Organisational self-understanding and product identity in a single product company ................................................................. 146
8.2 The heart and the wallet in truck purchasing decisions ....................... 147
8.2.1 Calculative and emotional aspects of buying a truck ......................... 148
8.2.2 Scania’s product identity platform ....................................................... 150
8.2.3 Increasing emphasis on the non-quantifiable aspects....................... 151
8.3 Scania’s bonneted T-trucks...................................................................... 153
8.3.1 The rise of cab-over-engine trucks...................................................... 154
8.3.2 The bonneted cabs are being increasingly questioned....................... 155
8.3.3 The STAX project .......................................................................... 157
8.4 Scania’s self-understanding and the bonneted cabs................................. 163
8.4.1 What kind of company do Scania’s cabs symbolise? ......................... 163
8.4.2 The dynamics of strategy and self-understanding in the bonneted cabs case........................................................................ 170

9 The Volvo attack – a threat to Scania’s self-understanding .......... 173
9.1 Independence and organic growth ............................................................ 173
9.2 Scania and Volvo – two historical rivals ............................................... 174
9.3 The takeover attempt ............................................................................ 176
9.3.1 Defence and negotiations ................................................................... 176
9.3.2 Volvo backs out and comes back ....................................................... 179
9.3.3 Investor agrees to sell to Volvo............................................................ 181
9.3.4 The EU Commission stops the merger.............................................. 183
9.3.5 Volkswagen steps in as an owner....................................................... 184
9.3.6 Volvo has to sell its Scania shares.................................................. 185
9.4 Communicating Scania’s ability to stand alone....................................... 186
  9.4.1 A global product and production system........................................ 186
  9.4.2 Strategic alliances........................................................................... 187
9.5 The aftermath of the Volvo attack ........................................................... 189
9.6 Scania’s self-understanding and the Volvo attack ................................... 190
  9.6.1 The Volvo-attack as a multiple threat to Scania’s self-understanding ........................................................... 191
  9.6.2 The dynamics of strategy and self-understanding in the Volvo case.............................................................................................................................................................................. 195

10 Handelsbanken.............................................................................. 198
  10.1 1871-1919: Foundation and domestic expansion................................ 198
  10.2 1920-1969: Further growth ................................................................. 198
  10.3 1970-1990: The Wallander era............................................................ 199
  10.5 Handelsbanken’s self-understanding .................................................. 201

11 Internet banking – a development questioning Handelsbanken’s self-understanding ......................................................... 202
  11.1 Technological innovations in banking ................................................ 202
  11.2 Banking on the web ............................................................................ 203
  11.3 Stadshypotek Bank.............................................................................. 211
  11.4 Handelsbanken’s self-understanding and Internet banking............... 215
    11.4.1 Can Internet banking be reconciled with Handelsbanken’s self-understanding? ........................................................... 215
    11.4.2 Resistenz against the institutionalised recipe .................................. 217
    11.4.3 Can a niche bank be reconciled with Handelsbanken’s self-understanding? ........................................................... 218
    11.4.4 Did Handelsbanken change due to Internet banking and Stadshypotek Bank? ........................................................... 219
    11.4.5 The use of history in the Internet case............................................ 221
    11.4.6 The dynamics of strategy and self-understanding in the Internet case........................................................... 222
    11.4.7 Managing self-understanding in the Internet case.......................... 223
    11.4.8 Strategy making and self-understanding ........................................ 223

12 The Stadshypotek deal – self-understanding during an acquisition process......................................................................................... 224
  12.1 Stadshypotek .......................................................................................... 224
  12.2 Stadshypotek is for sale........................................................................ 225
  12.3 Handelsbanken’s bid is successful...................................................... 227
  12.4 The IT system question........................................................................ 230
  12.5 Finalising the Stadshypotek acquisition............................................... 236
  12.6 Handelsbanken’s self-understanding and the Stadshypotek deal........ 237
12.6.1 Does the acquisition of Stadshypotek result in any tensions regarding Handelsbanken’s self-understanding at all? ................... 237
12.6.2 Self-understanding offers content guidance and procedural guidance ................................................................. 239
12.6.3 The dynamics of strategy and self-understanding in the Stadshypotek case ................................................................. 242
12.6.4 Managing self-understanding in the Stadshypotek case .......... 244
12.6.5 Strategy making and self-understanding ........................................ 244

13 Going abroad with universal banking – self-understanding during an internationalisation process ................................. 246
13.1 The early internationalisation .................................................... 246
13.2 Setting up universal banking in Scandinavia .............................. 247
13.3 Universal Banking in Great Britain ............................................ 252
13.3.1 From Nordic related to domestic banking ......................... 253
13.3.2 The process of starting up a new branch ......................... 255
13.3.3 Managing growth and preserving the Handelsbanken culture .... 258
13.3.4 Differences between Britain and Sweden ......................... 260
13.4 The development of Handelsbanken’s international strategy ....... 263
13.4.1 The early ambitions for universal banking abroad ............... 263
13.4.2 The size of the Scandinavian branch network .................... 264
13.4.3 Further internationalisation ahead ..................................... 265
13.4.4 Handelsbanken – Swedish, international or both? ............... 267
13.5 Handelsbanken’s self-understanding and universal banking abroad... 269
13.5.1 Planning and guidance in the internationalisation process ....... 269
13.5.2 Assimilation of new practices abroad .................................. 270
13.5.3 Codifying the Handelsbanken way of internationalisation ...... 273
13.5.4 Codification and the use of history .................................... 277
13.5.5 The dynamics of strategy and self-understanding in the internationalisation case ............................................. 278
13.5.6 Managing self-understanding in the internationalisation case .... 280
13.5.7 Strategy-making and self-understanding ........................................ 280

14 Self-understanding connecting history, present and future... 281
14.1 Past, present and future in organisations .................................. 281
14.2 Uses of history in Scania and Handelsbanken .......................... 282
14.2.1 The scientific and the existential use of history ................. 282
14.2.2 The moral use of history ..................................................... 284
14.2.3 The ideological and the non-use of history ....................... 286
14.3 Processual and mythological views of history ....................... 296
14.3.1 Timeless principles and mythological views of history in Scania and Handelsbanken ............................................. 296
14.3.2 Change and processual views of history in Scania and Handelsbanken ................................................................. 297
14.3.3 Different views of history in relation to institutional and situational beliefs ............................................................. 298
14.4 Self-understanding as an understanding of the organisation’s history 299
A changing financial services sector after the crisis .......................................... 418
SPP: Handelsbanken strengthens its insurance business .................................... 419
Developing the Handelsbanken way after Jan Wallander .................................. 423
Defending the decentralised approach ............................................................... 428
Outlook: Handelsbanken envisions further growth ............................................ 433

Appendix C – Interviews ................................................................... 436
Appendix D – Interview guide ........................................................... 445

Figures
Figure 1-1. Disposition of the thesis ............................................................. 10
Figure 4-1. Visualisation of the dynamics of strategy and self-understanding. 86
Figure 7-1. The dynamics of strategy and self-understanding in the modularisation case. ................................................................. 143
Figure 8-1. Different cab types as artifacts and symbols (adapted from Hatch 1993). ............................................................................. 165
Figure 8-2. The STAX as an artifact and a symbol (adapted from Hatch 1993). ............................................................................. 168
Figure 8-3. The dynamics of strategy and self-understanding in the cab case. 170
Figure 9-1. The dynamics of strategy and self-understanding in the Volvo case. ..................................................................................... 196
Figure 11-1. The dynamics of strategy and self-understanding in the Internet case. ..................................................................................... 223
Figure 12-1. The dynamics of strategy and self-understanding in the Stadshypotek case. ..................................................................................... 244
Figure 13-1. The dynamics of strategy and self-understanding in the internationalisation case. ................................................................. 279
Figure 14-1. Interpretation of the STAX concept truck. .............................. 290
Figure 14-2. De/legitimising and deriving understanding. ........................... 294
Figure 15-1. Ways of dealing with strategic issues in relation to self-understanding. ................................................................. 308
Figure 16-1. Self-understanding and strategic action ..................................... 330
Figure 16-2. Ways of dealing with strategic issues in relation to self-understanding. ................................................................. 333
Tables

Table 4-1. Needs, uses, users and functions of history (Karlsson 1999:57), my translation)........................................................................................................... 83
Table 7-1. Tensions regarding self-understanding in connection with the medium truck issue. ............................................................................. 138
Table 7-2. Tensions regarding self-understanding in connection with the bus issue. .................................................................................................... 140
Table 8-1. Tensions regarding self-understanding in the cab case. .......... 167
Table 9-1. Tensions regarding self-understanding in the Volvo case. ....... 193
Table 11-1. Tensions regarding self-understanding in Internet banking. 216
Table 11-2. Tensions regarding self-understanding in the integration of Stadshypotek Bank. .............................................................................. 218
Table 12-1. Tensions regarding self-understanding in the Stadshypotek case....................................................................................................... 238
Table 13-1. Tensions regarding self-understanding in the internationalisation case................................................................................................ 272
Table 15-1. Assimilation and accommodation strategies. ...................... 312
Table 15-2. Assimilation of change in Handelsbanken and Scania........... 315
1 Introduction

On a cold but sunny morning in October 1998, 12 people meet at Skogsgläntan conference hotel out in the forests of Southern Sweden. They are managers of Finarom, one of Europe’s leading manufacturers of coffee percolators. Berit Bryggman, the owner-manager, her husband Bengt, who is actively involved in the company, and a group of other managers are going to spend three days away from their ordinary work in order to develop Finarom’s future strategy. I am one of the participants. As a young PhD student the company has invited me to join their strategy away-days. I do not yet have a clear idea of what will follow after the away-days, but obviously they are eager to strengthen their ties to academia to obtain support in their future development. There may be an opportunity to use the company as a case for my dissertation or at least get inspiration for interesting research questions. I arrive curiously, wondering what Finarom’s management is going to do in order to formulate a new strategy. Lars Andersson, a consultant who has worked with the company previously in strategy development, is going to lead the seminar. He introduces the programme for the coming days:

We are going to develop a strategic framework that guides the direction and scope of customers, markets, and products. Five years ago we went through a similar process. The problem was that the strategy was never really implemented that time. People down through the organisation never knew what was happening.

Lars Andersson, consultant

A weekend filled with work begins. In plenary sessions and in small groups the managers discuss the future strategic direction of Finarom. What are the company’s strengths, what has to be improved, what are its goals and how are they supposed to be achieved?

1.1 Making a strategy for Finarom

The purpose of the away-days was to formulate a new strategy for Finarom, but what is a strategy and how does it come into existence? I recalled the debate among management scholars who argued around the question of whether strategies were the result of plans or rather emergent patterns (Mintzberg and Waters 1985) and whether strategic planning was meaningful at all (Mintzberg 1994a; Mintzberg 1994b; Porter 1987). So far, very much of Finarom’s work at

1 The case has been anonymised. All names of companies and persons are fictitious. The industry as well as other information on the company has been changed. Apart from that, the story tells the actual experiences that triggered my interest in organisational identity.
Skogsgläntan resembled strategy making as a formal planning exercise. Strategy making was the explicit issue of the away-days and Lars Andersson’s introduction seemed to promise a textbook-like, analytical approach. My initial observations supported this assumption. Discussions circled around an overview of the current strategy and an internal and external analysis of Finarom comprising a traditional SWOT-analysis. As in the classical design school approach to strategy making (Mintzberg 1990), the aim was to achieve a fit between the company’s capabilities and its environment. Naturally, there was a strong focus on gathering facts about the company’s environment during the small group sessions. However, when people returned from their groups to discuss their findings in plenary sessions, little of the data was used. Managers did not build their reasoning primarily on the hard facts of their analyses. Instead they seemed to be preoccupied with some understanding they had of what kind of company Finarom was and should be. Obviously this understanding existed prior to and independently of the analyses. Instead of strategy being a result of the analyses, as normative textbooks probably would suggest, it was rather a shared understanding of the company’s character that seemed to guide how the company and its environment were perceived and what strategy was appropriate. A central feature of this understanding was, for instance, being a large-scale producer of relatively inexpensive, but good-quality coffee percolators, rather than being a supplier of luxury products.

Many people believe we are Mercedes, but we are Volkswagen.

Berit Bryggman, Managing Director

Finarom had also made attempts to diversify by buying a plant producing chinaware. However, this project had not been commercially successful. Now, Berit Bryggman wanted to go back to the company’s historical roots.

We are going to focus on our core products. Everything else is going to be outsourced. Finarom was like that twenty years ago.

Berit Bryggman, Managing Director

Statements like these were frequently made. How did it come about that managers were so preoccupied with the understanding of their own company? What was it that actually guided Finarom’s strategy process?

1.2 Strategy by self-understanding?

Back home from the strategy away-days, the situation seemed paradoxical to me. On the surface the process very much resembled the conventional analytic approaches to strategy that can be found in standard text books. On the other hand the logic actually guiding people’s thinking about strategy seemed to be
totally different. Apparently, strategy making at Finarom built much more on reflections upon the company’s general character than the thorough analyses suggested by the consultant. Although such analyses were made, it was unclear to me if they were connected in any way to the strategic actions the company was about to take. Were the analysis sessions just a kind of show? I got the impression that the analyses, even those that were formally devoted to the environment, primarily constituted a stage for reflections on Finarom and its basic character. Organisational members developed an understanding of the company. Sometimes through explicit discussions about its distinctive characteristics, sometimes unconsciously in an implicit way as certain features of the firm were taken for granted to be of central importance. It seemed to me that a kind of organisational self-understanding had emerged at Finarom. This collective view of Finarom’s character obviously had an impact on how the strategy process developed and what strategic action was eventually taken. I wondered what role the organisation’s understanding of itself actually played in the formation of its strategy. Could the strategy process be understood in a better way if this phenomenon was studied more?

1.3 Organisational identity – a lens for understanding strategy making?

My observations at Skogsgläntan had made me curious. I was aware of the fact that strategy making rarely follows the rational analysis models of normative management books, at least not in a perfect sense. Still, what I had seen at the Finarom away-days did not really resemble anything I had heard of before. Certainly, Finarom was a company with a strong culture. The values of the company were associated with Britt Brygman’s down to earth management style and her strong interest in production technology. Nevertheless, the ongoing self-reflection and the continuous referring to the character of the company when talking about strategy was something more specific than what we usually label culture. In discussions with colleagues someone pointed me towards the concept of identity. After reading a couple of articles, I soon realised that they touched upon the phenomenon that had triggered my curiosity at Skogsgläntan.

This dissertation is going to deal with organisations’ views of themselves and the role these views play during strategy processes. There are different concepts for describing this phenomenon. Organisational identity is the most common (e.g. Albert, Ashforth and Dutton 2000; Albert and Whetten 1985; Whetten and Godfrey 1998). Growing interest among researchers has led to a substantial body of literature addressing organisational identity from various perspectives. However, the emerging field is characterised by unclarity, in particular as regards the use of the organisational identity concept, which is assigned a variety of different meanings. I will therefore use the concept of organisational self-understanding, which more precisely pins down the identity-
related phenomenon I am interested in, namely the conception members have of their organisation. In doing this, I believe that the introduction of the self-understanding concept as such adds value to the wider organisational identity field.

Conceptual and definitional issues of course need a more thorough discussion than the one that can be provided in an introductory chapter. I will therefore return to these issues in the following chapter. To begin with, it is sufficient to define organisational self-understanding according to Albert and Whetten’s seminal definition of organisational identity, conceptualising it as the organisation’s answer to the question “Who are we?” More specifically, it is the organisation’s claims about what is central, distinctive and continuous over time to the organisation (Albert and Whetten 1985).

Critics might argue that neither the identity nor the self-understanding concept is applicable to organisations. Of course, in a strict sense, organisations are no reflexive beings that can think or look into a mirror and see their own picture. However, organisations have members and these people make sense of what their organisation is. The conception that emerges can of course be more or less collective, but we know from research on social groups that members of a specific group tend to strive for a conception of identity that they can share (Tajfel and Turner 1979). Hence, talking about identity or self-understanding on the collective level is meaningful, if we keep in mind that the concepts are metaphors (Cornelissen 2002; Gioia, Schultz and Corley 2002).

1.4 Organisational self-understanding and strategy

As outlined in the beginning, I came across the self-understanding phenomenon at the strategy away-days of a Swedish company. The organisation’s self-understanding seemed to play a central role in the company’s strategy process. Strategies were to a large extent derived from and evaluated against the view Finarom had of itself. My interest, triggered at the strategy away-days, was thus in the role of organisational self-understanding in the strategy process.

1.4.1 Organisational self-understanding as a lens for understanding strategy processes

My basic observation at Finarom, namely that the practice of strategy making rarely follows the neat rational analysis models of normative textbooks is of course not new. Mintzberg, Ahlstrand and Lampel (1998) draw a helpful map of the strategy field in their book ‘Strategy Safari’ where they distinguish between normative and descriptive schools of thought. As a challenge to the normative literature, which they criticise for lacking practical relevance and

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2 In those cases where I nevertheless use the organisational identity concept, this is in the context of previous research using it.
omitting successful strategy practices, Mintzberg and his co-authors present six descriptive schools of strategy. These schools provide different theoretical lenses for understanding how strategy is made in practice rather than how strategy should be made. The authors point at literature showing that strategy can be conceived as shaped by cultural processes, managerial cognition or political power games just to name a few. It is my ambition to continue in this research tradition, which has already produced an extensive body of literature. However, it is my belief that a closer look at organisational self-understanding can make an additional contribution to our understanding of strategy processes. Despite rising interest in the phenomenon, there is still relatively little strategy research applying this particular lens. As we have seen from the example in the Finarom case, reflection on an organisation’s distinctive characteristics, its ‘nature’ or ‘essence’ may play an important role when managers make decisions concerning future strategic development.

1.4.2 Previous work on strategy and identity
So far there have been relatively few, but nevertheless interesting pieces of research addressing organisational identity in the context of strategy processes. Identity has been conceived as a filter, similar to the paradigm notion in culture (Johnson 1992), which sets constraints to managerial cognition, being a potential source of inertia (Ashforth and Mael 1996; Bartunek 1984; Dutton and Dukerich 1991; Gioia and Thomas 1996; Reger et al. 1994a), but also a facilitator for decision making (Fiol, Hatch and Golden-Biddle 1998). At the same time, there is evidence that dissatisfaction with the organisation’s identity and desire for identity changes can also facilitate strategic change at large (Dutton and Dukerich 1991). However often challenges to identity are ignored or explained away (Elsbach and Kramer 1996). Identity has been found to be important for setting the organisation’s agenda and assessing the importance of issues (Dutton and Dukerich 1991). It can also be a source of competitive advantage (Barney and Stewart 2000; Fiol 1991; Fiol 2001) being a socially complex resource that is especially difficult for competitors to imitate (Barney 1992; Stimpert, Gustafson and Sarason 1998). Finally, being a point of reference for member identification, organisational identity constitutes a context for individuals in the organisation (Ashforth and Mael 1989; Ashforth and Mael 1996; Dutton, Dukerich and Harquail 1994; Hogg and Terry 2000). It thus affects how members think and act and how they relate themselves to their organisation. Although most research has focused on the impact identity has on strategy, the relationship of the two is not one-directional. Strategy is not only affected by identity, it also influences how organisational members conceive identity, as their view of the organisation’s character may relate to strategic outcomes like the organisation’s core business, purpose or operating principles (Bouchikhi and Kimberly 2001). Members may thus infer, modify and affirm their conception of identity from strategy (Ashforth and Mael 1996).
In a review of strategy research applying the organisational identity concept, Stimpert, Gustafson and Sarason (1998) found that previous work has been characterised by “process research with a behavioural lens” (p. 93), taking inspiration from fields such as psychology, sociology, and political science rather than economics. This is hardly surprising as the identity concept itself has been borrowed from psychology (e.g. Erikson 1979; Erikson 1968). Considering that identity relates to the organisation’s history (Gioia, Schultz and Corley 2000; Kimberly 1987) as well as ideas about its future (Gioia and Thomas 1996; Reger et al. 1998), a processual approach to research lies close at hand. The same is the case for strategy, being the “movement of the organisation from its history into the future” (Melin 1998:61). Cross-sectional studies have little potential to capture these dynamics and offer limited opportunities for understanding how and why strategy and identity have evolved in a specific way. Stimpert, Gustafson and Sarason (1998) call for case studies on organisational identity and strategy in order to deepen our understanding of how the two relate. A number of such case studies have been published (e.g. Bartunek 1984; Dutton and Dukerich 1991; Elsbach and Kramer 1996; Gioia and Thomas 1996; Glynn 2000; Golden-Biddle and Rao 1997; Lerpold 2003; Salzer 1994). Others have only reached limited audiences as they have not been published in their entirety (Reger et al. 1998 for some case vignettes). In some cases, the studied companies have been anonymised (Golden-Biddle and Rao 1997), limiting the potential for their empirical contribution. So far, many of the most frequently cited studies have been conducted on public or non-profit organisations, such as universities (Elsbach and Kramer 1996; Gioia and Thomas 1996), public facilities (Dutton and Dukerich 1991), a symphony orchestra (Glynn 2000) and a religious order (Bartunek 1984). Hence, there is a need for further case studies on identity and strategy, especially on private companies.

1.4.3 Strategy and self-understanding as dynamic concepts

Of particular interest regarding the interplay of strategy and organisational self-understanding is the dynamics inherent in both concepts. Strategy as well as organisational self-understanding simultaneously relate to past, present and future (Bouchikhi and Kimberly 2001). This happens in a context, where the environment of the organisation itself is changing. Hence, both self-understanding and strategy have to cope with the duality of stability and change. Strategy requires the organisation to adapt itself to changing conditions and to prepare itself for an unknown future. At the same time, strategy always relates to the past as the company’s present situation is the result of earlier thinking and acting. Strategy making today thus takes place in a context of past strategy making and its remaining structures. These can be relatively ‘objective’, in the form of resources and technologies, but they can also tend

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1 The distinction between objective and subjective is of course problematic in the social sciences. That is why I put ‘objective’ in quotation marks. Even material things like a factory or a machine
Organisational self-understanding and the strategy process

more towards the ‘subjective’, in the form of beliefs and values that have evolved over time and in which today’s strategy making is embedded.

Likewise, organisational self-understanding relates to the past as well as to the future. The duality of stability and change becomes particularly interesting as self-understanding is closely associated with continuity. While we know that organisations’ conceptions of their identities do not remain unchanged over time (Gioia, Schultz and Corley 2000; Gioia and Thomas 1996), the idea of a self implies that there are features allowing recognition of an organisation over the years (cf. Erikson 1979). This does not mean that no change has occurred, but that we at least can see that it is the same organisation we are talking about. The organisation can be traced back in time as well as followed into possible futures. While the self-understanding concept primarily addresses what the organisation is, it also relates to what the organisation has been and what it could be in the future.

The assumed reciprocal relationship of strategy and self-understanding (Ashforth and Mael 1996), as well as the dynamics inherent in both concepts, make organisational self-understanding a promising perspective for studying the dynamics of strategy. Research agendas like those of Bouchikhi and Kimberly (2001); Brown (2001); Gioia et al. (1998) and Reger et al. (1998) confirm the need for further investigation, calling for work on areas such as the development of identity over the organisation’s life course (Reger et al. 1998), the role of identity as a facilitator or an obstacle of change (Gioia 1998), the role of identity for external adaptation in times of turbulence (Reger et al. 1998), the paradox of identity as being both changing and enduring (Gioia 1998), and organisations’ balancing of the uniqueness entailed in their identity and isomorphic pressures emanating from a wider organisational field (Bouchikhi and Kimberly 2001; Brown 2001).

1.5 Purpose and contribution

Drawing upon my interest in the dynamics of strategy and organisational self-understanding and the claimed need for further research in this area,

the purpose of this dissertation is to understand strategy processes by examining the role of organisational self-understanding. This includes showing the usefulness of the self-understanding concept as well as conceptualising on self-understanding in strategy processes.

Doing work on organisational self-understanding and strategy, implies a potential for cross fertilisation between the strategy and organisational identity
fields. While I am going to use organisational self-understanding as a lens to understand strategy processes, this work will in parallel imply developing the self-understanding concept as a part of the organisational identity field. I thus want to theoretically contribute to the literature on both strategy and organisational identity. As this dissertation will empirically build on case studies at two companies, it also has good potential for making an empirical contribution. It provides new knowledge on the companies, in particular concerning their strategies and organisational identities. There are still relatively few in-depth case studies addressing identity and strategy, especially in the context of profit-making firms. I believe that my dissertation can contribute to filling this gap a little.

1.6 Further outline of the dissertation

Having outlined the relevance of research on the role of organisational self-understanding in the strategy process, it is useful to provide an overview of how this thesis will continue.

- Chapters 2 to 4 present a theoretical frame of reference for the thesis. Chapter 2 deals with organisational self-understanding, chapter 3 discusses strategy and chapter 4 address what an application of the self-understanding lens can imply for our understanding of strategy processes. The frame of reference has a three-fold purpose. First, it will familiarise the reader with research on organisational identity and strategy, pointing at contributions and weaknesses of different perspectives that have been applied to the phenomena. Secondly, the chapters aim at positioning my own research in relation to previous literature and in particular presenting the concept of organisational self-understanding, relating it to the more common identity notion. Finally, the frame of reference will serve as a framework for interpreting my empirical material. Chapter 4 is concluded with a number of questions for data interpretation, emanating from the theoretical discussion and setting an agenda for the interpretation of my cases.

- In chapter 5, I outline my methodology for studying the dynamics of strategy and self-understanding. My methodological choices are a consequence of my research interest and the questions I am investigating, but the methodology also reflects my standpoint in terms of ontology and epistemology. Thus the beginning of the chapter is devoted to outlining my working paradigm (Melin 1977).

- Chapters 6 to 13 constitute the empirical part of my thesis. Four chapters each are devoted to Scania and Handelsbanken. The first chapter on each company gives a brief historical introduction. Readers who want to look deeper into historical issues can skip chapters 6 and 10 and instead read the appendices A and B that are more
comprehensive organisational biographies of Scania and Handelsbanken. The other empirical chapters each cover one case in which the dynamics of strategy and self-understanding have become particularly salient. Every case is concluded with some low-abstract interpretations that provide a starting point for further analysis. All empirical accounts cover events until the end of my data collection in early 2004.

- In the remaining chapters, I present my findings by analysing my empirical material along theoretical themes. Chapter 14 emphasizes the historical dimension of self-understanding while stability and change in self-understanding are discussed in chapter 15. Chapter 16 concludes the theoretical discussion from the two preceding chapters, by conceptualising on self-understanding and strategy. Finally, chapter 17 rounds of the volume with reflections on my contribution and the research process and points at implications for future research.

1.7 Some advice for readers with different interests

Dissertations that comprise theoretical discussions as well as empirical accounts are read by readers with different interests. I want to give some advice regarding different options for reading this volume.

- Readers with a theoretical interest in self-understanding and strategy processes are advised to read the entire thesis from chapter 1 to chapter 16. Readers who are primarily interested in the research results may even try to concentrate on one case from each company and skip chapters 8, 9, 12 and 13.
- Readers who are primarily interested in learning more about Scania and Handelsbanken can move right on to the empirical part and skip chapters 2-5 as well as 14-17. I recommend replacing the short company introductions in chapters 6 and 10 with the more comprehensive organisational biographies in appendices A and B.
Figure 1.1. Disposition of the thesis

N.B. In order to save space, some chapter headings have been shortened in this overview.
Organisational self-understanding and the strategy process

This chapter, along with the following two chapters, constitutes the theoretical frame of reference for the thesis. Here, I am going to present the phenomenon of organisational self-understanding as well as previous work from the field of organisational identity research. Identity-related phenomena have been examined from a variety of perspectives, with different aims, using different definitions and applying a variety of methods. I will first provide an overview of the heterogeneous field and then outline my personal understanding of organisational self-understanding that will underlie the remainder of this thesis. Hence, starting with different perspectives in identity research does not mean that I find them all equally convincing or appealing. However, I believe that each of them makes a contribution to our understanding of identity-related issues by pointing at things that other approaches fail to see or to address sufficiently.

The purpose of this chapter is three-fold. First, I am going to familiarise my readers with the field of organisational identity research, pointing out the main streams of thought as well as issues of controversy. Secondly, I will position my own research and present my concept of organisational self-understanding as an alternative to the more common notion of organisational identity. This positioning is important to clarify what I mean when I am talking of self-understanding. Finally, the entire chapter in combination with the following two is going to serve as an interpretive framework for making sense of my empirical data.

2.1 What is organisational identity?

The starting point for the academic interest in organisational identity, defined as the organisation’s collective response to the question “Who are we?” is today usually attributed to Albert and Whetten’s (1985) seminal article *Organizational Identity* from 1985. The article not only preceded a wave of publications in scholarly journals and books, it also provided the first more comprehensive discussion of the organisational identity concept and offered a definition that is still frequently referred to, used or criticised in written publications and at conferences. According to Albert and Whetten, answers to the identity question “Who are we?” should satisfy all of the following three criteria:

1. The answer points to features that are somehow seen as the essence of the organisation: the criterion of claimed central character.
2. The answer points to features that distinguish the organization from others with which it may be compared: the criterion of claimed distinctiveness.
3. The answer points to features that exhibit some degree of sameness or continuity over time: the criterion of claimed temporal continuity.

Albert and Whetten (1985:265), original emphases
There are few publications within the field that do not refer to Albert and Whetten, building on their arguments or using their work as a point of reference for presenting their own alternative approaches. Probably for reasons of convenience, the relatively long definition is often shortened as in the following example:

Essential to most theoretical and empirical treatments of organisational identity is a view, specified by Albert and Whetten (1985), defining identity as that which is central, enduring, and distinctive about an organisation's character.

Gioia, Schultz and Corley (2000:63)

This reproduction of Albert and Whetten’s definition is very common (e.g. Ashforth and Mael 1996; Gioia and Thomas 1996; Hatch and Schultz 1997). However, it is actually incorrect as it depicts identity as what is central, distinctive, and enduring about an organisation rather than as what is claimed to be central, distinctive and temporally continuous. This difference is important as Albert and Whetten referred to a more or less subjective claim while later reproductions of the definition often have depicted identity as something seemingly objective. Perhaps it is unfair to criticise Gioia and others, as even Stuart Albert and David Whetten themselves reproduce their own definition incorrectly, (e.g. Albert, Ashforth and Dutton 2000; Whetten 1998). Considering that the objectivist version of the definition has been widely used, one might ironically ask which version has actually been the most influential. We will return to the question of the subjective or objective character of organisational identity. Before, we will however look more closely at the development of the field that actually started before Albert and Whetten’s work.

2.1.1 The origins

Management scholars’ interest in identity dates back to the time prior to 1985. Balmer (1994) found that an interest in identity issues emerged around companies’ logotypes and visual identification systems in the 1950s in the US. This interest took a marketing perspective and was subsequently extended beyond the visual to encompass how management generally expresses its idea of what the organisation is to external audiences (Hatch and Schultz 1997). In parallel to the interest among marketing consultancies and scholars, an interest in identity also developed within the field of organisational studies. Bouchikhi and Kimberly (2001) identified the work of Blau and Scott (1962) as an early explicit mentioning of organisations as having an identity. The idea of organisations having an identity is also contained in Selznick’s (1957) classical work on institutionalisation published a few years before Blau and Scott.

Despite their diversity, these forces have a unified effect. In their operation we see the way group values are formed, for together they define the commitments of the organization and give it a distinctive identity. In other words, to the extent that
they are natural communities, organizations have a history; and this history is compounded of discernible and repetitive modes of responding to internal and external pressures. As these responses crystallize into definite patterns, a social structure emerges. The more fully developed its social structure, the more will the organization become valued for itself, not as a tool but as an institutional fulfilment of group integrity and aspiration.

Selznick (1957:16)

In Selznick’s (1957) institutionalised organisation, identity gives the organisation distinctiveness. He also introduces another psychological analogy, namely organization character (pp. 38ff.), without discussing the distinction between character and identity. At least partly, he uses them as synonyms.

Organizations become institutions as they are infused with value, that is, prized not as tools but as sources of direct personal gratification and vehicles of group integrity. This infusion produces a distinct identity for the organization.

Selznick (1957:40), original emphasis

Being an outcome of the institutionalisation process, to Selznick, identity is a historical product. This leads to a number of questions one should consider when trying to understand the organisation.

The study should […] consider whether any institutional factors affect the ability of the agency to ask the right questions. Are its questions related to a general outlook a tacit image of itself and its task? Is this image tradition-bound? Is it conditioned by long-established organizational practices?

Selznick (1957:11), original emphasis

Despite Blau and Scott (1962) as well as Selznick (1957) used the identity concept, it took a long time until someone worked with it more in depth. While Selznick's work is widely cited for other things he addressed, his use of the identity concept has fallen into oblivion. The three recent anthologies edited by Whetten and Godfrey (1998), Schultz, Hatch and Larsen (2000) and Moingeon and Soenen (2002) do not contain a single reference to Selznick. The same is true for seminal articles as Ashforth and Mael (1989); Ashforth and Mael (1996); Dutton and Dukerich (1991); Elsbach and Kramer (1996) and Gioia and Thomas (1996). The few exceptions (e.g. Albert and Whetten 1985) and (Fiol 1991) cite him for other things than identity. My point in referring to these pieces is not to criticise the excellent work they constitute. I rather want to demonstrate how unexploited Selznick’s work is.

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In parts of his discussion, Selznick cites Fenichel (1946) and relates the character concept mainly to the organisation’s actions, defining it as the “ego’s habitual ways of reacting” (p. 470). Then again he puts emphasis on character being a social structure that results from the infusion of the organisation with value which is again linked to ways of acting. Here, Selznick’s linking of structure and action foreshadows some of the ideas in Giddens’s (1984) structuration theory.

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Literature on organisational culture addressed organisations’ tacit images of themselves, however only in the context of wider sets of values and beliefs. Bartunek (1984) more explicitly emphasized members’ conception of their organisation. In her article on changing interpretive schemes in a religious order, she refers to phenomena that would fit the organisational identity label although the identity concept only appears briefly at the end of the article. Instead she talks about “interpretive schemes” (p. 355) and the organisation’s “self-understanding” (p. 358). One year later, Albert and Whetten (1985) then published their seminal article with the illustrating title *Organizational Identity*. By that time, little had been done on organisational identity. Albert and Whetten mainly drew upon psychology literature (e.g. Erikson 1979; Erikson 1968; James 1890; Mead 1934) from where they had borrowed the identity concept. This work referred to the identity of individual human beings. Thus the transfer of the identity concept to organisations was not unproblematic, considering that organisations are not reflexive beings like humans. However, Albert and Whetten noted that people in organisations may ask the self-reflexive question “Who are we?” referring to the organisation as a whole. Cornelissen (2004) has later talked of a metaphorical use of the identity concept, creating a new understanding of the identity as well as the organisation notions. Despite the relatively low age of the organisational identity metaphor, it has proven to be a fruitful means for understanding organisations, not at least since it has been accepted by academics as well as the organisational members they study (Gioia, Schultz and Corley 2002).

A further important source of inspiration for researchers applying the identity concept to organisations (e.g. to Ashforth and Mael 1989) has been in social identity theory (e.g. Tajfel and Turner 1979). Social identity theory relates the identity of the individual to the social categories or groups to which s/he belongs and offers him/her a “system of orientation for self-reference” (Tajfel and Turner 1979:40). In this context, Tajfel (1982) also argues that members of groups tend to compare their groups in order to differentiate their own group positively from the others. This suggests that members ascribe their group a distinct identity and that consequently the use of the identity concept on other levels than the individual might be meaningful. Social identity theory has also inspired research on members’ identification with their organisations, (e.g. Ashforth and Mael 1989; Ashforth and Mael 1996; Dutton, Dukerich and Harquail 1994), linking identity on the individual and organisational levels of analysis.

2.1.2 A growing field

If work on organisational identity was rare before Albert and Whetten, the contrary has been true during the almost two decades after their article (Albert and Whetten 1985). However, it took a few years, before the first empirical

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1 Since Bartunek addressed self-understanding, I will refer to her 1984 article in the context of identity literature, although the identity concept only plays a marginal role there.
investigation was published with Dutton and Dukerich’s 1991 AMJ article on
the New York/New Jersey Port Authority (Gioia, Schultz and Corley 2002). Initially, there was still a dividing line between the organisational and the
marketing literature using the identity concept on an organisational level. While
the former stream of thought used the organisational identity concept, the latter
preferred to talk about corporate identity, putting more emphasis on the
communication of identity to external audiences than on its impact on internal
processes (Hatch and Schultz 1997). This division between organisation theory
and marketing has however become increasingly blurred as scholars have
recognised a potential for cross-fertilisation across disciplinary boundaries
(Schultz, Hatch and Larsen 2000), even though specific pieces of work still may
emphasize one of either sides. There is empirical evidence that there is interplay
between members’ view of their organisation’s identity and the identity
outsiders attribute to it (Dutton and Dukerich 1991). Hence, work on
organisational and corporate identity deals with multiple facets of the same
phenomenon (Soenen and Moingeon 2002).

While organisational and corporate identity research have the organisation
as their main unit of analysis, identities can also be attributed to other entities.
The marketing literature has been especially interested in product identity and
brand identity (Olins 1989; Olins 2000), i.e. characteristics attributed to
products or brands by specific audiences, often customers. Similarly
organisation theory has addressed the identities of individuals (Ashforth and
Mael 1989; Elsbach and Kramer 1996) or groups and professions (Glynn
2000). All these can be in a relationship of mutual influence with organisational
identity. For example, members may identify with their organisation by
establishing a link between their personal identity and the identity they
attribute to their organisation (Ashforth and Mael 1989). Dutton and Dukerich
(1991) describe how members become willing to change the identity of their
organisation when the organisation’s deteriorating image makes it difficult to
continue identifying with it. Identity research thus conjures up a picture of a
multitude of identity-related phenomena interacting with each other. While
this picture appears complicated, it offers an opportunity to explore complex
social phenomena.

2.2 The diversity of organisational identity research

Despite increasing convergence of the marketing and organisational theory
streams of identity research, the organisational identity field still offers a diverse

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6 Gioia, Schultz, and Corley also refer to a second empirical contribution the same year, namely
Gioia and Chittepeddi’s (1991) article on sense making and sense giving. Although that article
does not put any emphasis on the organisational identity concept, the identity label makes sense
since it addresses the conception of the organisation. Gioia and Chittepeddi see the manager’s
role in strategic change in defining a revised conception of the organisation (in other words: a
revised identity) through sense making and then disseminating it through sense giving.
picture. Scholars depart from different epistemological and ontological
standpoints. They come from different research disciplines and sub-disciplines,
focus on different levels of analysis and put different meanings in the concepts
they use. While the fragmentation of the field can be a source of confusion and
an obstacle to communication between different streams of research it also
offers a potential for dialogue and cross-fertilisation, provided that one is aware
of the different perspectives and their contributions. In order to familiarise the
reader with the diversity of the field, I will try to outline similarities and
differences in research by presenting and discussing alternative answers to some
key questions in organisational identity research.

2.2.1 Is there anything substantial to identity?
An important question that has been (at least implicitly) answered in different
ways by different researchers refers to the ontological status of organisational
identity. What do we mean when we say that an organisation has an identity? Is
identity a set of properties the organisation objectively has or is it a character
that people subjectively attribute to it, either consciously or unconsciously?
Does it exist in people’s ideas or is it independent of them? Even if it is hardly
surprising that there is no consensual answer to these questions, one might
expect that specific scholars take a clear stance. However, this is not the case.
Bouchikhi and Kimberly (2001) have noted that even renowned authors like
Dutton and Dukerich (1991) or Reger et al. (1994a) are internally inconsistent
when publishing their research in well-known journals. This does not question
the value of their work as such, but highlights the importance to be explicit on
one’s stance and clear in one’s use of concepts.

The trickiness of the question lies in the problem that many authors tend to
define organisational identity as the subjective perception members have of
their organisation’s identity. The definition becomes more or less circular. A
subjective organisational identity is the perception of (an objective?)
organisational identity. Dutton and Dukerich’s pioneering article on the New
York/New Jersey Port Authority may serve as an illustration of this dilemma. In
the interpretation of their empirical observations, the authors depict identity as
something that members view. The reader may get the impression that there is
a more or less objective identity ‘out there’ that people can subjectively perceive:

Specifically, we found that the Port Authority’s identity, or how organization
members saw it, played a key role in constraining issue interpretations,
emotions, and actions.

Dutton and Dukerich (1991:542), emphasis added

Earlier in the same article, the authors define organisational identity as
subjective beliefs, rather than as the things members hold beliefs about.
Organisational self-understanding and the strategy process

An organization’s identity, or what organisational members believe to be its central, enduring and distinctive characteristics (Albert & Whetten 1985), filters and molds an organization’s interpretation of action on an issue.

Dutton and Dukerich (1991:520), emphasis added

The issue is further complicated by the circumstance that we tend to talk about identity as an objective property of an individual or a group in everyday language. So do the practitioners that researchers meet when studying identity-related phenomena (cf. Gioia and Thomas 1996 for an example). This confusion about the ontological status of organisational identity has done harm to the usefulness of the concept. As the concept is given different meanings by different (and sometimes even the same!) authors, one might ask if different concepts for the different meanings would not add clarity to the field.

Functionalist, interpretivist and postmodern views

If we go back to Albert and Whetten (1985), they see identity as a subjective phenomenon in its origin as they conceive it as members’ answer to the identity question “Who are we?”. This answer is then often institutionalised and taken for granted and thus becomes objectified in the social constructionist (Berger and Luckmann 1966) sense of the word. In the subsequent research on organisational identity, different streams of thought have emerged that take different standpoints in the objectivity/subjectivity question. In the book Identity in Organizations (Whetten and Godfrey 1998), Gioia (1998) presents three lenses for understanding organisational identity, namely the functional, the interpretive, and the post-modern lens, which among other things also address the question of identity’s subjectivity or objectivity. Functionalists would consider identity as a social fact (Gioia et al. 1998) in a realist sense. While identity originates in social interactions it nevertheless exists like an object that is external to those who perceive it. Interpretivists on the other hand, drawing upon social constructionism (Berger and Luckmann 1966) see identity as a subjective phenomenon that is socially constructed. Thus, identity is in the eye of the beholder and a key question for research is how it is constructed. Finally, as representatives of a third perspective, postmodernists, conceive identity as fluid (Gioia et al. 1998). They talk of multiple, fragmented identities that occur more or less accidental. Hence, the existence of anything like identity becomes questionable.

Identity as a system of meaning

In particular the interpretive perspective on organisational identity refers to identity as a system of meaning. Hence, the interpretive definition of organisational identity in Gioia et al. (1998) states that “identity is a continuously renegotiated set of meanings about who we are” (p. 42). The shared meanings concept has earlier been applied by Smircich (1983b) within the field of organisational culture. She sees organisations as systems of shared
meanings, characterised by “common modes of interpretation and shared understandings of experience” (p. 55). Applied to organisational identity these meanings refer to who/what the organisation is.

Conceiving organisational identity as a system of shared meanings implies that we should be able to draw parallels from what has been said on other systems of meaning, organisational culture perhaps being the most prominent one. However, meaning can also be provided on an industry level through industry recipes (Spender 1989), industrial wisdom (Melander 1997), institutionalised norms in a field (DiMaggio and Powell 1983) or in society in general. Finally, also individual cognitions, like ways-of-thinking (Hellgren and Melin 1993), constitute systems of meaning. Hence, systems of meaning do not exist in isolation. They exist on various levels and individuals or groups are provided with meaning from various directions simultaneously. Salzer (1994) thus depicts organisations as transcending different spheres of meaning. As a result of the emphasis on meaning, sense making becomes a commonly used concept among interpretivists. Sense making is basically cognitive in nature. It implies that people assign meaning to what they encounter and thus in a sense enact their environment (Ericson 1998). Interpretivists see identity as an aspect (Fiol, Hatch and Golden-Biddle 1998) or a product (Salzer 1994) of sense making that is self-focused. Members, thus assign meaning to the organisation that provides an answer to the question “Who are we?”. When this meaning is shared and institutionalised it becomes a cognitive scheme that affects how members make sense of the organisation as well as of its environment (Gioia and Thomas 1996).

Meanings and more substantive structures

It is an issue of controversy if members’ sense making refers to any kind of objective identity. A major weakness of objectivist approaches is their lack of empirical relevance. If there was such a thing as an objective identity, how should anyone know it, except through subjective perceptions? If we believe that identity is important to how people think and act, it has to be their subjective perceptions of identity that influence their thinking and acting.

However, despite the weaknesses of objectivist approaches, considering identity as a purely subjective phenomenon is not unproblematic either. Bouchikhi and Kimberly (2001) note that perceptions of an organisation’s identity are influenced by structures that exist independently of members’ current interpretations. Identity construction is thus an interpretive process. However, nothing is constructed ex nihilo. Gioia, Schultz and Corley (2000) point out that “organisations cannot construct any arbitrarily chosen identity” (p. 73) as identity construction itself is constrained by structural bounds. To illustrate this, we can use examples that we will later return to in my empirical cases.

Being a highly specialised manufacturer of trucks, Scania’s identity is closely associated with its products. Of course, Scania’s employees make their
subjective interpretations of what a Scania truck is and what it means. However, the trucks have physical properties that exist independently of anyone’s perceptions. They can carry a certain payload, they produce specific emissions, the driver is exposed to certain physical forces depending on e.g. cab construction and the truck will have a certain impact on a passenger car when colliding with it. What all this means is a matter of interpretation, but interpretation is done in a context of physical as well as social structures.

Similarly, Handelsbanken would not be able to easily replace its bank identity with an identity as a truck manufacturer. It would not be enough for members to start thinking of Handelsbanken as a truck maker since the company’s resources and competences are those it needs for banking and not for making trucks. Likewise, Handelsbanken is perceived as a bank by its customers and other external stakeholders and these have institutionalised expectations as to what a bank should be like. Once again, there are substantive issues to which members’ subjective understanding of the company’s identity relates.

In an early article within the identity genre, Alvesson (1990) talks of both substance and image, arguing that ‘substantive’ (p. 379, original quotation marks) issues are of decreasing importance in modern organisations. Instead, people increasingly define reality based upon images that have been purposefully created to affect different audiences. Society thus moves from substance to image. While Alvesson affirms the importance of social representations to organisations and their members, he unfortunately does not elaborate on the interplay between image and substance, more than saying that the two tend to be loosely coupled. Against the background of the IT bubble’s burst in 2000 one might argue that substance did not live up to exaggerated images and that image has been overemphasised during the 1990s. It remains to be seen if attention will return to more substantive aspects of organisations. An interesting question is what aspects these could be.

**Structures to which identity conceptions can refer**

Bouchikhi and Kimberly (2001) propose structuration theory (Giddens 1984) as a solution to incorporate the subjective as well as the objective or structural aspects of identity:

> Following Giddens, we propose that an organization’s identity shapes members’ actions and perceptions and is, in turn, shaped and reproduced through members’ actions and perceptions.

**Bouchikhi and Kimberly (2001:8)**

In their definition of organisational identity, Bouchikhi and Kimberly then do not refer explicitly to people’s perceptions giving their definition a rather objective undertone. Drawing upon Blau and Scott (1962) they identify four
dimensions of organisational identity that are relatively autonomous from members’ interpretations, namely:

- A group of **people** sharing common and enduring characteristics;
- Pursuing a common **purpose**
- Within a task environment or **core business**
- According to a set of **operating principles**

We thus define **O[rganisational] I[identity]** as a relatively enduring and distinctive combination of purpose, core business, people, and operating principles.

Bouchikhi and Kimberly (2001:9) original emphases

This emphasis on relatively substantive organisational features resembles what Soenen and Moingeon (2002) refer to as the manifested or historical identity of the organisation as compared to more subjective conceptions of identity. They propose a somewhat different list, borrowed from Mucchielli, comprising features an organisation’s identity might refer to.

- Ecological referents: characteristics of the eco-system
- Physical referents: possessions, potentialities, physical appearance
- Historical referents: origins, key events, historical legacy (such as rites and rituals)
- Cultural referents: cultural system (ideology, values, modes of expression, cognitive system, mentality)
- Socio-psychological referents: social referents (status, age), affiliations


Although the two lists of referents are hardly exhaustive and differ from each other, they point at an important thing. Even if we conceive organisational identity as a subjective representation members have of their organisation, it partly refers to features that are so much institutionalised that they have gained some autonomy from short-term changes in perception. How members make sense of these referents is again subjective, although structures set constraints that do not allow constructing any arbitrarily chosen identity (Gioia, Schultz and Corley 2000). Whether we see identity as relatively short-term subjective representations by members or relatively objective structures is finally a matter of definition. The discussion above however shows that overly objectivist as well as overly fluid and subjectivist conceptions of organisational identity are problematic. Regardless, what stance a researcher takes, explicitness in the choice of perspective and clarity in definitions is important to avoid unnecessary confusion.
2.2.2 Who defines identity?

Organisations can be observed and characterised from a variety of perspectives, for instance by insiders or outsiders, managers or employees in general, customers holding an obvious stake in the organisation or researchers that at least theoretically may have a more impartial position. This implies that there may be different conceptions of an organisation’s identity at one time, depending on who conceives it. Such conceptions may be tacit or articulated to different audiences. To make it even more complicated, one group of stakeholders, having its own conception of the organisation’s identity may also have a conception of how another group conceives the same organisation. There are thus numerous perspectives to identity that have resulted in even more concepts that have been created to distinguish between them.

Identity from inside and from outside

As mentioned earlier, the organisation theory stream of identity research has historically preferred the notion organisational identity, while the marketing stream has mostly talked of corporate identity (Hatch and Schultz 1997). Both concepts basically refer to the conception insiders have of the organisation’s identity. However, organisational identity is more introvert in the sense that it refers to members’ perception of their organisation, while corporate identity usually relates to the identity the organisation communicates to external audiences.

Even within the organisational theory stream of research, the organisational identity concept has been used in various ways. Different researchers mean different things when using the concept. The emphasis may be on claims (Albert and Whetten 1985), historically grown structures (Bouchikhi and Kimberly 2001), or perceptions (Dutton and Dukerich 1991). As Bouchikhi and Kimberly (2001) have noted, it is often unclear whether identity is seen as a subjective or an objective phenomenon. These different meanings of course create confusion and call for clarifying what sort of identity one refers to. Going beyond the organisational/corporate identity distinction, Soenen and Moingeon (2002) have made a contribution in this area by proposing five facets of organisational identities. The professed and the experienced identity largely overlap with the traditional use of the organisational identity concept. Both are attributed to the organisation by its members. The distinction between the two resembles the espoused theory and theory-in-use distinction by Argyris and Schön (1978). While experienced identity is basically about more or less conscious perceptions, the professed identity is about outspoken claims and thus comes closest to Albert and Whetten’s (1985) identity definition. However, it is important to note that by drawing on psychology literature, Albert and Whetten go beyond explicit claims and also touch upon experienced identity. The corporate identity notion largely corresponds to Soenen and Moingeon’s (2002) projected identity, being the identity claims that are mediated to a specific audience. Switching perspective from inside-out to
outside-in, the attributed identity is the conception outsiders have of the organisation’s identity. Finally, the manifested identity is the most structural in character as it refers to elements that have characterised the organisation historically over a long time. It comes closest to the identity definition of Bouchikhi and Kimberly (2001) as well as a stream in French research (e.g. Moingeon and Ramanantsoa 1997). These approaches emphasize identity’s character of being a product of the organisation’s history, while at the same time producing history, i.e. setting a context for future action (Kimberly and Bouchikhi 1995; Moingeon and Ramanantsoa 1997). Soenen and Moingeon (2002) state that a researcher interested in organisational change would try to reconstruct the manifested identity, presupposing that it can be somehow correctly reconstructed. Again, one has to bear in mind that such reconstruction has to rely on more or less subjective interpretations. Besides these five facets that are at least claimed to be actual, other authors also talk about desired identities (Reger et al. 1994a; Balmer and Soenen 1999), desired images (Gioia, Schultz and Corley 2000), ideal identities (Balmer and Soenen 1999), or prescriptive identities (Albert and Whetten 1985) that are all envisioned future identity conceptions.

An important point in Soenen and Moingeon’s (2002) facet metaphor is that the different facets of identity are not unrelated, but rather deal with the same phenomenon from different perspectives. Consequently, there is interplay between the different facets. For instance, we know from previous research that the way members experience the identity of their own organisation does not remain untouched by the identity outsiders attribute to it (Dutton and Dukerich 1991). Hatch and Schultz (1997; 2002) have further elaborated on the identity-image relationship, conceiving organisational identity as expressing the internal culture while at the same time mirroring external images.

Can identity be managed?

If we acknowledge that multiple stakeholders, having different perspectives, hold opinions about an organisation’s identity, it becomes clear that the definition of identity is not the privilege of a single group, e.g. top management. Partly as a result of different philosophical points of departure, different authors have highlighted the role of different groups of stakeholders in defining identity. If we apply the three perspectives presented in Whetten and Godfrey’s (1998) book, functionalists put a special emphasis on the role of management. Here, research on identity shows a clear parallel with the literature on organisational culture where we can distinguish between the views of seeing culture as a variable or as a root metaphor implying a processual character (Smircich 1983a). With respect to identity, functionalists see identity as a variable that can be purposefully manipulated by management, while interpretivists take a process perspective, seeing identity as the outcome of ongoing social construction in the organisation (Gioia et al. 1998). To interpretivists, all members of an organisation are part of this construction
Organisational self-understanding and the strategy process

Management has no monopoly on defining identity although it may play an influential role in constructing it. Hatch and Schultz (1997), taking an interpretivist stance in their article on organisational culture, identity and image, see a specific role for top management as a mediator between the (experienced) identity that is socially constructed within the organisation and the image, i.e. the identity attributed to the organisation by external audiences. Top management’s role lies in influencing outsiders’ as well as insiders’ sense making of the organisation’s identity. Managers do this by using various forms of communication. However, they are never in full control of either identity or image as these are socially constructed by internal or external constituents. The third perspective in Whetten and Godfrey (1998), the postmodernist, is generally sceptical towards management’s possibilities to control identity, since identity is seen as unstable and ever-shifting in a process of deconstruction and reconstruction. At the same time, the postmodernist perspective also sees identity conceptions as a reflection of power relations in the organisation (Gioia et al. 1998).

Single or multiple identities?

In particular postmodernism with its emphasis on fragmentation reminds us that identity is not necessarily monolithic. Much literature on organisational identity presupposes that there is a shared understanding of the organisation’s identity, be it as a result of authoritative decisions, of an ongoing collective negotiation process or as recognition of more or less objective structures. Such an identity can be identified and managed by organisational leaders (Reger et al. 1994a). To what extent it is meaningful to say that an organisation has one monolithic identity is of course partly an empirical question. Conceptions of identity may be more or less shared. However, there are good reasons for questioning the idea of identity as being monolithic. Researchers have talked of organisations having multiple identities. The multiple identity notion can be used in two ways. First, an organisation may be so complex that it appears more relevant to talk of multiple identities than a single one. Social identity theory assumes that an individual’s identity is based on membership in groups (Tajfel and Turner 1979), meaning that the more groups an individual is a member of, the more social identities s/he has (Pratt and Foreman 2000). Equally, an organisation may be Swedish, a manufacturing firm, an SME etc and have the corresponding identities. The multiple identity notion refers to different aspects to which identity conceptions can relate. Secondly, different organisational members may hold different opinions about what the organisation’s identity is. The multiple identity notion then refers to different groups’ different conceptions of identity (Pratt and Foreman 2000).

Albert and Whetten (1985) use the multiple identity notion in the first sense. They affirm that organisations often have dual or multiple identities, like a hospital that at the same time is a utilitarian business and a normative humanitarian organisation. This duality is a result of the complex activities the
organisation is engaged in. The duality would exist even if there would not be competing identity conceptions. In practice, identity might also be multiple in the second sense, e.g., there are different aspects about the organisation to be highlighted, such as utilitarian and normative, and each aspect is emphasized by one fraction of the members, resulting in an identity contest (Ashforth and Mael 1996; Glynn 2000).

The multiple identity notion in the first sense has been helpful in analysing complex identities. At the same time the concept is problematic as it conjures up a picture of identities that are more or less unrelated and can be exchanged like hats (cf. Ashforth and Mael 1989). Albert and Whetten’s (1985) idea of organisations travelling back and forth between identities is more differentiated as it allows for hybrid positions. However, one may ask if it was not more meaningful to adopt Glynn’s (2000) notion of multi-faceted identities, meaning that an identity comprises different aspects at the same time, such as being utilitarian and normative. Seeing this duality is part of the same identity would emphasize that the two facets occur simultaneously and that an organisation’s identity may actually incorporate aspects that are difficult to reconcile.

Considering the second meaning of multiple identities, namely different members holding different opinions about identity, once again a comparison to a similar debate within research about organisational culture may help us. In the context of culture, Martin (1992) talks of different views, assuming an integration, a differentiation or a fragmentation perspective to the study of cultures. She calls for combining the three perspectives in research in order to gain multi-faceted insights about cultural phenomena. At least roughly, her three perspectives correspond to the functional, interpretive and post-modern perspectives on identity (Whetten and Godfrey 1998). Functionalists tend to see identity as basically homogeneous, integrating the organisation since this is a precondition for making identity management meaningful. Interpretivists acknowledge heterogeneity in identity conceptions, similar to the differentiated sub-cultures we know from work on organisational culture. Finally, postmodernists regard identity as fragmented. This stance is problematic in so far as one can ask whether the identity concept is meaningful at all if there is not at least some degree of consensus around what an organisation’s identity is.

2.2.3 Does identity change?

If conceptions of identity can be multi-faceted and conflicting, an interesting question is whether identity can change. On the one hand, we may empirically observe identity change, on the other hand, the identity concept is often associated with at least a sense of continuity, like in Albert and Whetten’s (1985) definition. Etymologically, identity stems from the Latin idem that stands for sameness or complete consistency (Oxford English Dictionary 1989).

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7 Here, the term “facets” is used in a different sense from Soenen and Moingeon (2002) who refer to different types of identity.
Now, it is exactly its criterion of claimed temporal continuity, Albert and Whetten’s definition has been particularly challenged for. This has partly to do with the common incorrect citation of the definition. People talk of enduring (e.g. Gioia, Schultz and Corley 2000) as if Albert and Whetten had talked about objectively enduring features rather than the (subjective) claim of temporal continuity. However, the question of stability or change in identity is still highly relevant. As Gioia et al. (1998) state, in particular postmodernist authors have questioned the idea of identities being stable. Of course one may raise the question whether the attribution of instability and fluidness in postmodern literature rather is the point of departure than an empirical finding. However, we can for instance see in marketing that expressions of identities become increasingly volatile and short-lived. Christensen (1995) regards this as an expression of postmodernity characterising society. It is important to note however that this volatility concerns the organisation’s projected identity. It does not necessarily have to be accompanied by equal volatility in how organisational members experience identity. Hatch and Schultz (2002) talk of a risk of hyper-adaptation if organisations become too much preoccupied with mirroring their identity in external images.

Now, criticism against the stability assumption does not only come from postmodernism. There are numerous examples of interpretive research providing empirical examples of identity change (e.g. Dutton and Dukerich 1991; Bartunek 1984; Gioia and Thomas 1996). Though this research proves that identity does not have to be static, the same cases show that organisational identity does not change easily and can only be altered in a long, often painful, process. Rather than being fluid it frequently has the character of a brake block inhibiting necessary strategic changes. Most empirical research thus indicates that organisational identity tends to be relatively stable, albeit not static. From a conceptual point of view, much of the appeal of the identity concepts actually lies in its relative stability. Why should any feature of an organisation be considered as a part of its identity if it was only of a transient nature, vanishing shortly after its appearance? How should we then know that it is still the same organisation we are talking about? Not at least personal identity theory, which has been a source of inspiration at least for the early work on organisational identity, points at the importance of identity in giving the individual a sense of sameness over time. The own perception of sameness is confirmed by external audiences.

The conscious feeling of having a personal identity is based on two simultaneous observations: the immediate perception of one’s selfsameness and continuity in time; and the simultaneous perception of the fact that others recognize one’s sameness and continuity.

Erikson (1979:22), original emphasis

In an organisational context, Selznick (1957) remarks that organisations, once they have become institutionalised pursue the goal of self-maintenance.
Jönköping International Business School

argues that being infused with values, the preservation of the organisation’s identity becomes an end in itself. The organisation seeks to maintain its distinctiveness vis-à-vis others and its own continuity over time.

As an organisation acquires a self, a distinctive identity, it becomes an institution. This involves the taking on of values, ways of acting and believing that are deemed important for their own sake. From then on self-maintenance becomes more than bare organizational survival; it becomes a struggle to preserve the uniqueness of the group in the face of new problems and altered circumstances.

Selznick (1957:21)

An emphasis on relative stability

Despite all criticism for depicting organisational identity as too static, Albert and Whetten’s (1985) article is actually about change in identity. The authors take a life cycle perspective on identity and show that an organisation may move back and forth between different identities over time, assuming a dual identity during the transition phases. Again drawing upon psychology (Erikson 1968), they state that organisational identity is shaped, maintained and changed in comparison with others. The comparison highlights the distinctiveness criterion although other authors have noted that organisations can try to define their identity not only by pointing at differences, but also through similarities with other organisations (Gioia et al. 1998). Albert and Whetten (1985) believe that identity issues become particularly salient in specific periods of the organisation’s life cycle. It is especially during these periods, identity is formed, reflected upon and maybe changed. One such phase is the foundation of the organisation, when its identity – at least an early version of it – is formed. Hall (2004) as well as Kimberly and Bouchikhi (1995) note that founders transfer their personal values and ideas to the organisation where they may become part of its identity. However, Albert and Whetten (1985) also see a potential for identity change during later life cycle phases, usually in conjunction with other major changes such as mergers and acquisitions, rapid growth, retrenchment, divestitures or the leaving of the founder will change. All in all, there are situations where members rethink the identity of their organisation although such changes may be rare and in some cases tough. Albert and Whetten (1985) again draw a parallel to individual identity, talking of mourning and grief in organisations that go through an identity change that is experienced as a loss. In a similar vein, Selznick (1957) states that fear of such a loss creates resistance to change in the institutionalised organisation.

When value-infusion takes place, however, there is a resistance to change. People feel a sense of personal loss; the “identity” of the group or community seems somehow to be violated; they bow to economic or technological considerations only reluctantly, with regret.

Selznick (1957:18-19)
Selznick as well as Albert and Whetten (1985) are not alone in seeing identity as relatively stable over time. Bouchikhi and Kimberly (2001) argue that it is not possible for an organisation to change all aspects of its identity at once. Therefore they argue that there can only be changes in identity in the short run, while changes of identity need more time. Other authors see a reason for stability in an identity’s character as a cognitive scheme that is not only stable in itself, but also gives rise to overall inertia in the organisation (Ashforth and Mael 1996; Bartunek 1984; Reger et al. 1994a). As a collective cognitive scheme, identity becomes taken-for-granted, like the paradigm (Johnson 1987) or the basic assumptions (Schein 1985) in organisational culture. Hence, it is difficult to fully access identity in a conscious way and to purposefully alter it. In a prescriptive context, identity stability is then often depicted as a problem to be overcome since it is seen as an obstacle to organisational adaptation (Reger et al. 1994a; Ashforth and Mael 1996). Again there is a parallel to the organisational culture literature, where Gagliardi (1986) points at organisations ending up in vicious circles reproducing dysfunctional cultures. Interestingly, Gagliardi in this context uses the identity concept, although he uses it synonymously with culture, saying that organisations strive for preserving their identity. Paradoxically, he states that organisations “must change in order to preserve [their] identity” (Gagliardi 1986:125), meaning that organisations manage their problems by mainly making first-order changes that do not challenge their identity. Similarly, Hatum (2002) notes that a strong identity may contribute to higher organisational flexibility. As long as a relatively stable identity guarantees continuity, it is easy for the organisation to go through changes, provided that the identity itself remains untouched. Analysing socio-psychological processes in the Soviet Union, Karlsson (1999) found that intellectual elites coped with societal change by relating back to established cultural ideas, in particular their historically grounded national self-understanding. Interestingly, these findings correspond to what Erikson wrote about individual identity.

Identity connotes the resiliency of maintaining essential patterns in the process of change. Thus strange as it may seem, it takes a well-established identity to tolerate radical change.

Erikson (1964:96)

**Stability in the eye of the beholder**

If the enduring character of identity is seen as a potential source of organisational inertia, it is important to recall that Albert and Whetten (1985) see identity as a self-attributed phenomenon. Even if it may refer to institutionalised structures, which at least in the short run cannot be altered, identity is basically subjective. Its enduring character is thus in the eyes of the beholder. In order for an organisational feature to qualify for being part of its identity it is hence enough that members believe it is enduring. It is not
necessary that other observers, be it external constituents or researchers agree that identity is stable as long as members perceive continuity. Gioia, Schultz and Corley (2000) have noted this and make the important contribution of introducing historical revisionism into the literature on identity. They do this, stating examples how managers provide interpretations of history that make members believe that the identity they currently experience is continuously building on the historical identity. In order to make identity appear as enduring, it is not the old identity that is continuously recreated; it is rather the present identity that serves as a template for the stories that are told about the historical identity. Company history is reinterpreted in a way that is coherent with the present. The task for management is to sell actions as a continuation of what the organisation has always done, although the actions may appear as a change at first sight. One way of doing this can be the continuous use of the same labels that are assigned different meanings as the organisation changes. As an example, Gioia, Schultz and Corley (2000) state the idea of the H-P Way, used by Hewlett-Packard to express its core values. While the concept has been the same, the meaning associated with it has changed over the years (Collins and Porras 1996). Gioia, Schultz and Corley (2000) conclude that organisational identity is characterised by adaptive instability rather than stability. Identity is continuous rather than enduring. While continuous is often used synonymously with enduring (e.g. Ashforth and Mael 1996), Gioia, Schultz and Corley (2000) point at an important distinction between the two. Whereas enduring stands for stability and the absence of change, continuity allows for change as long as it is perceived as a continuous development of the past and not a radical rupture standing in opposition to history.\footnote{Interestingly, by adopting the notion of continuity, Gioia, Schultz and Corley (2000) return to the wording originally used in Albert and Whetten’s identity definition. This is particularly remarkable as they criticise the Albert and Whetten definition for depicting organisational identity as enduring!}

Drawing on Dutton and Dukerich (1991), Gioia, Schultz and Corley (2000) see a potential for identity change in situations where outsiders’ image of the organisation differs from how members experience the organisation’s identity. This may be the case when the organisation faces allegations of bad ethics. To resolve the situation, members can either start thinking differently about their organisation (changing identity) or by making outsiders think differently about the organisation (changing outsiders’ image of the organisation).

The idea that identity change may be triggered by outsiders’ evaluations of the organisation is supported by various empirical examples, (e.g. Dutton and Dukerich 1991; Elsbach and Kramer 1996; Gioia and Thomas 1996). Generally, crises have been found to be common triggers for change in interpretive schemes (Schein 1985; Tushman and Romanelli 1985), though they sometimes also lead to their reinforcement (Gagliardi 1986). However, perceived discrepancy between identity and image is not the only reason for members rethinking their organisation’s identity. Reasons can also be internal,
like political contests about what is considered to be the right identity (Ashforth and Mael 1996), strategic changes that are perceived to be incoherent with identity (Reger et al. 1994a), or the loss of an identity-sustaining element (Albert and Whetten 1985).

2.2.4 How does identity relate to culture?

As we have seen in the previous discussion, there are many parallels between the concepts of organisational identity and organisational culture. However, this closeness also calls for a discussion about if and how the concepts can be delimited from each other. In fact, Gagliardi (1986) talks of cultural identity and uses the culture and identity concepts synonymously, although he does not elaborate on his use of the identity notion. Various questions that are important in identity research have previously been addressed in the context of culture. Moreover, despite there are various understandings of each of the concepts, both culture (Johnson 1987; Schein 1985) and identity (Bartunek 1984; Reger et al. 1994a) are often depicted as cognitive schemes. As such they constitute cognitive frameworks and influence how people individually or collectively make sense of their situation. Due to the closeness of the culture and identity concepts one may even ask if the identity concept is not redundant. Like in Schein’s (1985) definition of culture, organisational identity can be seen as a pattern of basic assumptions. An important distinction between the two is however, that identity is self-referential, i.e. it deals with assumptions or claims about what/who the organisation is, while the assumptions that are constitutive of culture cover a much wider range of issues. For instance, an organisation’s culture could comprise assumptions about the rules of the game in a particular market, about customers’ preferences or about the nature of human beings, be it the own employees or external stakeholders. Culture may thus also refer to internal conditions in the organisation that are not considered important enough to be part of its identity.

Whereas culture and identity at least partly refer to different phenomena, there is no consensus as regards how the two concepts are exactly related. This is hardly surprising as the concepts are defined differently by different researchers. We will just have a look at a few alternative proposals:

- Albert and Whetten (1985) see culture as a potential part of identity. According to their identity definition, the decisive question is whether organisational members would claim their culture to be central, distinctive and continuous over time. If not, culture is not a part of identity.
- Schein (1985) takes a somehow opposite stance. He touches upon identity in his widely cited definition of organisational culture, although he does not explicitly use the identity concept. To him, culture “defines in a basic ‘taken for granted’ fashion an organisation’s view of itself and its environment” (p. 6). Johnson (1992) draws upon Schein’s wording
to define his paradigm concept. Hence, to both Schein and Johnson, identity is a part of organisational culture. Similarly, Selznick (1957) addresses the importance of specific values and ways of acting as a means of providing the organisation with a distinctive identity.

- Fiol, Hatch and Golden-Biddle (1998), define organisational identity as “the aspect of culturally embedded sense making that is self-focused” (p. 56). Like Hatch and Schultz (1997), they see culture as a context for collective self-reflection. Organisational identity is thus a subset of the wider range of sense making activities that occur in an organisational culture. Culture thus becomes a kind of meta schema through which identity is enacted.

- Salzer (1994) also relates to sense making, seeing cultures as processes of sense making and identity as one outcome of the sense making activities in an organisation, more specifically the outcome “defining what the organisation is all about” (p. 21). Salzer’s distinction is based on a processual definition of culture (Smircich 1983a) and a structural definition of identity, while other scholars would argue that culture involves outcomes, e.g. a paradigm (Johnson 1987), or that organisational identity itself is a process (Fiol, Hatch and Golden-Biddle 1998).

- As a result of their partly objectivist definition of identity, Bouchikhi and Kimberly (2001) propose that identity is more substantial than culture. While culture normally refers to values and beliefs, organisational identity may also comprise more structural aspects of the organisation, for instance its technology or resource configuration. Culture thus represents the ‘soft side’ of identity while the ‘hard side’ has to be added in order to make the picture complete (Gioia et al. 1998).

- Hatch and Schultz (2000:25) argue, that “reflections on the organization’s identity […] take place at a more conscious level than at which cultural knowledge resides.” Seeing identity as more explicit than culture, this view reminds of Albert and Whetten’s (1985) talking of claims. This culture-identity distinction is grounded in the definition of identity. Hatch and Schultz (2000) believe that reflections on organisational identity tend to involve explicitness, a view that not necessarily has to be shared (cf. the experienced identity notion of Soenen and Moingeon 2002). Apart from seeing it as more tacit, Hatch and Schultz (2000) also state that identity is relatively more textual and instrumental than culture which tends to be contextual and emergent.

In a later article, Hatch and Schultz (2002) in principle stick to the above distinctions, while adding (drawing upon Hatch and Schultz 1997) the processes linking identity and culture. Identity is supposed to be an expression of cultural understandings, while members embed identity into cultural understandings by reflecting upon it. In this view,
Organisational self-understanding and the strategy process

identity is a product of expressing culture and mirroring image. Critically, one might argue that identity refers to other aspects of the organisation than cultural understandings (Bouchikhi and Kimberly 2001). However, Hatch and Schultz (2002) also see physical objects and established social structures as symbolic carriers of meaning and thus cultural phenomena.

There are thus various possibilities to distinguish between culture and identity. Partly, the distinctions are complementary, partly they are more difficult to reconcile as they mirror different definitions of the concepts as well as different ontological and epistemological assumptions. Nevertheless, the essence of this diverse picture is that there are good reasons to treat organisational identity as a concept that is distinct from organisational culture. The organisational identity concept has so far provided insights that alternative concepts like ‘culture’ or ‘ideology’ have not produced (Gioia, Schultz and Corley 2002). An important reason for this is probably that none of the alternative concepts clearly focuses on the answer to the question who/what the organisation is. Overlaps with identity exist, but they are only partial. Hence, a specific concept for the self-reflexive processes in an organisation is meaningful. There is empirical evidence (e.g. Dutton and Dukerich 1991; Elsbach and Kramer 1996; Gioia and Thomas 1996) that the question “Who are we as an organisation?” is important to organisations and their members. To me, therefore, the self-referential character of the organisational identity notion is the most convincing argument for its distinctiveness and relevance.

As for the other controversial issues in identity research (as well as in other fields like strategy), there is little point in waiting for the commonly agreed upon conception of the culture-identity relationship. Such an agreement is unlikely to come and the current diversity of views nevertheless provides a fruitful ground for debate and reflection. However, once again it is highly important for every researcher using the identity concept to define what s/he means by it and how s/he is going to apply it. I will therefore outline my approach to the organisational identity phenomenon in the following section.

2.3 An alternative concept: organisational self-understanding

Nobody trying to get an overview of the field of organisational identity research can miss its diversity. This is not unique to identity, the same is the case for strategy. Neither is the diversity a bad thing as such. It reflects the complexity of the phenomenon and provides a fruitful basis for a dialogue between different theoretical paradigms (cf. Whetten and Godfrey 1998). However, diversity is also a potential source of confusion, particularly if the key concept to a research field is given different meanings, as is the case with organisational identity. Sometimes the concept is used to depict a supposedly objective phenomenon, sometimes it refers to subjective conceptions and – to even
Jönköping International Business School

complicate things more – there are different options as two who has these conceptions. This lack of clarity has done harm to the usefulness of the organisational identity concept. If a concept can mean many different things and the user needs to clarify what s/he means by it, clarity may be added by introducing new concepts that can be more precisely defined. I will therefore outline the approach to the organisational identity phenomenon I am going to apply in this dissertation, proposing an alternative concept, namely organisational self-understanding.

2.3.1 What do I mean with organisational self-understanding?

Previous empirical research as well as my own observations indicate that members of organisations collectively engage in self-reflexive processes that may be more or less conscious or explicit. They are interested in answering the identity question “Who are we as an organisation?”. The reflection upon this question as well as members’ answers to it are subjective. When people in an organisation approach the question “Who are we?”, both the process and the outcome, i.e. the answer, are important. There is hence a processual as well as a structural dimension to the phenomenon. Organisational members interpret their organisation, establishing interpretations of it. Such interpretations do not have to last for ever. They may be relatively enduring, but they may also be short-lived snapshot-like outcomes of a process of interpreting. The concept of organisational self-understanding offers the advantage that it can be used both as a verb and as a noun. Consequently, it allows capturing the process as well as the outcome dimension of collective self-reflection in the organisation. I define organisational self-understanding as follows.

\[
\begin{align*}
a) & \text{ Organisational self-understanding, as a verb, is members’ collective interpreting of their organisation’s identity, i.e. what is central, distinctive and continuous over time about their organisation.} \\
b) & \text{ Organisational self-understanding, as a noun, is members’ collective interpretation of their organisation’s identity, i.e. what is central, distinctive and continuous over time about their organisation.}
\end{align*}
\]

It is easy to recognise that this definition draws upon the organisational identity definition of Albert and Whetten (1985), addressing the central, distinctive and

9 Weick (1979) argues for the advantages of a verb- and gerund-oriented language. I agree with him that using verbs would enrich our understanding of organisation with more process orientation. However, I believe that we should not "stamp out nouns" as Weick (1979:44) suggests. Nouns help us understanding the structural aspects of organisational life.

10 This definition does not claim that there is any objective identity ‘out there’ to interpret. However, it neither rules out per se that members’ interpreting could refer to issues that can be conceived as objective or that at least, are so much institutionalised that they have gained some independence from short-term changes in perception.
Organisational self-understanding and the strategy process

temporarily continuous aspects of an organisation. However, my definition
refers to the concept of organisational self-understanding instead of identity. I
hope, this new concept adds clarity, in particular as regards the subjectivity of
the phenomenon I am interested in. Another difference compared to Albert and
Whetten’s definition lies in the words interpretation and interpreting, where
Albert and Whetten talk of claims. Interpreting and interpretation do not
necessarily have to be outspoken or claimed, although this may of course be the
case. Drawing a parallel to Soenen and Moingeon’s (2002) classification, my
primary interest thus lies in the experienced rather than in the professed self-
understanding.

Organisational self-understanding is a concept within the tradition of
organisational identity research. Using the concept aims at contributing to this
field, not at rejecting its previous findings. However, the field covers many
phenomena that are interesting to investigate. Both subjectivist and more
objectivist approaches are possible. My emphasis in this dissertation lies on
subjective understandings of identity. More substantive aspects are important
when subjective understandings relate to them. However, they are not
themselves the focus of this research. My choice of concept reflects this choice
of emphasis.

2.3.2 Organisational self-understanding as a system of meaning

Now, why are subjective phenomena at all important for understanding strategy
processes? Strategy processes by their very nature involve people who act and
think strategically. Strategic thinking and acting are closely intertwined as
organisational members interpret and assign meaning to action. Thinking thus
precedes, accompanies, and follows strategic action (Weick 1983). It is
important to what action is undertaken, how this is done, and what meaning is
ascribed to it in hindsight. Such thinking, no matter if it is carried out by an
individual or, what is more relevant in an organisation, in interaction between
people, is always subjective.

We know that our thinking is influenced by various systems of meaning,
thoughts or worldviews. Such systems of meaning can exist on various levels, e.g.
the way-of-thinking of an individual (Hellgren and Melin 1993), the paradigm
of an organisation (Johnson 1987) or the industrial wisdom prevailing in an
industry (Melander 1997). They provide us with basic assumptions about what
different things are, how they work, and what meaning they have. I see
organisational self-understanding as one such system of meaning that is the
members’ interpretation of the identity of their organisation. Although an
organisation may have substantial properties, members can only have
knowledge of these ‘objective’ (Bouchikhi and Kimberly 2001) or ‘hard’ (Gioia
et al. 1998) aspects through interpretation. They have to engage in self-
understanding, i.e. interpreting the identity of their organisation.

If identity-related issues play a role in members’ strategic thinking and
acting – and there is good reason to believe that it does (Albert and Whetten
1985; Ashforth and Mael 1996; Dutton and Dukerich 1991) – it is not any objective identity, but members’ subjective interpretation of identity that is important. This interpretation, the organisation’s self-understanding, is thus a system of meaning about what is central, distinctive and continuous over time about the organisation.

2.3.3 Organisational self-understanding as a hermeneutic phenomenon

The concepts of understanding and also self-understanding are closely linked to that of hermeneutics. Hermeneutics conceive understanding as a process of interpretation that is basically open-ended and under continuous development. Central ideas are those of relating the part to the whole and understanding to pre-understanding (Ödman 1979). Understanding never happens ex nihilo. It relates to existing understandings that are extended and revised during interpretation, but which also direct our search for meaning and the way we make sense of new experiences. Drawing upon Radnitzky (1970), Ödman (1979) describes hermeneutic understanding as a spiral where existing pre-understandings form a point of departure for new interpretations. The result of such interpretation is a new level\(^\text{11}\) of understanding that again is a basis for further interpretation.

Such a hermeneutic view on understanding is also applicable to the phenomenon of organisational self-understanding. Organisational members interpret what their organisation is all about, i.e. they interpret their organisation’s identity. This self-understanding cannot be fully detached from the previous understandings we have of the organisation’s identity. When my colleagues and I go on a retreat to discuss the future of our department, we engage in self-understanding, i.e. we collectively interpret the identity and possible changes to the identity of our department. Nevertheless, we already have a more or less shared understanding of our department’s identity from the outset. It is this pre-understanding that is the point of departure for any changed understandings of what is central, distinctive and continuous over time about our department.

2.3.4 Is it meaningful to draw upon the Albert and Whetten definition?

By drawing upon the Albert and Whetten (1985) definition, I am of course a target to the same criticism as they have been exposed to. This criticism has been addressed earlier and I believe that in particular the criticism against the continuity criterion has been fuelled by an incorrect reproduction of their

\(^{11}\) Level is here not meant in a sense that new understanding is necessarily better (i.e. on a higher level) than old understanding. However, new understanding is different from old understanding. This means that understanding is not (or at least does not have to be) circular, always returning to its point of departure. While we interpret and take new information into account, our understanding changes.
Organisational self-understanding and the strategy process

 definition. Still, there is relevant criticism to address. The criteria of centrality, distinctiveness and continuity over time, are of course, relative. Organisations can define themselves through differences as well as similarities in comparison to other organisations (Gioia et al. 1998) and it may be difficult to find features that are shared by nobody else. However, we know from social identity theory (Tajfel and Turner 1979) that finding relatively distinctive elements is particularly important for establishing group identity. Regarding continuity, it would be naïve to assume that members do not perceive discontinuities in the identity of their organisation. The point with the continuity criterion is however that things, which are easily recognised as being short-lived, are unlikely to be understood as a part of organisational identity. Temporal continuity in this context does not only refer to the past, but also to the future. When my institution, Jönköping International Business School, was founded in 1994, the international character of the school was an important part of its self-understanding although there was no long international tradition to look back on. What was decisive was instead the clear ambition to be international and the expectancy that this would be a continuous feature of the school in the future.12

One criterion that is part of Albert and Whetten’s (1985) reasoning, albeit not a criterion in their definition, is the collectiveness with which the organisation’s self-understanding is supposed to be shared. Here it is important to discuss what ‘collective’ implies. Considering an organisation with hundreds or thousands of members, it is, of course, an unrealistic assumption to believe that these people reach total consensus about the organisation’s identity. We know that conceptions of identity can be heterogeneous or fragmented (Gioia et al. 1998) and a source of political dispute among rivaling coalitions (Albert and Whetten 1985; Bouchikhi and Kimberly 1996). However, in relating to the same organisation, the sharedness of self-understanding is important. Once again, we can refer to social identity theory (Tajfel and Turner 1979) and see that groups actually strive for convergence around their interpretation of identity (Gioia et al. 1998). Even political contests around identity (Ashforth and Mael 1996) often indicate the desire for a collective identity conception rather than the contrary. Hence we can expect that organisations tend to establish a more or less shared understanding of who they are. In the context of my interest in strategy the understanding of the organisation’s identity held by those groups influencing strategy making13 will be particularly interesting. Not

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12 Critics might argue that this was a desired future identity rather then the actual experienced identity of JIBS at the time. However, being an undergraduate student in 1994, I recall that we already considered JIBS as an international school thanks to the outspoken claim of being international, a quickly expanding student exchange programme, and a rapidly increasing number of foreign researchers visiting the school.

13 Who influences strategy making in an organisation is an empirical question. While top managers are the primary candidates, virtually all members of the organisation as well as outsiders can be involved (Mintzberg and Waters 1985; Regnér 2003). I will return to this issue in chapter 4.
at least, since strategic actors play an important role in shaping the structures constraining how members can conceive their organisation's identity. Nevertheless, also strategic actors act in context and hence, their conception of identity cannot be seen as detached from that organisational members in general have. The requirement of collectiveness is thus once again relative, but yet meaningful. Self-understanding is defined collectively, although for instance top managers may have a particular influence on its formation, as they have a specific authority to articulate identity claims on behalf of the organisation.

2.3.5 Do we need the self-understanding concept?

When proposing the introduction of a new concept, a critical question is whether the new concept is necessary and if it adds any value. Why not stick to the established concepts? The organisational identity concept is meanwhile well-established, so is not the self-understanding concept redundant? Some scholars would probably argue that their use of the identity concept corresponds to my use of self-understanding. I have struggled with this question during the work with my dissertation and tried out both alternatives. Finally, I have come to the conclusion that organisational self-understanding a) better describes the phenomenon I am interested in and b) can contribute to resolving some of the confusion that has been created through the various uses of the organisational identity concept. My main arguments for using the self-understanding concept are the following:

- **Self-understanding clarifies the subjective character of the phenomenon.** As outlined before, it is often not clear whether the organisational identity concept refers to a more or less objective identity of the organisation or members' subjective understandings of it. Often, organisational identity is conceived as a subjective understanding (e.g. Dutton and Dukerich 1991), but of what? Of the organisation’s identity (Dutton and Dukerich 1991)! The question if there is anything essential about an organisation, so to say an “identity-as-such” or at least something objective, which members' collective self-reflection could refer to, could of course be an issue of endless philosophical discussions. The self-understanding concept makes clear that I am interested in members’ subjective understandings. It leaves the question open if there is anything objective ‘out there’ to understand.

- **Self-understanding can be used as a noun and as a verb.** Self-understanding thus refers to a process of understanding as well as its historically embedded outcome. The outcome is again preliminary, as it

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14 The concept is not completely new, as for instance Bartunek (1984:358) talks of self-understanding on an organisational level. In most management literature on organisational identity, the concept is however neither applied nor referred to. Bartunek does not elaborate on the meaning of self-understanding, but it is implicit in her reasoning that she conceives it as an interpretive scheme defining the collective understanding of the organisation’s identity.
Organisational self-understanding and the strategy process

is likely to be revised in an ongoing process. Understanding something is, at least in the hermeneutic tradition (Ödman 1979), an iterative process. The interpreter makes sense of reality based on earlier pre-understandings and reaches a new understanding that again provides a pre-understanding for further interpretations. I believe that this view basically also can be applied to members’ understanding of their organisation’s identity. Self-understanding is not created arbitrarily out of nothing, but has to relate to earlier self-understanding. These dynamics are not equally well addressed by the identity notion that primarily captures the structural dimension.

This dissertation is eventually a test of whether the self-understanding concept is meaningful. I will return to this question at the end of this volume. Meanwhile, my readers are invited to make up their minds whether the concept adds value to my reasoning and our understanding of identity-related phenomena in organisations. Before we go on, I will, however, address two more issues that are important to what I mean with organisational self-understanding, namely its historical embeddedness and its relationship to organisational culture.

2.3.6 Organisational self-understanding as a historical phenomenon

Literature on organisational identity by definition deals with the question “Who are we?” (Albert and Whetten 1985). Similarly, in the context of change in identity the question “Who do we want to be?” has been addressed (Gioia and Thomas 1996). However, I believe that the question “Who have we been?” is at least equally important (cf. Gioia, Schulz and Corley 2000), albeit seldomly articulated or incorporated in dynamic models of organisational identity, (e.g. Gioia and Thomas 1996; Reger et al. 1994b). Although identity is being recognised as relating to the organisation’s past (Ashforth and Mael 1996; Bouchikhi and Kimberly 2001; Moingeon and Ramanantsoa 1997), this circumstance deserves more attention. I regard the organisation’s self-understanding as an inherently historical phenomenon. Meanings, as well as the structures they refer to, are created over time. They are not constructed ex nihilo and even if they change, they cannot do so instantly. “We are what we have become”, as (Schulze 1987, my translation) puts it. It is neither empirically demonstrated nor imaginable that organisations can have a self-understanding that is free from reference to the past. Reference to history may be reinterpreted, specific events may be downplayed or emphasized, but there is no way to make self-understanding a blank sheet once the organisation has come into being. As Normann (1975) remarks the ideas in an organisation can only be understood historically.
Normann (1975:23), my translation

Self-understanding is about ideas, namely ideas the organisation has about its own identity. Similar to Normann, Selznick (1957) sees identity as the outcome of an institutionalisation process that goes on over time and provides the organisation with distinctiveness. Using the example of the Democratic and Republican parties in the United States he states that, “in the same sense that each individual has a unique character, these parties have historically conditioned differences” (p. 48). History is thus always present in organisational self-understanding. This makes me sceptical to radical and instantaneous changes in self-understanding. How should the organisation suddenly get rid of established meanings and the structures to which they relate? Major changes in self-understanding are likely to require some time.

If we consider that identity in the context of organisations is a metaphor borrowed from psychology where it originally refers to human individuals, this historical character of self-understanding lies near at hand. On the individual level of analysis, identity is supposed to provide a person with a sense of continuity over time (Erikson 1968). Identity thus refers to the entire biography of the individual. Karlsson (1999) who has studied self-understanding on the level of nations, goes a step further. Beyond addressing the past of the organisation, self-understanding simultaneously refers to past, present and future.

Karlsson (1999:25), my translation

The continuity experienced in identity is not discovered in historical data. It is in itself the result of interpretive activity, striving for establishing coherence between past, present and future.

Westin (1983:95)

Where identity has been applied to organisations, researchers have found a similar importance of history. The criterion of perceived continuity over time suggests that identity is associated with an understanding of the organisation’s
Organisational self-understanding and the strategy process

history as well as ideas about its future. Moingeon and Ramanantsoa (1997) see identity as “tightly connected to the concept of history” (p.386-387) being the product of history while at the same time producing history through influencing members’ thinking and acting. Ashforth and Mael (1996), again drawing upon psychology (Peacock and Holland 1993), describe identities as being “essentially narratives that are crafted to provide meaning and closure to phases of one’s life” (p.27, original emphasis). Such a narrative thus requires establishing accounts of the past. The important issue is not whether this account is correct or if impartial observers would agree on it, but if it provides the individual with a sense of continuity. In order to achieve this s/he may well edit the narrative by reinterpreting, highlighting and downplaying issues in order to make the whole appear internally consistent (Ashforth and Mael 1996).

Similar narratives can be told by organisations. Arguing for a biographic approach to the study of organisations, Kimberly (1987) states that organisations shape identities that “allow [them] to draw coherence from [their] past and establish direction for the future” (p.233). He sees official corporate histories as part of the shaping of identities. At the same time he emphasizes the difference between corporate histories and scientific organisational biographies that are more critical and analytical in their stance. Moingeon and Ramanantsoa (1997) point at the importance of myths referring to the history of the organisation and providing accounts of its identity. Similar to Ashforth and Mael (1996), Huff and Sarason (unpublished) propose a narrative definition of identity, stating that “organisation [sic!] identity is an ongoing narrative biography […]” (no page number), unfortunately without elaborating more deeply on the concept of biography. The emphasis on the importance of narrative is an important contribution to organisational identity theory. I nevertheless refrain from using an explicitly narrative definition as I regard organisational self-understanding as more abstract than a narrative, which tends to highlight the specific. Rather I prefer the concept of interpretation which is more general and fits well with the concept of (self-)understanding. This does not rule out that narratives play an important role in forming, maintaining and changing organisational self-understanding.

2.3.7 The reciprocal relationship of self-understanding and culture
The very fact that I use the concept of organisational self-understanding indicates that I see it as distinct from organisational culture. The main reason for this is the self-focused character of self-understanding. As my experiences outlined in the introduction show, I believe that collective self-reflection in an organisation is important to how its strategy process develops over time. This phenomenon is insufficiently addressed by organisational culture, which is much broader in scope. Though an organisation’s culture may involve assumptions about what or who an organisation is, it also has to do with
assumptions on its environment and it may include issues internal to the organisations that are not necessarily important to defining its identity.

To take an illustrative example from my home institution, an interesting and probably important cultural phenomenon is that of *fika*, the Swedish word for coffee drinking. Studying the phenomenon, a researcher might investigate who drinks coffee with whom, where people go to drink coffee, which people take joint coffee breaks at all and which issues are discussed over a cup of coffee. Coffee drinking is thus an aspect of culture at Jönköping International Business School (JIBS), but it would probably not be stated by JIBS employees (except for maybe the most fanatic fika enthusiasts) to be an answer to the question “Who/what is JIBS as an organisation?” This does of course not rule out that the coffee drinking culture is an important part of the context for shaping and maintaining the organisation’s self-understanding.

One might argue, that organisational self-understanding then comes closer to the cultural phenomena Schein (1985) calls “deeper level of basic assumptions and beliefs” that are labelled “paradigm” by Johnson (1987). However, such beliefs can refer to other things than the organisation’s character. Once again taking the JIBS example, teachers hold more or less shared assumptions regarding the willingness of undergraduate students to learn, assumptions concerning the importance of publishing in US based scientific journals or assumptions about what business schools have the highest academic quality in Europe. These assumptions do not, at least not directly, provide an answer to the identity question “Who are we as an organisation?”. Instead they form part of the context for members’ interpreting of JIBS’s identity by, for instance, making it possible to position JIBS vis-à-vis other European business schools.

To me, organisational self-understanding and culture are thus two concepts that are closely related and partly overlapping, however not synonymous. Organisational self-understanding can relate to culture in various ways that do not exclude each other:

- Organisational culture or elements of it can be among those aspects of an organisation self-understanding refers to. This is the case if members conceive these as central, distinctive and continuous over time with regard to the organisation (Albert and Whetten 1985).
- Organisational culture, together with other systems of meaning (e.g. professional or national cultures) is a context for members’ sense making of the organisation’s self-understanding. Organisational self-understanding is hence culturally embedded (Fiol, Hatch and Golden-Biddle 1998).
- Organisational self-understanding is part of the organisation’s culture or paradigm, which among other things comprises the organisation’s view of itself (Johnson 1987; Schein 1985). In this respect, organisational self-understanding basically is a cultural phenomenon.
Culture as well as self-understanding relate to meaning. While culture addresses assumptions and beliefs in a general sense that are held by members of an organisation, self-understanding is about the meaning members assign to their organisation. The similarity of the two concepts creates an interesting potential for cross-fertilisation. Issues discussed in the academic discourse on culture may also be interesting for research on organisational self-understanding. I will return to this in the following chapter about strategy, a field where the culture concept has been frequently applied (Johnson 1987; Pettigrew 1985b), and where the identity concept receives increasing interest.
3 Strategy

The present chapter presents the second part of the theoretical framework for my dissertation. In the previous chapter I outlined an overview of research on organisational identity as well as the concept of organisational self-understanding that I want to use for understanding strategy processes. It is thus time to turn to strategy. Like the field of organisational identity research, the strategy field is characterised by diversity. Although I personally have an affinity for processual and descriptive approaches to strategy research, I agree with Mintzberg, Ahlstrand and Lampel (1998) that we need different perspectives on strategy to get a holistic understanding of the phenomenon. The chapter therefore starts with an overview of different perspectives on strategy making. It is not my primary aim to draw a comprehensive map of the strategy field. This has been done by other authors, (e.g. Eisenhardt and Zbaracki 1992; Mintzberg, Ahlstrand and Lampel 1998; Pettigrew 1985b; Rajagopalan and Spreitzer 1996; Whittington 1993). However, I will present different views on strategy making and emphasize issues that may help to illuminate the dynamics of strategy and organisational self-understanding. I will therefore try to draw parallels and show what the different views on strategy making may imply if we use self-understanding as a theoretical lens for understanding strategy processes. Concluding the overview, I will outline my personal view on strategy making. Although I advocate drawing on multiple perspectives, this does not mean that I find them all equally convincing. By being explicit about my own perspective, I want to help the reader to follow my interpretation of the empirical cases.

3.1 What is strategy?

Like many other concepts in business research, there is no single definition of strategy that is commonly agreed upon. However, most authors hold the opinion that strategy has to do with the issues that are of major importance to the organisation, for instance concerning its long-term direction, scope, relationships to the environment, and resources (Johnson 1987). In contrast, minor issues in the organisation would only be considered as strategically important if in total they had a significant impact on the organisation. The distinction between strategic and non-strategic issues is thus primarily a matter of drawing a more or less subjective dividing line between the important and the less important issues. The label strategic becomes a description of magnitude (Pettigrew 1985b).

Various attempts have been made to draw a map of the strategy field. Two common attempts to classify different streams of literature are the normative-descriptive (Mintzberg, Ahlstrand and Lampel 1998) and the process-content
Organisational self-understanding and the strategy process

dichotomies (Rajagopalan and Spreitzer 1996). As most dichotomies, these two are also somehow incisive simplifications. However, they point at important differences as regards the aims and the underlying assumptions of research. Not always, but very often normative research tends to be interested in the content of strategy, i.e. what strategy an organisation should adopt, whereas descriptive research is interested in strategy processes, trying to understand why actual strategy processes pass off the way they do. While the former approach is dependent on a belief in managers’ ability to direct a company by means of rational decisions, the latter tends to see strategy making as a complex social process where people on different levels of the organisation can be involved and the strategic direction is influenced by phenomena like culture, power, learning or cognition (Mintzberg 1999). Due to their scepticism towards managerial omnipotence and hierarchical fiat, process researchers have opened the organisational black box (Pettigrew, Thomas and Whittington 2002), exploring how strategy is actually made in its organisational context.

One of the virtues of process research is that it takes into account the temporal character of strategy. As strategy is concerned with the long-term direction of an organisation (Johnson 1987), moving it from its history to its future (Melin 1998), strategy can hardly be understood by providing a cross-sectional snapshot. Pettigrew (1990; 1997) thus argues for strategy research that is contextual and historical. Kimberly (1987) proposes a biographical approach to strategy research. The organisation’s history is important in understanding its current situation and also puts constraints to its future development (Kimberly and Bouchikhi 1995).

My interest for the present study lies in understanding strategy processes with special attention to the role of organisational self-understanding. This dissertation is positioned within the tradition of strategy process research. Making prescriptions is not my aim. Nevertheless, an emphasis on the processes of strategy making does not exclude an interest in their outcomes (Johnson, Melin and Whittington 2003). As Pettigrew (1985b) notes, theoretically sound and practically useful research should consider the process, the content as well as the context of strategic change. During strategy processes, strategic actors think about strategy content and act in order to influence it. The process-content dichotomy thus becomes a symbiosis in managerial practice. Therefore, also normative research with an emphasis on content issues can contribute to our understanding in strategy processes.

3.2 How is strategy made and who makes it?

A naïve view of strategy is a group of people, probably men in dark suits, disappearing into a conference room and coming back hours later with a strategic plan that they have written based on various analyses. While such formal planning sessions may be part of a strategy process, the phenomenon of strategy making is more multi-faceted than that. A crucial question in
understanding how strategy is made, is whether and to what degree we can assume that strategy is actually the outcome of deliberate and rational action. As outlined above, scholars adhering to the normative stream of strategy research tend to have high confidence in managers’ ability to base strategic decisions on rational choices. Descriptive research on the other hand assumes that there are limits to rational action, such as the organisation’s cultural paradigm (Johnson 1987; Johnson 1992; Pettigrew 1985b), conflicts of interest between political coalitions (Child 1972; Cyert and March 1963/1992; Pettigrew 1985a) or cognitive processes (Barr, Stimpert and Huff 1992; Hellgren and Melin 1993; Reger and Huff 1993). Attention then at least partly shifts from strategy as conscious decision making to strategy as the result of complex social processes. The very concept of decision making becomes questionable as the strategic direction of an organisation is influenced by things other than discrete decisions made by an identifiable actor at a specific point in time.

A helpful attempt to make sense of strategy’s dual nature of conscious planning and evolving action is Mintzberg and Waters’s (1985) view of strategies as being deliberate and emergent. While in most cases plans or at least informal ideas for future action exist, the organisation rarely follows them in a perfect manner. Rather patterns emerge along the way out of actions which organisational members take. The strategy that is finally realised is a combination of both planned and emergent action. This departure from the planning paradigm implies that strategy occurs partially in the eye of the beholder. Patterns in emergent action are often seen in hindsight. Someone has to interpret past action as a pattern and label it as strategic. Whereas the planning view assumes that thinking precedes action, the emergent strategy notion acknowledges that thinking and acting are intertwined (Bartunek 1984; Starbuck 1985). Thinking may add strength to action by assigning meaning to it in hindsight (Weick 1983).

To what extent a strategy process contains elements of planned or emergent action is an empirical question. In a research project on strategy processes it is thus important to be open to both. This implies that research cannot be limited to top management only, although top management may of course play an important role in the strategy process. Strategic initiatives can also originate in the periphery of the organisation (Regnér 2003).

3.3 The dynamics of strategy

If we recognise strategy as concerned with the long-term direction of an organisation (Johnson 1987), the strategy concept becomes strongly intertwined with change. The very idea that an organisation has a direction assumes that it moves. Both continuous move along the same direction and shifts in direction itself can be considered as change. Watzlawick, Weakland and Frish (1974) call the former first-order change, while they talk of the latter as second-order change. If seen from a long-term perspective, an organisation does not remain
unchanged. However, change is difficult to understand if we fail to take its counterpart, stability into consideration. Melin (1998) describes strategy processes as a “struggle” between the existent, historically grounded state of the organisation and the possibilities for change the organisation has in facing the future:

The core of the strategy process is [...] the movement of the organisation from its history into the future. Strategy implies, by definition a challenging of the present business idea, position and strategies, by actors whose strategic way of thinking has often been shaped by the history and dominant values of the organisation. The inherent dynamic of the strategy process is, to a large extent, about the “struggle” between what exists, i.e. what is historically produced, and the possibilities of the future; in other words between preserving, confirming and defending what exists, while challenging, re-thinking and creating what is novel.

Melin (1998:61), my translation

Research as well as popular management texts have been dominated by an interest in change rather than stability (e.g. Barr, Stimpert and Huff 1992; Grinyer, Hayes and McKiernan 1988; Tushman and O’Reilly 1997). Where stability is treated, it is often seen as a problem that has to be overcome (e.g. Reger et al. 1994a). The emphasis on change can be found in normative as well as in descriptive work. As organisations are open systems that interact with their environment (Burns and Stalker 1961) an interest in change and external adaptation is of course justified. Bouchikhi and Kimberly (2001) however warn for worshipping change and regarding stability as generally bad. They emphasize that even in a changing environment; organisations need to have some continuity as their fate would otherwise be left to exogenous forces. In the same vein, Hatch and Schultz (2002) warn for what they call hyper-adaptation, i.e. exaggerated change responding to external demands while losing touch with the organisation’s own heritage.

In this dissertation, I will neither regard change nor stability as something good or bad per se. They are rather the two sides of the strategy coin that we need to understand in order to obtain a good understanding of strategy processes. Instead of talking about strategic change, I therefore choose to talk about the dynamics of strategy, meaning the dynamics that arise between the forces for and against change (Nationalencyklopedin 1991). This concept also leaves room to see stability and change as a duality, i.e. stability and change existing simultaneously in the same organisation and not excluding each other. Previous research has tried to illuminate the dynamics of strategy from various perspectives. The coming overview is going to address the different approaches’ contributions.
3.4 Views on stability and change in strategy literature

It is hardly surprising that the different paradigms in strategy research also imply different views on the dynamics of strategic change. Again, there are different classifications. Van de Ven and Poole (1995) distinguish between lifecycle, evolutionary, teleological and dialectical theories of change, which are characterised by different managerial roles and different forces driving change. Pettigrew (1985b) talks of the rational deductive, the incremental, the political (and cultural) and the garbage can views of process. As his categorisation allows a good overview of the field, distinguishing the main schools of thought, it is going to provide the structure for the coming overview of perspectives on stability and change. In particular we will try to see what role organisational identity could play in each view. Special emphasis will be placed on the political and cultural perspectives as the closeness of the culture and self-understanding concepts offers potential for theoretical cross-fertilisation. In addition to Pettigrew’s four views, I will also address population ecology (Hannan and Freeman 1977), which does not really fit in any of his categories. However, this view is important as a counterpart to the more voluntaristic approaches and due to its emphasis on the notion of inertia, which is important to the understanding of the dynamics in strategy processes.

3.4.1 The rational deductive view

Although Pettigrew (1985b) talks about the rational deductive view as a process theory of change, this view tells us relatively little about how strategy processes actually unfold. Being interested in giving normative advice as regards to the content of strategy, they usually assume that change is necessary and important, but do not consider achieving change as a major problem. The emphasis lies on identifying the right direction for change. Implementation is a subordinate problem that is often not touched upon at all (Mintzberg 1994b). A stream of research that is particularly interested in achieving fit between the organisation and its environment, is the one Mintzberg, Ahlstrand and Lampel (1998) have called the design school (e.g. Andrews 1971). The optimal strategy, according to this point of view, should take into account the threats and opportunities in the environment as well as the internal strengths and weaknesses of the organisation. This is achieved by analyses, usually including some version of the classical SWOT, which are performed by rationally behaving managers. Other normative approaches like those Mintzberg, Ahlstrand and Lampel (1998) label planning school (e.g. Ansoff 1965) and positioning school (e.g. Porter 1980), follow the same track, seeing change as the outcome of rational planning. These approaches have little to say about how change is actually implemented and how people behave in preparing and carrying out change. The emphasis lies on what processes should look like rather than what they actually look like in practice. The actual organisational processes largely remain in a black box. People are assumed to act as they are supposed to act, namely as rational
analysts and faithful executors of the decided plans. Despite these shortcomings, an important contribution of the normative strategy literature lies actually in its emphasis on the importance of understanding and use the organisation’s internal resources (Barney 1991; Barney 1986; Wernerfelt 1984), competences (Prahalad and Hamel 1990) and capabilities (Teece, Pisano and Shuen 1997) as well as the need to understand and exploit environmental forces (Porter 1980).

Identity as an input to rational strategy making

The rational-deductive view of strategy making has obvious parallels with what Gioia et al. (1998) call the functionalist perspective on organisational identity. Rationalists generally show little interest in subjective phenomena such as organisational identity, as they assume that strategic decisions can be based upon objective analyses of the organisation and its environment. Rather than seeing organisational identity as a subjective view members have of their organisation, rationalists favour an objectivist conception of identity, putting emphasis on supposedly objective structures and institutionalised beliefs about the organisation’s character (Gioia et al. 1998). In the rationalist paradigm the main role of such an identity lies in the internal appraisal of the organisation where it can be considered as one organisational resource among others. Organisational identity can then be used in a functional sense as suggested by the resource based view (RBV). If it is valuable, rare, difficult to imitate and no substitutes are available, identity can be a source of sustainable competitive advantage (Fiol 1991; Fiol 2001). In this perspective, identity is associated with stability as the difficulties to imitate it are attributed to its character as a socially complex resource (Barney 1992; Reger et al. 1998), resulting in path dependency (Barney and Stewart 2000). In an RBV context, organisational identity is primarily seen as an input to strategy formulation rather than being a force influencing the strategy process as such. However, some authors, like Barney and Stewart (2000), who combine the basically rationalist assumptions of RBV with ideas from interpretivist research, acknowledge that identity plays an important role in deciding how resources are used and how the organisation responds to its environment. Identity is seen as an interpretive scheme that affects how the organisation perceives its resources as well as threats and opportunities in the environment. Such a screening mechanism for information may be highly useful for strategists as the proponents of the incremental view on strategy making have remarked.

3.4.2 The incremental view

The rationalist assumption of managerial omniscience and the possibilities of analysis and planning have been challenged by scholars who argue that comprehensive rational calculations are neither empirically relevant nor practically feasible. In 1959, Lindblom argued that the necessity of comparing all possible options in a rational planning process exceeds the capacity of managerial cognition. In a similar vein, Simon (1955) had already pointed to
constraints to the information-processing capacity of organisational actors. Rationality is then bounded by risk and uncertainty, incomplete information about alternatives and the complexity of information. Managers therefore *satisfice* rather than optimise their choices. Still, both Lindblom and Simon assume that managers want to and if possible do act according to a means-ends related rationality. It is only for practical reasons that rationality is seldom achieved in practice.

Lindblom’s view that decision making is a *science of muddling through* has more recently been developed by Quinn (1978) who speaks of logical incrementalism, meaning that strategies emerge from organisational subsystems. However, rather than muddling through managers purposefully draw upon initiatives from the organisation’s members. Strategy making is thus no longer a task for management alone, although managers retain the decisive role in the strategy process. Quinn’s work forms a bridge from boundedly rational to political approaches as he acknowledges managers’ role in balancing divergent interests and negotiating compromises between competing groups. One of the manager’s main roles in strategy making is channelling actions from sub-systems to contribute to the organisation’s common purpose. As in Mintzberg and Waters’s (1985) work, the view of strategy as an emergent pattern is central. However, managers assume an active role in forming that pattern from different actions. In directing the firm they do not only face cognitive limits but also process limits since they cannot orchestrate all choices in a complex organisation. Where the dynamics of change are concerned, incrementalism implies a view that change tends to happen in small steps. To Quinn (1978), incremental change is also preferable from a normative point of view as it allows for stepwise trial-and-error learning without disrupting the organisation too much. The organisation is supposed to move strategically all the time, albeit slowly in order to maintain a sense of stability. Incrementalism thus stands in contrast to perspectives that advocate or empirically describe radical change disrupting long periods of relative stability (Miller and Friesen 1982; Tushman and Romanelli 1985).

However there are reasons other than managerial choice that may explain why organisations tend to change their strategy incrementally, rather than in a revolutionary manner. Political and cultural approaches to strategy processes would argue that established power structures and shared values often prevent strategy from changing too radically. Instead only small-step changes are possible, although these may accumulate to large alterations of strategy over time. I will turn back to these perspectives in section 3.4.3.

**Self-understanding as a facilitator for incremental strategy making**

In the context of the incremental view on strategy processes, interest in organisational self-understanding would not challenge the role of managers as basically rational decision makers. However, as there are cognitive and process limits to their decision making, self-understanding can provide a basis for...
simplified decision making. If a specific conception of a firm’s identity prevails throughout the organisation, options for action that are not in line with the self-understanding can be expected to be ruled out as legitimate alternatives from the beginning. Self-understanding could thus become a kind of screening device for possible options (Brown and Starkey 2000). As Barney and Stewart (2000) note, such screening can be both for the better and for the worse. It may on the one hand help the organisation to make decisions and eventually change in a faster way, using fewer resources for analysis. On the other hand, important aspects of the organisation and its environment, as well as strategic options may be neglected if they do not fit in with the prevailing self-understanding. The screening idea is grounded in the view that self-understanding can be conceived as an interpretive scheme (Bartunek 1984), both limiting and directing issue interpretation (Dutton and Dukerich 1991). The interpretive scheme notion brings us to the political and cultural strategy process theories.

3.4.3 The political and cultural view

In the rational deductive and the incremental views of strategy processes, neither the assumption that managers’ goals equal those of the organisation nor the assumption that objective facts about the organisation and its environment are, at least in principle, accessible to analysis, are seriously questioned. However, scholars assuming a political and cultural view on strategy processes have challenged the view of an organisation as a monolithic entity in which all members go in the same direction led by rational actors. In the political and cultural perspective, emphasis shifts from normative choice models to the attempt of understanding the social processes that characterise strategy making.

Organisations as political systems

For Cyert and March (1963/1992) an organisation is similar to a coalition of people or groups who all have goals that may be more or less independent and contradictory. In order to achieve a common aim for the firm there is of course a need to reconcile these contradictions. This only happens in an imperfect way. The coalition notion reappears in the work of Child (1972) whose dominant coalition is the group of actors that is the nexus of power and makes strategic choices in an organisation. In a similar vein, Pettigrew (1985a; 1985b) organisations as political systems that are characterised by different groups politicking around issues. The organisation is no longer driven by one rationality, but by a multitude of rationalities embodied in different interest groups. As the rationalities compete against each other, strategies emerge out of these political processes. Pettigrew puts a strong emphasis on the time dimension in politicking since the power situation in an organisation is subject to constant change. Forces inside and outside the organisation influence its political constellation and the political action taken among actors within the firm stands in a reciprocal relationship to the macro politics of the firm. Considering the dynamics of strategy, the political view highlights factors that
facilitate or hinder change. At the same time organisational politics are not only reasons for stability and change. Change or even the prospect of change releases political energy (Pettigrew 1985b) as the interests of organisational coalitions trigger them to support, obstruct or influence change. Power can then become manifest in defeating conflicting interests, excluding their proponents from decision making or preventing such interests from even being put forward (Hardy 1987).

**Organisational culture**

One important power resource in the political game can be the management of meaning (Pettigrew 1985b). By introducing the management of meaning, the political perspective becomes intertwined with the concept of organisational culture. This management is done by the construction of symbols and values that legitimise or delegitimise specific courses of action. Symbols and values also condition the interpretation of issues an organisation faces. It is however disputed among scholars to what extent meaning and culture are actually manageable. Smircich (1983a) presents different views on cultural analysis depending on whether one chooses to conceive culture as a variable that can be manipulated by management in order to achieve a desired organisational outcome or as a root metaphor depicting the organisation as being a culture rather than as an entity having a culture. In the latter approach culture is constantly constructed and deconstructed through the daily interaction of people. As culture becomes an ongoing process involving a multitude of people there remains relatively little space for purposefully manipulating it. While culture still legitimises and delegitimises actions these effects are hardly controllable by anyone.

Being a system of, at least more or less, shared meanings (Johnson 1987; Schein 1985; Smircich 1983b), culture is inherently intertwined with how organisational members perceive their organisation as well as their environment. In this respect, different scholars hold different opinions on how far such perceptions can be considered as objective facts or rather (inter-) subjective constructions. Smircich and Stubbart (1985) distinguish between three models of knowing the environment. It may either be considered as objective, perceived or enacted. While the two former views are predominant in the rational deductive and incremental approaches to strategy research, the latter is reflected in the management of meaning ideas of the political and cultural view. It draws upon social constructionism (Berger and Luckmann 1966), acknowledging material reality, but mainly being interested in the meanings people assign to it. Hedberg and Jönsson (1977) talk of myths, i.e. theories of the world that people create and operationalise in strategies. The strategy process thus becomes an interpretive process and the organisation becomes an interpretation system Daft and Weick (1984). Members come to share a set of taken-for-granted assumptions on their organisation as well as its environment (Schein 1985). Such collective mind sets have been described in various ways using expressions
Organisational self-understanding and the strategy process

such as interpretive scheme (Ranson, Hinings and Greenwood 1980) or paradigm (Johnson 1987). These shared meanings set the stage for strategy formulation (Smircich and Stubbart 1985). Change and stability in strategy are associated with change and stability in the paradigm. A common view on this relationship is that of the filter metaphor (e.g. Johnson 1992), meaning that the paradigm is a cognitive structure filtering how organisational members perceive what happens inside and outside their organisation. Although the paradigm itself is usually more or less unconscious, it becomes manifest in various artefacts, such as symbols, stories and routines that embody and reinforce the shared meanings (Johnson 1987; Schein 1985).

Considering the taken-for-grantedness of the paradigm and its potential role as a cognitive filter, culture is often associated with stability and seen as a source of strategic inertia (Schreyögg 1989). Strategy tends to reproduce the paradigm rather than questioning it (Johnson 1987). In the worst case, a strongly established paradigm may turn the organisation from an open system into a more or less closed system, which is not susceptible to influences from the environment it is supposed to interact with (Schreyögg 1989). Even in situations where poor performance might be caused by a dysfunctional culture, the blame is often placed on other factors. As changing the paradigm is painful, it is often reinforced when performance turns downwards (Gagliardi 1986). The result is strategic drift (Johnson 1987), where the discrepancy between the organisation’s characteristics and the environmental requirements grows until the organisation either goes under or finally manages to radically change its paradigm and strategy.

However, culture is not always seen as a static structure, preventing change. Somewhat paradoxically, a culture can also be future oriented and comprise values that foster change and innovation (Schreyögg 1989), in particular if changed interpretations of reality do not challenge the core values of an organisation (Hellgren and Melin 1993). Moreover, as culture by definition involves many people, a prerequisite for dynamics is provided in their interaction. Martin (1992) questions the often assumed homogeneity of culture, suggesting that cultures comprise different sub-cultures. Ranson, Hinings and Greenwood (1980) note that there are often alternative interpretive schemes in an organisation. Their struggle for dominance once again becomes a political process. If one assumes a root metaphor view (Smircich 1983a), the character of organisational culture is processual as it is constantly constructed and reconstructed by the organisation’s members. There is no single interpretation that once it is established cannot be altered. Rather, people on all organisational levels constantly make sense of their organisation and its external context (Gioia and Chittepelli 1991). Political action can be taken by trying to change interpretations (Smircich and Stubbart 1985). Top managers in particular engage in sense giving, providing organisational members with interpretations that are coherent with management’s strategic intentions (Gioia and Chittepelli 1991). However, sense giving is not limited
to the highest hierarchical level. It can also take its point of departure on lower levels when interpretations made there spread throughout the organisation (Brunninge and Gustafsson 2001).

**Cognitive spheres on different levels**

The idea of interpretive schemes or paradigms guiding interpretations as well as the behaviour of actors is not limited to the organisational level and the concept of organisational culture. Hellgren and Melin (1993) talk of cognitive dimensions existing on three levels or cognitive spheres, namely the individual, the organisation and the industry or sector, all being the result of long term evolution. On the individual level, it is possible to identify strategic ways-of-thinking (Hellgren and Melin 1993), i.e. values, beliefs and assumptions that tend to be relatively stable for an individual leader and follow the individual even when s/he moves from one organisation to another. The cognitive sphere on the organisational level is culture, while the counterpart on the industry or sector level has been labelled industry recipe (Spender 1989) or industrial wisdom (Hellgren and Melin 1992; Melander 1997). These different cognitive spheres are not detached from each other. Rather, dynamics between them arise, especially if they provide different interpretations of reality and suggest different courses of action. For instance a leader may not buy into the prevailing industrial wisdom. The resulting tensions can either end up in the way-of-thinking triumphing over the industrial wisdom or vice versa. The paradoxical consequence is that stability in one cognitive sphere can lead to radical change in another. Thus all three spheres are characterised by a state of dynamic stability (Hellgren and Melin 1993).

When it comes to shared interpretive systems on the organisational and on the industry level, political and cultural approaches to strategy overlap with institutional theory. Institutions are about meaning or as Selznick, one of the forerunners in applying institutionalism to organisations put it, “to institutionalise is to infuse with value beyond the technical requirements of the task at hand” (Selznick 1957:17). Scott puts a similar emphasis on meaning and describes how it is conveyed, saying that “institutions […] provide stability and meaning to social behaviour. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdictions.” (Scott 1995:33). Hence, institutionalisation leads to a taken-for-grantedness. Berger and Luckmann (1966) describe institutionalisation as a process, where our actions are assigned meaning through interpretation and this meaning is finally shared and taken for granted.

Today, it is common to distinguish between the old and the new institutionalism (DiMaggio and Powell 1983; Greenwood and Hinings 1996). Whereas the former is mainly interested in cultural processes internal to the organisation, the latter shifts the emphasis to the organisational field in which organisations are embedded. A field comprises “those organisations that, in the aggregate, constitute a recognized area of institutional life” (DiMaggio and
Organisational self-understanding and the strategy process

The boundaries are thus an empirical question, but actors within the same market, along with key suppliers, support organisations and regulatory agencies are among the main candidates. Specific meanings emerge within a field resulting in institutionalised rules. Organisations have to comply with these rules in order to gain legitimacy (Meyer and Rowan 1977). The result is a high degree of similarity, or isomorphism, among the organisations belonging to the same field. DiMaggio and Powell (1983) have identified coercive, mimetic, and normative forces that push towards more isomorphism. While coercive pressure results from cultural expectations and legal regulations, mimetic isomorphism is the result of shared cognitive schemes that make organisations imitate each other. Normative pressures finally originate in professional norms that are important in certain fields.

Regarding the dynamics of strategy, the new institutional theory primarily explains stability and similarity while it has little to say on change and non-conformity. It thus often appears deterministic creating an impression that organisations have no choice, but to follow the institutional forces. Is there any room for change and choice in strong institutional fields? Even taken-for-granted institutions are of course not totally stable. They develop over time. Mostly this is assumed to happen in a slow, evolutionary manner (Greenwood and Hinings 1996), but some authors also point at examples of more revolutionary changes in institutionalised beliefs when old assumptions fail to offer trustworthy explanations of reality (Melander 1997). Another reason for change in taken-for-granted institutions may lie in the interplay of different spheres of meaning. What is taken for granted on the field level may be challenged when being confronted with a particular organisational culture (Czarniawska and Joerges 1996; Greenwood and Hinings 1996) or an individual strategists’ way-of-thinking (Hellgren and Melin 1993). The outcome of such a confrontation may be a slight modification of the recipe existing on the field level. However, Oliver (1991) acknowledges that organisations can also defy institutional forces more or less openly.

Politics, culture, and self-understanding

The cultural and political approaches to strategy processes, broadly defined here including cognitive and institutional approaches, leave a very diverse picture. Nevertheless, they have in common the fact that they depart from the assumption that organisations and their members are more or less objective analysts. Instead, attention shifts to how organisations, groups of organisations and individuals in organisations subjectively perceive or enact their situation. In this respect there is a clear parallel to organisational self-understanding. In particular, the idea of identity as an interpretive scheme is common in the identity literature, for obvious reasons especially in the interpretive perspective on identity (Gioia et al. 1998). Closely related to the interpretive scheme view is the interest in sense-making that is common to culture and identity research. Organisational identity is both conceived as self-focused sense-making (Fiol,
Hatch and Golden-Biddle 1998) and as a lens through which sense-making is carried out (Gioia and Thomas 1996). As outlined earlier, there are various, partly conflicting views on the relationship of the culture and identity concepts. This ongoing debate however reflects the closeness of the concepts rather than their difference. Hence, research on organisational identity has a potential for learning from research on organisational culture as well as systems of meaning on other levels.

3.4.4 The garbage can view

While the political and cultural views already have a strong emphasis on institutional conditions that restrict freedom of choice for managers they still leave some space for purposeful and goal-oriented managerial action. The opposite to rationalist theories of strategy processes is the garbage can view of action and choice (Cohen, March and Olsen 1972). Here, rationality’s role does not mainly lie in guiding action, it emerges out of action, when problems, solutions and goals are put together in hindsight. People, problems, solutions, and choices appear in an unstructured way and solutions often exist before a suitable problem to which they can be applied has been found. In contrast to the goal-oriented action of the rationalist paradigm, garbage can proponents note that goals rather than being the foundation for choices are unknown or at least unclear when choices are made. Instead decision-makers often do not recognise their goals until actions have been taken.

In part we know such retrospective goal recognition from Mintzberg and Waters’s (1985) model of deliberate and emergent strategies and Mintzberg, Ahlstrand and Lampel’s (1998) notion of strategy as a pattern that is recognised in hindsight when previous actions are interpreted as a meaningful pattern. However, in the view of Mintzberg and his colleagues there is still a combination of both deliberately planned actions and incrementally emerging patterns. In the garbage can view however, neither rational nor boundedly rational analyses are the driving force of strategy making. Rather than being structured, the strategy process is a trial-and-error learning process without clear understanding of the underlying causes. Decisions occur as randomly converging events (Eisenhardt and Zbaracki 1992). It is certainly possible, to find strategy processes to which the garbage can view can be meaningfully applied, like the university example presented in Cohen, March and Olsen’s (1972) original article. However, it is questionable whether the extreme anarchy and absence of ex-ante rationality is very common. Thus, Pettigrew (1985b) calls the emphasis on anarchy in the garbage can view overstated, as he believes that there tends to be at least some continuity of action and action based upon interests in organisations.

Self-understanding and retrospective order

As a theory of change, the garbage can view still has important things to say about strategy processes. Particularly, it points at the danger of believing in
Organisational self-understanding and the strategy process

stories of rationality and consistent sequences of strategic action that are told in organisations. Such orderly patterns may actually be reconstructions made retrospectively out of various actions in the organisational garbage can. For instance, outcomes of a strategy process do not necessarily have to be conceived as solutions to a pre-defined problem. Rather, outcomes can be connected to a problem in hindsight and there may well be different problems they can be linked to which they can be linked. It is no easy question to figure out what role self-understanding could play in a garbage can process. In the extreme version of the garbage can view, choices are not made or planned in a structured manner at all. Thus there is no room for organisational self-understanding to provide a structure for decision making. However, bearing in mind that the idea of organisations having an identity is associated with a desire to maintain a sense of continuity over time (Gioia, Schultz and Corley 2000), self-understanding could be important to retrospective sense-making. It might guide how actions are rationalised in hindsight and to what problem, already existing solutions are assigned.

3.4.5 The population ecology view

The idea of strategic inertia, often as the result of stable interpretive schemes or political deadlocks, appears frequently in the political and cultural views on strategy processes. The inertia notion is also central to the population ecology view (Hannan and Freeman 1977). However, it leaves less room for voluntaristic choice and is similar to the garbage can view when it comes to scepticism in change as a result of managerial rationality. To population ecologists the opportunity for choice is limited to the beginning of a company’s life cycle. Starting up a business, the founder can make choices as regards the organisation’s structure, strategy and its positioning in relation to other actors. Then however, companies become inert and get stuck in their old structures and strategies. Hence, change does not happen within single organisations since their established patterns are so ingrained. Instead, whole populations change through a variation-selection-retention mechanism. Variation occurs between companies. Those that do not fit into their environment disappear while companies with a good fit survive, i.e. they are selected. Their recipes for success are reproduced by new start-ups and thus retained in the population. From a population ecology point of view the strategy process of an established company is thus relatively static. Of course choices are made, but as soon as a company has gone beyond the earliest phases in its life cycle the choices remain within the tight boundaries of its established way of doing things. The possibilities of learning are very limited since adaptations mainly serve the purpose of keeping the organisation in line with its established structure, goals and strategy. Learning on a higher level, as conceptualised in Argyris and Schön’s (1978) second-order learning that enables the organisation to adapt to changes in its context by revising its own goals and strategies, is impossible or at least highly difficult and unusual.
The population ecology approach has been criticised since there is strong empirical evidence that change and innovation actually are possible in established organisations (Kieser 1988). Its deterministic stance towards managerial action, often does not correspond to the processes we can observe in organisations. Some researchers, although rejecting the determinism of population ecology, have adopted the evolutionary metaphor and allow for managerial choice in the variation-selection-retention mechanism. Change is described in evolutionary terms, but variation, selection and retention are seen as an outcome of managerial cognition and action rather than deterministic forces in the environment (Weick 1979).

An important contribution of population ecology literature, is the fact that it emphasizes inertia. The inertia issue is important in order to understand the dynamics of strategy processes and has also been addressed by other schools of thought. While the literature on organisational culture and cognition, (e.g. Johnson 1987; Schein 1985) is interested in understanding why organisations resist strategic change, population ecologists are more interested in the consequences of this resistance. As they assume organisations to be inert, change has to be understood on the level of populations rather than that of the single organisation. Here, population ecology makes the important point that the dynamics of stability and change cannot be understood by exclusively looking at one level of analysis. Like cognitive (Hellgren and Melin 1993) and institutional (Greenwood and Hinings 1996) approaches, albeit for different reasons, population ecology sees that stability on the organisational level may well be associated with change in the wider context of a population, an industry or a field.

Self-understanding and inertia

While population ecology assumes inertia, there are different opinions as regards the stability of organisational self-understanding. Again, one important question is of course if we think of identity as a subjective self-understanding or an identity also comprising material features that may be difficult to alter. While early writings stressed the enduring character of identity (Albert and Whetten 1985), they did not claim that it was unchangeable. More recent research has put stronger emphasis on change, talking about adaptive instability (Gioia, Schultz and Corley 2000). Depending on the view on self-understanding/identity one assumes, it can be seen as a candidate for explaining organisational inertia. A commonality between population ecology and identity research is the particular importance that is ascribed to the foundation of the organisation. Kimberly and Bouchikhi (1995) stress the importance of the founder’s values to identity and also Albert and Whetten (1985) see the formation of the organisation as a period when identity issues are particularly salient. This view that organisational self-understanding/identity is difficult to alter after the earliest phases in the firm’s life cycle would be coherent with the population ecology view of strategy. However, in contrast to the population
ecology view that sees a major reason for inertia in the given resource distribution in the environment (Hannan and Freeman 1977), a self-understanding perspective sees mainly internal reasons for inertia (Bouchikhi and Kimberly 1996).

3.5 My personal view: Strategy as a process characterised by dynamics and tensions

Considering the multitude of perspectives in strategy literature, the concept of strategy as such has limited value when it comes to positioning research. Strategy can stand for very different things. To make it easier for the reader to follow the reasoning in a piece of literature, the author should therefore be explicit on his/her own view. I will do this in the remainder of this chapter. My conception of strategy is certainly not unique. It is in the tradition of strategy process research (e.g. Pettigrew 1990; Pettigrew 1997), aiming at describing how strategy is made rather than prescribing what it should look like. Still, I believe that the ambition to understand strategy processes requires openness to contributions from different schools of thought, including the more rationalistic content-oriented ones. Rather than putting myself into a pre-defined box of the strategy field, I therefore want to outline my view of strategy, starting with the notion of dynamics that allows for addressing many important aspects of strategy research.

The concept of dynamics implies that the strategy process is about various forces, emanating from different sources and influencing the strategic direction of the organisation in various directions. These forces can be for or against change, they can originate in individual agency or pre-determined structures, they can complement each other or work in opposite directions, thereby neutralising each other or resulting in disruptions. Melin (1998) thus characterises the dynamics of strategy as a struggle between the defence of the existing and the creation of novelty as well as a tension between voluntarism and determinism. While the former assumes that actors in the organisation can steer its direction, the latter assumes that the organisation’s fate is determined by outside forces that lie beyond the control of management. The variety of forces influencing the strategy process of the organisation is at least a partial explanation to the multitude of perspectives characterising strategy literature.

The idea of strategy as a struggle involving tensions between different forces is also central to the work of Normann (1975) who talks of tensions as necessary preconditions for change and the creation of novelty. To him, tensions thus have a positive connotation.
Tensions in some form to a large extent seem to be a necessary precondition for growth and the creation of novelty. They can be characterised as deviations from expected conditions, misfits, conflicts or crises. If there is no such lack of harmony, it is not likely that the change process will even get started.

Normann (1975:136), my translation

Normann sees various possible origins of such tensions, for instance between outer forces and the ideas of organisational actors or between different subsystems of the organisation. In a similar vein, Erik Rhenman (1974), Normann’s colleague from the SIAR school15, argues that conflicts emerge between different value systems inside and outside the organisation. Finally, Melin and Hellgren (1993) argue that important dynamics arise from the interaction between forces emanating from different empirical levels, for instance the external forces from the field, strategic forces relating to the interaction with other organisations and organisational forces. Together these form a field-of-force (Melin 1989). The question still remains as to what room there is for voluntaristic action in this multitude of forces.

3.5.1 Dynamics and tensions in relation to strategic thinking and acting

Normann (1975) and Rhenman (1974) reasoning shows that dynamics and tensions occur in relation to strategic thinking and acting. Strategy making is not limited to action in a narrower sense, such as formal decision making or the execution of changes. As Weick (1983) notes, managers do not simply act, rather they act thinkingly. This thinking precedes, accompanies and follows action. The dividing line between thinking and acting becomes questionable since managers need to assign meaning to reality, including their own action. When talking of strategic action, I hence not only mean action in a narrower sense, but also the thinking preceding, accompanying and following it.

It is the thinking and acting of individuals and groups that has to relate to the various forces affecting the strategy process and, in doing this, becomes a force in the dynamics of strategy itself. The adjective ‘strategic’ implies that there is thinking and acting in an organisation that has to do with issues that are of major importance to the organisation (Johnson 1987; Pettigrew 1985b) and that are concerned with giving it direction in its movement from the past to the future (Melin 1998). Such thinking and acting can be outlined in strategic plans, but it does not have to be. Where strategy documents do exist, they do not necessarily have to match the thinking and acting that actually occurs, but nevertheless their very existence is important. For instance, it reveals

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15 SIAR stands for Scandinavian Institutes for Administrative Research. It was founded as an independent research institute in 1965 by Rhenman, Normann and some colleagues to them. Mintzberg, Ahlstrand and Lampel (1998) characterise SIAR together with researchers from Gothenburg, Stockholm and Linköping as a distinct Swedish wing of culturally focused strategy research.
that there is a belief in a rational, analytical approach to strategy making or at least in maintaining the impression that such an approach is applied.

Strategic thinking and acting of course implies that there have to be strategic thinkers and actors. These are not limited to any particular group. Traditionally, strategic thinking and acting has been regarded as the exclusive domain of management. Indeed, it may be the case that a few individuals dominate strategy making. Normann (1975) talks of *significant actors* that influence the dominant ideas in the organisation. According to his experience there are rarely more than five such actors in a company. However, such top management focus can be criticised (Mintzberg, Ahlstrand and Lampel 1998). Strategy making does not have to be concerned with immediately shaping the overall direction of the organisation. Also emergent actions (Mintzberg and Waters 1985; Quinn 1978) and initiatives from the periphery (Regnér 2003) can have an impact on this direction. Still, I believe that the acknowledgement of bottom-up contributions to strategy making should not lead us into the pitfall of downplaying the role of top management. While the involvement of different groups of actors in strategy making is an empirical question, it is not likely that top management with their control over resources and their formal authority to speak and act on behalf of the organisation are completely bypassed by strategic initiatives from lower levels.

### 3.5.2 An interpretive view on dynamics and tensions

If we follow Weick (1983) in saying that managers do not simply act, rather they act thinkingly, we have to acknowledge the importance as well as the subjectivity of meaning to strategic action. We cannot assume that strategic action has a determined, intrinsic meaning. Meanings are assigned to actions and there are usually various different options regarding how actions can be interpreted. The same is true for all interpretations that are a part of strategy making, like strategic actors’ sense-making of the organisation and its environment. Consequently, also dynamics and tensions do not simply exist *per se*. Events, objects and situations that strategists encounter can be interpreted in different ways and allow for multiple connections (Smircich and Stubbart 1985). What dynamics and tensions are experienced, thus differs between strategic actors.

Even if it may be reasonable to metaphorically treat organisations like reflexive beings (for instance when talking of organisational self-understanding), we should not forget that organisations do not think - individuals do. Interpretations exist in the mental constructions of single actors (Melin 1989). That is why the strategic thinking of individuals plays a key role for understanding strategy processes. However, thinking is at the same time social. People do not make their interpretations alone, they make them in a social context. This implies that meaning is made on various levels. Meaning can be assigned by an individual, but it can also come to be shared within a group, an organisation or on a macro level across organisations in a field or society as a
whole. This leads to the interesting duality that we have to acknowledge managerial subjectivity on the one hand, while on the other hand recognising that subjectivity can only be understood in context. Interpretations are subjective, but not arbitrary. They are embedded within systems of meaning and they are constrained by social and material structures (Berger and Luckmann 1966).

Practically, this means that strategy making happens in an interesting tension of voluntary action and determinism (Melin 1998). On the one hand, strategists are free to think and act. On the other hand, this freedom of action meets various constraints. As the review of strategy literature has shown, different perspectives put different emphases on either voluntarism or determinism. Population ecology leaves almost no room for managerial agency. Rationalist approaches are in principle open to choice, and believe in managers’ ability to direct organisations by fiat. However in rationalist perspectives, there is normally just one best choice and this is often determined by forces beyond managerial control. The garbage can view believes that people in organisations act voluntarily, but there is little room for controlling such action. Actually, it is the incremental as well as the political and cultural approaches to strategy making that leave relatively substantial room for managerial choice. Of course there are constraints relating to cognitive schemes or to power-games, but at the same time, the acknowledgement that things can be interpreted in different ways breaks the determinism that lies in the overly objectivist perspective of the rational views on strategy processes.

I believe that choice in strategy processes is always possible. Choices are made differently by different people and in different situation as there are always different ways to interpret action, its preconditions and its consequences. Of course, interpretations are guided and constrained by systems of meaning, for instance ways-of-thinking on the individual level (Hellgren and Melin 1993), the cultural paradigm (Johnson 1987) as well as organisational self-understanding (Bartunek 1984) on the organisational level, institutional forces (DiMaggio and Powell 1983) and industry recipes (Spender 1989) on the field and industry levels, as well as cultures relating to profession, nation or other spheres. Still, this does not mean that strategic actors are mere puppets of cognitive forces determining how people think and act. As organisations are social entities comprising many individuals and existing in context, there is by definition more than one system of meaning that influences how strategic actors make their interpretations. This variety offers opportunities for choice. Additionally, since humans are reflexive beings, we can reflect upon what shapes and constrains our thinking. Normann (2001) addresses reflexivity, using a crane metaphor for describing how to escape cognitive limits. He means that we have to be lifted up above our organisations in order to get new perspectives and think freely. Addressing organisational self-understanding as one system of meaning in this dissertation will hopefully help practitioners to
Organisational self-understanding and the strategy process

critically reflect upon what organisational self-understanding implies for their strategic thinking and acting.

3.5.3 Strategy in relation to past, present, and future

Strategy has to be conceived in its temporal context. Trying to understand it in a snapshot manner holds little promise since it develops as a process over time. The attention that is given to history in management literature varies a lot between authors. Particularly in Europe, there is a stream of longitudinal case study research, following the development of companies (Frankelius 1999; Pettigrew 1985a) or entire industries (Melander 1997) over years and decades. However, management research is dominated by studies that are either cross-sectional or consist of two or a few snapshots that establish longitudinality, but do not capture processes as a whole. Pettigrew (1990) therefore criticises mainstream management research for being ahistorical.

Where history is an issue in management literature, it can have a number of different roles. There are examples of historical developments from a non-business context being used as an empirical basis for theorising on management phenomena. For instance, Lammers (1988) uses the German occupation regimes in European countries during World War II in order to theorise on interorganisational control. Mostly however, historical data is taken from a business context. Here the emphasis on the historical findings differs from case to case. In some studies the reconstruction and understanding of historical processes as such is the primary aim. Other studies mainly aim at theorising on management phenomena using historical data as a means to study longer processes or to put present developments into context. The dividing line between business history and longitudinal, partly retrospective management research is not always crystal clear. Chandler’s (1962; 1977) famous work on the development of management and industrial companies as well as Kieser’s studies of medieval organising (Kieser 1987; Kieser 1989) are primarily accounts of large-scale historical developments in business and society. Nevertheless, they also make theoretical contributions that go beyond business history, like Chandler’s ideas on the relationship of strategy and organisational structure (Chandler 1962). On the other hand, longitudinal management research where the main emphasis lies on the development of theoretical concepts, can also contribute to business history, like Melander’s (1997) study of the Swedish pulp and paper industry.

The primary emphasis of the present study lies on understanding strategy processes, not on writing the histories of organisations. However, if we want to understand strategy processes, the temporal dimension, including history, matters. When people in an organisation act strategically, their action automatically has to relate to the past as well as to the future. Strategy is about

\footnote{Still this dissertation can of course contribute to our historical knowledge of the organisations that are examined. However, a study positioned within business history would have been conducted in a different way.}
the organisation’s direction and hence by definition about its future. However, not all directions are possible. Past actions and their outcomes shape important prerequisites, e.g. in terms of competences, resources and external relationships, which enable and constrain future action. That not all possible futures are feasible in this more technical sense is not the only problem. Actually, the way to some possible futures is also blocked because they are not thinkable. Either they cannot be conceived cognitively or they are not in line with the organisation’s values. As Kimberly and Bouchikhi (1995) put it, “the past shapes the present and constrains the future” (p. 9).

In this context it is important to note that the constraining effect of the past does not have to be understood in a negative sense. Although the past limits the number of possible options for action, it also enables the action that actually happens. One might ironically speak of a competitive advantage the past has over the future when it comes to influencing strategic action. By definition the past is known (although there may be different interpretations of it) and the future is unknown. Hence, strategic actors at least partially have to ground their thinking about the future in past experiences. These can be manifested in the various systems of meaning in which the thinking of strategic actors is embedded. The systems of meaning, be it on the individual, the organisational, the industry or any other level, have grown historically and can only be understood through going back in time (Normann 1975). Knowledge of the organisation’s history is therefore crucial for understanding strategy making (Kimberly 1987; Pettigrew 1990).

3.5.4 The dynamics of strategy: stability, change, and continuity

While looking at views on stability and change in relation to identity-related phenomena, we noticed that change often has positive connotations, while stability is depicted as a problem that has to be overcome. There are good reasons for such a view, as the environments of organisations change. At least since Burns and Stalker (1961) we know that organisations, being open systems, have to realign themselves with turbulent environments. Hence, it is tempting to put the whole strategy phenomenon under a strategic change label. Is it not after all strategic change we are interested in?

I believe that such an approach to strategy would be too simple. Of course change is important, but how are we to understand changes without understanding stability? As we have seen from the previous discussion on strategic acting there are always forces for stability and change at the same time. Historically established ways-of-thinking compete with ideas of future change. Changing demands from the environment meet the resource configuration of the firm, which is an outcome of historical action. Considering this struggle between stability and change (Melin 1998) it seems meaningful for me to talk of the dynamics of strategy rather than of strategic change, which only stands for one side of the struggle. The concept of dynamics implies that different forces are at work. The outcome may be statics as well as movement.
Organisational self-understanding and the strategy process

(Nationalencyklopedin 1991). It is these forces that need to be understood in order to understand strategy processes.

While there is often an antagonistic relationship between stability and change the two paradoxically exist side by side in an organisation. As organisations comprise many aspects, these differ in the degree of stability and change. All aspects of an organisation seldom change at the same time. There are examples where stability in some aspects of the organisation have made it easier to change others (Hatum 2002). Stability and change can thus be united in the concept of continuity. Continuity implies that there can be change, while at the same time there are some aspects that remain relatively stable over time. The Oxford English Dictionary defines continuity as “the state or quality of being uninterrupted in sequence or succession, or in essence or idea” (Oxford English Dictionary 1989). The change involved in continuity is thus not necessarily small, but it happens without ruptures that disconnect the new situation from the past. The outcome of change has enough similarity with history to be recognised as its continuous follower. Such recognition of continuity is of course subjective. A development is not continuous or discontinuous per se. Continuity is ascribed to a process by those interpreting it. This means that the question if strategy is developing continuously or not can be controversially discussed. It also means that continuity or discontinuity can be constructed by pointing at things that either support or contradict the image of a continuous development.

Strategy thus implies dynamics of stability change and continuity. It is these dynamics that this study aims to understand by examining the role of organisational self-understanding in the strategy process. The following chapter will therefore address in more detail what previous research has to say about the implications of self-understanding in the dynamics of strategy.
4 Strategy and organisational self-understanding

In the previous chapter research on the dynamics of strategy has been presented. Partly, this has included short discussions of what self-understanding could imply in the context of different views on strategy processes. The potential role of organisational self-understanding in the dynamics of strategy however requires a more comprehensive discussion. The present chapter starts with a review of existing literature on the interplay of strategy and self-understanding and continues with literature from other fields that can contribute to the understanding of the phenomenon. The emphasis lies on institutional theory and research on change in other systems of meaning, like culture, industrial wisdom as well as individual cognition. Finally, a contribution from research in history, namely that on the use of history, is presented. This stream of scholarship is particularly interesting in the context of this dissertation as it addresses how reference to history is purposefully used to shape and influence collective understandings of identity. The chapter is rounded off with questions for data interpretation and an attempt to visualise the dynamics of strategy and self-understanding, preparing the ground for making sense of my empirical study.

4.1 Organisational self-understanding and the dynamics of strategy

What does organisational self-understanding mean to the dynamics of strategy? There is a strong argument that self-understanding and strategy are related. If we put common strategy and identity definitions side by side this relationship becomes obvious. Strategy is seen as being concerned with the long-term direction of the company (Johnson 1987), regarding issues that are central in terms of magnitude (Pettigrew 1985b), while identity refers to central, distinctive and temporarily continuous aspects of an organisation (Albert and Whetten 1985). Reger et al. (1998) see strategy as a theory of action and identity as a theory of being, where being influences action and action is a result of being. Ashforth and Mael (1996) talk of identity as “enacted and expressed via strategy, and inferred, modified or affirmed from strategy” (p. 23, original emphases). The relationship is mutual and the hen-and-egg question remains unresolved.

A common view is therefore that also the dynamics of strategy and self-understanding go hand in hand. A stable strategy is associated with a stable self-understanding and strategic change is associated with change in self-understanding. Does this mean that the organisation’s self-understanding
Organisational self-understanding and the strategy process

stabilises strategy or is it fluid enough to provide a basis for strategic change? Let us look at some of the arguments:

4.1.1 The case for self-understanding as a stabiliser

When looking at the classical definition of organisational identity by Albert and Whetten (1985), it addresses continuity. In order to qualify for being an aspect of the organisation’s identity, an organisational feature may change slightly, but it still has to be stable enough to be considered as being the same over time, at least in the eye of the beholder. Since self-understanding and strategy often refer to each other reciprocally (Ashforth and Mael 1996), no major aspects of the organisation’s strategy can be changed without affecting its self-understanding. Identity is thus often seen as a stabilising factor in the organisation’s strategy (Reger et al. 1994a). This theoretical argument is supported by various empirical studies, which have found that organisational self-understanding stabilises strategy. Three reasons for this are usually stated in the literature:

- The most common argument relates to organisational self-understanding as a system of meaning. It is conceived as a cognitive scheme or perceptual lens (Cornelissen 2004) and is thus a potential source of cognitive inertia in the organisation (Reger et al. 1994a). In practice, this implies that it sets constraints to members’ sense making of the organisation as well as of its environment. This does not necessarily mean that members actively resist change. The main issue is that they do not even see the need for change (Dutton and Dukerich 1991) or respond to challenges by applying established behaviours (Ashforth and Mael 1996). The organisation’s self-understanding affects how issues are interpreted (Dutton and Dukerich 1991; Gioia and Thomas 1996). Own actions as well as the environment are interpreted according to the established scheme (Bartunek 1984) that has to change in order to make strategic change possible. If a need for change has been finally recognised, change options are often resisted because they are seen as incongruent with the organisation’s self-understanding.

- A related reason draws upon the psychological roots of organisational identity research. It addresses members’ identification with their organisation, leading to psychological attachment (Dutton, Dukerich and Harquail 1994). Albert and Whetten (1985) write about the sense of continuity identity provides for the organisation’s members and the feeling of loss that can be associated with identity change. Hence, even if members recognise arguments for strategic change, the change idea may be discarded when it is perceived as incongruent with the organisation’s self-understanding. Gioia, Schultz and Corley (2000) see a reassuring continuity for members in the possibility to claim that the organisation has always been the same.
A third reason lies in the political nature of organisational identity. Different coalitions in an organisation may have interests associated with a particular understanding of the organisation’s identity. For example, the meaning that is assigned to the organisation may put a special emphasis on a specific profession (Glynn 2000). Contests about the ‘right’ self-understanding can emerge between different groups (Ashforth and Mael 1996) and making statements about the organisation’s identity becomes a political-strategic act (Albert and Whetten 1985). Stakeholders may thus resist changes in self-understanding as they fear that these may be accompanied by strategic changes that are not beneficial to themselves.

In practice, several of these reasons can go hand in hand. For instance, change may be resisted as powerful stakeholders feel psychologically attached to a specific conception of identity that hinders them from seeing strategic alternatives for the organisation. All three reasons are related to the nature of self-understanding as a system of meaning. Though systems of meaning are not unalterable, they are often difficult to change as we know from research on individual cognition (Hellgren and Melin 1993), organisational culture (Johnson 1987) and institutional fields (DiMaggio and Powell 1983).

4.1.2 The case for self-understanding as a change mechanism
Despite arguments for a stable self-understanding leading to a stable strategy, the stability of self-understanding is disputed. If self-understanding itself changes, it is also potentially involved in bringing about changes in strategy. Empirical studies show that self-understanding on the one hand appears as a force stabilising strategy, while on the other hand inertia is eventually overcome and changes occur, albeit after a long, sometimes painful process (Bartunek 1984; Dutton and Dukerich 1991; Gioia and Thomas 1996). Hence, there have to be possibilities to bring about changes in self-understanding.

Basically, the options for change in self-understanding could mirror the different theories of change in strategy. Drawing upon Van de Ven and Poole (1995), Reger et al. (1998) talk of identity changes through teleological managerial action, identity changes deterministically following the organisation’s life cycle, as well as identity changes as a result of evolutionary processes, resembling those of population ecology. When looking at empirical accounts of changes in self-understanding, it is however compelling that many changes in organisational self-understanding occur as a result of a dialectical process, the fourth model of identity change Reger et al. (1998) have identified inspired by Van de Ven and Poole (1995). The dialectical model implies that the organisation’s self-understanding, the thesis, is confronted with an alternative understanding of the organisation’s identity, the antithesis. The outcome of this confrontation may be anything from an unchanged self-understanding to a complete adoption of the antithesis, including a range of
Organisational self-understanding and the strategy process

synthesis options of the two extremes. From previous research we know different options for such antitheses.

- **The external image, or in Soenen and Moingeon’s (2002) words, the attributed identity.** Alternatively, we can speak of the construed external image (Dutton, Dukerich and Harquail 1994) if we want to emphasize that we mean the image that insiders believe outsiders to have of their organisation. Dutton and Dukerich (1991) describe the famous example of the New York/New Jersey Port Authority. The organisation mirrored itself in the negative image it had among external stakeholders, which finally made it rethink its self-understanding, opening up for strategic change. The same dialectic relationship is for example addressed in Gioia, Schultz and Corley’s (2000) model of identity-image interdependence.

- **The desired future image.** Here, also image serves as an antithesis. However, it is not the image actually held by external audiences, but a desired image that is envisioned by the organisation. Gioia and Thomas’s (1996) example of strategic change in academia illustrates how top managers formulate an image they want their organisation to achieve and then use this envisioned image to bring about change in identity as well as in strategy.

- **An alternative self-understanding originating inside the organisation.** As Pratt and Foreman (2000) outline, different groups in an organisation can have different conceptions of its identity. In some cases, like Albert and Whetten’s (1985) example of the modern research university there may be agreement that the organisation has dual/multiple identities (to use Albert and Whetten’s 1985 expression) or a multi-faceted identity (as Glynn 2000 puts it). Nevertheless different groups may favour one of them or a facet may become particularly salient in a specific situation. Glynn (2000) presents the example of the Atlanta Symphony Orchestra where a conflict between musicians and administrators over the ‘correct’ self-understanding erupted. While musicians understood the identity as primarily artistic, administrators advocated leaving more room for an economic, utilitarian self-understanding alongside the artistic, normative one. The case of the symphony orchestra ends without a clear winner. Continued tensions between the two alternative self-understandings leave room for further confrontation.

- **Identities attributed to units of analysis that are related to the organisation.** Identity conceptions do not only exist for organisations. We can
attribute an identity to a group, a profession, a product, a brand etc. Sometimes such identities attributed to other units of analysis can become important to the organisation’s self-understanding. For instance, the professional identities of the musicians and the administrators in Glynn’s (2000) case of the Atlanta Symphony Orchestra influenced the two alternative organisational self-understandings of the orchestra. Similarly, the identity attributed to an important product influences the self-understanding of the organisation that produces it.

The idea organisational self-understanding changes in a dialectical manner resembles the research on meaning that we can find in the strategy literature. Although strategic thinking and acting, be it individually or in groups, is influenced by systems of meaning like individual ways-of-thinking, cultures and institutions on various levels, this influence is not deterministic. A deterministic impression could arise if we looked at a single system of meaning, e.g. an organisation’s culture in isolation. The culture might then suggest one specific interpretation of an issue or a particular course of action. This would indeed offer little room for change. However, we know that there is no single force directing strategic thinking and acting alone. Multiple systems of meaning interact (Hellgren and Melin 1993; Salzer 1994) and on closer inspection, a system of meaning like organisational culture might appear as a heterogeneous set of sub-cultures (Martin 1992) that actually represent various systems of meaning. It is not only the organisation in toto that provides meaning for strategy-making. Meaning is also provided by external stakeholders as well as different internal coalitions. Moreover, it is not feasible to create any arbitrary meanings. Rather meaning is confronted with more substantial issues that do not make all interpretations equally likely. In Albert and Whetten’s (1985) example of the modern research university, increasing competition for funds made it difficult to uphold a relatively pure normative, research-oriented self-understanding. The self-understanding came to comprise a more utilitarian, business-oriented facet as this was the only possibility to ensure continued funding for research.

If we thus see an organisation’s self-understanding as a system of meaning relating to its identity, this system of meaning does not exist in isolation. Meanings are ascribed to the organisation from various directions. One possibility is heterogeneity in the organisation’s self-understanding, i.e. different individuals or groups holding different conceptions of the organisation’s

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17 The number of possible identity conceptions is practically infinite. An identity can be attributed to any kind of entity and this can again be done from numerous perspectives. For instance members of a profession can develop a conception of their identity, i.e. a professional self-understanding. External audiences may hold an image of the same profession and so on. For entities like a product or a brand, which are neither persons nor have members, it is of course not meaningful to talk of a self-understanding, not even metaphorically. Still, different audiences can have ideas of a product’s or a brand’s identity.
identity. At the same time, there are meanings ascribed to the organisation on a more macro level, be it an image that relates to the specific organisation (Dutton and Dukerich 1991) or institutionalised norms (DiMaggio and Powell 1983) that address in a more general sense what organisations are expected to be like. Likewise, there are substantive changes that may facilitate for alternative self-understandings to arise. An important potential for changes in self-understanding hence lies in the dialectical interaction of self-understanding with alternative conceptions of the organisation’s identity. The basis for such dialectics is the fact that different meanings can be ascribed to the organisation. In order to understand the dynamics of self-understanding and eventually strategy, it is thus helpful to have a look at the dynamics of other systems of meaning.

4.2 Institutional theory and organisational self-understanding

As we saw in our review of strategy literature, institutions are about meaning. As Scott (1995) puts it, “institutions [...] provide stability and meaning to social behaviour” (p.33). This meaning goes beyond the mere technical requirements for a specific task (Selznick 1957). The so-called old institutionalism in the footsteps of Selznick (1949; 1957) regards the intra-organisational institutions we often label organisational culture today. However, organisational self-understanding is also about institutions. This can be illustrated with Selznick’s description of institutionalisation, which shows interesting parallels with the organisational identity literature that emerged thirty years later.

Institutionalization is a process. It is something that happens to an organization over time, reflecting the organization’s own distinctive history, the people who have been in it, the groups it embodies and the vested interests they have created, and the way it has adapted to its environment.

In what is perhaps its most significant meaning, “to institutionalize” is to infuse with value beyond the technical requirements of the task at hand.

Selznick (1957:16-17)

As we have seen previously, Selznick (1957) sees a distinct organisational identity as one of the outcomes of this institutionalisation process. The organisation becomes valued for its own sake and its self-maintenance, i.e. the preservation of its distinctiveness vis-à-vis other organisations, becomes an end in itself. Of course, institutionalisation can happen to more things than just the answer to the ‘Who are we?’ question. Still it is meaningful to regard the process of self-understanding as a process of institutionalisation. As we know from various studies, (e.g. Dutton and Dukerich 1991; Gioia and Thomas 1996) the answer to the question becomes infused beyond the mere answer in a technical sense.
While self-understanding is an institution in the sense of the old institutionalism referring to intra-organisational meanings, new institutional theory, (e.g. DiMaggio and Powell 1983; Meyer and Rowan 1977; Scott 1987) addresses meanings on the more aggregate level of the institutional field. The field provides meanings shared across organisations that push the organisations within the field towards more similarity or isomorphism.

4.2.1 **Tensions between self-understanding and isomorphism**

Self-understanding addresses the distinctiveness of an organisation. As we have seen in the Finarom example in the first chapter, this does not rule out that the self-understanding comprises similarities and comparisons with other organisations. The managing director claimed that “We are Volkswagen.” However, it is interesting to note that even this pointing at a similarity paradoxically aimed at establishing her organisation’s distinctiveness (“We are not BMW”). The allusion to Volkswagen was metaphorically meant, i.e. Volkswagen and Finarom had something in common, but it was also obvious that there were differences between the organisations.

Self-understanding thus presupposes the importance of difference (Schulze 1987). If organisation X and organisation Y were completely identical, it would not be meaningful to talk about the self-understanding of organisation X. We would neither have the possibility to recognise our organisation as X, nor could anybody attribute a specific understanding to it. Institutional isomorphism on the other hand, presupposes the importance of similarity. It explains what forces there are which push organisations towards being more identical. There are thus inherent tensions in the interplay of self-understanding and forces pushing towards isomorphism. Consequently, it is an interesting question to see what happens when the meanings provided by self-understanding on the organisational level are confronted with incompatible institutionalised meanings on the field level. Greenwood and Hinings (1996) note that organisations show different behaviours although they are exposed to similar pressures from the institutional field and suggest that these differences may be explained by the internal dynamics of the organisations.

More than two decades before Greenwood and Hinings (1996), Rhenman (1973) noted that norms and values can be environment-oriented or organisation-oriented. The former refer to an evaluation of the organisation based on how it meets the norms prescribed by the environment. The latter, refer to an evaluation of the company according to aspects that are internal to it, e.g. profit, but also other things that the organisation values. To Rhenman, there are different types of environments. Some, he calls them political environments, are very much characterised by prescriptive norms like those described by DiMaggio and Powell (1983), while others are free value environments, i.e. there is only a minimum of norms imposed on the organisation from outside. What is crucial for organisational success is then consonance, i.e. a mutually supportive relationship, between the organisation’s
value system and the values in the environment. This does however not mean that the organisation either has to adapt or will fail. Rhenman acknowledges that there are possibilities for the organisation to dominate their environments. In such cases the internal dynamics of the organisation are stronger than external norms and may even eventually change them.

Self-understanding, along with other internal dynamics, could thus be a reason behind the different responses. Hence, Bouchikhi and Kimberly (1996) see organisational identity as “an alternative to institutional isomorphism (DiMaggio & Powell, 1983) [that] enables members to preserve an organization’s uniqueness in the face of changing external circumstances.” (p. 33). To better understand the dynamics of self-understanding and institutional isomorphism, we may return to the attempts of introducing difference and non-conformism into institutional theory. Oliver (1991) proposes a typology of responses to institutional pressures that comprises acquiescence, compromise, avoidance, defiance and manipulation, specifying different tactics for each of these five strategies. While the former two imply at least partial conformity, the other three are examples of non-conformuous behaviour.

Self-understanding and institutional conformity

Oliver's acquiescence strategy corresponds to ideal type isomorphism. The organisation follows the institutional pressures towards conformity. Such conformity does not have to result in tensions regarding the organisation's self-understanding as long as the organisational members do not interpret the institutional pressures as being in opposition to the self-understanding. Drawing upon Hatum (2002), one can even argue that change towards conformity might be facilitated by the continuity which is guaranteed by a relatively stable self-understanding.

Compromise implies a higher degree of resistance although it still basically implies that the organisation moves towards the institutionalised template. It usually involves partial compliance with norms while some areas are protected against change. The organisation may follow institutional pressures in those areas where they do not or only to a limited extent question its self-understanding. Such partial compliance may, to use Oliver's (1991) expression, pacify the institutional forces and make it unnecessary to show total conformity. As Hoffman (2001) notes, sometimes compromises have to be found between institutional pressures pushing in contradictory directions.

Scholars using translation sociology to understand institutional behaviour have questioned whether conformity is about making exact copies of the institutional template at all (Czarniawska and Sevón 1996). Drawing upon Latour and Callon (1998) they argue that ideas are not diffused, i.e. spread through copying them, but translated, i.e. interpreted and applied differently by each organisation to which they come. This would mean that even conformity is associated with change. Even without consciously resisting an institutionalised idea, organisations only partly apply it in the same manner as
elsewhere. The organisation’s self-understanding may be important to how it translates ideas. As Czarniawska and Joerges (1996) point out it is possible that neither the idea nor the organisation leave such a translation process unchanged.

We approach an idea in terms of what we already know, and sometimes the encounter barely confirms it; at other times the encounter re-arranges our beliefs and purposes as we translate it; the act of discovery creates a new idea and a new actor.

Czarniawska and Joerges (1996:28-29)

I personally find the expressions *new idea* and *new actor* used by Czarniawska and Joerges somewhat too drastic. It is questionable whether the change accompanying translation is so big that it is meaningful to speak of new ideas and actors rather than changed ideas and actors. Is there any continuity from the old actor left and if not, how do we know that the new actor has been preceded by the old one? Nevertheless, the authors point to an important issue. Tensions between institutional pressures and organisational self-understanding do not have to imply that either one of the two sides ‘wins’. The tensions may also be resolved by simultaneous change in the institutionalised idea and in self-understanding.

**Self-understanding and institutional non-conformity**

Oliver’s (1991) *avoidance* strategy constitutes a relatively moderate form of non-conformity. The organisation does not openly challenge the institutional pressures. In some cases, avoidance may imply that the organisation leaves the field and seeks refuge in a context where no institutional pressures threaten its self-understanding. More often however, it seeks to avoid that non-conformity is recognised, either by maintaining a façade of conformity or by avoiding external scrutiny. Meyer and Rowan (1977) for instance describe how institutionalised organisations decouple their activities from elements of structure. While the institutionalised structure allows maintaining legitimacy externally, it is not permitted to interfere with actual operations. From an organisational identity theory perspective, this implies that the organisation’s non-conformous self-understanding stands in opposition to the projected and attributed identities which are conformous.

*Defiance* and *manipulation* are those of Oliver’s strategies that imply open opposition against institutional pressures. Institutionalised norms are either openly ignored or actively questioned. The sources of institutional pressures may be openly attacked. The organisation may then even try to get control of the field, actively influencing what pressures arise. When tensions between institutional pressures and self-understanding arise, the organisation chooses to follow its self-understanding. Such behaviour is risky as the organisation puts its external legitimacy at stake (Meyer and Rowan 1977). On the other hand, as Kondra and Hinings (1988) point out, the virtue of being a non-conformous
Organisational self-understanding and the strategy process

renegade lies in the possibility of achieving a performance which exceeds that of institutional actors.

Despite the exceptions addressed on the previous pages, most management literature applying institutional theory shows little interest in explaining non-conformous behaviour. It can therefore be interesting to look at how other academic disciplines have treated similar phenomena. An interesting contribution has been made by historians examining non-conformity in totalitarian regimes. Broszat and associates (Broszat and Fröhlich 1987) coined the concept of Resistenz\textsuperscript{18} to describe how and why certain spheres of society in Nazi Germany maintained a relative autonomy vis-à-vis Nazi ideology. The regime of the Third Reich undoubtedly created strong pressures for individuals as well as groups to conform to Nazi values. Nevertheless, there was an option of non-conformity that did not necessarily imply challenging the regime as such.

[Resistenz] comprises all those forms of refusal, of individual or collective protest or of disidence or non-conformity, which were directed against specific ideological, disciplinary or organisational measures […] of the National Socialist regime. […] Its importance was that it managed to maintain areas of relative immunity and self-determination against the tendency of the totalitarian expansion of National Socialist claims concerning ideology and organisation. In [these] areas non-National Socialist value traditions had continued validity.

Broszat and Fröhlich (1987:61), my translation

Interestingly, this Resistenz was often closely linked to systems of meaning that were partly similar to organisational self-understanding. In some groups like certain youth cliques, parts of the churches and other societal institutions a self-understanding prevailed that made these groups reluctant to adopt Nazi values despite various forms of pressures.

Such Resistenz could be grounded in the continuous existence of relatively independent institutions (churches, bureaucracy, armed forces), in the assertion of ethical and religious norms, institutional and economic interests, or legal, spiritual, or artistic (among other) standards which ran counter to National Socialism.

Broszat (2000:241)

Now, what we today experience in economic life in democratic societies is not Nazi dictatorship. The institutional pressures today’s firms face are not those of a regime willing to kill its opponents. Still, the observations of Broszat and associates to English, e.g. Gregor (2000).

\textsuperscript{18} The German word Resistenz is a biological metaphor. It translates to resistance in the sense of the immune system resisting an infection. Resistenz is distinguished from Widerstand, i.e. resistance in the sense of political or military opposition, which is directed towards overthrowing the regime, e.g. the French résistance. In order to distinguish Resistenz from the latter, more common meaning of resistance, the German word Resistenz has been kept when translating the work of Broszat and associates to English, e.g. Gregor (2000).
associates as well as their Resistenz concept capture social phenomena that are similar to those we can observe in the interplay of institutional forces and organisational self-understanding. Resistenz refers to a sceptical attitude, often grounded in a self-understanding that motivates non-conformity with external pressures. This scepticism is not directed against change per se, but against changes challenging organisational self-understanding. It thus aims at self-maintenance (Selznick 1957), i.e. the preservation of the organisation’s distinctiveness and continuity over time. This results in strategies of non-conformity, not in Oliver’s (1991) manipulation strategy, but in avoidance or defiance of externally imposed ideas.

4.3 Dynamics in organisational self-understanding and dynamics in other systems of meaning

As we have seen in the discussions on various systems of meaning, they all address questions of stability and change, i.e. dynamics. Hence, it lies near at hand to look for possible parallels between dynamics in strategists’ ways-of-thinking, organisational culture, industrial wisdom etc. and dynamics in organisational self-understanding. Usually, there is a tendency to ascribe stability to systems of meaning (Gagliardi 1986; Johnson 1987; Schein 1985). Systems of meaning are shaped historically which makes it almost impossible to create novelty from a blank sheet in established contexts. Often being conceived as institutionalised, they are by definition taken for granted and infused with value (Selznick 1957). Hence, change is difficult to bring about and often met with resistance. As the systems of meaning guide how people make sense of reality their stability also tends to stabilise strategic action.

While the case for stability in systems of meaning lies clearly at hand, the question of change is more challenging. In his classical work on cultural change Gagliardi (1986) talks of cultural revolutions. However, he states that they are difficult to bring about and he does not elaborate very deeply on how to achieve them. As Gioia et al. (1998) point out, postmodernist scholarship takes a radically different approach to the inertia question, challenging the existence of stability at all. Though there are certainly cases where this assumption is justified, it does not bring us further in understanding the many empirical cases where stability in systems of meaning actually leads to strategic inertia (Bartunek 1984; Dutton and Dukerich 1991). One approach to change would of course be managerial fiat in a functionalist sense. For example, Gagliardi (1986) talks of the need for divestments, investments, new recruitments and change of symbols to bring about a cultural revolution. However, considering that systems of meaning arise over time out of social interaction (Berger and Luckmann 1966), the room for managerial influence is limited. What options are left? One is the interaction of various systems of meaning previously discussed, considering that tensions arise in a dialectical manner between systems of meaning on various levels of analysis, e.g. the culture and the sub-
culture, the experienced identity and the image, the strategist’s way-of-thinking and the organisation’s culture. These dialectics eventually lead to change (Czarniawska and Joerges 1996; Dutton and Dukerich 1991; Greenwood and Hinings 1996; Hellgren and Melin 1993; Salzer 1994). A third approach to change in systems of meaning is the division of change into different types. While it may be difficult to bring about one kind of change, the other kind of change may occur more easily.

4.3.1 Different types of change
Change can take different forms. The simplest way of distinguishing between different types of change is based on magnitude, e.g. small or big change. More elaborate typologies of change can also take other aspects into account, e.g. how change happens. In an organisational setting change can refer to various issues, but in the context of this thesis the emphasis is of course on changes in strategy as well as in systems of meaning, like organisational self-understanding.

Piaget: assimilation and accommodation
The Swiss biologist and psychologist Piaget (1947/2001) was interested in the development of the cognitive structures of infants, i.e. their systems of meaning. He found that these cognitive structures developed in two ways, namely through assimilation and accommodation. Assimilation denotes the incorporation of new experiences into existing cognitive structures. The existing structures remain relatively stable while the information is modified in order to fit into them. When the existing structures are not sufficient to make sense of new information they have to be accommodated. They are changed in order to be able to handle the new experiences. Accommodation thus leads to more radical novelty than assimilation, which is basically conservative although it allows for limited change. To Piaget, assimilation is the predominant way of learning, while accommodation happens during limited periods of disequilibrium. This view on infants’ learning is similar to Kuhn’s (1962) findings on learning in the scientific community. Long periods of normal science are disrupted by paradigm shifts that overthrow established ways-of-thinking.

There are a number of dichotomies in management literature that are similar to the assimilation-accommodation one of Piaget. Watzlawick, Weakland and Frish (1974) talk of first-order and second-order change, where the former implies that change happens within the frame of the prevailing orientation, while the latter assumes a change of strategic orientation as such (Greenwood and Hinings 1988). In a similar vein, Johnson (1987) talks of evolutionary and revolutionary change. Argyris and Schön (1978) distinguish between single-loop and double-loop learning, where double-loop learning refers to a meta level, i.e. learning how to learn. Tushman and Romanelli (1985) found that organisational development is characterised by punctuated equilibrium, meaning that long periods of incremental change and equilibrium are disrupted by revolutionary periods, which substantially change established
patterns. Building on the punctuated equilibrium model, Anderson and Tushman (1990) distinguish between technological discontinuities and periods of incremental change. They claim that even discontinuous change can be subdivided into two classes. Technological change can either be competence-enhancing, i.e. it is assimilated within the existing technologies, or it is competence-destroying and requires the accommodation of existing technological configurations. Unfortunately, Anderson and Tushman do not elaborate very much on the concepts of continuity and discontinuity. As we have seen in the previous chapter, the concepts are not simply synonyms of stability and change or small change and big change. Continuity and discontinuity refer rather to uninterruptedness or interruptedness in a line of development, which in itself may constitute change.

Referring explicitly to organisational culture, Gagliardi (1986) distinguishes between apparent cultural change and cultural revolution. The former is superficial and implies that some new practices are applied while the basic values remain the same. A fundamental change of values happens in a cultural revolution, but occurs only rarely. Almost inverting Gagliardi’s ideas, Gioia, Schultz and Corley (2000) have found that in identity change the superficial labels may remain stable in order to conceal changes on a deeper level of beliefs.

The dichotomies mentioned here, mainly have two weaknesses. First of all, most of them, except for the one of Piaget (1947/2001), pay little attention to how change is actually experienced. The quality of change is seen as given. Change is either big or small, evolutionary or revolutionary. However, if we take an interpretivist perspective, we cannot regard change as big or small per se. Our attention shifts to the question how actors perceive change. This implies that the same change can be interpreted in different ways and that such interpretation can be influenced by managerial sense giving (Gioia and Chittepdedi 1991), at least to some degree. Secondly, the dichotomies do not allow for the existence of stability and change at the same time. However, it is hard to imagine any empirical situation where everything changes at once. Again, the concept of continuity may help us. It leaves room for stability and change to exist in parallel.

**Melander: change in institutional and situational beliefs**

Melander (1997) distances himself from the evolutionary-revolutionary dichotomy. He claims that change and stability often occur simultaneously. Even if major changes in some beliefs occurs, others remain stable. Still, Melander’s reasoning resembles that of Piaget (1947/2001) in distinguishing between two kinds of change. Having studied systems of meaning on the industry level, Melander talks of an industrial wisdom comprising institutional as well as situational beliefs. While the former are relatively stable, the latter are in constant motion. The institutional beliefs form a framework for the development of situational beliefs.
A shell, as a metaphor […] illustrates the role played by institutional beliefs in directing and encouraging the development of issue related situational beliefs. In this situational dimension, the industrial wisdom is in constant motion, new issues enter, are labelled and linked to solutions.

Melander (1997:319)

In Piaget’s words the changing situational beliefs would thus allow new events to be assimilated in the existing institutional beliefs. Only in rare cases, are changes so big that institutional beliefs have to be accommodated.

As events or actions are radical enough, or as minor events and actions build a systematic pressure, institutional beliefs are no longer in a position to offer labels and solutions that are trustworthy, i.e. […] some institutional beliefs gradually [loose] their context.

Melander (1997:329)

In addition to Piaget, Melander’s ideas offer an interesting temporal distinction. While the situational beliefs are short-lived and closely linked to current issues, the institutional beliefs claim long-term or even timeless validity. They come close to the paradigm concept (Johnson 1987) as well as for instance Albert and Whetten’s (1985) conception of identity on the organisational level. In functioning as a shell, they enable a relatively flexible application of situational beliefs and hence allow for change.

4.3.2 Different types of change in organisational self-understanding?

The ideas of both Piaget and Melander on changes in systems of meaning offer interesting clues for investigating the dynamics of strategy and organisational self-understanding. It seems meaningful to draw parallels between Melander’s institutional beliefs and self-understanding. Is there perhaps also a parallel to the situational beliefs? Likewise, Piaget’s distinction between accommodation and assimilation suggests that it can be helpful to make a distinction between changes that do not disrupt organisational self-understanding while others call for changing it. Finally, the concept of continuity seems interesting in the context of self-understanding. It allows for change and stability at the same time and puts emphasis on the uninterruptedness of developments over time rather than the mere magnitude of change. Hence, continuity is by definition concerned with history.

4.4 History in organisations

As outlined previously, I see strategy as well as organisational self-understanding as inherently historical phenomena. To both, the past matters. Self-understanding is among other things about understanding the organisation’s
history and the very idea of a self assumes that there is at least some degree of continuity over time. For strategy on the other hand, patterns recognised in hindsight can become an important ingredient. Hence, history is important in two ways. On the one hand it sets the preconditions for present and future (Kimberly and Bouchikhi 1995) by being the origin of resource configurations (Barney 1986; Pfeffer and Salancik 1978) and value systems (Normann 1975). The researcher investigating strategy processes should therefore pay attention to the past. On the other hand, history also matters to organisational members in a more explicit sense. As individuals or collectively, they have the ability to look into the rear-view mirror. People can and do reflect upon history and talk about it. In particular, self-understanding often relates directly to past events, providing a point of reference for understanding who or what the organisation is (Karlsson 1999; Schulze 1987). Strategy research should therefore not only be interested in what the past was like, but also how organisations and their members relate to the past. Therefore, to round off this frame of reference the treatment of history in organisations will be addressed, beginning with general views on history and concluding with research on how history can be used purposefully by actors.

4.4.1 Processual and mythological historical consciousness

There are different ways of relating to past events. One important distinction is whether we approach historical events as process\(^1\) or as myth. While everyday language often treats myth as something 'less true' than 'real' history, the processual-mythological distinction actually refers to the claims made by accounts of history as well as assumptions about the nature of historical processes.

Both processual and mythological accounts refer to past events. However, in myths these events stand for universal and timeless principles, which they embody. Historical events are not mainly important for their own sake, it is even discussable if it is important at all whether they have actually taken place. The importance of past events rather lies in the assumption that they tell us something about structures with timeless validity that simultaneously relate to past, present and future. In doing this, they can both legitimise existing structures and provide guidance for future action.

The strength of mythological consciousness lies in the ability to shape and maintain unified and indivisible ideational worlds\(^2\) and cultural patterns. The value of this consciousness for the individual therefore lies in its ability to

\(^1\) The use of concepts is not consistent across authors here. Karlsson (1999) uses the dichotomy of a processual versus a mythological historical consciousness (in the Swedish original: histriemedvetande), while Bonhoeffer (1949/1998) talks of history versus myth. Also in Karlsson's work the history-myth distinction is implicit as he labels mythological historical consciousness as basically ahiistorical. I will stick to Karlsson's concepts here, since I find that they illustrate the distinction between the two modes of historical consciousness very clearly.

\(^2\) In the Swedish original: föreställningsvärlar.
Organisational self-understanding and the strategy process

contribute to security and orientation in an existence that has gone astray and in
an insecure world. The political value lies in its ability to provide groups
possessing or seeking power a historical anchoring and a legitimacy that builds
more on tradition and continuity than on formal election results.

Karlsson (1999:40), my translation

While myth has a cyclical conception of time, where the same patterns are
repeated over and over again, processual accounts of history regard historical
events as occurring in a sequential process. To Bonhoeffer (1949/1998),
(processual) history is characterised by events changing the course of history,
rather than “being transient carriers of eternal values” (p. 94, my translation).
This does not mean that history, remembrance and continuity are not
important in Bonhoeffer’s view. To him, also (processual) history provides
continuity, but rather in the form of a historical heritage that shows us where
we come from. The idea of heritage implies that we can treat the past, but this

21 treatment involves the possibility to make things different and thus to bring
about change. Human beings are thus not slaves of timeless fate, but rather
agents who can bring about change and whose deeds involve responsibility
(Bonhoeffer 1951/1994).22 Similarly, Karlsson (1999) emphasises that in
processual historical consciousness, history is seen as a process characterised “by
change that to a large extent is created by human ability to take action” (p. 39,
my translation).

Looking at the processual-mythological distinction both are actually in some
way action oriented. In principle, myth does not leave much room for change.
Actions are rather seen as manifestations of general principles. Nevertheless,
myths paradoxically enable action as they provide guidance for it. A processual
view of history, assumes that conditions change over time. Thus people are
creators and potential changers of history, which is a reference point for – not a
determinant – of action.

4.4.2 Processual and mythological views of history in organisations

In academic literature on organisations the concept of myth has received by far
more attention than that of processual history. A seminal piece of work is that
of Hedberg and Jönsson (1977) who describe myths as theories of the world
that are operationalised in strategies.

Like most mappings of reality, myths vary in accuracy, and they may even be
completely false. Myths are stored as constructs in human brains, and they are

21 In the German original: verarbeiten.
22 The contributions by Bonhoeffer and Karlsson both address the distinction between
mythological and processual views on history (or in Bonhoeffer’s words myth and history). The
authors differ in the respect that Bonhoeffer from this distinction moves on to ethical
considerations. Although this thesis takes no ethical stance to the use of history, I include
Bonhoeffer’s ethical ideas since they provide interesting insights into the consequences of the
processual-mythological distinction.
always simplified and partly wrong. Still, so long as ruling myths remain unchallenged, they provide the interpretations of reality upon which organisations act.

Hedberg and Jönsson (1977:91)

In Hedberg and Jönsson’s definition, myth hence refers to the general principals rather than the past events in which these principles become manifest. Their conception of myth refers to a system of meaning that is close to Schein’s (1985) basic assumptions or Johnson’s (1987) paradigm. Gagliardi (1986) uses the myth concept in a similar way, saying that it constitutes the long-term memory of the organisation. This mythical knowledge is stable over time and changing it implies a cultural revolution. If we recall that we defined organisational self-understanding as a collective theory of the organisation’s identity, self-understanding is a myth in Hedberg and Jönsson’s sense, more specifically a myth referring to the organisation’s identity. Interestingly, Hedberg and Jönsson point out that while in principle claiming timeless validity, myths actually change over time. While the myth functions as a filter guiding the understanding of the world as well as action, the strategies derived from the myth do not always lead to the expected results. There is a misfit between the myth and perceived reality. The same thing than happens to the myth as to institutional beliefs (Melander 1997) that fail to offer trustworthy labels and solutions to issues – the myth is eventually replaced. Hedberg and Jönsson (1977) thus see wave patterns of myths coming and disappearing over time.

Considering that according to Karlsson (1999) and Bonhoeffer (1949/1998), myths do not only relate to general principles, but also see such principles as being manifest in past events, the telling of stories about such events becomes important. Boje (1991) sees storytelling as occurring in the interface of individual and collective memory. By telling stories, myths are communicated and spread. Organisational members arrive at more or less shared conceptions of the past. Johnson (1992) stresses the function of stories in hedging and protecting the paradigm. By telling stories that reflect basic values and assumptions, these are reinforced and spread throughout the organisation.

Also the growing stream of narrative research draws attention to narrative as the main source of knowledge in organisations (Czarniawska 1997). Storytelling plays a major role in communication. Czarniawska (1997) even states that “social life is a narrative” (p.12). She outlines how stories are told in

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23 Johnson Johnson (1992) himself, however, regards paradigm and myth as two distinct concepts. To him, the paradigm (like myth for Hedberg and Jönsson (1977) and Gagliardi (1986) denotes basic assumptions and beliefs while stories and myths are part of the web of artefacts that hedge and protect the paradigm. Johnson’s idea of myth thus comes closer to Karlsson (1999) and Bonhoeffer (1949/1998) seeing it as a conception of past events manifesting general principles (the paradigm).
organisations, about organisations and even by organisations when these for instance make identity claims. Drawing upon Ricoeur (1981), Czarniawska considers meaningful action as a text that has a life of its own free from its creator. To me, this broad definition of narrative has the disadvantage that very much becomes a narrative by definition. This may offer interesting opportunities for interpreting social life. However, it also risks diluting our attention from stories in a narrower sense.

While organisational literature has said much on myth, also explicitly using this concept, little has been said on history in a processual sense that puts an emphasis on change rather than continuous principles. One reason might of course be that changing history offers less clear-cut guidance in specific situations as it is by definition open to multiple courses of action. It may also be difficult in practice to distinguish between a processual and a mythological historical consciousness. What accounts of history in an organisation refer to change and what accounts refer to eternal principles? Is there maybe an overlap between the two sides of the dichotomy in the sense that the possibility for change itself is a principle? Even though the distinction between processual or mythological historical consciousness can be problematic, it may offer interesting insights into the dynamics of strategy to look at how organisations treat their history. Is history used to derive and communicate principles of continued validity or is it open to change and agency? As we will see in the following section, Karlsson (1999) offers additional ideas regarding such different uses of history.

### 4.4.3 Using history in organisations

History is not only important to understand how self-understanding and strategy have developed over time. Reference to history can also be used purposefully by strategic actors to achieve specific goals. In this context, Karlsson (1999) talks of *living history or history as consciousness*, meaning “the history that we subjectively find relevant in our situation of life and that we make use of” (p. 38, my translation). The use of history has been addressed by different authors during the 19th and 20th centuries (cf. Zander 2001 for a review). More recently, interest in the phenomenon has been increasing, leading to the emergence of a distinct research field (cf. Aronsson 2004 for a review). Several contributions to the field point at the importance of the use of history to the identity (Zander 1997) or self-understanding (Karlsson 1999) of nations or societies. Karlsson (1999) uses the former Soviet Union, its nations and the states emerging on its former territory as a case in his work on collective self-understanding and the use of history. Despite the different level of analysis his

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24 Karlsson (1999) in this context talks of three levels of (or perspectives on) history. The first, *history as facts*, relates to collecting data about historical events, e.g. the text of a treaty, the date it was signed etc. The second, *history as interpretation*, problematises the role of ‘facts’, which have to be interpreted and related to existing pre-understandings. Finally, *history as consciousness*, denotes the subjective experience and use of history as well as its linking to present and future.
work offers interesting insights into the relationship of organisational self-understanding and the use of history in organisations. Drawing upon Gadamer’s (1960) idea of self-understanding as emerging through the understanding of something significantly different, Karlsson’s assumption is that human beings, be it individually or collectively, tend to relate their self-understanding to history.

A point of departure […] is that a society’s understanding of itself does not reveal itself so much in direct accounts of the contemporary societal status than in its consciousness of the past. A society’s ideas of history thus say something critical about its understanding of the contemporary situation and its propensity to change and development and thus historical development itself.

Karlsson (1999:11), my translation

This self-understanding and the use of history thus also directly relate to the collective’s attitude to change. Karlsson affirms that the importance of historical reference to self-understanding can differ from case to case and change over time. The reason for this is that self-understanding is not static, but develops in a hermeneutical process. Also the importance of history to self-understanding varies.

Self-understanding is thus itself a historical phenomenon. Hence, also the possibility and the willingness to use history as an expression of self-understanding differs from individual to individual, from society to society and from one time to another.

Karlsson (1999:12), my translation

Karlsson proposes that in revolutionary periods, the ruling (revolutionary) elites largely refrain from historical reference, while their opponents use history as a template for a better future. On the contrary, during periods of restoration, ruling elites use history intensively in order to derive legitimacy from the past. In an attempt to construct a typology of different uses of history, Karlsson (1999) arrives at five different uses, corresponding to different needs, having different users and functions.
Organisational self-understanding and the strategy process

Table 4-1. Needs, uses, users and functions of history (Karlsson 1999:57, my translation).

<table>
<thead>
<tr>
<th>Need</th>
<th>Use</th>
<th>User</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discover</td>
<td>Scientific</td>
<td>Historian</td>
<td>Verification/ falsification</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>Interpretation</td>
</tr>
<tr>
<td>Remember</td>
<td>Existential</td>
<td>All</td>
<td>Anchoring</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Orientation</td>
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<tr>
<td>Rediscover</td>
<td>Moral</td>
<td>Broad parts of the population</td>
<td>Restoration</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Rehabilitation</td>
</tr>
<tr>
<td>Invent</td>
<td>Ideological</td>
<td>Intellectual and political elites</td>
<td>Rationalisation</td>
</tr>
<tr>
<td>Construct</td>
<td></td>
<td></td>
<td>Legitimation</td>
</tr>
<tr>
<td>Forget</td>
<td>Non-use</td>
<td>Intellectual and political elites</td>
<td>Legitimation</td>
</tr>
</tbody>
</table>

In practice, the different types may overlap and the importance of the specific types of course varies over time. Again, the typology refers to the societal level of analysis, but parallels to organisations can easily be drawn.

The scientific use of history occurs when a researcher critically examines the history of an organisation. Such work is for instance done by business historians. The genre of official corporate biographies often lies in a grey zone (Kimberly 1987), considering that they represent different degrees of scientific ambition and rigour. As accounts of history they can be applied by different users and for different purposes. In an organisational context, the scientific use of history is usually done by outsiders. Few organisations employ historians, except for limited projects on corporate history.

The other four uses concern organisational members. Drawing upon Karlsson’s table one should expect that the existential and the moral use of history are performed by, if not all, then at least broad groups of members. The existential use of history refers to the human need of anchoring oneself within a broader context. It hence comes close to identification. Organisational self-understanding, relating not only to the present but also to history, provides a basis for such anchoring and gives orientation for the future. The moral use of history relates to the rediscovery and rehabilitation of parts of history that have been forgotten or suppressed. Karlsson mainly sees it as an opportunity for dissatisfied groups to take action against the establishment. However, he affirms that the moral and ideological uses easily go hand in hand when elites rediscover past events to legitimise changes. In an organisational setting this might for instance be the case in an attempt to go back to basics after having
strayed’ into unrelated diversification. The example of Finarom that once again is to revert to what it was 20 years ago, is an example of a combined moral and ideological use of history.

The ideological and non-use types of history use are mainly attributed to elites, i.e. management in an organisational context. Both are expressions of purposeful politics. Ideological use is basically about shaping a historical construction that serves the elite’s purposes, the “invention of tradition”, as Hobsbawm and Ranger (1992) call it. Schulze (1987) metaphorically calls history a quarry. Drawing on this imagery, one can imagine the user of history picking stones (historical events) from the quarry and cutting (interpreting) them to fit into his/her ideological building. At the same time s/he discards those stones that do not fit in. Considering the close relationship of history and self-understanding, the construction of history is at least partly a construction of self-understanding. As we have seen in the previous chapters, the possibilities to manage meaning in a functional sense are limited. Still, management is in a privileged position to give sense (Gioia and Chittepeddi 1991) by providing and communicating ready-made interpretations of history as well as conclusions from them. Finally, when it comes to the non-use of history, talking of it as a use is in itself paradoxical. Yet it comes close to the ideological use since the purposeful omission of historical reference has a strong political potential. By portraying an organisation as genuinely new without historical predecessors, it becomes detached from established ideas of how an organisation should function. The rhetoric of the so-called ‘new economy’ was an example of a deliberate refraining from historical continuity.

4.4.4 Self-understanding and uses of history in organisations

The use of history is not limited to collectives on the national or societal level. History is also used in and by organisations, as Lundström (2004) demonstrates in her licentiate thesis on Ericsson. Also the findings of Gioia, Schultz and Corley (2000) indicate that the self-understanding of an organisation is closely related to the interpretation of its history. New interpretations of history are presented in order to legitimise a different self-understanding. Despite a few exceptions, the use of history in relation to organisational self-understanding has been little addressed in research. Lundström’s (2004) work is unique in putting the organisational use of history in focus in a research project. Her empirical findings are comprehensive while the theoretical elaboration remains very brief.

Generally, management literature shows relatively little interest in history. Many theoretical models with a longitudinal dimension, also those concerning identity change (Gioia, Schultz and Corley 2000; Reger et al. 1994b), are about the movement of the organisation from the present to the future. When the past is addressed it is usually regarded as background information for better understanding the present, setting constraints for coming developments (Kimberly and Bouchikhi 1995). However, little room is left for managerial
proactiveness. The past is no longer there so what can a manager do about it anyway? Such a view however does not take into account that the past may be present in organisational self-understanding and that present as well as future states of the organisation can be affected by the use of history. Like organisational self-understanding in general, the understanding of the organisation’s history becomes strategically important and inherently political. As there are different possible ways of interpreting the past\footnote{My view on history is not radically relativist. I do not believe that all interpretations of the past are equally good. In some cases, accounts of the past are even wrong. However, what is important in this context is that people interpret the past in different ways. They may even consciously design their accounts of the past in order to achieve specific goals. Interpretations of the past differ from interpretations of the present in that respect that they are usually more difficult to test against personal experiences. Such experiences may have become blurred over time or people have simply entered the organisation too late to have specific experiences.}, there is a potential for changes in understanding as well as contests between different understandings. The strategic importance of changing interpretations of history has already been pointed out by Gioia, Schultz and Corley (2000), drawing upon historical revisionism. There is however still a need to dig deeper in that direction and paying more attention to uses of history in organisations.

4.5 From theory to the interpretation of empirical cases

After the extensive discussion of theory relating to organisational self-understanding as well as strategy, time has now come to turn to methodology and the empirical part of the research project. The whole theoretical frame of reference is going to serve as an interpretive framework for making sense of my empirical data. I am going to conclude the present chapter by presenting some means that aim at helping me in my interpretive work. First, I will outline an attempt to visualise the dynamics of strategy and organisational self-understanding and secondly, I will formulate a number of questions for data interpretation to be addressed when making sense of my cases. The visualisation as well as the questions for data interpretation refer to some of the central issues in the frame of reference.

4.5.1 Visualising the dynamics of strategy and organisational self-understanding

Strategy processes, involving multiple interacting forces and a development over time are difficult to capture in words. Mintzberg and Waters (1985) have tried to cope with this problem by illustrating strategy processes graphically. Such a schematic representation always involves a compromise between the need to simplify in order to avoid overloaded pictures and the desire to capture the complexity of social processes. Although visualisation implies simplification, it can help understanding what happens during a strategy process. Using
Mintzberg and Waters (1985) as a source of inspiration, I try to summarise some ideas from the previous literature review graphically.

![Figure 4-1. Visualisation of the dynamics of strategy and self-understanding.](image)

A starting point can be to see organisational self-understanding as a context for strategic action. In the picture this is symbolised by the dashed channel, the movement from the left to the right standing for the temporal course of events. Strategic action is symbolised by the stream of short arrows from left to right. Although different strategic actions are not perfectly streamlined, they still form a rather consistent pattern. One reason for this is the guidance strategic action receives from the organisation’s self-understanding. Being a system of meaning, self-understanding, influences how the organisation’s situation is interpreted, what action is legitimate and what meaning is ascribed to action. At point 1 thus strategic action is well in line with self-understanding.

However, at point 2 the general direction of strategic action changes. The trigger may be a force external to organisational self-understanding, here symbolised by the long arrow. Referring back to the review of theory there is a multitude of candidates for what kind of force might change the direction of strategic action. It could for instance be a new top manager who initiates change, bringing a new way-of-thinking into the organisation (Hellgren and Melin 1993). It could also be a group of members of the organisation who come up with ideas for change or it might be a change in the organisation’s environment, like in Gioia and Thomas’s (1996) study of strategic change in academia where economic and political changes triggered universities to rethink their strategies.

A change in strategic direction does not necessarily challenge the organisation’s self-understanding. In some cases however it does. Strategic action is then incongruent with the established self-understanding of the organisation and tensions emerge (3), like in Glynn’s (2000) orchestra case where an increasing emphasis on economic considerations stood in conflict
Organisational self-understanding and the strategy process

with the artistic, utilitarian self-understanding held by large parts of the orchestra. There are different possible outcomes of such tensions. The self-understanding of the organisation can inhibit change. This would support the argument of seeing organisational self-understanding as an inertial force (Reger et al. 1994a). It is also possible that the tensions prevail over a longer period of time leading to a stalemate between forces pushing for change and an inertial self-understanding (Glynn 2000). Finally, as in the illustration strategic change can also be accompanied by an eventual change in self-understanding opening the way for a strategic direction that is different from the original one (4).

The description above gives of course a simplified picture of the dynamics of strategy and self-understanding as they are described in the literature. However, I think it constitutes a usable starting-point for analysis since it covers the common idea of self-understanding as a guiding context for strategic action (e.g. Ashforth and Mael 1996; Reger et al. 1998). It also highlights the idea of tensions between strategic change and self-understanding that can often be found (e.g. Dutton and Dukerich 1991; Reger et al. 1994a). Using visualisation for interpreting my empirical data will hopefully help to refine the very general ideas above and to gain insights into the change and stability of strategy and organisational self-understanding.

4.5.2 The purpose revisited: Questions for data interpretation

After the extensive discussion of theory relating to organisational self-understanding as well as strategy, it is now time to revisit the purpose and to see how it can be practically fulfilled. The purpose stated in the first chapter ran as follows:

The purpose of this dissertation is to understand strategy processes by examining the role of organisational self-understanding. This includes showing the usefulness of the self-understanding concept as well as conceptualising on self-understanding in strategy processes.

Now, the purpose as such is rather general. In order to have some guidance for data gathering and the initial interpretation of my cases, it is necessary to specify more precisely what to look for in my empirical material. Building on the previous theoretical discussion, I thus want to formulate the following questions for data gathering and interpretation.

- What aspects of the organisation’s self-understanding are salient in the particular cases and how do they affect the way the organisation’s situation is perceived? The aspects of the organisation’s self-understanding that are salient may differ from one empirical situation to the other. Considering that organisational self-understanding is a system of meaning a crucial question is how self-understanding affects members’ interpretation of the organisation’s
situation (Dutton and Dukerich 1991). In this context it is also important to see whether there is consensus around the organisation’s self-understanding and its implications or if different opinions result in political tensions (Glynn 2000).

- **What additional systems of meaning are important in a particular situation and how does the meaning they provide relate to the meaning provided by self-understanding?** Systems of meaning overlap (Salzer 1994) and in an empirical situation, different systems of meaning can be forces pulling and pushing the organisation into different directions. Examples of such systems of meaning are the ways-of-thinking of individual strategists (Hellgren and Melin 1993) or institutionalised ideas on a field-level (DiMaggio and Powell 1983). They may give rise to dynamics with self-understanding if they suggest a different interpretation of the situation or a different course of action.

- **What kinds of tensions are there between organisational self-understanding and different strategic options and what are the outcomes of these tensions over time?** Tensions are an important trigger for change (Normann 1975), but what is it that changes? Is it strategy or self-understanding or both? How do these changes happen? Do the tensions eventually disappear? Moreover, tensions as well as members’ views on them can differ. The nature and magnitude of tensions are likely to influence how they are perceived and how the organisation deals with them.

- **Are there deliberate attempts by management to influence the organisation’s self-understanding?** If so, what are the motives behind and the outcomes of this behaviour? As we have seen previously, the manageability of organisational self-understanding is problematic and disputed (Gioia et al. 1998). The political nature of self-understanding (Albert and Whetten 1985) however makes it interesting to influence it. Like other systems of meaning, organisational self-understanding arises from social interaction and cannot be controlled in a functional sense by any single actor (c.f. Berger and Luckmann 1966; Smircich 1983a). Yet, due to their central role to sense-making and sense-giving in the organisation (Gioia and Chittepędzi 1991), managers are likely to be highly influential co-creators of organisational self-understanding.

- **What roles do past, present and future play in organisational self-understanding?** Self-understanding relates to the present understanding of the organisation’s identity, but this understanding can relate to ideas of the organisation’s future identity (Gioia and Thomas 1996) as well as to interpretations of the organisation’s history (Karlsson 1999).
Organisational self-understanding and the strategy process

- How is history used and what view on its own history prevails in the organisations? The character of history can either be seen as mythological, reflecting timeless principles or processual, seeing history as witnessing change over time (Bonhoeffer 1949/1998; Karlsson 1999). Moreover, different uses of history are important to self-understanding as well as strategy (Karlsson 1999).

The questions defined above will provide guidance for data gathering as well as the first low-abstract interpretation of my cases in the empirical chapters of this dissertation\(^\text{26}\). Before going on to the cases, it is however time to discuss how to practically investigate the dynamics of organisational self-understanding and strategy. I will do that in the following chapter.

\(^{26}\) In this respect, the questions are not to be confused with research questions that specify a research aim and are to be answered as the conclusion of a project cf. Maxwell (1998).
5 Researching strategy and self-understanding

Now that I have outlined my research interest and my theoretical pre-understanding, it is time to ask and to answer the question how to do research on strategy and self-understanding. In the present chapter I will outline and motivate the design of my study as well as discuss criteria for evaluating the quality of my research. However, a depersonalised description of a research process gives the reader only limited opportunity to follow the work and the reasoning of the researcher. Research is always affected by the person or persons who carry it out. Before going into questions of research design, I will therefore discuss my view on research and trying to explain how this view relates to me as a person.

5.1 My working paradigm

This dissertation is about the self-understanding of organisations. Does it also have anything to do with my own self-understanding? I believe that it does. Research cannot be value-free (Denzin and Lincoln 1994; Melin 1977). It is influenced by our personal background as well as the values and assumptions we bring with us when we do research. Such assumptions can be specifically related to the topic of the research project, but can also relate to the researcher’s world view in a more general sense, addressing issues of ontology and epistemology. I agree with Miles and Huberman (1994) that we should make the assumptions underlying our work explicit to our audience in order to make the work easier to understand and assess. Such explicitness is not only valuable to the reader, but also to the researcher who can reflect more easily on what has influenced his/her work. Alvesson and Sköldberg (2000) hence see reflexivity as an important quality criterion. In this context, Melin (1977), drawing upon Thörnebom (1975) proposes the articulation of the researcher’s own working paradigm as a means of increasing reflexivity and make explicit the values held by the researcher. Although a discussion of the working paradigm can never be exhaustive, he argues that this is not an excuse for not trying. It would of course be unreasonable to include a comprehensive biography of the author as well as philosophical thesis on his/her world view in a management dissertation. The author has to make a choice what issues s/he finds most relevant. I am going to

27 Alvesson and Sköldberg (2000) in this context talk of reflexive methodology, calling for a very extensive reflexivity that goes into much detail, more or less making reflexivity the central characteristic of methodology. I do not apply reflexive methodology in that sense. However, I agree with Alvesson and Sköldberg that the researcher needs to be reflexive and that reflexivity therefore is an important quality criterion.

28 Melin uses the Swedish expression arbetsparadigm which literally translates into working paradigm.
try outlining my working paradigm in the following paragraphs. Thörnebom (1975) divides the working paradigm into four parts, namely the world view, the conception of science, the research strategy, and the role of the researcher. I will stick to these aspects and add a few paragraphs on my personal background which I think fit well into a dissertation about self-understanding. Although the concept of the working paradigm, like paradigm in other contexts (cf. Johnson 1987; Kuhn 1962), stands for relatively stable beliefs, a working paradigm is not unalterable nor does it stand above critique. A researcher should be reflexive about the working paradigm. Formulating it is a necessary step in this process of reflexivity.

5.1.1 My personal background and my own experiences of self-understanding

I was born in 1972 in Minden/Germany. As my father is Swedish and my mother German, I grew up speaking both Swedish and German. After graduating from secondary school I moved to Sweden in 1994 to study business administration at the newly founded Jönköping International Business School. During my four years of undergraduate and master studies, I met teachers who triggered my interest in trying to understand organisations and their strategies. Since 1998 I have had the opportunity to satisfy my curiosity as a PhD student. With my bi-national background, questions relating to identity have in a sense been tangible to me for almost all my life, even if I cannot say that my own background has consciously influenced my choice of subject for my dissertation. My interest in self-understanding came almost accidentally out of an empirical experience as described in chapter 1. However, my own experiences of self-understanding have been one point of reference when reflecting upon issues discussed in the identity literature. They have particularly influenced my point of view in two issues.

The first is the question of the subjectivity/objectivity of identity. It makes sense to say that personal identity relates to subjective understandings as well as to objective or at least highly institutionalised circumstances. Therefore, I find it meaningful to talk of my own subjective understanding of my identity as my self-understanding, thus distinguishing it from identity that may have features, which are independent of my own perceptions. As an example, I can to a large extent choose if I want to see myself as a German or as a Swede. Still, I cannot simply choose any arbitrary self-understanding, like seeing myself as a Japanese. My knowledge of Japan is limited, I have never been there, I do not understand the language, I do not have any ancestral ties to the country etc. Change in self-understanding, if it is feasible at all, requires more than mere rethinking, it also requires a change in aspects that self-understanding refers to.

29 As translated from Swedish by Melander (1997).
30 The limits of establishing parallels between personal and organisational self-understanding have been discussed earlier. For the two questions I am addressing here, using my personal experience as a point of reference has helped me to make up my mind.
The second point is the question of whether an individual has one or multiple identities. Of course, here the answer is again partly a matter of choice. I might choose to see myself as having multiple identities, e.g. as being a Swede and a German and a European and my wife’s husband and my son’s father and a PhD Candidate and a male etc or I might regard my identity as a Gestalt comprising all these aspects. However, with the multiple identity view the question of how these identities interact and relate to each other remains unresolved. I find the Gestalt alternative more meaningful. Even if some aspects of identity might be more salient than others in specific situations, this does not mean that the others become irrelevant. Moreover, different aspects of identity interact. Their totality is different from the sum of the parts.

5.1.2 My world view

Research is influenced by the researcher’s view of the world, assumptions about the nature of reality and how we can gain knowledge about it. An individual’s world view is under constant development in a hermeneutic sense. We strive to understand the world and the understanding we have at a given point in time serves as a pre-understanding for interpreting new experiences and further developing the understanding. We interpret new experiences by relating them to others. Hence, parts are understood through the whole and the whole is understood through its parts (Ödman 1979).

This implies that we have a world view prior to becoming researcher and that it makes little sense to divide our world view into types of watertight compartments, where for instance a scientific world view is kept totally apart from other beliefs. Early during my doctoral studies, I experienced that my Christian faith influenced my view on a couple of issues relating to the philosophy of science, in particular the nature of reality and humans’ ability to act purposefully in order to change reality. Since they are important to my working paradigm, I will address them here.

I am sceptical of overly idealist as well as of overly naturalist conceptions of reality. A belief in God as the creator of the universe implies a consciousness that there is reality apart from what we happen to think of it at a given point in time. This means that there are limits to our ability of constructing our reality. Creation comprises material as well as social circumstances and seeing the two as strictly separated makes little sense. Christian faith also implies that our subjective views of reality are not the ultimate and only reality we can

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5 The list can be extended more or less infinitely. The order does not imply any ranking.
6 When addressing issues relating to Christian faith during earlier stages of my research process, I have been met with interest and curiosity by some people while others reacted with little understanding. Among the latter, there seemed to be an assumption that science can – and should – be value-free at least with respect to religious beliefs. I think this is impossible. Even agnosticism, is not neutral ground. Rather than pretending neutrality we should be explicit on our beliefs. Stating beliefs, be they spiritual or not, does not mean that the reader needs to share them in order to understand the research. Rather they contribute to the reader’s understanding by making it easier to follow the researcher’s own process of understanding.
meaningfully talk about. As Berger puts it: “Christian faith means the conviction that the world finally makes sense in the light of Golgatha and Mount Sinai” (Berger 1992:196, my translation). In this sense the world is thus inherently meaningful from a Christian perspective.

Now, this dissertation is not about understanding what meaning God assigns to the world, but about understanding human actors and the meaning they assign to things. If they are created in the image of God, human beings are able to act purposefully, make choices, change themselves and their situation, and assign meaning to reality. A Christian world-view, in contrast to naturalist reductionism (Wallén 1996), does not see humans as mere biological entities acting according to deterministic laws of cause and effect. This view allows for genuine novelty (Bonhoeffer 1949/1998; Thiselton 1992) and sees meaning as central to the understanding of human beings. We always try to understand the phenomena we encounter and assign meaning to them. Consequently, in my view an understanding of social reality thus requires an interest in our material environment, as well as in social structures we have established over time and in the meanings we assign to phenomena.

I believe that reality exists independently of how we perceive it. Reality is on the one hand social, meaning that it is characterised by subjective meanings that have been assigned to phenomena by human beings. These meanings do not only describe social phenomena, they are also constitutive of them (Sayer 2000). As soon as the meanings we assign to social phenomena change, the phenomena themselves change as well. Such meanings may be solely related to the experiences and feelings of individuals, but they may also become shared in social groups, thus be objectified and gain facticity (Berger and Luckmann 1966). Such social structures are invisible but nevertheless real (Miles and Huberman 1994). In this sense, for instance institutions come to exist independently of individuals’ knowledge about them. However, social phenomena are not only constituted by meanings. They also have material constituents (Sayer 2000). Things exist and events happen independently of individuals’ knowledge or socially assigned meanings. We interpret the material world and the interpretations we make may be crucial to understanding social phenomena. Still the material constituents of reality as such will not change due to our interpretations of them. I believe that we cannot understand social reality by either looking at material conditions or by investigating individually or socially assigned meanings. Both constituents of social reality go hand in hand and should thus be subjects to our interest.

As I see social reality as being constituted by both material conditions and meanings, purely naturalist approaches to the social sciences have little appeal to me, neither do social constructionist approaches if they claim to offer a comprehensive understanding of reality rather than being a perspective illuminating reality from a specific angle. We need to consider the social and the material at the same time in order to get a comprehensive understanding of reality. This also holds true for research on self-understanding as in this dissertation project.
A further important aspect relating to a researcher’s philosophical stance is the view on causation. Classical positivism strived for uncovering of laws (Miles and Huberman 1994; Wallén 1996). Today this approach in its simplistic form is practically dead in the social sciences (Silverman 2001). Still it has its heirs in extensive research that is mainly concerned with finding regularities across large population (Sayer 2000). This research tradition certainly has useful areas of application and it is not my aim to rule it out as good practice in the social sciences. However, it is not congruent with the kind of knowledge I want to create and may thus serve as an illustrative contrast to my own approach. I am interested in understanding social phenomena in their uniqueness. Causation is then not found in regular successions of events, but explained in context (Miles and Huberman 1994; Sayer 2000). It is “neither linear nor singular” thus changes can have multiple causes under different conditions (Pettigrew 1990: 270). What are the reasons for a specific course of events occurring under specific circumstances? What was necessary for the phenomena to occur in the way they did? Some authors (e.g. Denzin and Lincoln 1994) see a dichotomy of research traditions interested in meaning and such looking for causation. To me, these two interests are compatible and may even require each other. Why should meaning not cause people to act in a specific way? Causation must then be considered in conjunction with human agency. Even though we live in a world where material conditions and social structures are maybe difficult or sometimes impossible to change, I believe that there is always room for human choice. Choice and human action are not pre-determined by social laws. This makes prediction in the social sciences so problematic. Although we may find regularities in people’s past behaviour this does not mean that historical patterns will continue in the future or that an outcome can be predicted from a set of antecedents. However, by understanding the causes of historical phenomena we can gain insights that help us to understand similar situations in the present or in the future. The knowledge I am aiming to produce is thus on the one hand context specific as it gives empirical accounts of cases and tries to understand these in their uniqueness. On the other hand, understanding gained from intensive research on single cases may be abstracted theoretically (Yin 1989) and in this sense generalisable to other contexts.

5.1.3 My conception of science and my role as a researcher

The question about the world view is closely related to the question of what kind of claims about reality I can make as a researcher. My previous discussions comprise elements of objectivism as well as of subjectivism. On the one hand I have emphasized the importance of personal values and beliefs to the research process, on the other hand I have stated the belief that there is a reality external to ourselves that we investigate.

The nature of our claims of reality of course depends on the kind of research we are doing. Research on the physical properties of an object will result in claims that are different from the results of interpretive research on
social processes. My aim with the present research project is to understand strategy processes. This involves understanding the ideas of the people involved in such processes. My research is thus interpretive and I will therefore concentrate on that type of research when discussing my conception of science.

My role as a researcher in interpretive research

The role of the researcher in interpretive research is to understand reality. Understanding implies seeing something as something. The researcher tries to interpret reality, attaching meaning to it and arriving at an understanding that provides a basis, a pre-understanding, for further interpretation (Ödman 1979). The seeing of something as something implies that there are alternative interpretations of the same phenomenon. How we see it, depends on our pre-understandings and the aspects of the interpreted that we choose to highlight. We thus interpret from different perspectives. Hence, alternative interpretations need not be contradictory (Pettigrew 1990). They can serve as complements to each other and together develop our understanding. An illustrative example from management literature are the ten schools of thought in strategy, identified by Mintzberg, Ahlstrand and Lampel (1998). Strategy can be understood as ten (and probably more) different things. One perspective does not exclude the other and we may well use more than one to learn about the phenomenon we are studying.

Interpretation is dialectical. We understand the parts by understanding the whole and vice versa. Also the relationship between the researcher and the researched is dialectical (Ödman 1979). Interpretations consequently emerge in a sort of dialogue between the researcher and the researched. This becomes especially obvious when the research is based on data\textsuperscript{33} from interaction with actors in the empirical field, e.g. interviews or participant observation. In this case not only the understanding of the researcher, but also that of the actors is developed. The researcher’s role thus becomes to further mutual understanding (Melin 1977).

Knowledge that is gained in an interpretive process is not neutral in the sense that it represents reality in a way that is not influenced by the interpreter (Alvesson and Sköldberg 2000). The researcher’s pre-understanding that is part of the interpretation process is however not a bias that we should strive to eliminate. It rather provides him or her with a basis for formulating problems, searching for new ways of understanding phenomena and thus developing new knowledge (Ödman 1979). The knowledge a researcher develops is hence in a certain sense personal. Still, it is not totally relative. As it refers to real phenomena, which are at least partly external to the researcher, knowledge is

\textsuperscript{33}The concept of data is problematic in so far as data is sometimes conceived as objective material that has not been interpreted. I do not use the concept in that sense. The labelling of something as data implies an interpretation as such and we cannot know anything without interpreting it. With data I thus mean my empirical raw material, such as interview transcripts, field notes and documents.
questionable. We can ask for its congruence with other knowledge claims and, if we experience incongruence, argue for the trustworthiness of our knowledge claims. The researcher’s role is then not only to develop an understanding of reality, but also to argue for the trustworthiness of this understanding.

My role as a researcher in relation to the empirical field

My research involves interacting with actors in an empirical field. In my attempts to understand the dynamics of strategy and organisational self-understanding, I meet and interact with practitioners who are actors in strategy processes in business life. Hence it is meaningful to reflect upon my role and the meaning of my research in relation to these people and their work.

First of all one may ask what kind of contribution I as a researcher can make to managerial practice. While my potential contribution to academia lies in providing new knowledge in terms of theory, methodology and insights into empirical processes, the researcher’s contribution to practice is perhaps somewhat more controversial. Should I as a researcher for instance advise managers to take specific actions? Although there may be circumstances when such advice by a researcher is meaningful, I do not see it as my primary contribution to practice. However, I believe that research can make a contribution of a different nature. By offering a new perspective on a company’s strategy it can help managers to see their company, past decisions and future challenges in a novel way. It can also point at issues that managers should consider paying more attention to. The researcher’s role is thus to provide this perspective while it is management’s role to apply this perspective to their specific situation and to use it when it comes to strategy making. I hope that practitioners at Handelsbanken, Scania and elsewhere perceive my research on the role of identity in the strategy process as a helpful source of inspiration in their work.

A second question in relation to the field is that of research ethics. Doing extensive studies of Scania and Handelsbanken I have of course received access information that very few if any outsiders receive in an equally comprehensive manner. For me as a researcher and a curious individual this is of course an enormous privilege, but it also involves an ethical responsibility to think of the consequences of disseminating this information. Although most of the information was not confidential in a strict sense it might still be sensitive to the companies or to individuals. From the companies’ point of view, this issue can be solved relatively easily by letting company representatives read and approve empirical accounts. However, strategy processes also contain episodes that touch upon successes, failures or mistakes of individuals. Writing about such things may be unproblematic to the company while they are sensitive to the individuals. I believe that this implies an obligation to me as a researcher to carefully consider what details concerning individuals and their actions I reveal.

I will elaborate on the conditions for approval later in this chapter.
In this context I have to weigh the scientific interest of making fair descriptions of the empirical processes I am analysing against the interests of the individual. I see it as a deficit in previous research that this aspect is seldom addressed and agree with Hall (2003) that "ethics ought to have a much more central position within research" (p. 73). I will return to this issue when discussing my research design.

5.1.4 My research strategy
The research strategy has to relate to the questions that are seen as important and the methods that are regarded as suitable for investigating these questions (Melander 1997). I will address the details of my research strategy later in this chapter when I present my research design. Here, I will concentrate on my research strategy in a general sense, namely my choice to investigate the dynamics of strategy and self-understanding through longitudinal case studies. This choice is closely connected to the very fundamental question of what kind of knowledge I want to create.

Studying strategy processes with longitudinal case studies
I see a strategy process as being highly context specific, historically influenced and unique to every situation (Pettigrew 1990; Pettigrew 1997). Consequently, I believe that a thorough understanding of strategy processes can best be reached by studying single processes in their uniqueness. Still, although the processes themselves are context dependent, research on one or a few processes can give insights that result into new fragments of theory. These may well have an applicability that goes beyond the unique case that inspired their development (Melin 1977; Yin 1989).

The strategy process is by definition a development over time and as Melin (1998:61, my translation) puts it, its core is "the movement of the organisation from its history into the future." It is evident that such a movement cannot be captured in a snapshot. How shall we observe, not to mention understand, change and stability in an organisation if we do not follow it over time? While for research purposes one may choose to set a starting point and an end to the process one studies, such delimitations remain somehow artificial (Pettigrew 1985b). Kimberly and Bouchikhi (1995) point at the importance organisational history has for strategy development. They therefore apply a biographical approach (Bertaux 1980) that establishes an analogy between the life history of a person and that of an organisation. Such an analogy is of course particularly close at hand in studies relating to identity issues. Such an analogy "should not be pushed too far" (Kimberly and Bouchikhi 1995:10). Nevertheless, Kimberly and Bouchikhi (1995) assert that like humans the behaviour of organisations cannot be understood without appreciating their past experiences. This standpoint is well in line with the observation that identities of individuals as well as of organisations are shaped in processes over time and thus are outcomes of history (cf. Erikson 1979; Selznick 1957). A stance similar to that of
Kimberly and Bouchikhi has been taken by other scholars doing research on strategy processes, though without using the label of the biographical approach. In their seminal case studies Pettigrew (1985a) and Johnson (1987) provide their readers with thorough accounts of how the organisations under study have developed historically. An understanding of history thus becomes necessary in order to understand later phases of the process.

Pettigrew (1997:338) defines a process as “a sequence of individual or collective events, actions, and activities unfolding over time in context”. In his previous work he employs a similar definition, namely “a continuous, interdependent sequence of actions and events which is used to explain the origins, continuance, and outcome of some phenomena” (Pettigrew 1985a:36). The dividing line between process and context is then of course not given. What belongs to the sequence of events and what are contextual factors affecting it? Moreover, which parts of the context should be considered and which are negligible? There is no general answer to these questions. Defining process and context is up to the researcher, but s/he should be clear in doing that (Pettigrew 1985a).

Case studies – uniqueness and generalisability

If a strategy process is unique and context specific, research should aim at capturing such processes in their uniqueness. The appropriate way of doing this is to undertake in-depth studies of one or a few cases, i.e. strategy processes. By ‘in-depth’ I mean that the study should be based on data that is not only rich in mere volume, but also stems from multiple sources and covers an extended period of time (cf. Pettigrew 1990). Case studies aim at capturing the views of various groups that are involved in the process, meaning that the study draws upon multiple subjective perspectives on the same course of events (Melin 1977). Doing this, different interpretations, ambiguities, and conflicts appear that would remain invisible if we relied on single people or groups as informants. Even though much of this data comes from dialogues, either as interviews or as informal discussions, other sources should also be used. Methodological approaches inspired by ethnography remind us of the importance of participant observation (Atkinson and Hammersley 1994). Phenomena relating to culture and also to self-understanding are characterised by being at least partly tacit and unconscious (Hatch and Schultz 2000). Schein (1985) points out that cultures are based on hidden assumptions that result in values which again become manifest in artefacts. If the phenomena we are interested in are partly unconscious to the actors who are involved we can of course not expect the informants to make them explicit. Rather it becomes the researcher’s role to interpret interviews, as well as observations from meetings, events, sites etc. in order to deduce values and assumptions underlying the observable phenomena. In order to cover an extended period of time, the real-time study is preferably complemented by retrospective interviews and documentary analysis.
The outcome of such data collection is a case story, an account of the process as the researcher interprets and reconstructs it. This interpretation does not happen at a specific point in time, but is rather a process of understanding that unfolds in parallel with the data collection and continues when the fieldwork has been terminated. Such an account comes close to histography and may still be empiricist and atheoretical (Alvesson and Sköldberg 2000). Peteraf and Shenley (1997) criticise such case stories for failing to relate to existing conceptual frameworks and being poor in coming up with theoretical contributions. We should go a step beyond this. They therefore argue that researchers should present case studies, not mere case histories. In case studies, we should relate our findings to existing theory and analyse them trying to develop new theory. In this respect findings from single case studies may become generalisable. Theory stemming from one case can be transferred to other cases or as Yin (1989) puts it, we make analytical generalisations. Concepts that are derived from empirical data are abstracted to a theoretical language that is applicable to other contexts than the original cases.

5.2 The research design of my study

After this relatively general outline of my working paradigm, I am going to present the concrete design of my study.

5.2.1 Unit of analysis

The unit of analysis in my study is the strategy process in relation to a specific theme or issue. The focus on strategy processes lies near at hand considering my ambition to better understand strategy processes by examining the role of self-understanding. Now, strategy processes, not least in large companies, are multi-faceted and complex. Studying the strategy process of Scania or Handelsbanken would either require an enormous period of time or be relatively superficial. I have therefore chosen to concentrate on specific strategic themes that can be somewhat meaningfully delimited and which are interesting to the dissertation topic as questions of self-understanding become salient in them cf. PetLongitud. I will consider each theme and the strategy process relating to it as a case. Hence the cases do not equal the companies I have studied. Rather, there are three cases relating to each of the companies. Using several cases from each company implies the advantage that they have a common context and that they are part of each others’ contexts. Each single strategy process that forms a case is a part of the respective company’s strategy process at large which again forms part of the context for the case. Since the self-understanding refers to the organisational level of analysis, the cases from the same company by and large have the self-understanding in common even though different aspects of self-understanding may become salient in different cases.
5.2.2 Choice of organisations

Even if organisations are not the unit of analysis in my thesis, the choice of organisations where to look for cases is of course a critical step in the research process. When it comes to the number of organisations, there is a trade-off between the possibility to cover a great variety of different processes and the willingness to achieve depth. An important issue to consider is the kind of generalisability one wants to achieve with the research. My aim with this piece of research is neither to generalise statistically across populations of firms nor to make a comparative study, although I do not deny that this dissertation contains comparisons. Primarily, I want to contribute to theory by conceptualising on strategy and self-understanding. Hence, it becomes important to get a thorough understanding of the processes I study, rather than covering many processes. Studying several cases in one company implies the advantage that they have much of their context in common. This saves time when collecting data. However, as strategy processes are context dependent, studying processes with the same context offers a very limited picture of the phenomenon. Self-understanding is different from organisation to organisation and so, probably, is its role in the strategy process. Looking at several organisations in parallel can help to see phenomena that appear clearly in one of them, but may be more hidden in another. Observations from different organisations may thus put up questions, confirm or question assumptions and inspire reflection about each other. I have thus chosen to study cases from two organisations. This has given me the opportunity to dig relatively deeply into each of them, meeting many people at each organisation and spending time on reading about their development. At the same time, looking into cases with different contexts provided me with variation in my empirical material and enhanced the possibilities for cross-fertilisation across cases and across organisations.

When doing in-depth case studies in organisations, good access is a prerequisite. Consequently, it was also the main criterion for my choice of organisations. Moreover, I wanted to have access to organisations that seemed to have a distinctive self-understanding and where it seemed to be important to strategy-making. This might be seen as a bias since there may be companies where self-understanding plays a lesser role than in my observations. However, it was my intention to investigate the role self-understanding can play where it plays a role – not situations where self-understanding is of little importance. Finally, I wanted to study cases in companies that were not too similar in order to increase the likelihood of observing different examples of the dynamics of strategy and self-understanding. In this sense, the organisations should be polar types (Pettigrew 1990) at least along some dimensions.

The access criterion proved to be the most difficult one. I approached a number of different companies, which satisfied the second and the third criterion. The companies were identified based partly on previous contacts, partly on coverage in the media and partly on hints from colleagues. I wrote a
letter to the managing director where I shortly outlined my project and proposed to do a personal presentation. Some companies declined my request directly while others took a long time to reply, leading to a delay in my dissertation process. Finally, I gained access to two companies that fully satisfied my criteria, namely Scania and Handelsbanken. In the initial contacts I experienced that the companies found my project exciting, which was very positive for granting me good access. I knew Handelsbanken from a previous project\(^{35}\) where I had observed that the bank had a distinctive self-understanding that was important to its strategy. I had no previous contacts with Scania, but had heard from colleagues that the company had been characterised by a distinctive self-understanding during the time it was part of the Saab-Scania group. Apart from the Saab-Scania period the company had gone through a number of ownership changes that promised to be interesting in relation to my project.

Choosing companies to research implies that one at least implicitly refrains from studying others. Based on my experiences from Finarom I had originally planned to include a family business. However, access problems prevented me from studying cases from a family firm in this dissertation. The companies I ended up with were both large, internationally operating Swedish firms that were listed on the stock exchange. However, they differed for instance in terms of industry. Handelsbanken is a service company with almost no tangible products, while Scania is an industrial company, producing basically one product which can be seen on the roads every day. To me, this and other differences have proven to be fruitful when I was interpreting my empirical material. Of course, cases from different organisations would have led to different observations and probably partly different results. This will always be the case with case studies. However, I believe that my cases have resulted in interesting outcomes that, on a theoretical level, can be generalised beyond the context of my study.

5.2.3 My field work

In my field work, it was my intention to gather empirical material on Scania and Handelsbanken in general and on the cases of three strategy processes from each company in particular. The cases were not yet identified when I went out in the field. I wanted to get to know the companies more thoroughly before I decided on that question. While my initial contacts in the companies had been with each company’s managing director, I had contact persons on the executive management level that were my more regular contacts during the field work. They provided me with initial information, answered questions that came up and were particularly helpful as door openers to events as well as to individuals in the two organisations. As a condition for getting access both companies

\(^{35}\) The project dealt with strategic renewal in the European financial services industry. Handelsbanken was one among several companies covered, but I had the opportunity of meeting and interviewing Arne Mårtensson who at that time was managing director of the bank.
asked me to sign secrecy agreements. In return I was ensured that the companies would not interfere in my interpretations of what I observed. I did not perceive the secrecy agreements as a problem. Almost everything that was relevant for my thesis is actually not secret at all.

**Structure**

The beginning of my field work was characterised by the goal to learn more about the organisations, their business and their history and of course their self-understanding. An aim of the initial field work was also to identify interesting cases of strategic themes where self-understanding seemed to be particularly salient. For instance as the organisation’s self-understanding was challenged or because the situation for other reasons triggered members to reflect upon the identity of their organisation. The themes needed to be strategic in the sense that they were related to the long-term direction of the company (Johnson 1987). They did not necessarily have to be on top of management’s agenda, but should still be important rather than peripheral (Pettigrew 1985b). It seemed feasible to study three cases in each company as there would be certain between-case synergies in data collection. For instance, many interviewees had been personally involved in more than one case.

Subsequently, a number of themes emerged from my initial interviews and documentary studies. The themes seemed to engage the people I talked to, they related to the future directions of the companies and self-understanding was salient in all of them. These themes were:

- Scania’s modular design philosophy
- The design of Scania’s truck cabs
- Volvo’s failed attempt to take over Scania
- Handelsbanken’s introduction of Internet banking
- Handelsbanken’s acquisition of the mortgage bank Stadshypotek
- The internationalisation of Handelsbanken’s universal banking operations

Once I had identified the cases, I concentrated my data collection on them. I emphasised the cases in my interviews, tried to find written documentation and identified interviewees that had been personally involved. For a while, I was thinking of replacing one of the Scania cases with a case on the company’s downstreaming and the reorganisation of international sales and services activities. Such a case would have been interesting as it illustrated a major strategic change as well as a subsequent change in self-understanding from being a truck factory to becoming an integrated production, sales, services and finance company. However, I experienced that my interviewees were not equally open when it came to the downstreaming case as they were with the other themes. This was primarily due to the fact that the reorganisation of sales and services operations was an ongoing process involving political as well as
personal tensions that were sensitive to the individuals involved. Although this could have made the downstreaming case particularly interesting, I decided to drop it since the data I could gather was of a lesser quality and as publishing it could have been ethically questionable.

**Data collection**

Interpretive research strives for understanding a phenomenon. In order to improve our understanding we should not limit ourselves to a single kind of data. As Denzin and Lincoln (1994) put it, we should become bricoleurs, applying different tools to study what we are interested in. Comparing different sources helps us in assessing their trustworthiness. However, different pictures emerging from different sources does not necessarily imply that one of them is wrong. The differences can also simply result from different perspectives. This can be an interesting finding in itself as it provides the researcher with alternative interpretations of the same phenomenon.

The major part of my data collection took place between the summer 2002 and the summer 2003. I finalised my field work when I felt that I had reached saturation (Charmaz 2000; Eisenhardt 1989; Glaser and Strauss 1967; Morse 1994), meaning that the marginal contribution to my understanding by additional data collection was low. Of course, there is always some novelty in every additional interview as it provides another person's perspective. However, after some time I reached a stage when I felt that relatively little novelty was added.

The main kinds of data collection I applied in my study were interviews, archival studies and observations. The interviews stood for the major part of my work, both in terms of time consumption and in terms of importance for my interpretation. I will shortly go through my data collection methods one by one. A list of interviews and events where I made participant observations is provided in Appendix C.

**Interviews.** Interviews are a common source of data in process studies (e.g. Johnson 1987; Pettigrew 1985a). Among their main advantages are the possibility to request the pieces of information one is looking for and to get these accounts from people who have been directly involved in the processes under study. However, interviews do not only provide information that allow reconstruction of past events and future plans. Interviews also reveal values and ideas. These are not necessarily mentioned explicitly. They can also be read between the lines in the interviewees judgements, emotions, in the things s/he says or maybe refrains from saying. This becomes particularly important when doing research on systems of meaning, like self-understanding. Straightforwardly asking someone “What self-understanding prevails in your organisation?” is probably of little help. The interviewee perhaps does not have any conscious opinion. S/he has perhaps never reflected upon organisational self-understanding and if s/he has, s/he may have another understanding of the
concept than the researcher. Self-understanding can however be read between the lines when interviewees tell what kind of company their organisation is, what is typical of their organisation and what would fit or not fit in it.

As my research project was about strategy, the selection of interviewees did not aim at achieving a representative sample, but at meeting actors who had been involved in strategy-making. The first interviews were conducted with top managers at the two companies. Relatively early, I also approached retired executives or people with long experience from the respective company, in order to get a historical overview. Subsequently, as I identified strategic themes for my cases, I carried out interviews with people who could provide specific information on the themes. Hence, the cases guided the subsequent selection of interviewees. Most of them were on the top management level. This mirrors my interest in strategy, which by definition addresses questions of major importance. While, such questions may well involve people below the top management level, it is unlikely that top management is completely bypassed. For all six cases, I could however identify and interview middle managers who had played an important role.

All in all, I carried out 79 interviews, of which 43 were at Handelsbanken and 38 at Scania (two interviews were related to both companies). The typical interview lasted for 90 minutes. They normally took place on the premises of the company in question (see appendix C). A notable exception was an interview with a Handelsbanken manager on the M 62 between Leeds and Manchester. My interviewee managed to talk to me, while driving at high speed, controlling the steering-wheel with his knees and politely looking at me rather than on the road. All interviews were tape-recorded with the permission of the interviewee and transcribed verbatim by myself. The result was more than 1200 A4 pages of single spaced interview transcripts. Such data processing is of course extremely time consuming. The transcription of the interviews alone took about three months. A way of rationalising this work would of course be to outsource data transcription. However, I also experienced some major advantages in doing this work myself. As the interviewer, I remembered the interview situation when I made the transcription, meaning that I could easily reconstruct passages that were difficult to understand on the tape and in some cases add remarks about the interviewee’s undertone, emotions etc which another transcriber would not have known. Even more importantly, the transcription work was an opportunity for analysis as it implied going through the whole interview once again, usually shortly after it had been conducted.

The character of interviews used in empirical field work differs much between different research paradigms (Fontana and Frey 1994; Miller and Glassner 1997). Researchers who value the replicability of research are likely to use standardised, pre-defined questions that are phrased in a way that aims at avoiding influence on the response (Andersson 1985). Passivity then becomes a virtue for the interviewer who should not disturb the supposedly unbiased information coming from the interviewee. Such a view is problematic however.
As Pool (1957) notes, the social milieu in an interview situation always influences what a person says. Interviews are thus always characterised by interpersonal dynamics. Rather than being a one-directional process of tapping information, interviews are processes of mutual understanding between the interviewer and the interviewee (Melin 1977). In this context, Holstein and Gubrium (1995) talk of an active view of interviewing, meaning that the interviewer proactively engages in inciting the respondent’s answers. This does not imply imposing interpretations on the interviewee, but bringing alternate interpretations into play. In line with this reasoning, I believe that a relatively active stance by the researcher contributes to his/her understanding of the empirical setting. The possibility to be active of course differs between interviews and increases with the development of researcher’s understanding of the issue studied.

The interviews in this study were part of an understanding process in a triple sense. On the one hand they were part of my own process of understanding. Each interview advanced my understanding of the companies studied and provided a new pre-understanding for the following field work. At the same time the interviews were also processes of mutual understanding between the interviewees and myself. Finally, being confronted with my observations and interpretations, also the interviewees sometimes also came to modified understandings of their experiences.

In order to be open for a development of understanding during the interviews the degree of structuration was relatively low. I prepared a semi-structured guide for each interview listing the issues I wanted to cover (see Appendix D for a prototypical example). This created openness for learning from interview to interview as well as during the interviews. While not being too stringent, the structure provided by the interview schedule was a good help in building upon my previous experiences during the interviews. Last but not least the preparation of the schedules was a very helpful preparation for the interviews as such.

**Observation.** In a sense, all social research is a form of observation (Hammersley and Atkinson 1983). Each contact with one of the interviewees, including telephone calls etc was also an instance of observation. The way one is received at a company, how members of the organisation interact, as well as the appearance of the physical premises leave impressions that can reveal interesting things about the organisation. Apart from these day-to-day observations, I also participated in a number of specific events that I partly identified myself, partly got to know from my contact persons (see Appendix C for a list). Such observation is particularly suited to explore the meanings, people in the field assign to reality (Atkinson and Hammersley 1994). The degree of participation differed from occasion to occasion. Scania and Handelsbanken knew of my participation and had approved of it where
necessary. The other participants were usually aware of my role\(^\text{36}\). I was not prone to put myself in the centre, but tried to interact with the other participants in a way that was perceived as natural by them. Being totally silent would often have been perceived as more strange than taking part in discussions. This interaction also gave me the opportunity to get answers to questions I was particularly wondering about.

I kept track of my observations through making field notes, if possible directly on the spot. I also collected written documentation and on one occasion (the IAA Nutzfahrzeuge fair for commercial vehicles) I took photographs. The value of observation lay especially in the possibility to see the self-understanding of the companies being reflected in how people acted, what opinions they held, what arguments they used and what they considered as important. Observation also showed what topics were considered as important in internal and external communication. It thus helped me in identifying some of the strategic themes for my six cases.

Archival studies. These comprise different media, mainly printed documents of various kinds, but in the case of this study also electronic media and video tapes. A major advantage of archival documents is that they are artefacts from the past, i.e. they convey what people claimed some time ago. Hence, they offer an opportunity to check for post hoc rationalisations that can occur in retrospective interviews. This does of course not mean that archival material mirrors what people actually thought and believed when the material was produced. However, if archival data seems to contradict other sources, this indicates a need to inquire further into the topic (Yin 1989). When interpreting archival data it is therefore important to know in what context and for what purpose it was produced. Of course documents can also be helpful in analysing contemporary events. For instance, they can be an integral part of the strategy process when they are used as sense-giving devices conveying ready-made interpretations of reality to various stakeholders.

The archival data I used during my study were primary as well as secondary data. Among the primary were internal manuals and instructions, internal written communication, video tapes of events as well as video messages from managers to employees, brochures, company presentations and financial reports. Secondary data were especially newspaper articles I could access through data bases as well as books written on the two companies. I also reviewed many volumes of Handelsbanken’s staff magazine Remissan as well as Scania’s staff magazine Inside and the magazine Scania World which is directed towards internal and external audiences\(^\text{37}\). The archival studies played an

\(^{36}\) With the exception of large events like trade fairs, annual general meetings etc where of course not all participants were aware of my role.

\(^{37}\) The companies’ own publications are in a grey zone between primary and secondary data. On the one hand they report about events in the companies, on the other hand the publishing of magazines as such is an action by the companies that implies sense giving.

106
important role in reconstructing historical events, but contemporary documents were also helpful to my understanding of current events.

5.2.4 Interpreting data and constructing empirical accounts

In interpretive research, the interpretation of data is no distinct, clearly delimited activity. Rather, interpretation goes on continuously throughout the field work and the writing of the thesis. Nevertheless, there can be phases where working with already collected data rather than collecting new data is in focus. The researcher can also apply a more or less structured process in making sense of data. Strictly speaking, interpretation already started when I first approached the topic of my thesis. In reading literature about organisational identity and in designing this study I created a subsequently developing pre-understanding. In the following paragraphs, I will outline how I further developed this understanding while working on my thesis.

Initial interpretation

Already the work from the preparation of an interview to the completion of the interview transcript comprises several steps of interpretation. I will try to outline the steps in such a process here.

1. Preparation of the interview. Before each interview, I prepared an interview schedule based on my pre-understanding at that point in time.
2. The interview. The interview as such was an interpretive process where the dialogue with the interviewee lead me to new understandings that influenced my subsequent questions.
3. Preparation of field notes. After each interview I prepared a short note about the interview where I wrote down a few reflections as well as new questions that emanated from the interview and could be an input to my further work. I also noted things that were not recorded on the tape.
4. Transcription. After the transcription of the interviews I usually complemented my initial field notes with additional reflections.

The field notes process was similar for observation and interviews. There was no interview schedule and no transcription. However, I also added reflections and questions to my field notes. I tried to transcribe my interviews within two weeks, which was not always possible because of my other duties. It was particularly helpful in these cases that I always made immediate field notes.

Constructing empirical accounts

My empirical accounts can be divided into the general biographies of Scania and Handelsbanken (short versions in chapters 6 and 9, comprehensive versions in appendices A and B) and the six cases that basically constitute
magnified parts of the general biographies (chapters 7-9 and 11-13). In order to reduce redundancies, the themes treated in the cases have only been briefly touched upon in the general biographies.

The empirical chapters in this dissertation are reconstructions of processes. This implies that I have been relatively cautious about including more far-reaching interpretations into the empirical accounts. However, these chapters are reconstructions, meaning that they are in a sense my subjectively created version of what has happened. The data collection underlying them has been influenced by my pre-understandings and I have needed to decide what to include and what to exclude from the accounts. This of course again implies choices that are influenced by my personal understandings. Partly, the empirical accounts also include judgements like “Handelsbanken was cautious” or “Scania was proactive”. I believe that such statements are necessary to write stories that are both informative and vivid. It is thus impossible to draw a clear dividing line between description and interpretation.

The subjectiveness included in my empirical accounts does however not mean that they are arbitrary. All empirical chapters are based on numerous sources that stand for different perspectives. I have weighed these in my interpretation to create fair accounts. Sometimes I have struggled with the task of trying to reconcile seemingly conflicting views on one and the same phenomenon. This has not always been possible and I think this is a good sign. Sometimes reality is ambiguous and as researchers we should not always try to make it fit into neat, uncomplicated pictures.

Several people at Scania and Handelsbanken have read my empirical chapters and given me feedback on different stages of my work. One purpose of this procedure was to avoid the spreading of sensitive information, which turned out not to be a problem. The feedback was however very valuable in giving me inputs to my interpretive work, as well as in sorting out some misunderstandings and errors. In cases where an interviewee had asked to read citations before publication, I sent him/her the relevant parts of my manuscript. A few times, I have anonymised names and places in my empirical accounts to avoid spreading information that might be sensitive either from a company perspective or an individual’s point of view. As far as I can see, anonymisation has not changed the meaning of the passages concerned.

5.2.5 Further interpretation and contribution to theory

The interpretive process, starting in data collection has been continued in the construction of the empirical accounts. So far, the interpretation has not yet been explicitly related to theory. This changes in the concluding sections of each case where I present some initial low-abstract analyses. The level of theoretical abstraction than rises in the final analysis chapters of this dissertation.

Like Handelsbanken’s view on the emergent phenomenon of Internet banking, which was judged differently by different people in the bank (see chapter 10).
Low-abstract analysis of each case

I have used the questions formulated at the end of chapter 4 to make a first analysis of the strategic themes in the cases. This analysis is still on a low level of abstraction and is primarily case-specific. I have used the theoretical framework presented in chapters 2 to 4 in order to see how it helps me make sense of my empirical observations. First, I have addressed what aspects of self-understanding are salient in the particular case and what they have implied for strategy making. Have there been tensions between self-understanding and strategic options? What else has been important to strategy making? What stance has management taken to organisational self-understanding? In a second step I have looked into how the organisation’s self-understanding relates to past, present and future and how the organisation relates to its own history. I have then concluded the case wise interpretation by synthesizing it graphically. The visualisation of the strategy process at the end of each case aims at illustrating the interplay of organisational self-understanding and strategic action over the course of the case. While I analyse each case separately, the low-abstract analyses are related in so far as each of them relates to the previous ones, trying to develop, extend and modify earlier findings.

Theoretically abstract interpretation across cases

The interpretation of the cases serves as input for cross-case interpretation on a higher level of abstraction in chapters 14 and 15 of this dissertation. Here, it is not the cases, but different theoretical themes that provide the structure. Examples from the different cases that relate to the same theoretical theme are analysed together with the help of the literature presented in chapters 2 to 4 as well as some complementary literature that has helped me in making sense of my empirical observations. Chapter 14 mainly addresses the role of self-understanding in connecting history and future, putting particular emphasis on how history is used in Scania and Handelsbanken. Chapter 15 then concentrates on stability and change in self-understanding and how this relates to the treating of strategic issues. Chapter 16 goes beyond the cases and constitutes the highest level of abstraction in the thesis. It concludes the theoretical discussion from the two preceding chapters, by conceptualising on self-understanding and strategy. Finally, chapter 17 concludes with reflections on my contribution and the research process and points at implications for future research.

5.2.6 Quality criteria

If we do not believe that research methods and outcomes are more or less arbitrary, we should have some criteria to assess the quality of scientific work. Unlike most quantitative approaches to research, qualitative research approaches lack well-established, measurable quality criteria. It is disputed whether criteria from quantitative approaches can be applied or if new methods of assessment are necessary. Criteria have to be congruent with the
philosophical stance we take and the kind of knowledge we claim to create. It would for instance be meaningless to assess research results against their correspondence with an objective reality if we adhere to a highly subjectivist paradigm. Explicitness of assumptions (Miles and Huberman 1994) and reflexivity (Alvesson and Sköldberg 2000), as discussed initially in this chapter, are therefore important quality criteria. However, there are additional means for assessing the quality of interpretations.

Is there such a thing as a good interpretation?

As outlined earlier, my working paradigm combines both subjectivist and objectivist views. I believe that reality exists at least partly independent of our knowledge about it (Miles and Huberman 1994; Sayer 2000). Still, reality cannot be known except through interpretation which is by definition subjective as it is based on the interpreter’s own pre-understanding and his/her way of making sense of new information. In research that among other things aims at understanding the thoughts of other people it is of course difficult to interpret these thoughts and to assess the quality of the interpretation. A researcher, trying to make conclusions about a phenomenon an interviewee is telling him/her about, is thus engaged in second-order interpretation, namely the interpretation of the interviewee’s interpretation of the object of interest. At best the interviewee him-/herself has been involved in creating the object, e.g. as an actor in a strategy process. It appears evident that knowledge about the object is mediated through one or even more layers of subjectivity. Does this then mean that interpretations are detached from the object of interest and cannot give us any knowledge that comes close to its real nature? Are there perhaps quality criteria other than an interpretation’s correspondence to reality, knowing that the reality concept as such is problematic? Can we at all say that one interpretation is better than the other?

I believe we can. Interpretations differ with respect to their internal consistency and the degree to which they take relevant information into account. I hence agree with Ödman (1979) who says that hermeneutics do not have to be a “relativist quagmire” (p. 10, my translation). He offers two criteria for assessing the quality of interpretation, namely inner and outer control:

- **Inner control** focuses on the consistency of an interpretation, i.e. there should not be any logical contradictions within it.
- **Outer control** concentrates on the consistency of the interpretation with its context. This means that an interpretation should not contradict relevant background information. Moreover, interpretations of parts should correspond to the totality.

To me, only when it is possible to challenge ideas does it also become meaningful to talk of sharing them. If interpretations are not challengeable, they become private beliefs that lack relevance to any larger community. The
criteria of inner and outer control provide a basis for challenging interpretations like mine. Inner control can be assessed relatively easily because the reader can simply read my work and assess if it internally consistent. Outer control is trickier as the reader might not have access to any data apart from what I provide in the dissertation text. It is not even evident what kind of information needs to be included when checking for outer control. Here it becomes crucial to establish trustworthiness by giving the reader reason to believe that the researcher has managed to include all relevant information in his/her interpretation and drawn reasonable conclusions from it.

Although qualitative approaches lack the well-established quality criteria of their quantitative counterparts, there are means of establishing trustworthiness. One is that of convincing the reader of methodological validity (Svensson 1996). Some authors see the validity concept as limited to quantitative research only (Denzin and Lincoln 1994). However, the meaningfulness of this criterion is rather a question of epistemological stance than of different data formats (Hammersley 1992). If we believe that research can give accounts of reality it is also reasonable to discuss if the chosen design is appropriate to do this. We thus need to be clear on the methodology we have used and convince the reader that we have applied it in a thorough way.

Another useful criterion is richness in data (Maxwell 1998). This richness can refer to the amount of data as well as the use of different sources and data formats. Contradictions and ambiguities in data are a natural consequence of this richness and indicate authenticity rather than a methodological failure. This reduces the risk of missing relevant information. By providing comprehensive empirical accounts, the richness in the collected data can partly be transferred to the reader who gets an opportunity to make his/her own interpretations.

By seeking feedback on interpretations, outer control can be increased during the research process (Maxwell 1998). Feedback can for instance be provided by actors from the field. I have done this informally during the process and in a more formalised way by asking for feedback on parts of my manuscript. This has been valuable in sorting out misunderstandings as well as in finding alternative interpretations of events. I have also discussed observations and findings with colleagues at my institution who had good knowledge of the companies I studied. However, I do not believe in granting experts or even actors from the field a privileged position in the interpretive process. As an outsider, entering the field with a different background, I have the opportunity to see the processes going on there from a different perspective. This is particularly crucial when investigating organisational self-understanding which as a phenomenon is likely to have an impact on the cognition of organisational members (Bartunek 1984).
The quality of research results

While the criteria above mainly relate to the research process as such, we should also reflect upon the quality of research results. Even case studies that are thoroughly carried out can be empiricist stories that lack theoretical relevance. Of course, a good case description can be an empirical contribution in itself. Still, research should not stop at this point, but move forward to theoretical abstraction, making a case study of the case history (Pettigrew 1997). Results from few cases can then result in analytical generalisability (Yin 1989). Whetten (1989) adds that in order to contribute to theory, research also needs to have news value, meaning that it provides novelty at the same time as it is perceived as interesting by its audience.

Alvesson and Sköldberg (2000) talk about richness in points meaning that it should have “some linkage to empirical conditions while also going clearly beyond what the empirical material (preliminary first-order interpretations) is able to say” (p. 277). However, Alvesson and Sköldberg do not imply that the theoretical abstraction needs firm proof from the empirical material. Rather, that data serves as a source of inspiration. This being the case, theoretical abstraction becomes generalisable in the sense that we develop new perspective and ways of viewing things. These may then be useful beyond the cases that originally inspired their development. To me it is important for the trustworthiness of research that it is based on empirical material. My aim is to let this data inspire theory rather than proving it. Still, I believe that theory should be congruent with the data underlying it. Empirical cases thus can play an important role in confirming, questioning or modifying both established theory and the theory I am developing in my own research. Let us therefore now turn to my stories of Handelsbanken and Scania.
6 Scania

Scania is one of the world’s largest truck manufacturers and one of the few remaining independent actors in the industry. For a number of consecutive years, the company has also been outperforming its competitors in terms of profitability. What is today an almost globally operating company started as two different companies at the end of the 19th century, VABIS in Södertälje and Scania in Malmö.

6.1 1891-1918: VABIS and Scania

VABIS was originally a manufacturer of railway wagons, founded in 1891 in Södertälje south of Stockholm. The wagon market was maturing and the company became interested in automobiles that were already being produced on an industrial basis in Continental Europe. VABIS started working on its own motor car and in 1898 the maiden trip of the first Swedish automobile with an internal combustion engine took place, followed by the first truck made by VABIS four years later.

Scania, located in Malmö in Southern Sweden was slightly younger than Vabis. Originally being the Swedish subsidiary of a British bicycle manufacturer, the company gained independence and started working under its own name in 1900. As a bicycle manufacturer, equipping bikes with engines was the company’s first step towards motorisation. However, Scania made its first car as early as 1901 to be followed by a truck in 1902.

VABIS, which was still primarily a wagon producer was suffering from the declining market in the early 20th century. As the main owner wanted to divest its stake, a merger with Scania looked like a good solution. In 1911 a joint holding company called Scania-Vabis was formed, Scania being the main owner. Despite Scania’s dominance in the new arrangement, operations mainly expanded in Södertälje were sufficient facilities were available. Also the head office moved there shortly after the merger. The remaining years before World War I were successful and saw the establishment of wholly owned sales and services operations in Denmark and Russia. Upon the outbreak of the War, Scania-Vabis lost access to foreign markets, but managed to increase production thanks to truck orders from the Swedish military. To ensure the supply of raw materials the company integrated backwards. The expansion was financed by the Wallenberg family and its bank, Stockholms Enskilda Bank. The Wallenbergs also bought newly issued shares in the company, entering as a major owner in Scania-Vabis, a position they would retain until today.
6.2 1919-1945: Crisis and regained strength

While the war had been a commercially successful period for Scania-Vabis, Sweden was hit by a recession when peace came. The losses of the company were so severe that Scania-Vabis was liquidated in 1921. In order to allow for a reconstruction the company had changed its name shortly before going bankrupt and a new company with the same name was founded by the old owners. However, they were more interested in realising the value of the remaining assets than in developing the company. Business was still going badly and the production of passenger cars was discontinued in 1929. Two years earlier the remaining Malmö operations had been closed, concentrating production to Södertälje. It was not until the late 1920s that Scania-Vabis started growing again. However the Great Depression a few years later brought expansion to a halt. As the economy re-gained pace, growth happened mainly on the bus side. The 1930s brought the first diesel engine as well as efforts in component standardisation that would be the seed to what was later to become Scania’s modular system. Like the First World War, World War II also brought a conversion of production to military vehicles, now including trucks as well as tanks.

6.3 1946-1967: Scania-Vabis goes international

Unlike the situation after World War I, peace did not mean a recession for Scania-Vabis this time. Civilian demand increased quickly and trucks soon came to replace buses as the major product. The company extended its dealer network in Sweden. However, trucks alone were not sufficient for supporting a nation wide network. In 1948 Scania-Vabis got the agency for Volkswagen and Porsche, giving the dealers additional business and generating cash for the truck operations. Expansion was however not limited to Sweden. The Netherlands and Brazil were among the first markets where Scania-Vabis gained a foothold after the war. Other countries, particularly in Western Europe and Latin America followed. Due to trade barriers it was important to have local production in the new markets. A factory in São Paulo started production in 1957 and a factory in Zwolle in the Netherlands followed in 1964 securing access to the EEC market. The development of the company was of course not limited to the market side. A group of young engineers around Sverker Sjöström introduced a scientific approach to developing and testing components that complemented the pre-war work on component standardisation. On the production side, Scania-Vabis also opened new component factories in Sweden and acquired the firm that had been supplying the company with truck cabs.
6.4 1968-1995 Saab-Scania

In 1968, Scania-Vabis could look back on a history of 57 years after the merger of Scania and Vagnfabriken. The dominant owner, the Wallenberg family had let Scania-Vabis develop independently from other companies in the Wallenberg sphere. This suddenly changed on December 19th, 1968, when Marcus Wallenberg announced the merger of Scania-Vabis and the Wallenberg-owned car and aircraft manufacturer Saab. The main rationale behind the merger was Saab’s problems in car production. As a rather small actor the company lacked the resources to develop new cars in a market characterised by increasing competition. Scania-Vabis with its strong cash-flow could help to solve this problem. Moreover, there were hopes of realising synergies in development as well as distribution. Initially, the car and truck operation were put into a joint division. However, this episode was short-lived as the expected synergies did not materialise. The division was split up and Scania became an independent division within the Saab-Scania group. Supporting the car operations with engine development and production and supplying the group with cash. The arrangement made it possible for Scania to develop independently and to retain the cash that was necessary to develop the truck and bus operations. In 1977, the group was close to another merger. This time Saab-Scania was to merge with Volvo, the other Swedish car and truck manufacturer. However, the deal was never realised.

Despite ownership turbulence, Scania successfully developed its operations. The introduction of a 14-litre V8 engine boosted Scania’s image. Another breakthrough in construction was the launching of the modularised 2-series in 1980. By using components with standardised interfaces, the company was able to produce a wide variety of trucks with a limited number of components. The components constituted a box of bricks allowing many combinations within a single product programme that was to be marketed globally. In a consolidating market with fewer and fewer truck makers, modularisation gave Scania a competitive advantage vis-à-vis larger competitors that marketed different programmes with incompatible components. On the market side, Scania engaged in a short-lived North American venture in the 1980s. However, low margins in the US market as well as the North American habit of buying engines and gear boxes from external producers led to Scania’s retreat a few years after the entry.

While competitors were engaging in mergers and acquisitions, Scania grew organically. During the merger discussions with Volvo, Scania managers had coined the equation 1+1≠2, alluding to the fact that mergers usually led to a loss in combined market share as customers feared becoming dependent on a single truck maker. In order to be able to grow organically, Scania undertook different measures to increase production capacity. A new plant in Angers in France was set up during the early 1990s and simultaneously, the Latin American operations with production in Brazil, Argentina and Mexico were coordinated in a single unit. In the mean time the Saab-Scania era had been
coming to an end. General Motors had acquired a stake in Saab’s car operations and the Wallenberg family decided to split up the group. In 1995, Scania regained its independence and one year later the company was listed on the stock exchange. Leif Östling who had headed the Scania division since 1989 became Managing Director, a post he still holds today.

6.5 1996-2004: Ownership turmoil and profitable growth

Scania’s employees welcomed the re-gained independence. Most of them had not liked being controlled by the group head quarters in Linköping. Scania had tried to act like an independent company despite its formal status as a division in a business group. Now, although people at Scania were proud of being independent the new situation was not free of trouble. Scania’s stock price was falling after the IPO, resulting in negative headlines and disappointment among investors as well as employees. Few people had taken into account that being publicly listed also implied the risk of being taken over by another company. When the main competitor Volvo suddenly acquired Scania shares and launched a takeover attempt in 1999, this came as a shock to the company. After months of turmoil and negotiations, the Wallenberg family finally agreed on a merger. However, the EU Commission stopped the deal, due to fears that it might harm competition in the industry. Volkswagen stepped in as a new owner of Scania and Volvo was finally forced to divest its shares.

After the Volvo attack, Scania has been able to concentrate management efforts on profitable growth again. The company has worked intensively with its production system and is currently working on better co-ordinating its international sales and service activities. The political changes in Eastern Europe have opened new markets. Through an alliance with the Japanese manufacturer Hino, Scania has been advancing its position in Asia. Moreover, Scania sees the Hino alliance as well as co-operation with other strategic partners as an alternative to achieving economies of scale through mergers. The organic growth strategy is to be continued and so far it has been highly successful. Scania is continuously growing with high profitability. Overall, Scania’s strategy today emphasizes heavy transport vehicles, which constitute the most profitable segment. For these products, even relatively mature markets are characterised by growth. All vehicles are based on Scania’s modular product system that allows for producing a large variety of specifications in an efficient way. Particularly in recent years, Scania has integrated downstream activities into its own organisation and the company is now offering an integrated range of vehicles, services and financing.

6.6 Scania’s self-understanding

The self-understanding of Scania is difficult to bring down to a short slogan. However, some characteristics of the organisation have come to stand out as
particular importance to Scania and its members over the years and have been important to corporate strategy. Scania is practically a single-product company. Hence, the product – trucks – and the characteristics they are said to represent are central to the self-understanding of Scania as a whole. Shortly after World War II, trucks replaced buses as the major product and for a long time buses and engines have been by-products to the truck operations. More particularly, truck production has been concentrated on the heavy segment. With features like the V8 engine, which Scania has produced for more than three decades, Scania has built up a 'King of the Road' image and sees itself as the industry leader, both in terms of products and in terms of economic performance.

Scania's modular system has become an important part of the organisation's self-understanding since the launching of the 2-series, although its antecedents date back to the time before the war. No competitor has achieved a similar modularisation and the modular system has become a major success factor for Scania, influencing many strategic decisions. Also other features of the company's strategy are distinctive within the industry. The company has stayed outside the US market and pursued a strategy of organic growth while other manufacturers have engaged in mergers and acquisitions. Over the years, Scania has developed a strong determination to preserve its independence. This is partly due to a strong belief in the company's distinctive strategy that would be questioned in a merger, partly it is a result of the experiences from the Saab-Scania era and the Volvo attack. In both cases Scania had to defend its independence. In Saab-Scania within a business group constellation and in the Volvo case against beliefs that Scania's stand-alone strategy had become obsolete.

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[39] The centrality of truck operations does not only become obvious in volumes, but also in the setting of priorities. Engines and buses are primarily made of modified truck components. Scania does not care about those segments of the engine and bus markets it cannot serve with modified truck components. This issue will be elaborated on further in the following chapters.
7 The modular system – a cornerstone of Scania’s self-understanding

There are few aspects of Scania’s way of running its business that are as much recognised both internally and externally as the company’s modular system. By designing the components for its products with standardised interfaces, Scania is able to produce a large variety of products with a limited number of components giving the company economies of scale. The modular system had its breakthrough in 1980. The origins however date back to the 1920s and 30s. More recently, the modular system has been actualised in a number of strategic issues. It plays an important role in defining Scania’s domain of business, influencing decisions on what products to offer and how and where to produce them. The modular system has also become an important argument in justifying Scania’s strategy of organic growth, achieving economies of scale within a single range of products instead of through mergers and acquisitions. Finally, Scania has recently started working more systematically on communicating the meaning of the modular system, trying to protect it against ‘misinterpretation’.

7.1 The origins of the modular system

What is today known as Scania’s modular system was originally not conceived as a system that should become a cornerstone in the company’s strategy. The origins were small-scale and lay in the rationalisation ideas that started to characterise the organisation during the 1920s and 30s. As Scania-Vabis started recovering from its deep economic crisis in the early 1920s, the company launched a new series of trucks in 1925. The series that comprised three types with payloads of 1.5, 2.5 and 3 tons, had been developed under the leadership of August Nilsson, Scania’s Head of Engineering. The most important innovation was that the three types shared a number of engine, steering and transmission components. These standardised components were combined with frames, springs and wheels that were adapted to the different payloads. After the Great Depression, sales increased and it became possible to produce vehicles in longer series. At the same time the rationalisation ideals of Taylorism made their way across the Atlantic and started being adopted by Swedish companies.

7.1.1 Component standardisation

For Scania-Vabis, the 1930s marked a transition from a traditional workshop to a modern industrial company. The increasing volume made it even more interesting to standardise components in order to achieve economies of scale in production and to rationalise stock-keeping. A major step in this direction was the introduction of the Unitary Engines in 1939. The same components could
be combined in a variety of ways resulting in 4, 6 and 8 cylinder versions of the engine with a performance range from 80-160 hp. The Unit Engine had been developed under the leadership of August Nilsson. He had been working for Scania-Vabis for more than 30 years and introduced diesel engines at Scania-Vabis in 1936. While Nilsson was one of the key people behind the origins of today’s modular system, another important actor, Carl-Bertil Nathhorst, entered the company the same year as the Unitary Engine was launched. He was appointed Managing Director one year later. Nathhorst had previous experience with rationalisation as an engineer in different industrial companies. At Scania-Vabis he continued working with component standardisation and one of his ambitions was to use the same components in trucks and buses. Standardisation was now approached in a more systematic manner comprising various components although most efforts were still concentrated on the engine.

7.1.2 Systematic research in component properties

After the war, Nathhorst saw an opportunity for further modernisation by taking inspiration from new North American practices concerning both development and production of vehicles. Groups of young engineers were sent to the US to study American manufacturers and get new ideas. While Scania-Vabis had previously been dominated by a craft approach, there was now room for a new generation of engineers that introduced scientific experiments into the company’s development work. One of the young academics who went to the US was Sverker Sjöström.

Carl-Bertil Nathhorst had started to recruit young university educated engineers. Previously theorists had not been in high repute at Scania. People were men of practice and they were a good many of them, but Nathhorst believed that there was a need for more theoretical knowledge among those working at Scania. So I applied for a job and met [Lidner] and Nathhorst and they found that my theoretical and experimental knowledge fitted in well. I was employed, not at a department, but I worked with strength issues. As there was no department, I could work independently and do measurements on the trucks.

Sverker Sjöström, former Technical Director, interview 2003

When Sjöström came to Scania-Vabis, there was insufficient knowledge on strength issues related to trucks and buses. As payloads increased and the demands on vehicles increased substantially after the war, Scania-Vabis struggled with the problem that components were insufficiently dimensioned.
for enduring the stress they were subjected to. However, with the craft approach to development that had dominated the company, one did not really understand what happened to the trucks and their components when being used under trying conditions. The testing routines were insufficient and in practice, part of the testing was carried out by the customers who came and complained when their truck had a breakdown.

Sjöström, who had an interest in both theoretical and experimental physics, started to investigate strength issues by making measurements on trucks under realistic conditions instead of measuring static loads as it was customary at the time. In his work he could draw upon his academic network as well as new measurement technologies he had acquainted himself with during his visits to the US. Being interested in research, Sjöström had successfully defended his licentiate thesis before coming to Scania-Vabis. He maintained his academic interest during his entire career and received a doctoral degree for a thesis (Sjöström 1961) he wrote on his research work at Scania-Vabis. Nathhorst had given Sjöström a relatively free role. Subsequently, additional people could be hired resulting in a small department working with experiments.

[We] had lots of problems with strength so it was an El Dorado for me to cope with these issues from a practical and experimental perspective. […] Just as a small example: when they made calculations on a frame at Scania in those days they calculated the static loads. That resulted in incomplete knowledge. I made measurements in bad and good road conditions. What forces a frame has to endure, because it’s the dynamic forces that are really decisive.

Sverker Sjöström, former Technical Director, interview 2003

Now Scania-Vabis had knowledge on how to dimension its components correctly for different kinds of applications. On the one hand it was important that the components could endure the forces that arose under a specific type of application. On the other hand it was important that the components were not overspecified since that resulted in more weight and thus unnecessary costs for the customer. Ideally, there were to be a number different versions of a component, each optimised for a specific range of applications. With these findings, another step towards modularisation was taken. However, so far the development was limited to optimising specific components. A comprehensive approach to modularise the company’s entire range of products had not yet been taken.
7.2 The first modularised product range

Until the 1970s component standardisation had made significant progress for most of the main components used by Scania, including transmission engines and axles. However, little had been done on the cabs and chassis. An implication of this was that the main components were placed on the chassis in different ways for different truck models. While components were standardised, the interfaces between them were not. The different bonneted and cab-over-engine cab types required different interfaces with the frame and the cab types themselves required many different components. When it was time to design a successor for the old truck range, the emphasis was on overcoming these problems particularly related to cab and chassis.

7.2.1 Modularisation succeeds standardisation

A key challenge for the development work was to achieve a high degree of standardisation without compromising the quality of the trucks. The rationale was that reducing the number of components to an absolute minimum was not desirable. There still had to be some variants of each component related to the application of the truck they were used in. For instance it was not wise to use the same axles and frame components in a long haulage truck designed for highways in Western Europe as for an off-road truck designed for military purposes. Too much standardisation would result in components that were either too weak to hold for heavy duty or too heavy and costly for long haulage on high standard roads. Heavy components would also reduce the payload capacity of the truck and hence harm the truck-owner’s profitability. The solution was to introduce different performance classes for the components. The emphasis thus lay on standardising the interfaces between the components, rather than on reducing the number of components as much as possible. Standardisation within one performance class was desired while standardisation across performance classes was not. Scania had taken the step from component standardisation to modularisation. The modularised approach also implied that Scania had combined two streams of thought that had existed in the company for several decades, namely the old ideas of component standardisation with Sverker Sjöström’s findings on operational stresses.

[It took about 30 years] to combine the two. Standardisation had, so to speak, been popular for a long time. Here, the difference to standardisation was that it was divided into steps. Each step was optimised, drawing upon the knowledge we had built up over a long period of time.

Sverker Sjöström, former Technical Director, interview 2003

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43 The component concept is used on different levels of aggregation. The main components are the major building blocks, e.g. cab, engine, transmission and frame that are combined to a complete vehicle. These main components in their turn are made of various subcomponents. For example cylinder block, cylinder heads and crankshaft are subcomponents used in an engine. The sub-division can be continued further.
7.2.2 Project Q

The development project for the new product range was named project Q or PQ. Sometimes it is also referred to as the GPRT programme. Sverker Sjöström was Technical Director of Scania at the time when project Q was launched. In charge of the project itself was Stig Ericsson who was head of chassis development and production. He had been working for Scania-Vabis in the 1950s before he left for ASEA where he gained experiences of modularisation in a different industrial context. This knowledge could be combined with the ideas existing at Scania.

This modularisation is a characteristic of Scania and it was Nathorst who started it, Sverker [Sjöström] told me many times. When I came back in 1974 there was some modularisation, but not very much. There was a project called PQ and there we started off. I got responsibility for that project. We started in 74 [...].

This modularisation mainly concerned the chassis, the cab and the frame, partly the axles. We had worked much with the brake system, but engines and gear boxes were not included.

Stig Ericsson, former Technical Director, interview 2003

Although modularisation was mainly concerned with design issues, a major push for project Q came from a changing demand in the market. The number of models Scania offered was increasing faster than the production volume, resulting in short and costly series. Input from customers resulted in the choice of three chassis classes, medium duty (M), heavy duty (H) and extra heavy duty (E). All variants could be assembled from the same box of bricks. In contrast to the old programme, the different cabs were all based on one basic model. By adding and changing components, different lengths and heights as well as cabs with or without a bonnet could be achieved.

All components were in principle the same. The doors, the windows. One door was a little shorter, but there we just took off a part in the front. We could use the same tools so the tool investments were much lower.

Stig Ericsson, former Technical Director, interview 2003

Except for rationalisation there was another important advantage of modularisation. As the emphasis lay on standardising interfaces, it was at least in principle possible to develop a component, for example the cab, without having to change the other components as well. The first trucks from the new programme were presented in 1980 when the bonneted T-model was launched. The remaining models followed later the same year, completing what was now officially called the 2-series. By introducing the 2-series in Latin America shortly after the launch in Europe, Scania took a step towards globalising its production system. Offering the same product range globally, gave Scania a large potential of realising economies of scale. Now it was easier to swap components across the Atlantic although there were some practical restrictions.
Shipping gear boxes from South America to Europe, which was done in the early 1980s, was for instance cheaper and easier than transporting entire cabs that were bulky and difficult to protect against rust.

### 7.2.3 Implications of modularisation

Since the 2-series, modularisation has been extended to additional components. Modularisation has implications for product development that go beyond the need to create standardised interfaces. Once a standardised interface has been introduced, the interface both sets limits and opens up possibilities for further product development. The limits lie in the fact that an interface should not be changed too often. Changing an interface would lead to a chain reaction making it necessary to change many components.

> It happens that we have to change interfaces, but the fewer changes the better.
> Changing of major interfaces should be a tough decision.

Anders Lundström, Head of Feasibility Studies, interview 2003

This leads to a certain degree of inertia when it for instance comes to design. Changes affecting interfaces are costly and thus they should be well-balanced. In principle, it should be possible to change components as long as the interfaces are not affected. However, sometimes the interface sets limits to the design of a particular component or vice versa, like in the following example of bumpers and lights.

> [Modularisation] is an unbelievable limitation [for design]. I think it is not so much modularisation that is the problem, but [the way it is applied…]. If we decide that we are going to keep this bumper for at least ten years, but we can’t change the lights because we have invented a better technology, then the frame for the lights is already there. And then you make new lights and they are supposed to last for 20 years. And if you want to change the bumper, the limitation is in the lights. That is really a problem.

Ola Pihlgren, industrial designer, interview 2003

Industrial designers at Scania have to learn living with the restrictions imposed by modularisation and even though the modular philosophy sets limits to their work they would not question the approach as such. When changes occur, these have traditionally been revolutionary rather than evolutionary. Changes have been launched in a package as an entirely new truck programme from time to time. In the truck industry a major shift between two programme generations occurs about every 15-16 years. After half the time, the existing generation is usually renewed with a so-called face-lift. For Scania the introductions of the 2-series in 1980 and the 4-series in 1995 are the most recent major generation

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44 In the truck industry usually the term ‘styling’ is used for design in the sense of industrial design while ‘design’ refers to truck development in a general sense. Here, we will use the term ‘design’ that is more common in everyday language.
shifts. The big bang approach to introducing changes can result in quality problems. Such problems occurred initially with the new 4-series. Scania’s new policy is thus to introduce changes continuously instead of in a concentrated manner. With a modularised programme, it should be possible to introduce new components continuously as long as the main interfaces themselves are not affected.

7.3 The limits created by modularisation

Scania sees modularisation as one of the key factors behind the company’s success. Not least it is important with regard to Scania’s future existence as an independent truck manufacturer. The modular system is a prerequisite for covering all Scania’s markets with one single range of products and thus for achieving economies of scale without merging with another manufacturer. Despite all the benefits of modularisation, the concept also creates some limits for Scania’s development. In order to capitalise on modularisation, new markets, in terms of products or geographic areas should not require too many modifications or additions to the current components. Otherwise the rationalisation advantage would be lost. One example of such a path-dependency created by modularisation is Scania’s stance to the US market. Besides the generally low profitability, the market’s attractiveness for Scania is lowered by the fact that trucks usually contain main components from various main suppliers.

I think the US market is wrong. It’s the wrong price on the stuff over there. We have no reason to lose money there. Moreover, the whole structure with the main components does not fit with Scania’s way of doing things with modularisation and making our own components. It is no end in itself to sell 20 000 more trucks with zero profit or even a loss.

Urban Johansson, Head of Powertrain Development, interview 2003

At least today, the US market offers little opportunity for the integrated manufacturer Scania to capitalise on its modular system. The limits imposed by modularisation however also exist with regard to certain products, like medium trucks and bus bodies.

7.3.1 Medium-sized trucks: a reoccurring issue

Since the days of Carl-Bertel Nathhorst, Scania has concentrated its efforts on producing heavy commercial vehicles, or expressed in a more precise way, commercial vehicles for heavy transports as the ambition has, of course, been to limit the weight of the vehicle as such.\(^5\) The definition of heavy vehicles is a moving target. It has changed over the years as trucks have become heavier in

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\(^{5}\) Hence, when I refer to ‘heavy vehicles’, I mean vehicles for heavy transports. Although this wording is somewhat imprecise it is commonly used in the industry.
Organisational self-understanding and the strategy process

general. Today, Scania draws the demarcation line between medium and heavy trucks at a gross weight of 16 tons. Swedish truck manufacturers have been traditionally strong in the upper weight segments of the market. The domestic timber industry requires heavy transports over long distances. This has both resulted in a relatively liberal legislation concerning truck weights and dimensions as well as in a long history of demanding customers for Scania and Volvo. Scania thus has over proportionally high market shares for trucks with high performance engines. The upper horse power segments of the market are also particularly profitable. Hence the focus on heavy vehicles has been highly successful in economic terms.

Now, not all Scania customers use heavy trucks only. The larger hauliers usually have various kinds of trucks in their fleets. For example, distribution trucks often carry light goods over short distances and need to manoeuvre in narrow streets. These trucks either lie within the lower part of the heavy truck segment or a bit below it. Hence, Scania can only offer products for parts of the distribution market. This is strategically important in so far as many Scania customers have to complement their Scania fleet with medium-sized trucks from another manufacturer.

There are many customers who have told us 'we would like a medium-sized Scania'. It would be easier for them in their negotiations just to have one partner.

Martin Ståhlberg, Managing Director Scania Sverige, interview 2003

In particular Scania’s dealers see this as a problem. A large proportion of their turnover is related to the aftermarket, e.g. spare parts, repairs and various kinds of services. The lower sales margins on medium-sized trucks are less important to the dealers as they can compensate them by the aftermarket profits.

[I would] absolutely [be interested in selling lighter vehicles than the current]. I'm sure [other Scania dealers] have the same processes like ourselves you will draw the same conclusion that it’s a natural extension of the product line to go further down the weight range and there is nothing, there is nothing in place if I look at Mercedes for example, we have a very strong Mercedes dealer in our area and they do very, very well on light and medium-sized commercial vehicles.

John Armstrong, Managing Director of an independent British dealership, interview 2003

The idea of producing medium-sized trucks is not just a recent issue. Over the last decades it has been on Scania’s agenda a number of times.
In the 1960s there was a very strong pressure from the market side, from the dealers: 'You must have a smaller truck also. You must have the whole range.' At about the same time we got an order from the military that wanted to have a smaller truck also and we fell for [the temptation]. However, it turned out to be too heavy and too expensive. It was a business that generated losses and was discontinued.

Sverker Sjöström, former Technical Director, interview 2003

Already in the 1960s before the breakthrough of modularisation, the idea of a medium-sized truck fell on component standardisation. Wanting to use as many existing components as possible for the medium-sized truck, Scania’s engineers had used components designed for heavier vehicles. These had been developed for higher loads and were consequently too heavy for their new application. The only feasible alternative would have been to add a whole category of lighter components to Scania’s existing ones. This was seriously considered. At that time Scania was already working on the modularised 2-series, but finally the decision was to keep efforts concentrated on the heavier segments. In the medium-sized segment very large volumes would have been required to become profitable.

In addition to M[edium duty], H[easy duty] and E[xtra heavy duty] one would have developed an L[ight duty] component. Of course this would have been possible, but it would have split up resources very much. It was a strategic choice if we could add another step to the box of bricks.

Sverker Sjöström, former Technical Director, interview 2003

Although the basic reasons for discontinuing the medium-sized truck after a few years in the 1970s had not changed, the idea was considered again at the end of the 1980s and again rejected after an investigation. The idea this time was to develop a truck from existing modularised components and to add a lighter engine that made the vehicle cheaper. However, the problem of having too heavy components had not been resolved. Despite these problems, the medium-sized truck was not dead. It came back at the end of the 1990s. Whereas attempts to introduce medium-sized Scania’s so far had been mainly driven by the dealers’ desire to offer their customers a complete range of Scania’s, there was now also legislative pressure favouring medium-sized distribution trucks. Some Western European countries thought of banning heavy traffic in city centres. This would have drastically limited the possibilities of using Scania’s existing truck range for distribution purposes. Hence, the idea of a medium-sized truck appeared once again.

We had concluded [in 1989] that the idea of just having a smaller engine was doomed from the start. So the next step was to make smaller axles, a smaller cab, everything smaller. However I remember that we said we should not do it that way, but instead stretch the modular system and just make some components smaller and it went very far. At that time I worked at Deutz and tried to sell in our engine to Scania. We had found out in 89 already that [it was not a good
idea to develop a smaller engine]. It was decided from the beginning to buy an
engine. A number of components should be developed, but the engine should be
bought externally.

Robert Sobocki, Head of Sales Buses and Coaches, interview 2003

The new project was a kind of compromise. On the one hand, Scania wanted to
have access to the medium-sized segment, at least in case such trucks were
favoured by legislation. On the other hand, Scania wanted to use its existing
components as much as possible and limit development costs for new
components. For this, Scania was even willing to outsource the engine, a main
component that is usually considered the core of a Scania truck. However, this
situation was seen as a special case. Scania had no tradition of manufacturing
small engines, it would be difficult to realise any synergies with the existing
ingines and the medium-sized truck would anyway become a relatively
marginal product with low volumes in Scania’s range.

While the medium-sized truck project was being investigated, Volkswagen
stepped in as the main owner of Scania. Already before that, Volkswagen had
been involved in a joint study for the medium-sized truck. Taken together with
Volkswagen’s range in the passenger car and light truck segments a medium-
sized truck would have filled the gap in the combined range of the two
manufacturers.

I think the medium-sized truck was on the agenda before Volkswagen came in.
Maybe it was one criterion for them to buy themselves in [to Scania]. We had
discussions about cooperation. They needed to renew their truck in Brazil and
we had discussions concerning [the medium-sized truck], but we understood that
it wasn’t interesting for us and it would only have a negative impact on the
brand.

Urban Erdtman, former Head of Sales and Services, interview 2003

Despite the new circumstances for looking at a medium-sized truck, the
investigation came to the same conclusions as those before. The fears that heavy
trucks would be banned from city centres did not come true. For Scania, a
medium-sized truck would not be commercially interesting. However, this time
the investigation had come quite far. Scania had actually managed to develop a
medium-sized truck mainly relying on existing modularised components and
the project was stopped at a relatively late stage. Today, there are somewhat
divergent opinions in the organisation about the success of the project. While
some managers emphasize that Scania in fact managed to successfully stretch its
existing modules to a lower segment, others stress that this stretching implied
compromises that were not really a success.

\[46\] In contrast to the European market, where Volkswagen only sells passenger cars and light
trucks, the company offers heavy trucks in Latin America. These are manufactured in Brazil from
purchased components.
Modularisation is an important ingredient in this. We are really nailed down in this modularisation. This means that if you do not break down this chain you can only develop down to something like 12, 13 tons. It simply goes wrong. The cab becomes too large, it becomes unproportional. The box of bricks does not fit any longer. You cannot stretch as much as you like.

Urban Erdtman, former Head of Sales and Services, interview 2003

Anyhow, the project revealed that Scania is willing to re-evaluate things even if they have been rejected earlier. Rather than regretting the discontinued projects as dead end streets, several Scania managers I talked to, took pride in the company’s ‘we always try things out’ attitude. The medium-sized truck venture was an interesting example of undogmatic strategy. By the time of the project, Scania had a long tradition of publicly presenting itself as a manufacturer specialised on heavy trucks over 16 tons only. This specialisation dated back to Nathhorst and had become a part of Scania’s self-understanding, not least because the company partly attributed its success to the focus on the profitable heavy segment. How would the company have communicated a sudden abandoning of this strategic principle? As the medium-sized truck was never launched the question is of course hypothetical. However, a likely course of action would have been not only to stretch the modular system, but also the heavy truck concept as such.

The [change in strategy] would have been marginal. It would still have been the heavier end [of the truck market]. Just because some people say that heavy trucks are those that weigh more than 16 tons, you cannot say that over 12 tons is a light truck. Of course [you could say that they are heavy, too.] It’s a matter of definition. Some countries have a threshold at 14 tons and some at 15. It would not have been a problem, but it never became an urgent issue.

Kaj Lindgren, Chief of Staff, interview 2003

Although the medium-sized truck is once again off the agenda, the idea does not have to be dead for ever. Despite Scania emphasising its position in the segment over 16 tons, this cannot be interpreted as if trucks under 16 tons were rejected of principle. So far it has been profit orientation and path dependency created by modularisation rather than strategic dogmatism that have held Scania away from medium-sized trucks. If it becomes economically attractive, the segment may be re-considered. The recent alliance between Scania and Hino, a manufacturer specialised in medium-sized trucks, has given rise to new speculations in this direction.

### 7.3.2 Buses

Bus production has a long history in Scania. In fact it was not until the late 1940s that trucks replaced buses as the company’s major product. From the

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* Lindgren’s position was on the Executive Board. He was also Head of Corporate Development.
* With ‘buses’ I refer to buses and coaches.
beginning of bus production at Scania-Vabis in 1911 there were synergies between trucks and buses. With the systematic standardisation efforts that started before the Second World War, these synergies became even bigger. However, bus production is no homogeneous business and synergies with trucks vary significantly between its different parts. On the one hand, there is the production of bus chassis that are similar to truck chassis. On the other hand making bus bodies on the chassis has no clear equivalent in truck production. Body building is a customised craft-like business. Hence, Scania can only realise synergies with its industrialised truck production in chassis making and consequently this part is more interesting to the company. Moreover, the margins in chassis production are generally higher than those for body building.

In addition to the body/chassis distinction the bus business is characterised by the sub-division of the market into three main segments. There are city buses, intercity buses and tourist coaches that are bought by different kinds of customers and have different requirements not only on the body, but also on the chassis. The market for city buses particularly has been affected by subsidies to public transportation and, at least until recently, by protectionism in public purchasing. Margins on complete city buses have been low for a long time. Scania has traditionally concentrated on chassis production. During some periods however the company has also been active in the body building business, especially in the Scandinavian countries and only for city buses. Shortly after the war, Scania-Vabis engaged in a cooperation project with Mack and produced buses with Mack bodies for local transportation in Stockholm. Then, as right-hand traffic was introduced in 1967, Scania acquired the body builder Svenska Karosseriverkstäderna in Katrineholm.

It was a different world. It was not commercial use in the same way as for trucks. It’s the municipality that owns the bus fleet, gets the tax payers money and dictates the conditions. […] Ingvar Eriksson and Sverker Sjöström told me that our view on buses was that the chassis should be profitable and the bodies should break even. […] An argument behind building bus bodies was that we would learn much about buses. We learn the challenges of the body builder. But is it ok that we have it at the expense of profitability if we are making zero profit? Are we satisfied with that? Can we afford it? Yes, [the answer was] we could afford it. We have rethought that now.

Bengt Palmér, former Technical Director, interview 2003

Thanks to modularisation, the bus chassis production increased the total volume of components and thus lowered the unit cost. One could argue that the buses, like the industrial and marine engines Scania produces, are a by product of the trucks rather than a distinct product besides the trucks. The modularisation idea and the ambition to realise economies of scale play an important role in the thinking underlying Scania’s bus business.

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‘Complete’ = a bus with a body.
Sometimes we make adjustments [in the engines] for bus installation, but it’s the reverse thinking that is the rule, for industrial and marine engines as well as for buses. It’s long haulage trucks that are the foundation and then we try to work on these prerequisites as well as possible. […] The foundation for making a bus is that you have a truck production that carries the development costs for frame and axles and all the systems around that.

Urban Johansson, Head of Powertrain Development, interview 2003

Despite this willingness to use bus production in order to realise economies of scale, it is not long ago since Scania made investments in extending its body building operations where synergies with trucks did not exist. In August 1994, Scania announced that it would acquire the Danish body builder DAB-Silkeborg. The rationale behind this deal was the belief that owning a body builder would strengthen the overall bus business. Particularly vis-à-vis public customers it was an advantage to be considered as a domestic producer. Moreover, Scania’s old competitor Volvo had just recently acquired the main competing Danish body builder.

We looked at the Danish market and said that we have not succeeded on the bus side. Volvo did the same thing and suddenly they went in and bought one of the manufacturers and then we got in a hurry and bought the other. It was supposed to be a contribution to our bus side and we wanted to compete with Volvo. Moreover, at DAB they were advanced in environmentally friendly hybrid solutions.

Bengt Palmér, former Technical Director, interview 2003

During the years after the DAB acquisition Scania continued its strategy of realising synergies between trucks and buses. The introduction of the 4-series trucks was followed up with a new generation of bus chassis that achieved nearly 85% integration with trucks. As Scania saw an increasing demand among customers to buy the bus chassis and the body from the same supplier, the own body building capacity was increased by producing bodies in France in addition to Silkeborg and Katrineholm. Despite the fact that DAB had been profitable when Scania acquired it, the deal was no success story. Prices in the market deteriorated, there were cultural problems with integrating the company into Scania and problems arose with the company that Scania had not realised before. Since the body building market was continuously unprofitable, the company took the decision to drastically restructure its bus business. Silkeborg was sold to a Norwegian body builder in 2001. Scania would concentrate on chassis production and in order to increase synergies with truck chassis, production was moved from Katrineholm to Södertälje in 2002. Body building in Katrineholm got a period of grace in order to see if it could be made profitable, but the major part of body building was transferred to plants in Poland and Russia.
I do not see any reason why our shareholders should subsidise public transport […]. We sell 10% of our volume with a body when it comes to city buses. 90% are chassis. So we said that we have to separate this. It was a mix and a mixed focus is never good. Body building is craft while chassis making is industrialised production […]. 75-80% of a truck chassis are the same in a bus chassis. We have a very high degree of integration. Therefore we said that we put them in the same environment as the truck chassis.

Leif Östling, Managing Director, interview 2003

In 2004 the remaining body building operations were moved to Poland and only some R&D staff stayed in Katrineholm. The decision was politically delicate as Katrineholm had been hit by other closures and Sweden’s Prime Minister Göran Persson, the former mayor of Katrineholm, openly criticised the move. Scania motivated the decision with the poor profitability of the bus industry as a whole. All manufacturers subsidised their bus operations with profits they made in the truck business.

I believe that from top management in Södertälje focus has not been on buses. Scania is like Volvo and Mercedes primarily a truck maker […]. Buses are a sideline for all truck manufacturers. Therefore you don’t have enough management focus and you allow them to loose money. Someone should have stopped it earlier like Leif Östling finally did.

Robert Sobocki, Head of Sales Buses and Coaches, interview 2003

In this situation Scania saw itself in the role of an industry leader who takes responsibility for tidying up the mess that has been created by an unsound structure on the industry level.

It’s a scandal how badly the commercial vehicle manufacturers manage their bus operations. There is no profitability at all. Everybody has bus operations that make losses. Everybody is subsidising public transport. Either the passengers have to pay a little more or the government has to subsidise, but I don’t understand why our shareholders should subsidise it. This is a way of reasoning that starts gaining a hearing in the industry now.

Leif Östling, Managing Director, interview 2003

With the finalised restructuring of the bus operations, Scania has brought the buses closer to the trucks again. Even in most of Scania’s presentations the almost obligatory picture of a bus has been replaced by a naked bus chassis. While the bus operations partly lived a life of their own when Scania diversified into body building, the emphasis now once again lies on achieving economies of scale within Scania’s modularised system.
7.4 Preserving the modularisation heritage

It took several decades from the first systematic attempts of component standardisation to the introduction of a modularised programme and to articulating modularisation as a part of Scania’s strategy. Today, at Scania, modularisation is often referred to as something ‘being in the walls’. It is mentioned in company presentations, company journals and annual reports and employees often address it spontaneously when talking about the characteristics of Scania. Modularisation is not questioned. However, despite being taken for granted, modularisation has been interpreted differently by different employees. Some of these interpretations have diverged from the original modularisation ideas.

A few years ago it started to go astray. People started standardising between the modules with the result that the stuff got too heavy […] . They did not understand the M, H, and E. It was a false step. One did not abandon the idea as such, but one started standardising between the modules and there one missed the essence of the idea.

Sverker Sjöström, former Technical Director, interview 2003

While the original idea of modularisation had been to achieve standardisation within performance related steps like the chassis classes M, H and E some engineers now wanted to go further and reduce the number of components needed even more. Identical components were used for different truck applications. For instance components originally designed for heavy duty applications were built into trucks that were to be used in applications with relatively low stress endurance requirements. Although this allowed for further reduction in the total number of components, there was also a significant downside. The components retained were not appropriate for the application they were finally used in. Consequently, the trucks became more costly for the customer. The original modularisation ideas were no longer consequently applied. Scania was about to take a step back to the times of component standardisation.

Around 1990 we went through a substantial generation shift in product development. The bosses we had, like department heads, chief engineers and other people who had been in the company all their lives left the company over a couple of years. Maybe the hand-over was not so good. An additional factor was maybe that the focus of operations changes from time to time. It may be due to the company’s economic situation or how individual managers act. At that time I experienced that one of the heads of R&D was overly cost-focused.

Anders Lundström, Head of Feasibility Studies, interview 2003

Sjöström refers to the medium, heavy and extra heavy duty classes, implying that the performance levels of components is classified stepwise.
The confusion of component standardisation and modularisation was one of the reasons for quality problems Scania had with its 4-series. There were concerns that Scania’s image of producing high-quality trucks would suffer.

I have realised that we have been too focused on standardisation during the development and launch of the 4-series trucks. We need to understand that what should be standardised is not the modules. It’s the interface between the modules and we should not change these interfaces too often. They should survive for a long time. That will create profitability for Scania in the long run.


7.4.1 A systematic approach to working with modularisation

Despite the claimed centrality of modularisation to Scania, there was confusion regarding the meaning of modularisation. The differences between modularisation and standardisation were not sorted out. Scania’s product development relied on a principle that the people involved did not have a shared understanding of. In order to make the modularisation approach ‘in the walls’ more tangible, Scania approached the consultancy firm Samarbetande Konsulter (SAM).

In an early stage Leif [Östling] decided not to go to town and shop around among the latest waves of fashion. He tried to get back to the origins of the firm and to find out the origins of the reality had had inherited as a manager.

Anders Bröms, consultant, interview 2003

Scania had previously co-operated with SAM and Anders Bröms, SAM’s co-founder and managing partner, had done consultancy projects for Leif Östling while he was heading Scania’s operations in the Netherlands in the 1980s. Bröms had meanwhile been co-operating with Tom Johnson, one of the authors behind the best-selling management book Relevance Lost. Johnson and Bröms were both interested in management approaches that were alternatives to mainstream cost accounting and profitability analysis. Johnson had done research on Toyota’s Rouge River plant in the US. Now, their task was to understand the ideas behind Scania’s modular system.

It was actually Leif [Östling] who got this idea and we got the task to take out of the walls what explained Scania’s success. And we went down in the organisation and tried to do it in a systematic manner. Tom had doctoral students, skilled guys, who collected and sorted numbers and we finally concluded that it was

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51 The Management Conference, now called Global Management Summit, gathers several hundred managers from Scania’s production facilities and its sales and services network worldwide. It is held every autumn in Södertälje and a major part is dedicated to executive management communicating Scania’s strategy to the attendees.

52 The company does not translate its name into English. The meaning of the name translates to ‘Cooperating Consultants’ or ‘Consultants Working Together’.
only one thing that was different between Scania and the other truck manufacturers: the way one built one’s products. They had called it modular construction and we tried to understand what kind of equivalents this way of making products has in life. Not in death, not in mechanics. This resulted in an understanding and based on that we have developed some explanations.

Anders Bröms, consultant, interview 2003

Together with Scania, the team developed explanations which were based on a conceptualisation that Samarbetande Konsulter had previously used in other contexts. The model consisted of principles, methods and results. Principles denoted the overall ideas that were central to modularisation. The idea was to establish a common way-of-thinking around modularisation that made detailed rules unnecessary.

We have built a three-step-model. The three steps are borrowed from the consultancy firm SAM, they are using them in other contexts. […] Its principles, methods and results. So far we have found out that modularisation rests on three principles: standardised interfaces, well-balanced performance steps and same needs – same solution.

Anders Lundström, Head of Feasibility Studies, interview 2003

The principles then resulted in a number of methods that were more specific than the relatively abstract principles. The methods used could differ from department to department. They were however never allowed to contradict the principles. An example of a method would be the so-called user factors, i.e. a way of describing the demands that would be put on the truck from users in their specific situation. Analysing user factors in terms of road conditions, topography and the truck’s weight would lead to selecting the right components for the truck. User factors and other methods taken together were then evaluated against their results, like the variety of specifications that the modular system made possible.

The first tangible outcome to be used in Scania’s operations, was a 36-page booklet, called Modularisering: Ett sätt att tänka, meaning Modularisation: A way-of-thinking (Scania 2003a). The booklet describes the origins as well as the functioning of Scania’s modular system. It was intended to be used internally as a means to convey the meaning of the modular system to Scania’s employees, not only those who work at the development department, but also people from marketing and production. The booklet puts high emphasis on the historical background of the modular system. Modularisation is not presented as something new, but as a way of doing things that has its roots in Scania’s history. As one piece of evidence, an article published in the magazine Teknikens Värld53 in 1948 is presented.

53 ‘Teknikens Värld’ translates to ‘World of Technology’. It is a popular Swedish technology magazine.
At present about 15 different types of trucks and buses are produced at Scania-Vabis. Thanks to the vehicles’ practical construction, to a large extent the same parts can be used for all the types. Regarding the engines for example, which exist in three different sizes – a four cylinder with 90hp, a six cylinder with 130hp and an eight cylinder with 180hp – practically all vertically placed parts are the same for all the engines. Hence, they have among other things the same cylinder diameter and piston stroke, 115mm and 136mm respectively. This implies a tremendous simplification of the production of engine blocks, cylinder lining, cylinders, rods etc. In the production of Scania vehicles there are no specific annual models. The vehicles only have certain makes and changes and improvements are introduced little by little when a new construction is well-tested.

Teknikens Värld no.8 1948 cited in ‘Modularisering: Ett sätt att tänka’

The historical review is not limited to the magazine quote. The booklet introduces modularisation with an overview ranging from Nathhorst’s component standardisation in the 1930s and Sjöström’s experiments in the 1950s to the development of the 2-series in the 1970s. After this, the meaning of modularisation is explained. Once again, the description is permeated with references to history and people like Carl-Bertil Nathhorst, Sverker Sjöström, Bertil Åberg and Lars Gardell who were involved in developing what is now Scania’s modularisation. The historical experience is linked to today’s reality, where customisation based on modularisation is still a key to success. One aim of the booklet is to establish a shared understanding of the modularisation concept. In particular one wants to work against what is seen as misinterpretation of modularisation, like overly standardised components. Historical issues, like the Teknikens Värld article addressed in the booklet, are also used for providing arguments for current decisions. As Scania recently decided to put less emphasis on the introduction of new programmes with many changes and rather introduce novelties successively, a parallel could be drawn to the article although it was more than 50 years old.

Anders Lundström, Head of Feasibility Studies, interview 2003

7.4.2 Modularisation today and in the future

The systematic work with modularisation as it is done with the principles-methods-results-model, educational efforts and the related education material, aims at preserving a shared understanding of modularisation among future generations of Scania employees. These efforts are especially directed at those directly involved in research and development. Still, the modular system is regarded as so fundamental to understanding the company that Scania wants everybody in the organisation to understand the basic ideas of modularisation.
Training programmes are thus open to people who are not involved in research and development. The modularisation ideas are communicated in- an outside the organisation. In a recent issue of Scania World (Rask 2004) the title story was devoted to the history of the modular system. The article establishes continuity from August Nilsson’s standardisation efforts in the 1920s over Sverker Sjöström’s experiments, the launching of the 2-series to modularisation of the 4-series and its successors. The article starts with a picture showing Sverker Sjöström together with today’s Head of R&D, Hasse Johansson.

Scania’s modular system was considered as a big technical innovation when the 2-series was introduced in 1980 under the name ‘GPRT programme’. However, the development of the modular system already started between the wars and its foundations were finally laid by Sverker Sjöström. Half a century later this Scania legend is the mentor\(^54\) of today’s Technical Director\(^55\) Hasse Johansson. Here, they tell the story of how the modular thinking became one of the cornerstones in the success saga Scania.

Scania World 1/2004:18-19, caption of the picture introducing the article, my translation

The Scania world article is not the only example of Scania presenting the modular system to external stakeholders. The modular system is a recurrent issue in all presentations of Scania, be it press conferences, annual general meetings or capital markets days.

Scania has chosen to focus on heavy trucks and buses with a modular product concept – a toolbox – which enables the customer to select exactly the vehicle he wants. To Scania, this means few components, which makes our product development more efficient and yields considerable economies of scale in both production and parts management.

Leif Östling, Managing Director, Address at the Scania Annual General Meeting, April 25\(^{rd}\), 2003

In this context the modular system is not just an argument for Scania’s advantage vis-à-vis its competitors. It is also an important argument for justifying Scania’s stand-alone strategy and its rejection of mergers and acquisitions. While critics argue that a merger is necessary for achieving economies of scale, Scania counters that its modular system is the best way of achieving economies of scale. Scania maintains that significant economies of scale are only achieved within a single product programme, while a merger would imply several programmes existing side by side without realising

\(^{54}\) Hasse Johansson is untypical as a Scania manager in so far as he did not join Scania until 2001. However, he has had a very close relationship with Scania for several decades. As an independent entrepreneur he developed fuel ignition system for the Saab engines Scania developed during the Saab-Scania era. During this period Sjöström became his mentor and chaired the Board of Johansson’s company Mecel for several years.

\(^{55}\) Hasse Johansson is actually Head of Development.
Organisational self-understanding and the strategy process

synergies across programmes. The discussion about the merits of organic growth became a particularly important topic during Volvo’s takeover attempt in 1999\textsuperscript{56}. Scania’s modular system is likely to remain a cornerstone of the company’s self-understanding. Despite competitors trying to copy it, Scania is continuously ahead in terms of limiting the number of components and it is alone in offering one product range globally (i.e. in those markets where Scania operates). Modularisation plays a key role for Scania’s profitability and is thus also an important argument for the company’s continued independence.

7.5 Scania’s self-understanding and the modular system

Having presented the case of Scania’s modular system, I will now continue with some low-abstract interpretations of the case. We thus go back to the issues raised in my research questions in order to see what clues this case offers for understanding the dynamics of strategy and self-understanding. These interpretations, along with those from the other cases, will then serve as raw material for theorising on the dynamics of self-understanding and strategy in the final chapters of this dissertation.

7.5.1 Modularisation and the understanding of Scania’s strategic position

The definition of one’s business is a key question for a company’s strategy (Porter 1980) as well as for its self-understanding (Albert and Whetten 1985). Mintzberg, Ahlstrand and Lampel (1998) define a company’s strategic position as the answer to the question what products it offers in what markets. Although Scania has never engaged in any major diversification the company has undogmatically tried out a number of products and markets over the years. In particular regarding choice of products, Scania’s self-understanding in terms of position has become closely intertwined with the company’s modularisation philosophy, itself being an important feature of Scania’s self-understanding. In the present case thus two features of Scania’s self-understanding are particularly salient, namely the modular design philosophy and the concentration on heavy commercial vehicles. Interestingly, the two have been closely intertwined. Scania has a long tradition of concentrating on heavy vehicles, hence the company’s modularised components have been designed to suit the heavy segments. This has again further reinforced the concentration on heavy vehicles as the box of bricks implies some degree of path dependency.

\textsuperscript{56} The issue of organic growth versus mergers and acquisitions is discussed more exhaustively in chapter 8. Scania puts forward more arguments for organic growth than those related to modularisation.
Medium-sized trucks

In a number of situations there have been tensions between possible courses of action on the one hand and Scania’s self-understanding as a specialised manufacturer of heavy vehicles, applying a modular design philosophy on the other hand. This has especially been the case during the different episodes where Scania considered adding medium-sized trucks to its range of products. Putting the idea into practice with the existing modularised components was problematic while adding new components might spoil the advantages of modularisation. Although Scania’s self-understanding suggested not making the strategic step into the medium-sized segments there were other forces pushing in the opposite direction. In all cases the sales network called for a medium-sized Scania. Especially, during the latest project in the 1990s there were also coercive pressures on the field level as legal restrictions threatened to delimit the market for heavy trucks in favour of medium-sized ones.

Table 7-1. Tensions regarding self-understanding in connection with the medium truck issue.

<table>
<thead>
<tr>
<th>Established self-understanding</th>
<th>Scania is a manufacturer of heavy (over 16t) vehicles</th>
</tr>
</thead>
</table>
| Strategic issue               | a) Sales & services network requests medium-sized truck  
|                               | b) Legislation may ban heavy trucks from city centres, probably more demand for medium-sized trucks |
| Tensions regarding self-      | a&b) Pressure to abandon focus on vehicles over 16t. |
| understanding                 |                                                   |
| Source of tensions            | a) Own sales & services network                    
|                               | b) Institutional field                             |
| Perceived seriousness of      | Moderate. Undogmatic stance towards medium-sized truck although it involves problems with respect to existing modularised components. |
| tensions                      |                                                   |
| Issue interpretation          | a) Opportunity (additional business for the sales & services network)  
|                               | b) Threat (Scania might loose market share to manufacturers of medium-sized trucks) |
| Solutions                     | 1) Adjusting the definition of heavy trucks      
|                               | 2) Not moving into medium-sized trucks           |

The tensions were not perceived as so serious that they prevented Scania from trying with a medium-sized truck. Scania’s stance towards the medium-sized truck has been relatively undogmatic. Although the product has been perceived as somewhat odd with respect to Scania’s self-understanding, the company has seriously investigated it several times. The pressure to move into medium-sized trucks was viewed as an opportunity and a threat at the same time. However, the threat was not in the questioning of Scania’s focus on heavy trucks, but rather in the scenario that the company might lose market share to other manufacturers if heavy trucks were banned from city centres. At the same time, moving into medium trucks also involved an opportunity. The medium-sized
Organisational self-understanding and the strategy process

Segment might generate additional business, especially for the sales & services network.

Even though Scania’s self-understanding did not pose an obstacle to investigating the medium-sized truck option, the tensions were not resolved. If the truck had been launched, Scania’s management would have needed to explain this step considering that the concentration on the heavy segments was often stated as one of the major strengths of Scania in public. As Scania managers have indicated in hindsight, it would have been possible to adjust its definition of heavy trucks to include the new medium-sized version. Now, this solution never became necessary as the legislation against heavy trucks did not come. Against this background Scania concluded that moving into a low-margin segment was unnecessary. Moreover, stretching the modular system towards lighter products was problematic if Scania wanted to realise the economies of scale the box of bricks implied. In hindsight, people at Scania see the latest medium-sized truck episode as a confirmation that Scania should stick to heavy vehicles. Nevertheless, Scania is proud of once again at least having tried to move into the medium segment before finally discarding the idea. Ironically, what started as a questioning of Scania’s self-understanding as a being specialised on heavy vehicles, finally resulted in reinforcing it.

Buses

While buses have been among Scania’s products almost from the beginning, their role in the company has changed over the years. Having been the major product of Scania-Vabis before World War II their share of the company’s production diminished substantially during the post-war decades. Scania’s self-understanding as a manufacturer of heavy commercial vehicles implied being a manufacturer of both trucks and buses. However, in the post-war decades trucks, especially long-haulage trucks, became the central product of Scania. Buses, as well as industrial and marine engines, had become a sideline business to the truck operations and buses were much less important to Scania’s self-understanding than trucks. Traditionally, Scania’s bus operations were concentrated on chassis making, where synergies with trucks existed even before the breakthrough of modularisation. It was with the acquisitions of the Katrineholm and later the Silkeborg plant that body building became an integral part of Scania’s operations. Particularly during the first half of the 1990s when DAB-Silkeborg was acquired, the prevailing industry recipe suggested that a bus maker should also produce bodies. However, in the following years it became more and more clear that it was difficult to make money in body building. Being just a minor part of Scania’s overall operations, it took some time until these problems led to any action, but finally in 2001, management’s patience had come to an end.
Table 7-2. Tensions regarding self-understanding in connection with the bus issue.

<table>
<thead>
<tr>
<th>Established self-understanding</th>
<th>Scania is a manufacturer of heavy commercial vehicles, i.e. both trucks and buses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic issue</td>
<td>The bus operations, in particular the body building part, are unprofitable.</td>
</tr>
<tr>
<td>Tensions regarding self-</td>
<td>Raison d’être of being a bus manufacturer (at least of being a body builder) becomes questioned.</td>
</tr>
<tr>
<td>understanding</td>
<td></td>
</tr>
<tr>
<td>Source of tensions</td>
<td>Management emphasizes profitability requirements on the bus business.</td>
</tr>
<tr>
<td>Perceived seriousness of</td>
<td>Moderate. Being a bus manufacturer is part of Scania’s self-understanding, but bus making is less important than truck making. Limited tradition and volume in body building.</td>
</tr>
<tr>
<td>tensions</td>
<td></td>
</tr>
<tr>
<td>Issue interpretation</td>
<td>Threat (Low profitability of the bus operations threatens to jeopardise Scania’s overall profitability)</td>
</tr>
<tr>
<td>Solutions</td>
<td>Re-defining Scania’s bus operations. Scania is rather a bus chassis maker than a bus maker. Maximising synergies between truck production and bus chassis production. Modularisation and industrialised production as a common denominator.</td>
</tr>
</tbody>
</table>

Considering that Scania’s profitability was lowered by the bus operations, action had to be taken. As bus manufacturing was part of Scania’s historically established self-understanding and body building at least recently had been considered being important to the bus operations a situation of tensions emerged. Finally, this did not prevent Scania’s management from divesting DAB-Silkeborg, moving the remaining body building operations abroad and moving bus chassis manufacturing to Södertälje. With the restructuring, triggered by the buses profitability problems, the hierarchy between trucks and buses in Scania became more obvious. Scania decided to focus on those bus operations that had a common denominator with the trucks, namely chassis making. In the chassis operations Scania could draw upon modularised components from the truck side as well as the same industrialised production methods as in truck making.

**Positioning based on modularisation**

Like the discontinuing of the medium-sized truck project, the restructuring of the bus operations made Scania’s self-understanding more centred on the modularised design philosophy. Productwise, Scania’s position is now almost exclusively defined by products that are based on the modularised components.

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57 These are trucks, bus chassis as well as industrial and marine engines. Also the latter are basically modularised engines from the heavy truck side that have been adjusted for other purposes. Although city bus bodies are still made in Slupsk and St.Petersburg, these activities are much more marginal than during the Katrineholm and Silkeborg era. The remaining body building operations are facing pressure to increase profitability. Hence their future is uncertain.
Organisational self-understanding and the strategy process

for heavy trucks. Also market-wise, modularisation is central to the definition of Scania’s position. The company offers its products world-wide with the exception of those markets where modularised products are not demanded, i.e. in particular North America. Scania’s positioning can shortly be defined as offering modularised heavy commercial vehicles as well as modularised industrial and marine engines in markets with a demand for modularised products. Despite this increasing emphasis on modularisation, decisions against products that were not based on the heavy truck modules (i.e. medium trucks and bus bodies) were not made in a dogmatic manner. It was not on principle that Scania refrained from stretching its components towards lighter segments, from continuing the craft-like business of bus body building or from selling trucks in the US. Rather, Scania tested all these moves before finally refraining from them for profitability reasons.

7.5.2 Re-discovering modularisation

Modularisation has not only been on the agenda in conjunction with the medium-sized truck and the restructuring of Scania’s bus operations. It also became salient during the initial quality problems with the 4-series. While the two former strategic issues led to a relatively silent increase in emphasis on modularisation, the latter resulted in a large-scale effort to revive and communicate the ideas of modularisation throughout the organisation. The problem was not so much that there were tensions between Scania’s self-understanding and options for strategic action. It was rather that different interpretations of the meaning of modularisation had emerged over the years. Especially to newly recruited engineers, the main virtue of modularisation was the possibility to reduce the number of components by using them for as many applications as possible. This idea departed from the original concept of standardising interfaces, but having different components for different applications. Consequently, Scania had problems with components that were wrongly dimensioned for their applications. The reaction was eventually to go back to Scania’s history in order to rediscover the ‘true’ meaning of modularisation and to stress the overall importance of modularisation to the company. In doing this, management made a conscious attempt at influencing the organisation’s self-understanding. Interestingly, the attempt to revive the ‘true’ modularisation was not just about outlining its basic ideas. The ideas of modularisation were communicated in the form of historical retrospect or in Karlsson’s (1999) words, management started using history.

Using history in reviving modularisation

In their work with reviving the ‘true’ meaning of modularisation, Scania people like Anders Lundström as well as the consultants from SAM could draw upon historical documents as well as the accounts from Scania veterans like Sverker Sjöström, Bertil Åberg and Stig Ericsson who had been actively involved in developing what was later called Scania’s modular system. These people are
frequently referred to in the information material on the modular system that is produced and they appear as interviewees in Scania World. In giving a voice to the fathers\(^{58}\) of modularisation, Scania engages in what Karlsson (1999) calls the moral use of history, i.e. rediscovering past circumstances that have become blurred in people’s memories. The intention is to restore and to rehabilitate the original meaning of modularisation. The restorative function becomes especially clear in the reference to the strategies of the 1940s like the frequently cited excerpt from Teknikens Värld from 1948. At the same time, this use of history is also ideological in the sense that it goes beyond historical reminiscence and provides direction for future action. The success stories of the past legitimise drawing upon modularisation as a success recipe for the future.

The turning back to history aims at identifying and communicating ideas that are conceived as timeless. The modular system is assumed to be universal in the sense that its basic ideas do not have to be adjusted to circumstances. By telling the story how Sverker Sjöström and his colleagues discovered the principles of modularisation, these principles can be conveyed to future Scania employees. In this sense the perspective on history Scania applies in reviving modularisation is mythological\(^{59}\). The message is basically that there are ideas and strategies that have timeless validity. Hence, the Teknikens Värld excerpts expresses that some aspects of 1948’s strategy, like standardised/modularised components and continuous development rather than big bang improvements are still valid in the 21\(^{st}\) century. Strategic change in these issues is rather about returning to proven success recipes than creating something totally novel.

7.5.3 The dynamics of strategy and self-understanding in the modularisation case

The modularisation case shows some interesting examples of the dynamic interplay of strategy and self-understanding. On the one hand, Scania’s self-understanding appears as a context, enabling and constraining strategic action. On the other hand, strategic action itself is accompanied and succeeded by modifications in Scania’s self-understanding. One might even say through strategic action, the organisation understands itself in a better, or at least different, way. Along with various strategic decisions, modularisation appears as a more and more central feature of Scania’s self-understanding and as more and more important to the company’s strategy. For illustrating this interplay, I will now try to visualise it as suggested in chapter 3. Our picture starts at point 1,

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\(^{58}\) All people who are usually mentioned in conjunction with development of the modular system are men. During the time in question, men stood for the vast majority of Scania’s employees.

\(^{59}\) I once again want to recall that I do not use the terms myth and mythological in the everyday sense of the words as having limited truth value. A myth can be as true as any other claim about the past. However, the main function of the myth is to convey timeless principles rather than giving an account of a historical process. The most important function of telling stories about the history of modularisation in Scania is to convey the meaning of the design philosophy’s principles to future generations of Scania employees. Of course the stories may at the same time be a fair account of what actually happened.
the movement from the left to the right symbolising the temporal course of events.

Figure 7-1. The dynamics of strategy and self-understanding in the modularisation case.

The stream of short arrows running through the picture from the left to the right stands for strategic action, which is receives guidance from the organisation’s self-understanding, symbolised by the dashed channel. In the present case it is in particular Scania’s character as a producer of heavy commercial vehicles and the modularisation philosophy that are salient features of Scania’s self-understanding.

At point 2, a change in strategic action is triggered by an external force. This could for instance be the prospect of legislation favouring medium-sized trucks and increasing pressure on Scania from the sales and services network to offer such a truck. As a result, strategic action deviates from its previous path. Scania considers abandoning its concentration on vehicles over 16t and initiates a development project for a medium-sized truck. It is no longer the company’s self-understanding, but the external pressure that dominates the strategy process. The consequence of the medium-sized truck project is that tensions between strategic action and Scania’s self-understanding arise. Previously, Scania had understood itself as a producer of heavy vehicles, i.e. over 16t. However, the company is not dogmatic on this point. Strategic action is allowed to cross the line drawn by organisational self-understanding and as a result of this, self-understanding eventually changes. The concept of heavy vehicles is stretched and management considers that trucks slightly under 16t still might be considered as heavy. This would allow them to basically maintain the self-understanding as a heavy truck maker while modifying the underlying meaning.

However, this move never became necessary. The medium truck project was abandoned, not mainly due to the tensions regarding self-understanding, but as
a result of diminishing external pressures for the truck in conjunction with a low expected profitability. Strategic action could return to the established path and the modification of Scania’s self-understanding that was already under way could be reversed (3). The project had reminded Scania that stretching its box of bricks towards lighter segments was not easy even though an acceptable solution to this problem might have been found. The result of the discontinued project was not only a return to the previous self-understanding, but also a reinforcement of it. Scania saw even clearer than before that its focus on heavy trucks and the modular design philosophy were keys to the company’s success. This reinforced self-understanding is symbolised by the darker dashing in the figure.

Now, it was not only the medium truck project that turned more attention towards modularisation. The importance of modularisation to Scania’s self-understanding was also reinforced by the bus restructuring and the quality work with the 4-series trucks, triggering the more explicit and formalised work on the modular design philosophy. Here, the use of history comes in. The idea of seeing modularisation as a key aspect of Scania’s self-understanding is reinforced by reference to past strategic action (4). The origins of modularisation are ‘rediscovered’ and used ideologically to provide guidance to future strategic action.

Managing self-understanding in the modularisation case

In the frame of reference chapters of this dissertation, I have discussed the manageability of self-understanding. Organisations can have a self-understanding without any specific management activity directed toward shaping it and the possibility for management to actually influence their organisation’s self-understanding is limited. Still, attempts to do it are an important part of the management of meaning (Pettigrew 1985b). In the modularisation case it is possible to identify at least two attempts by Scania’s management to engage in defining the company’s self-understanding.

The first was about to occur when Scania worked with its project on the medium-sized truck. This truck did not fit well into Scania’s self-understanding of being a producer of heavy commercial vehicles. Although making the truck would not have meant a revolutionary change to Scania’s self-understanding it was incongruent with the over 16t definition. Now, as the project was discontinued this problem was never fully actualised, but a likely solution indicated by Scania managers would have been to assimilate (in Piaget’s 1947/2001 terms) the new model into Scania’s self-understanding of being a heavy vehicle producer. One might simply have defined the truck as heavy and lowered their own heavy truck definition a few tons. Since there are different thresholds for between light, medium and heavy vehicles in different countries, this would probably have been perceived as reasonable. Assimilating the new truck into Scania’s self-understanding would thus mainly have been an issue for managerial sense-giving.
Organisational self-understanding and the strategy process

The second attempt to manage self-understanding was less about bringing about change than reinforcing the traditional self-understanding by more clearly emphasizing the importance and meaning of modularisation. This happened through making the primarily tacit knowledge about modularisation explicit and by promoting a picture of modularisation that was very much based on historical reference. Doing this, management could influence what conception of the modular philosophy was part of the company’s self-understanding.

Strategy-making and self-understanding

The picture of dynamics of strategy and self-understanding after this case is not that of self-understanding being a rigid framework for strategic action, fostering inertia. Strategic action in Scania has been allowed to challenge the company’s self-understanding as with the medium-sized truck project. From time to time Scania tests strategic moves that seem incongruent with the company’s understanding of itself. However, in the present case they have not resulted in lasting change. The increasing importance of modularisation to Scania’s self-understanding has thus rather been an outcome of trial-and-error strategic action than a cognitive constraint, limiting the possibilities for strategic action ex ante. In the modularisation case, strategic action is preceded, accompanied and followed by self-understanding. It is in strategic action that the latter is refined. However, it is not only current strategic action that has an impact on self-understanding. Scania’s self understanding also relates to historic strategic action as this relating to history is consciously promoted in order to influence future strategic action.
The bonneted cab – how do products reflect Scania’s self-understanding?

Being a single product company the self-understanding of Scania is closely related to the members’ conception of the Scania truck’s product identity. The present chapter is about an ongoing debate around the future of perhaps Scania’s most prominent cab design, namely the bonneted T-truck. It reveals that there are different conceptions of product identity reflecting different conceptions of the organisation’s identity among Scania members. The Scania truck can be associated with quantifiable as well as non-quantifiable aspects. While the former relate to economical and technical issues, the latter mainly address the feelings the appearance of a Scania evokes. Truck cabs with a bonnet have lost market share over the years since they are often less favourable for the haulier from an economic point of view than cabs without a bonnet. However, there are non-quantifiable arguments for bonneted cabs as their impressive appearance can be interpreted as an expression of the self-understanding of the truck owner as well as of the self-understanding of Scania. The decision whether to continue making bonneted cabs thus becomes a question of what aspects of its self-understanding Scania wants to express in its products.

Organisational self-understanding and product identity in a single product company

Scania is an organisation with a very clear emphasis on a single category of products, namely trucks. Including buses and separately sold engines, which are mainly based on truck components, the trucks together with the truck related finance and service businesses virtually stand for Scania’s entire turnover. The dominance of trucks has been characteristic of Scania for the last 100 years although the company has also been active in other areas for limited periods. Now that Saab-Scania has split up and the Volkswagen agency has been

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8 Here, appearance is not limited to visual aspects, but also includes e.g. the sound of the engine or the feeling of driving a Scania beyond the mere physical comfort.

9 In this context we may recall that neither Scania nor Vabis started out as truck manufacturers. Both made passenger cars before they constructed their first truck. However, during the first decade of the 20th century, trucks and buses became the dominant products and have been so ever since. Between the world wars, buses stood for the major part of the company’s production. While the years of World War II were dominated by military vehicle production, trucks soon outgrew buses in the post-war years. During the second half of the 20th century passenger cars returned to the business of Scania-Vabis. The Volkswagen agency provided cash-flow for the post-war expansion and helped supporting the domestic dealers. Later, the work with engines for Saab’s cars required a lot of energy from Scania. Still, all these activities did not change Scania’s self-understanding as primarily being a truck manufacturer.
divested, Scania managers often emphasize that Scania is a single product company and moreover, the product and the company have the same name. Considering the closeness of company and product, it is not surprising that the understanding Scania members have of their organisation is hard to distinguish from their understanding of the product. Organisational self-understanding and members’ conception of product identity become blurred. The heading of this chapter is an example of the hen-and-egg question. People at Scania see the truck as an expression of Scania’s identity, while the company’s self-understanding itself relates to the company’s trucks.

What is it then, the Scania truck stands for? The answer is not self-evident and different people in the company emphasize different aspects when it comes to their understanding of the product identity as well as of the identity of their organisation. A crucial issue in the debate around product identity is the question of what customers value when they buy a truck, but even this question is not easy to answer. Scania’s customers are a heterogeneous group comprising single truck as well as fleet owners, having different demands and preferences. Service and finance have been added to the traditional selling of the physical product. Despite the increasing importance of intangibles to the business, the truck as such is still highly important. But even the truck is more than a mere physical object. Its technical properties have a big impact on the haulier’s profitability. However, beyond these ‘hard’ facts there are also non-quantifiable aspects, sometimes referred to as ‘soft’ issues, associated with the truck. Especially, in times when it is difficult to maintain technological advantages in comparison to competitors the non-quantifiable aspects achieve more and more importance. Scania thus pays increasing attention to them. In a company with a tradition of rational engineering ideals this is not always free of tension. One issue where the question of non-quantifiable aspects becomes particularly salient, is that of bonneted cabs.

8.2 The heart and the wallet in truck purchasing decisions

Do Scania’s truck customers buy their trucks with the heart or with the wallet or maybe both? The answer to this question is critical for Scania’s strategy. The understanding of the customer’s buying decision is closely linked to Scania’s understanding of how to market its products. On the one hand, Scania sees itself as being in a business-to-business market. On the other hand trucks also conjure up some similarities with consumer goods.
[There are aspects of consumer goods]. It’s after all a car. So we are in a sense in between, but we cannot define ourselves as consumer goods of course. It’s more industrial goods. At the same time it’s a working place for a human, namely, the driver. There is some truck romanticism left and in that sense it’s a consumer good. There is an image issue and brand retention and a pride in having a Scania. You can be proud of a V8. I wouldn’t call it consumer goods, but there are aspects of it.

Anders Lundström, Head of Feasibility Studies, interview 2003

8.2.1 Calculative and emotional aspects of buying a truck

Even though emotional reasons may be a part of the decision of buying a truck, practically all trucks are bought in order to be used in some kind of commercial application. In this sense they are investments and their profitability for the owner can be calculated according to economic criteria. The cost a truck owner has is not only that for buying and maintaining the truck itself. In Europe, this part stands for one third of the total operating cost while the other two thirds are the cost for the driver and for the fuel. Fuel consumption is hence an important part of the haulier’s capital investment estimate. An aspect that is also highly important for the profitability of an investment in a truck is uptime, meaning the time the truck and the capital it represents can actually be used. For high uptime it is important that there are few breakdowns and that repair is quick at hand once a breakdown occurs, or that the transport capacity of the truck can be replaced for the time in question. Consequently, the nature of truck deals has changed a lot in recent years. Today, a haulier may see the deal rather as buying transport capacity rather than buying a truck.

Instead of paying each time he comes in he can get a service agreement for the coming 800000 kilometres or whatever. It’s just a case of coming in periodically. That’s included in the price form the beginning. You can extend this. What am I paying for? Well, I’m paying x kronor per kilometre for the next five years or 800000 kilometres. [You are buying kilometres instead of a truck…], but you still own the vehicle. Then you can add financing as well […] either hire-purchase or with leasing.

Martin Ståhlberg, Managing Director Scania Sverige, interview 2003

Such a scenario puts high emphasis on the calculative aspects of a truck deal. A purchasing decision may then be seen as based upon objective facts while emotional aspects that cannot be measured play a very marginal role.

Out of the product identity at large, fuel consumption, uptime and engine power are the three most important things. And the two first are economical items. The third is an old image point here at Scania. You should be able to trust in an engine. They have a good reputation and sound and that sort of things. It’s more of a half-fuzzy point. But I would say that what counts today is the economy and the life cycle. The customer can add the sales price to the expected or agreed maintenance costs and thus gets the whole financial picture.

Urban Johansson, Head of Powertrain Development, interview 2003
The calculative aspects of a truck deal may create legitimacy problems for those people in the organisation who deal with more soft issues like design. A few years ago, Scania’s Head of Styling, Kristofer Hansén, was interviewed by the journal *Mekanisten*. The article focusing on Scania’s design was not typical for an engineering journal, nor did it correspond to the picture Hansén’s colleagues at other Scania departments had of their company:

Mekanisten had two articles. One was on Volvo and they had interviewed engine people. [...] Then they had another article on the following pages. It was about Scania and dealt with design. When [the journalist] had published it, people [at Scania] were angry. Mekanisten is a journal for engineers and they learned about it: ‘That gives a totally wrong picture! It’s about engines! Scania makes an engine!’ [...] They often say that it’s only price that counts and it’s only the [engine] performance that counts. ‘The image is totally unimportant’, but in fact all parts are equally important62.

Kristofer Hansén, Head of Styling, interview 2003

While some people at Scania very much stress the calculative aspects of the truck business and see a truck deal almost purely as an economically rational investment decision from the buyer, there is also a common view that other aspects matter. Truck buyers might actually consider things like the outer appearance of the truck or the image of the brand. They might be willing to buy an engine that is larger than necessary because it gives them additional prestige. A common view at Scania is that the importance of non-quantifiable aspects differs between different customer categories. Self-employed hauliers are said to leave more room to emotions in their buying decisions. They drive the truck themselves; it is their working-place and there may experience a more emotional relation with it.

Few people at Scania would deny the importance of emotional values. However, the degree of importance that is ascribed to them differs between Scania employees. Scania has traditionally had a strong position among small haulage companies. These have also been more profitable customers than the large fleet-owners who are very price sensitive and buy large numbers of trucks at a time. However, concentration tendencies in the haulage industry could lead to more large fleets and less single truck owners.

Over time there has been a shift from single or small business truck owners, where Scania has been very strong, to the large fleets that are very good at following up actual operating costs for the truck. They make very sober-minded calculations on fuel consumption, maintenance costs, everything. From being able to draw upon traditions and the truck drivers’ talk we have come to the moment of truth.

Urban Johansson, Head of Powertrain Development, interview 2003

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62 My Scania interviewees want to point out that the cooperation between different functional areas usually works fine, although specific issues are sometimes vividly discussed.
It is however uncertain how far the trend towards large haulage firms will continue. Even international logistics giants increase their flexibility by outsourcing part of their work to smaller hauliers. Hence, many small firms will probably survive. Moreover, in some respects economic calculations and soft values may actually overlap. Good truck drivers who drive in a fuel-efficient way are scarce and difficult to recruit. Hence, there can be an incentive for hauliers to buy trucks that appeal to drivers. If non-quantifiable aspects contribute to a higher second-hand value of the truck, this also needs to be considered in the haulier’s economic calculations. Additionally, the non-quantifiable aspects may be decisive if different trucks are similar in a technical sense. Today it is increasingly difficult to differentiate one truck from others by technical performance only. This is also the argument which Scania’s top management uses to motivate an increasing interest in brand issues and in non-quantifiable aspects in particular.

We intend to continue surpassing the technical achievements of our competitors, but it will not get any easier. […] As is the case with many products, both within the professional and consumer markets, it is becoming increasingly more difficult to compete with technical excellence alone. Most manufacturers today can produce very good, high-quality products. Therefore, the battle for the customer’s favour has now shifted to another platform than the purely technical.


8.2.2 Scania’s product identity platform

As a consequence of this view, Scania has decided to stress the soft values more explicitly. In a 66-page manual for internal use called Scania Product Identity: Guiding Principles (Scania 2000), the aspects that should be associated with a Scania truck are outlined. Scania refers to them as quantifiable and non-quantifiable ‘values’\(^{63}\). While the former can be measured or assessed in terms of numbers, the latter cannot. Nevertheless, they are perceived by people and evoke reactions.

In the manual, Scania’s product identity platform\(^{64}\) is depicted as a combination of quantifiable and non-quantifiable aspects. Performance summarises the quantifiable aspects. These are taken for granted and not much elaborated on. The major part of the manual is devoted to the non-quantifiable aspects, which are summarised under the concept of prestige. In order to

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\(^{63}\) In the manual, the ‘quantifiable values’ are also referred to as ‘hard values’ while the ‘non-quantifiable values’ are referred to as ‘soft values’. Although the hard/soft distinction may be more common in everyday language, Scania prefers the quantifiable/non-quantifiable distinction. This labelling can be seen as a concession to the engineering tradition of the company as well as to the fact that talking about ‘soft’ in relation to a powerful truck would appear somewhat odd.

\(^{64}\) Although parts of Scania’s product identity platform are communicated rather openly, the document as a whole is for internal use only. I therefore refrain from going too much into details and limit my description to a few examples that illustrate the ideas behind the product identity platform.
operationalise the prestige concept, it is again broken down into three sub-
notions or values, namely respect, confidence and privilege. Each of those is once
again broken down into further sub-concepts, specifying the signals a Scania is
meant to convey. The manual exemplifies the different values and their sub-
categories with examples both from Scania and from totally different contexts.
For instance, Mercedes passenger cars are used to illustrate privilege.

Interestingly, when examples from Scania are used, some of the pictures and
stories do not show the company’s latest trucks, but Scanias from the 1960s and
70s. This emphasises continuity in Scania’s product identity. Scania sees
continuity as such as a non-quantifiable aspect that should be associated with its
trucks. Despite ongoing development it should be easy to recognise a Scania
truck. Continuity can be embodied in small design features as well as main
components.

The V8 […] laid the foundations for our reputation. What we did 25 years ago,
we are still profiting from today. What we are doing today we should, if all goes
well, be able to still sell it with good profit in 25 years time.


The product identity platform is primarily to be used in product development
in order to make the people involved aware of what their solutions are supposed
to signal. Does for instance the sound of closing the cab door signal a reliable
door construction? The aspects that are emphasized of course differ from one
development case to the other.

8.2.3 Increasing emphasis on the non-quantifiable aspects

Scania’s product identity platform is supposed to combine the quantifiable and
the non-quantifiable aspects associated with a truck. The issue of non-
quantifiable characteristics as such is not new for Scania. The values and the
signals a Scania truck is supposed to convey can be traced far back into Scania’s
history. For example, Scania has a long history of developing high performance
engines. Beyond the technical properties they represent, they also stand for
respect, confidence and privilege. The two generations of the V8 have especially
embodied these attributes over the years and contributed to Scania’s
commercial success.

V8 was where Scania’s name was made in the UK. Scania had the reputation
being the only manufacturer that produces a V8 engine that worked well and it
was the owner-driver’s dream machine. If you go back ten years people bought
V8 and they didn’t need them because they had low weights. They were buying
with the heart and they liked this noise of this V8 engine and they used to
happen to be very efficient on fuel. That seemed to be a side effect, although not
today. We have had weight increases up to 44 tons and you still don’t actually
need a V8 engine of 580 horse power for 44 tons, but they have a very good fuel
consumption. There is no doubt about that so we have seen V8 business get back up.

Tony Ballinger, Marketing Manager Scania Great Britain, interview 2003

While non-quantifiable characteristics have been ascribed to Scania’s trucks for a long time, top management has just recently started ascribing them strategic importance in such an explicit way as today. Changing market conditions have not been the only driver of this development. Also the changing ownership constellations have also played an important role. Both the disintegration of the Saab-Scania group and the takeover attempt by Volvo, triggered an interest in emphasizing the Scania brand and in reflecting upon what was unique about the company and its products. The fact that Scania was a single product company played an important role.

[The attempt to show one’s own identity regardless of ownership situation] is a result of the product identity. That’s an extremely important means of competition. Therefore, Scania as [the product] Scania becomes the identity of the company. Then you can’t work with anything else. […] I think that identity as such is not much coupled with ownership. What is important is that the product and the company have the same name.

Kaj Lindgren, Chief of Staff, interview 2002

The attempts to stress a distinctive Scania identity within the Saab-Scania group and a few years later as an independent company, mainly focused on the name and on the logotype in connection with the product. The takeover attempt by Volvo gave an additional push to reflect upon the meaning of the Scania brand. This was true while Scania defended itself against Volvo as well as during the preparations for integration after Investor had accepted Volvo’s bid.

When Volvo had placed its bid on Scania we worked hard in order to profile Scania relative to Volvo. What do we stand for? What is our corporate culture? What is our brand? What is unique for Scania? In order not to loose that when Scania was integrated with Volvo. […] The threat was] that we would loose ground and loose established customers. We would have to bargain and sell off operations. We might have to sacrifice some of our components also and [there was a threat] that we would loose a part of our identity and that it would be a fuzzy Volvo-Scania identity.

Cecilia Edström, Vice President Strategy, Business & Brand Development, interview 2002

Whereas there had been more or less conscious ideas about what Scania as a company and as a product stood for, the takeover attempt triggered a move to reflect upon these ideas more systematically and to make them explicit.

I will elaborate in detail on Volvo’s takeover attempt in the following chapter.
Organisational self-understanding and the strategy process

If you are looking back it was ‘in the walls’ as we use to say. It was a robust product. It was fuel consumption. Scania had the best engine. Good second hand value through a good engine, long life length and good quality. That has been the mantra throughout the years. Now it has become more sophisticated and it was perhaps through Volvo we were forced to re-think in a more academic manner and a little deeper than just quality and engine about what our brand is [...]. It still builds a lot on the history of engine and quality and then there is also the macho bit and the perceived values.

Per Hallberg, Head of Production and Procurement, interview 2003

Among other things, the work resulted in Scania’s product identity platform and a separate section on Scania’s identity that was included in the annual report of 1999. In the latter, Scania’s identity was claimed to rest upon products, values and operating procedures, but the stress lay very much on the product since values and operating procedures were seen as a means to create the products. Among the products, vehicles, service, and customer finance, the focus was on the physical products, the vehicles. Here, interestingly, very much emphasis was put on prestige, i.e. the non-quantifiable aspects associated with Scania’s trucks.

The Scania brand name has a strong identity, and Scania’s products stand for prestige and high performance. The promises made by this brand name must constantly be fulfilled in the company’s encounters with its customers. Only high performance and quality can satisfy customers’ expectations of Scania. Scania offers prestige products in which customers must feel total confidence. These products must also help their owners and drivers to feel proud of their choice of professional working tools.

Annual Report 1999, p.11

The page on identity and brand has been retained and further developed in the subsequent versions of the annual report. A picture of a truck always comes with the text, stressing Scania’s character as a single product company. In the more recent issues (Scania 2002; Scania 2003b), pride and trust have been stressed as the feelings a customer or driver should have towards a Scania. The increased emphasis on the non-quantifiable issues does not happen without tensions however.

8.3 Scania’s bonneted T-trucks

An area where tensions between hard and soft values arise, is that of design. Design may have a measurable impact on the technical properties of a truck, but it is in particular connected with how a truck is perceived, i.e. a soft aspect of the product. When it comes to truck design, the outer appearance of the cab is what distinguishes different trucks most easily. There are two main ways to design a cab, depending on where the engine in placed. For a long time, the dominant design was to place the engine in front of the driver’s cabin under a
bonnet, resembling a nose in the front part of the truck. With few exceptions, almost all trucks were designed like this.

8.3.1 The rise of cab-over-engine trucks
It was not until the 1960s that bonneted cabs started being questioned. By this time many European countries had introduced length restrictions for trucks and the increasing performance of truck engines had as a consequence that the regulations rather than engine performance limited transport capacity. Against this background, using part of the disposable length for a bonnet was waste of money. The solution was to make so-called cab-over-engine trucks, having the engine placed under the driver’s cabin. The trend towards cab-over-engine trucks started in Continental Europe where length restrictions were introduced earlier than in Sweden. Lack of pressure from the domestic market was probably one reason for Scania-Vabis being a late mover in introducing a cab-over-engine cab. It was pressure from the continental markets, particularly the Dutch agent Beers that triggered the introduction of the LB76 in 1963, the first cab-over-engine cab of Scania-Vabis since the 1930s.

Cab-over-engine cabs quickly gained market share in all European countries. The situation was and is still different in the US where the length of the cab is not counted when it comes to length restrictions for trucks. The market was also more conservative in Latin America. For a long time, Scania only offered bonneted cabs there. Except for the length issue there are a number of advantages with this design.

If you have a bonneted cab the distance between the axles becomes longer and you sit behind the front axle and it’s more comfortable. You don’t sit over the axle and bump up and down. It’s also much easier to get out of a bonneted cab than a cab-over-engine. Those drivers who have to get in and out frequently want to have a bonneted cab. In South America I also heard that there was a security reason. You want to see the truck in front of you. Not just the windscreen.

Bengt Palmér, former Technical Director, interview 2003

In Europe, bonneted cabs became more and more marginalised. Many producers stopped offering them in the European market as the low volume did not motivate the additional development cost. Despite such arguments, Scania continued including bonneted cabs in all of its new programmes. When cabs were modularised with the 2-series in 1980, the first version to be launched was the bonneted cab, the so-called T-cab, alluding to the torpedo-like design. Thanks to the idea of modularisation, the additional investments in development and tools could be kept low. For applications where the length of the truck did not play a role, like construction vehicles or transports of goods with high density, the T-cab was no disadvantage.
8.3.2 The bonneted cabs are being increasingly questioned

Although the bonneted cabs have a number of practical advantages, much of their attraction lies in the mighty appearance of the model. They also come closest to the traditional picture of what a truck is supposed to look like. A story often told at Scania is that children who draw a truck intuitively draw one with a bonnet. Finally, American trucks that symbolise trucker romanticism to many people, typically have a bonneted cab. The reasons why Scania’s T-cab still attracts customers is to a large extent of an emotional nature. Even for applications where the cab length actually is a certain disadvantage, some hauliers are willing to sacrifice some economic gain for the status associated with having a T-truck in their fleet.

As far as the T-cab is concerned the problem in the UK is the overall length of course. I mean you are restricted to a 40-feet trailer. You might see it as a flagship vehicle. We have one customer who specialises in plant movements and they have a T-bonneted cab hooked up to a trailer and it’s a very impressive rig and it’s a flagship thing. We have a T-cab concrete mixer which is a very impressive thing. Again, a flagship.

James Armstrong, Managing Director of an independent British truck retailer, interview 2003

In some cases the prestige associated with a T-cab may also be for the economic benefit of the haulier.

I saw a customer three weeks ago in the concrete business and he said he had run into problems some years ago, close to bankruptcy and then he bought a T-truck and then suddenly the bank became more positive and it saved his business. That was a true story.

Dan Hoij, Managing Director Scania Great Britain, interview 2003

Being the only supplier of T-cabs in the European market since 2003, Scania uses this position to demonstrate its position as the premium brand among truck manufacturers.

Scania’s bonneted T-truck, despite relatively limited sales volume in Europe, is an important identity platform for Scania. It signals both strength and prestige, showing that the driver is pulling such a heavy payload that he does not need full cargo length. It says that the owner has enough money and experience to offer the driver a flat floor and the superior comfort provided by a driver’s seat behind the front axle.

Scania World 3/2003:25

Despite the possibility of using the T-truck as an identity platform, the cab model is not uncontroversial at Scania. Is it really worth the effort and the money to develop a cab model with low sales volumes? A few years after the turn of the millennium only 2% of Scania’s trucks sold world wide had a
bonneted cab. Although the modular system makes it possible to develop a bonneted cab with relatively little additional effort, there are nevertheless costs associated with development, tool investments and production. The question is whether the image associated with the bonneted cab outweighs the additional costs.

From a purely economic point of view the profitability of the [bonneted cab] is not good at all. Then of course the soft values are discussable. Is it really the image carrier it is claimed to be? [...] When I was new on my job I said we should discontinue the T-truck. We should not do things like that. The result was an uproar. It was total revolution. It was not acceptable to say anything about discontinuing the T-truck.

[OB:] Despite Scania being so profit-oriented?

Yes. That you can say is really a paradox. There are limits to profit-orientation, obviously.

Hasse Johansson, Head of Research and Development, interview 2003

Due to its impressive appearance and legendary status, the T-truck receives a lot of attention at motor shows as well as in the specialised press. Commercial vehicle magazines often publish pictures of the T-truck when writing about Scania. However, it can be discussed whether that is a result of the journalists’ interest in the T-truck or a self-fulfilling prophecy emanating from Scania’s information department.

[With regard to the professional magazines] people are telling me, ‘there you see it. The [T-truck] is an image platform. That’s what the photographers take their pictures of.’ Then when I look behind the scenes, I see that they are the pictures we have sent them. I have made an observation. Our coming [2002] annual report has a number of pictures on the front page. Pictures of trucks and there is a picture of a T-truck. And if we show the T-truck there it’s our PR-people who have decided that it is supposed to be a T-truck. I mean, we are maintaining this [image] ourselves.

Hasse Johansson, Head of Research and Development, interview 2003

In the discussions around the T-truck, tensions between Scania’s traditional focus on rationalisation and the increasing attention to non-quantifiable aspects appear. Like the Scania customer who buys a T-truck as a flagship for image reasons, despite the drawbacks from a purely economical perspective, also Scania thinks beyond quantifiable calculations when it comes to the T-truck. It is of course difficult to put figures on the value of the T-cab as an image platform. So far the assumption has been that the value outweighs the additional cost. However, there have been discussions not to offer T-cabs in all markets.

When we were about to introduce the 4-series in Australia, they said they needed a bonneted cab. Leif [Östling] and Håkan Samuelsson said that with the volumes
they had we should only offer cab-over-engine. We forget about the bonneted cab. Then Australia shouted loudly [...] and said that the whole market is tuned in to bonneted cabs so they needed a right-hand drive bonneted cab [...]. There I supported the market side and said we have to listen to them. Otherwise they would only have cab-over-engine in Australia [today].

Bengt Palmér, former Technical Director, interview 2003

The internal discussion around the bonneted cabs in Scania is not a simple issue of the marketing side supporting the T-cab and the technical side opposing it from its more calculative perspective. There are dealers who would not regret if the bonneted cabs disappeared since they are a marginal product in terms of volume. At the same time, people on the technical side also identify with the bonneted cab as it represents the typical Scania truck.

8.3.3 The STAX project

So far, the bonneted cab has not been removed from Scania’s programme. Given the low market share in Europe and the declining market share in Latin America, the question is however for how long will there be T-trucks in new cab generations. One decisive issue besides the demand for the cab is probably Scania’s ability to design a bonneted cab that is profitable for the company as well as for the customers. At the IAA truck fair in Hanover 2002, Scania presented a concept study of a future bonneted cab, the STAX. The model was one of the highlights in Scania’s exhibition case. Concept studies, in particular pure design studies, do not have a long history in Scania. While it is relatively common in the passenger car industry to show futuristic design studies at fairs, Scania, like the truck industry as a whole, has been concentrating on using fairs for introducing current products such as truck models or engines. The STAX project started out as an internal study. Ola Pihlgren, one of Scania’s industrial designers, had just returned to work after a time of sick-leave and there were no current projects he could jump on. His superior suggested that he might do a concept study together with three design students who were doing an internship at Scania.

I had nurtured the idea for a long time that if I was going to do a concept study, I would work with our T-truck. […] I like it very much personally. It’s a great thing. Of course I like American trucks very much and there is all that heritage. At the same time it’s really unprogressive and rather mad to still have it. I somehow like that twist.

Ola Pihlgren, industrial designer, interview 2003

As there were no plans to present the design study in public, Pihlgren and the students had very a lot of freedom in their work. Nevertheless, they did not want to go too far away from Scania’s business reality. The study should comply with Scania’s product identity platform and it should take into account that a too long bonnet would not be accepted in the market. There were various
points of departure for their design work. The study was inspired by US trucks as well as by Scania’s own history of bonneted cabs. Moreover, it implied a critique of Scania’s current T-truck. In Pihlgren’s view, the 4-series T-truck was too much of a compromise with the desire to use standardised components.

Design wise the [T-cab of the] 4-series is just a big compromise. An existing cab has been placed a little bit back on the chassis and one has put a loose nose in front of it. There has not even been an attempt to put the things together. One has just put a black piece of plastics in between. There are big holes under the cab and the forms are really strange overall. In the true Scania spirit one has used the same grille as for the other [cabs] and this has made the nose very broad […]. There is really much design critique against it.

Ola Pihlgren, industrial designer, interview 2003

One of the major challenges was to combine the desire to design an impressive truck with the need to limit the length of the cab to make the dimensions commercially viable. The STAX cab should, preferably, not be longer than the T-cab of the current 4-series.

[In the US you can have] a nine-metre tractor unit. It doesn’t matter. But it did not feel really Scania-like. We would have been allowed to do such a thing, but we felt it would be too far away and would not have anything to do with Scania […] without any connection to reality. It would never be Scania-like to optimise on such a long cab just for the sake of outer appearance.

Ola Pihlgren, industrial designer, interview 2003

It was more Scania-like to use the disposable length for increasing the driver’s comfort. Scania has been trying to increase the status of the truck driver profession and the company believes that drivers, be they employees or self-employed, are important for truck purchasing decisions. The idea was therefore to make the driver’s cabin of the STAX longer than that of the 4-series T-truck at the expense of bonnet length. However, the designers managed to make it look longer than it actually was by letting the edge of the bonnet continue over the whole cab. This gave the STAX a mighty appearance.

In its current form the STAX truck is a design study that aims at testing design options for future generations of bonneted cabs. Although the ambition was to make the study Scania-like, the main emphasis was on the visual appearance rather than commercial realism. There are a number of aspects about the STAX that would be questionable if it came to applying them to a real-life truck. The STAX’s axle configuration with two propelled rear axles is most common in the US market where Scania is not present at the moment.

I’m not questioning any decisions, but intellectually [the STAX] can be questioned. It’s an American specification with low front axle pressure and tandem propulsion back. A so-called 6*4 with the front axle moved forward. If we started producing such things it would be visible in Scania’s profitability
negatively. It’s an Americanisation of a European tractor unit that would harm Scania’s profitability, also the [truck] owners’ profitability.

Anders Lundström, Head of Feasibility Studies, interview 2003

The STAX concept study is thus not uncontroversial in Scania’s organisation. This has partly to do with the fact that futuristic concept studies have been unusual in the company so far. There are voices arguing that the company should rather concentrate on selling its current products than spending energy on fancy studies that will not result in a product in a foreseeable future.

The head of sales from [one country] just scratched his head and got almost mad and wondered what kind of shit this was. ‘I can’t sell this tomorrow. What shall we do with it? What kind of nonsense is this?’ He did not at all understand that we are boosting the brand a lot by showing this sort of things. If we cannot sell it tomorrow, we still load the brand a lot and that brings inestimable values.

Ola Pihlgren, industrial designer, interview 2003

Pihlgren and his students were satisfied with the study they had accomplished and felt that it was a pity to leave the quarter scale model for internal use only. The STAX model was finished at the end of the summer 2001 and the bi-annual IAA Nutzfahrzeuge fair stood on the agenda for the autumn of the coming year. The fair would be an excellent forum to show the STAX model to a broader audience. However, as the designers raised their suggestion, they met resistance among the middle managers responsible for cab development. The argument was that Scania had never before presented a concept truck and therefore never would do it. Despite this backlash, the designers did not give up and tried to bypass middle management instead. As there were concerns in the organisations that Scania had relatively few novelties to present at the IAA fair, there might still be a possibility to win over top management on the idea.

You work on your arguments when you hear how people are talking. You hear that we don’t have so much to show and you get the idea that we could show [the STAX] just to check how customers react and learn from their reactions. After a while you find a lot of these arguments and you work on them and then you try to get the executive management group up to the design department step by step. And just ‘by accident’ they go by [the model] and you say ‘Look here, what a cool thing!’ And they say ‘Yeah, that’s good. That’s fun. We can have it at a fair!’ [At Scania] there is hardly anything definite, like a no is a [definite] no. Like a ‘no’ would mean we never show concept trucks or ‘yes’ we always show concept trucks.

Ola Pihlgren, industrial designer, interview 2003

While middle managers had shown little interest in the STAX, Scania’s top management liked it and despite his doubts about the T-truck’s future, Hasse Johansson supported the fair idea. The model was taking reference in Scania’s history and at the same time expressing progressive thinking.
It happened while we were discussing the T-truck. The design guys, not at least Pihlgren wanted to show the study and I liked it. Let’s get it out and show it so that we get in reactions.

Hasse Johansson, Head of Research and Development, interview 2003

Meanwhile the STAX was not just a project of a few designers. Scania as a company stood behind it and people from different parts of the organisation were involved. The STAX was shown at the IAA fair and it was one of the eye-catchers in Scania’s exhibition stand. The uncovering of the model was the highlight of Scania’s press conference. Scania also made a big effort to draw people’s attention to the STAX. An article in the Scania World magazine was devoted to it and this article was also included in a special edition of Scania World that was distributed to journalists at the fair. The article emphasized the history of bonneted cabs in Scania. The T-truck was supposed to convey the company’s identity, signalling strength and prestige. Moreover it stood for continuity in the long history of Scania trucks.

At least as important as identifying new design concepts was the task of conveying the historical identity of Scania bonneted trucks. Put simply, it was all about finding Scania’s soul and seeing how it could be expressed in the future. ‘We looked at T-trucks as part of the history of Scania,’ says Ola Pihlgren. ‘Which design features have survived? Which ones are important? Which are not so good?’

Scania World 3/2002:26

After the fair, Scania used pictures of the STAX in various contexts, for example in an advertising campaign for recruiting young engineers in Sweden. However, it was not only Scania which wrote about the STAX. The concept also got extensive coverage in the media in general. Hence, a low-budget project had resulted in substantial publicity.

At the fair we made an impression of progressiveness and tolerance. […] Within our profession we got reactions like ‘It’s fantastic how you are working with this. How many millions has this cost?’ And well, it cost about one million. If you [consider the media coverage] and compare it in terms cost for advertising space it’s more or less for free.

Kristofer Hansén, Head of Styling, interview 2003

Shortly before the STAX project, Scania had been working on another cab design that had at least visual similarities with the STAX. There were ongoing discussions in the European Union, about how trucks could be made less dangerous in accidents with passenger cars. Frontal collisions between cars and trucks are particularly dangerous for the car passengers as truck cabs do not absorb the crash energy. Moreover, the car may partly end up under the truck cab in crash, even increasing the risk of fatalities. There were two competing concepts to make trucks safer. One, was the so-called front underrun
protection. The system implied that a metal beam was placed in the front part of the cab to prevent cars from being pushed under the cab in a crash. Scania proposed an alternative concept, implying that a crash zone, visually resembling a very short bonnet was placed in the front part of the cab. In case of a collision, the crash zone would crumple and thus absorb part of the energy. The crash zone was not an ordinary bonnet. It was more or less a nose put in front of the cab and was not supposed to contain the engine. Hence it partly offered the optical flair of a T-truck, but not the advantages in terms of driver comfort a bonneted cab could provide. A drawback of the crash zone was the extra 600 millimetres in cab length it required. To avoid losses in profitability for hauliers, the maximum length for trucks would have to be extended accordingly. Scania presented a study of the crash zone at its Road Safety Seminar in Brussels, but the EU’s decision was finally in favour of the front underrun protection solution.

The similarities between the STAX and the crash zone were rather superficial from the beginning. The STAX bonnet was much longer and was not at all optimised to absorb collision energy. Ola Pihlgren and his colleagues had not intended to conceptualise the STAX’s bonnet as a crash zone. Neither was there any reasoning about the crash zone in Scania’s publications in conjunction with the STAX’s presentation. However, management already had an idea to combine the bonnet and the crash zone concepts.

The study actually has a hidden agenda: to see if one can make a crash zone. It was last September. We said that we don’t have any news for these fairs and the fairs are after all image building. [...] We could show it and show our competence in making studies. That’s something new for Scania. It was a fight to get it accepted [internally], but some people did not understand that it was open in strategic terms.

Kaj Lindgren, Chief of Staff, interview 2002

Showing the STAX at the fair did not imply that Scania’s management had finally chosen what the model implied strategically. There was some information on Scania’s crash zone in another part of the company’s exhibition case. The two concepts were not yet connected, but the option for this was left open. In the annual report for 2002 published in March 2003, the STAX was given a double meaning. It was a future T-truck as well as a future crash zone.

The bonneted truck concept combines tradition and new thinking. Scania’s own long tradition of bonneted trucks and more futuristic impulses. The sweeping and eye-catching lines of the STAX might serve as an image creator for transport companies in 10-15 years. At the same time, Scania wants to study whether the hauliers of the future are prepared to sacrifice some of their cargo volume and

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[“The interview was done October 3rd, 2002, less than three weeks after the fair.”]
payload capacity for a truck with superior driver comfort and with various safety features such as deformation zones and underrun protection.

Annual Report 2002:24

One month later the re-labelling of the STAX model went further. The issue of the future T-truck had been toned down in favour of the crash zone issue. At Scania’s Annual General Meeting, Leif Östling presented the STAX during his review of product development during the past year.

Strong product development is our investment for the future. At our exhibition outside this AGM venue, we show examples of this. Among other things, you can view a large cab - the Scania eXc – and a quarter scale model, the Scania STAX. […] The Scania STAX shows how the truck of tomorrow featuring a crash zone might look. This may save many lives.

Leif Östling, AGM, April 25th, 2003

Over a number of months the way the STAX was presented had changed from being a future T-truck to being an example of a future crash zone. To Ola Pihlgren, this re-interpretation of the concept was not intended, but yet an argument that strengthened the project.

[I had no ideas about a crash zone] when I was doing the [STAX], That job was going on in parallel, but there were no connections. […] Maybe management thought of the crash zone, let the STAX pass and thought “if it works we can use it as a crash zone argument also”. I don’t think they were reasoning like this, but you never know.

Ola Pihlgren, industrial designer, interview 2003

At the current stage the STAX was however no realistic option for a crash zone. Neither from a safety point of view nor considering the economic consequences of the additional length.

[The crash zone] is one of the engineering arguments and a logical argument. As an engineer you always want to be logical and the best logical argument to retain the T-truck is the crash zone. Then if you take a look at the STAX and know something about the industry you can easily say that it’s not a real crash zone. The front axle is too far to the front. […] The [collision issue] is something we have to work on from a technical and an image point of view. In that respect a crash zone in the form of a bonneted cab can be an interesting combination.

Hasse Johansson, Head of Research and Development, interview 2003

Scania continued working on a combination of the STAX and the crash zone concept. In autumn 2003 Scania presented a new quarter scale model showing a truck with a crash zone at the company’s Road Safety Conference in Brussels. It was the third conference of that kind that Scania had arranged and a number of high-ranking EU representatives were as usually among the guests. The crash zone concept was presented by Hasse Johansson and Ola Pihlgren who had also
been involved in this project. The model was less futuristic than the STAX and came much closer to a solution that could be launched commercially. The crash zone was a ‘bonnet’ of 600 millimetres, much shorter than that of the STAX. However, influences from the STAX model could be easily recognised. The future of the bonneted cab, be it in its original form or as a crash zone has not been decided yet. The T-truck with the engine covered by the bonnet stands for less than five per cent of Scania’s sales, but is still appreciated for its impressive appearance. The debate around the STAX leaves different strategic options open.

8.4 Scania’s self-understanding and the bonneted cabs

After this case description, I will now make some low-abstract interpretations of the bonneted cab case. The previous case on Scania’s modular system conjured up a picture of an organisation, where organisational self-understanding provides guidance to strategy. Nevertheless, self-understanding was at the same time recurrently challenged by strategic action. Self-understanding preceded, accompanied and succeeded strategic action. Thereby, it did not only relate to present, but also to past strategic action. We will see if the truck case can help to support, refine or challenge these preliminary findings.

8.4.1 What kind of company do Scania’s cabs symbolise?

Considering that Scania is the producer of a single, physical product, which moreover shares its brand name with the company, it is not surprising that Scania’s self-understanding and the Scania truck’s product identity are closely interconnected. Seeing the truck as an artifact can help us to make sense of how organisational self-understanding and product identity relate to each other.

The Scania truck as an artifact embodying Scania’s self-understanding

We know of the importance of artifacts from the field of cultural studies. Hatch (1993) sees artifacts as realisations of values. At the same time an artifact can also be infused with symbolic meaning. Mediated by values and symbols, artifacts finally mirror and shape the basic assumptions that prevail in an organisation. Seeing organisational self-understanding as a cultural phenomenon, an artifact like the Scania truck can be a realisation of values and assumptions regarding the company’s identity. It can also be infused with symbolic meaning.

The bonneted cab case reveals that there is not total homogeneity as regards self-understanding in Scania’s organisation. There were two competing conceptions of Scania’s identity that were not completely antagonistic but differed with respect to the aspects of the organisation’s self-understanding that were particularly salient in each of them. One of them relating to quantifiable, calculative aspects, the other acknowledging the calculative side, but also
ascribing high importance to emotional issues. I will here call them the calculative and the emotional self-understanding.

- The **calculative self-understanding** emphasized the quantifiable characteristics of Scania, both in a technical and in an economical sense. This conception became manifest in expressions such as 'Scania makes an engine', focusing on measurable technical performance. Softer issues, such as design, were only of interest provided that they led to measurable technical improvements and had a measurable positive effect on Scania’s profitability. With respect to economic issues, the calculative self-understanding implied the view that calculative economic rationality was decisive for customers' buying decisions. In a similar vein, Scania should build its decision making on a profit-orientation that relied on quantifiable effects of decisions. There was a sceptic attitude towards so-called “soft” issues like design and image, where it was difficult to assess the impact on profitability in a reliable way.

- The **emotional self-understanding** was broader in scope than its calculative counterpart. It basically acknowledged the importance of the quantifiable characteristics of Scania, such as superior technical performance of Scania trucks and engines as well as the profit orientation of the company. The emotional self-understanding also acknowledged the dominance of economic rationality for buying decisions in the truck market. However, it also took into account non-quantifiable features of Scania and its products. These often related to emotions and qualitative characteristics associated with Scania and its trucks, such as the privilege associated with owning a Scania truck. On an organisational level, it could be the conception of Scania as being the industry leader, not merely in the measurable aspects of technical and economic performance, but also as being the most forward-thinking company in terms of safety, design and comfort. With the emotional self-understanding, the non-quantifiable characteristics of Scania and its products were not just luxury or a nostalgic reminiscence of Scania’s past. Rather they were an important means of competition as customers were assumed to base buying decisions on more than mere economic calculations. Particularly in a market where different competitors’ products became more and more similar in terms of performance, the non-quantifiable characteristics deserved increasing attention.

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67 Pairs of concepts are often problematic and the calculative/emotional distinction is no exception. Of course calculative reasoning seldom goes without emotions and emotions as such can be calculated with. The point I want to make here is simply that the calculative conception puts a relatively strong emphasis on economical and technical calculations. The emotional view on the other hand assumes that beyond merely calculative reasoning also non quantifiable aspects, such as the emotions Scania and its products evoke, have to be taken into account.
In the debate around Scania’s bonneted cabs, the two main cab designs, i.e. the cab-over-engine cab and the bonneted T-cab had each come to symbolise one of the alternative self-understandings. This can be illustrated like in the following model which is an adaptation of Hatch’s cultural dynamics model (Hatch 1993):  

![Diagram](image)

**Figure 8-1. Different cab types as artifacts and symbols (adapted from Hatch 1993).**

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68 In her original model referring to culture, Hatch talks of assumptions, values, artifacts and symbols. In my adaptation, I have replaced assumptions and values with self-understanding. In the literature on organisational culture, Schein (1985) refers to assumptions as taken-for-granted beliefs about reality, while values are more conscious ideas about how things should be. In their attempts to distinguish organisational identity form culture, scholars have positioned organisational identity in the domain of more explicit values and artifacts while seeing culture as primarily being constituted by implicit basic assumptions e.g. Hatch and Schultz. (2000). When it comes to my concept of self-understanding, I do not share this point of view. Self-understanding, as I see it, may refer to unconscious assumptions of the organisation as well as more explicit ideas about what is good or bad and how things should be (c.f. Scania’s ideas about its modular system). In this example, I do not make any distinction between more or less conscious parts of Scania’s self-understanding.
The first row schematically shows the idea behind the model. The organisation’s self-understanding is realised in the form of artifacts which reflect the view the organisation has on itself (1). However, artifacts can also be ascribed symbolic meaning that goes beyond the literal meaning they would normally be supposed to have (2). Such symbols in turn, are interpreted by organisational members and can lead to a revision of the prevailing self-understanding (3). The same thing also works in the opposite direction. Having been assigned symbolic meaning, an artifact is experienced differently (4). Artifacts can also invoke change in self-understanding when they are perceived as alien to it (5) and finally, symbols can be given altered interpretations against the background of basic assumptions.

The second and the third row in the picture show how Scania’s different cab models have come to symbolise the two alternative self-understandings. The cab-over-engine cab is the realisation of a calculative self-understanding. For Scania it is a volume product creating economies of scale in the organisation. For the haulier it permits maximising cargo volume. Hence the cab-over-engine cab has come to symbolise the profit-orientedness in Scania’s organisation as well as in that of the customer. Being a symbol of profit-orientation, the cab model further reinforces the calculative self-understanding. The bonneted cab on the other hand is a realisation of Scania’s emotional self-understanding. Acknowledging the importance of measurable features, this view also addresses the importance of non-quantifiable characteristics. While the T-truck might have been an expression of a calculative self-understanding during the time prior to length restrictions, it has meanwhile become a symbol of the idea that values other than the mere economical and technical matter. Despite some additional costs Scania has retained the cab as an expression of strength and prestige, attributes that Scania claims to represent. Likewise, a haulier who buys a T-truck can use it to symbolise the fact that s/he is willing to sacrifice some money in order to have an impressive rig in the fleet.

**Tensions around the future of the bonneted cab**

The future of the bonneted cab became an issue when sales figures for the T-truck fell more and more. Although thanks to Scania’s modular system, the additional cost for producing bonneted cabs was low, it became increasingly questionable if the additional development and production costs were justified. Self-understanding could offer guidance in this question. However, there were two alternative self-understandings pointing in different directions.
### Table 8-1. Tensions regarding self-understanding in the cab case.

| Established self-understanding | a) Calculative - Scania’s organisation and its products are characterised by superior technical and economic performance.  
|                               | b) Emotional - Scania’s organisation and its product are characterised by superior technical and economical performance as well as a variety of non-quantifiable characteristics. |
| Stragic issue                 | Sales of bonneted cabs are going down. |
| Tensions regarding self-understanding | a) Bonneted cab no longer justified according to calculative self-understanding.  
|                                | b) Discontinuing bonneted cab destroys an important manifestation of Scania’s identity. |
| Source of tensions            | Advocates of different self-understandings in Scania’s organisation. |
| Perceived seriousness of tensions | Moderate. Bonneted cab is not a major issue, but still important with regard to self-understanding. |
| Issue interpretation          | a) Threat – bonneted cab threatens Scania’s profitability. |
|                                | b) Threat – bonneted cab’s future is questioned. |
| Solutions                     | 1) Shorten bonnet in favour of larger cabin  
|                                | 2) Re-define bonnet as a crash zone. |

Advocates of the calculative self-understanding suggested discontinuing the T-cab as there was little demand from customers and the additional cost was seen as unnecessary. To them, keeping the cab model would mean tensions with the calculative self-understanding they advocated. Now however, discontinuing the cab was also problematic as this would create tensions with the emotional self-understanding. According to the emotional self-understanding, the bonneted cab had so much symbolic value both for Scania and its customers that retaining it was worth some additional cost. The continuation or not of the T-truck has not been one of the major strategic issues in Scania. The aftermath of the Volvo attack and Scania’s strategic alliances have received more management attention during the same period. Still, the cab issue has been important since any course of action would be in conflict with one of the two alternative self-understandings prevailing in Scania’s organisation. A definite solution to the bonneted cab case has not yet been found. However, the STAX concept model has at least served as a catalyst for discussing various strategic options.

**The STAX - an artifact symbolising different self-understandings**

During the STAX project, the two different self-understandings in Scania more or less collided around the concept study. From the emotional point of view, the STAX was an appropriate means to test if there was nevertheless a future for the T-truck. From the calculative perspective, the STAX was an attempt to keep a cab model alive that should have been discontinued a long time ago. Moreover, it overly stressed non-quantifiable issues like design while it took a
somewhat unrealistic stance to technical and commercial feasibility. The stance Scania’s management took in this debate around strategy and identity, was not one of directly favouring one of either views. Instead management took the role of an arbiter in the arising identity contest. With the booklet on Scania’s product identity platform, published a few years earlier, management had in principle decided that emotional or unquantifiable measures mattered. Hence, both sides were important, but it was not clear how the situation would be resolved if the two conceptions seemingly collided concerning a particular issue. In the bonneted cabs case there were two possible interpretations of the STAX concept study. Either it could be labelled the future T-truck, particularly emphasising the emotional aspects of Scania’s self-understanding or it could be seen as a future crash zone, putting more emphasis on the calculative aspects. Management, having the privilege to formulate an official Scania labelling of the STAX, opened up for testing the T-truck initiative by a group of designers. Subsequently, management however relabelled the STAX to being a future crash zone, trying to reconcile the initiative with the calculative self-understanding. Interestingly, the very same artifact, i.e. the STAX came to symbolise each of the different self-understandings.

The artifact, i.e. the STAX concept model was open to two different interpretations. Originally it had been conceived as a realisation of the emotional self-understanding (1). It was to symbolise the non-quantifiable side of Scania’s self-understanding (2) thus reinforcing an emotional self-
Organisational self-understanding and the strategy process

understanding (3). However, subsequently management launched an alternative interpretation of the STAX, conceiving it as a realisation of a calculative self-understanding (4). Labelling the STAX as a future crash zone, appealed to advocates of a calculative self-understanding since it symbolised technical excellence in an area that offered measurable advantages, namely in safety improvements lowering the number of fatal accidents (5). Hence, the STAX could also be used to reinforce the calculative self-understanding in Scania (6).

Using history in legitimising the bonneted cab

Like in the modularisation case, historical issues are also addressed and purposefully used in the case of the bonneted cabs. History plays a role in Scania’s reasoning about identity issues in general and in supporting the T-truck in particular. In Scania’s product identity platform it is frequently alluded to historical examples in order to exemplify what non-quantifiable characteristics a Scania is supposed to convey. Here, once again the perspective on history is basically mythological as the historical examples are supposed to show timeless values that characterise Scania and its trucks. The examples show continuity, which does not rule out development, but still puts the emphasis on features that remain recognisable over time. Being purposefully done by management, this use of history is ideological in Karlsson’s (1999) words. It legitimises certain characteristics of Scania today by showing that they exist in the company’s historical heritage. Taking into account that more explicit work on organisational and product identity is relatively new in Scania, the work with the identity platform also has a touch of rediscovery (Karlsson’s moral use of history). Continuous characteristics of Scania and its products that had been tacit before are identified and made explicit.

The use of history also becomes obvious when advocates of the bonneted cab try to defend the T-truck. However, here no references to specific historical events are made. It is simply stated that bonneted trucks are an important part of Scania’s historical heritage. This general reference to previous bonneted cabs is once again an ideological use of history attempting to legitimise the survival of the T-truck. Also the designers working on the STAX concept made reference to historical cab designs. Interestingly, they not only addressed design features that have survived over the years, but also those that have been discarded or regarded as less successful. Hence the view of history prevailing in design work is not purely mythological looking for timeless characteristics. It also shows an interest in change, revealing a more processual perspective on history. This might be an indication that design work by its very nature requires more change than some more general strategic questions like modularisation and product identity that are characterised by relative stability.

When management assigned new meaning to the STAX, relabeling it as a future crash zone, historical reference disappeared. Reasoning about the STAX

69 Such as the 4-series T-truck that was criticised by Scania’s industrial designers.
was purely related to the future, specifically the opportunity to save lives if future changes in regulations opened up for trucks with crash zones. The crash zone reasoning was characterised by a non-use of history, linking Scania’s self-understanding primarily to the pursuit of future opportunities and not to being a conveyor of a historical heritage.

8.4.2 The dynamics of strategy and self-understanding in the bonneted cabs case

Visualised, the bonneted cab case starts out with two different, but partly overlapping self-understandings. The calculative (vertically dashed) and the emotional conception (horizontally dashed) each constitute a context for strategic action for their followers. The alternative self-understandings are partly overlapping. Both for instance acknowledge that economic issues matter. However, the overlap is not total. In the beginning, the streams of action are hardly connected as there are different preferences for Scania’s future cab strategy. Each of the alternative self-understandings provides guidance for the strategic actions of its proponents (1).

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This does not imply that the reinterpretation of the STAX signals a general disinterest in history at Scania. Historical reference is still frequently made in other contexts, but it suddenly disappeared from the reasoning around the STAX.
Scania’s management takes a relatively open stance, acknowledging the importance of both soft and hard aspects of Scania’s self-understanding and product identity. Initiatives from both sides are permitted and management does not use its privilege to define the ‘right’ identity conception in an authoritative way. With the STAX project, management takes a more active stance. Management subsequently narrows down the freedom of action which is indicated by the black lines. By supporting the initiative against resistance from middle management, Scania’s top management first legitimises the soft conception embodied in the STAX and rejects an overly calculative self-understanding (2). This somewhat narrows the freedom of action as the calculative side receives a signal that management sees non-quantifiable aspects as important. The calculative side has to adjust its stance and be more open to non-quantifiable characteristics (3). However subsequently, management re-interprets the STAX as a crash zone (4), giving it a more calculative meaning than its originators had intended from the beginning. Also the emotional side has to adjust its stance to put more emphasis on calculative aspects (5). Hence, while the emotional conception gets some more management support in the beginning, the support turns more to the calculative side later. The result is a unified stream of action (6) where the proponents of both sides work together with new concept models. The overlap of the calculative and the emotional side has become bigger by management clarifying Scania’s strategic direction. However, the future of the T-truck remains an open question.

Managing self-understanding in the bonneted cab case

Scania’s management keeps a relatively low profile during the beginning of the case and intervenes only subsequently as different organisational parties come forward with their own initiatives. Management then acts as an arbiter resembling the crescive management style of Bourgeois and Brodwin (1984) where management sets premises for strategic initiatives and finally is the judge of deciding what to do.

The contest between the calculative and the emotional self-understandings proceeds like a dialogue where the STAX from the beginning is a contribution from the advocates of the emotional conception. Instead of selecting the winner of the contest immediately, management remains relatively silent and increases its activity successively. Initially, management does not take a very explicit stance as regards Scania’s self-understanding. However, this changes as management first legitimises and later reinterprets the STAX. This finally narrows down the possibilities for strategic action. The arbitration activities also bring the two alternative self-understandings closer to each other. After the STAX experience, the advocates of the emotional side know more clearly than before that projects with an emotional emphasis need quantifiable arguments to be feasible in the organisation. Their counterparts with a calculative conception of identity have seen that management emphasizes and values the non-
quantifiable aspects of Scania’s self-understanding and considers them as important to strategic decisions.

**Strategy-making and self-understanding**

Like the previous case, the cab case supports the picture that the dynamics between strategy and self-understanding create possibilities for change in both. In the present case, additional dynamics arise in the tensions between two alternative self-understandings that suggest different paths for strategic action. In order to act strategically, actors have to take a stance regarding the kind of organisational self-understanding they advocate. At the same time, it is strategic action, like the introduction of the STAX and its different interpretations that require rethinking the understanding of the organisation.

Through its linkage to product identity, this case particularly addresses the importance of artifacts and symbols to organisational self-understanding. The STAX example shows that different interpretations can relate one and the same artifact to different self-understandings and infuse it with different symbolic meanings. Scania’s management can influence organisational self-understanding by providing new interpretations of physical artifacts or strategic action. In this case, a particular strategic action, the development of the STAX model, is preceded by one self-understanding and later linked to a different self-understanding in retrospect. Like in the modularisation case, strategic action is preceded, accompanied and succeeded by self-understanding. The STAX example highlights that self-understanding has an interpretive character. It is not given that a specific kind of strategic action reflects a specific self-understanding. Rather, strategic action can be interpreted in various ways, opening up for linking it to different self-understandings.
9 The Volvo attack – a threat to Scania’s self-understanding

The past decades of Scania’s history have been characterised by a desire to defend the company’s independence. After years of consolidation in the industry, Scania is one of the few remaining independent actors. Over the years, Scania’s independence has not been unchallenged. Having been part of the Saab-Scania group for more than a decade, the Scania division had to defend its autonomy within the group. A few years after regaining formal independence in the 1990s, the traditional domestic rival Volvo unexpectedly made a takeover attempt. The reaction of Scania to what was called the ‘Volvo attack’ was to avoid the merger. If this goal was impossible to achieve, Scania at least wanted to maintain a distinct identity within the new group. Scania’s desire for independence is grounded in members’ identification with their company, but also in Scania’s distinctive understanding of the truck business. The defence against the Volvo attack offers interesting insights into Scania’s self-understanding as the company was forced to be more explicit about how it perceived its own identity. The devotion to defending independence also shows how important being one’s own master is to Scania’s self-understanding.

9.1 Independence and organic growth

In an industry that has been characterised by consolidation, involving numerous mergers and acquisitions during the last decades, Scania’s strategy has been distinctive in relying on organic growth. The main rationale of this strategy has been the conviction that mergers result in a lower combined market share. In a business-to-business market, customers are eager not to become dependent on a single supplier. After a merger, the truck makers are perceived as a single supplier even if the brands are kept apart on the surface. Customers who have previously bought both brands then tend to take one of them off their short list. Already in 1977 when a merger of Saab-Scania and Volvo was considered, the risk of losing market share was the main argument Scania managers put forward against the deal.

We voiced [our opinion] and said that it was better if we competed. The main argument was that one plus one is not two, but rather one and a half. It would harm both truck operations.

Sverker Sjöström, former Technical Director, interview 2003

The 1+1≠2 formula that was coined in 1977 would later be used in similar situations, like during the early 1990s when industry analysts suggested that
Scania might need to merge with another truck maker to realise economies of scale.

Mergers do not automatically imply a larger market share. Look for instance at Fiat when their boss Agnelli founded Iveco in 1975. There, 1+1+1 hasn’t become 3. It will rather be 1 soon again.

Leif Östling, Head of the Scania Division, interview in Scania World Bulletin 7/90, p. 7

During the Saab-Scania era, the Scania division was not directly confronted with pressure to diversify like many other companies, including Volvo, did at the time. Diversification was happening at the group level and the Scania division could concentrate on developing the truck business. While Scania managers appreciate in retrospect that belonging to a group protected Scania against diversification adventures, the general view on the Saab-Scania era is not positive. Many Scania employees perceived the 1968 merger with Saab as a burdensome loss of independence. Though the group gave Scania freedom to run the truck business quite independently, the Scania division had to feed the group with its cash-flow. Moreover, Scania had to support Saab’s car operations with the development and production of engines. The group thus tied up Scania’s resources not only on the top management level, but also in everyday production and development. From a marketing perspective, belonging to a group created problems for communicating a distinct Scania identity to external audiences. While some Scania managers appreciated the Saab-Scania period for the two companies’ shared interest in high technology, the prevailing view was nevertheless that Scania should stand on its own feet. When Scania once again became a company on its own 1995, Scania’s employees met regained independence with enthusiasm.

The experience from the Saab-Scania era as well as the strategically motivated disbelief in mergers between truck makers constitute the background for a strong desire for independence that has developed in Scania over the years. Just a few years after finally becoming independent from Saab, Scania’s independence was threatened again. This time it was the rival Volvo who was about to take over Scania.

9.2 Scania and Volvo – two historical rivals

People at Scania usually consider Volvo as their company’s main competitor. There are various reasons for this. Within the industry in total, Scania and Volvo are relatively similar. Along with Mercedes they are the only global actors in the industry, except for Scania’s current absence in the US market. The remaining European as well as the American and Japanese manufacturers are limited to their regional markets. Moreover, Volvo and Scania are relatively similar in trying to position themselves in the high pricing/high customer value
Organisational self-understanding and the strategy process

segments of the market. Thanks to its geography and its industry structure, the Swedish truck market has been characterised by especially demanding customers. This is one reason why two of the few remaining truck manufacturers worldwide come from Sweden. It is thus not surprising that Scania and Volvo have paid special attention to each others’ products for a long time. Many stories around the competition with Volvo are told at Scania, illustrating the historical rivalry between the companies.

A long time back, Volvo trucks and buses were bought through a front man. It was in the early 50s when Nathhorst was still there or even in the 40s. Volvo had come with a new bus model and the market believed that it was better than Scania could offer. A Volvo chassis was bought through a front man and it was parked here outside on the yard. The boss of Volvo drove by and saw it. I don’t know if it’s true or not, but it’s told that he called Nathhorst and asked ‘why did you buy it through a front man? You could have bought it from me directly and got it much cheaper.’

Sverker Sjöström, former Technical Director, interview 2003

In more recent years, Volvo and Scania have had almost half of the Swedish market each. Globally, Volvo is bigger than Scania with almost 80000 units sold during the latest industry peak in the year 2000 compared to the 50000+ sold by Scania. Volvo’s higher volumes are mostly due to sales in the US where Scania is not present. When it comes to profitability however, Scania has outperformed Volvo as well as the other competitors for many years. Scania’s concentration on the most profitable segments as well as rational production through the modularised global programme are some of the main reasons. Until recently, Volvo was also less focused, looking back on a period as a conglomerate with pharmaceuticals and food production in the 1980s.

[Where] Volvo comes from [is interesting], you can say that Gyllenhammar left his mark on Volvo, it has a consumer goods orientation […]. They have had an acquisition strategy and they went into the US early with an acquisition. This is something we have clearly rejected.

Mahnus Hahn, Head of Business Communications, interview 2002

Volvo’s stronger emphasis on the market share is one example of these differences in orientation. Despite less emphasis on the market share by Scania, beating Volvo in the domestic market is still considered an important issue of prestige.

It was THE competitor. It was absolutely THE competitor and especially in Sweden there has always been a fight for market share. Then one has to

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71 Pehr G Gyllenhammar was Managing Director and later Chairman of the Board of Volvo. During his time Volvo diversified into various unrelated industries. Being one of the most admired Swedish industry leaders for a long time, Gyllenhammar got under harsh public critique in conjunction with his failed attempt to merge Volvo and Renault.
9.3.1 Defence and negotiations

The news of the takeover attempt came during the Brussels International Motor Show. The deal had caught Scania’s management as well as the board and the main owner Investor by surprise. Volvo had not made a bid on the other owners’ shares, but announced that it was looking forward to discussing a Volvo-Scania merger with the other shareholders. Scania’s leadership was cautious about commenting. Leif Östling depicted the share purchase as “as close to a hostile takeover as one can come” (TT 1999b) Later the same day Investor published a press release, stating that “Scania note with surprise that Volvo” had acquired Scania shares and that management had no further comments on the deal (Investor 1999). Investor’s Managing Director Claes Dahlbäck was openly critical to Volvo’s behaviour, calling the acquisition of shares “unlucky” as they “rendered the discussions that had been held until now more difficult” (Investor 1999). Saying this, Dahlbäck admitted that there had actually been discussions about a Volvo-Scania merger between Volvo and Investor. However, these had failed due to disagreement on Scania’s value. There had also been negotiations with other actors in the industry and Volvo’s share purchase was of course an obstacle to any other ownership solutions. Dahlbäck did not rule out any options, including further independence for Scania.

Despite its cautious attitude in public, the management of Scania was strongly annoyed at Volvo’s behaviour. For Scania’s management as well as for staff in general there was no other interpretation of Volvo’s share purchase than seeing it as an act of hostility. What particularly made people at Scania angry was that the takeover attempt was made by the main rival and that it came over night without any preceding negotiations.
I don’t know if it is the wrong way to express it, but I believe that very many experienced it as sheer rape. It was the enemy who suddenly came in and wanted to take over. Something that had been the nemesis both in a positive and in a negative sense. The measurement point, the point of reference, the competitor and so on was about to come in and take over. A company that we all believed we were much better than. Probably, Volvo believed that also [i.e. that Volvo was better than Scania]. There was both logical and illogical reasoning around it. It was a shock.

Jan Andark, Head of Business Development and Control, interview 2003

Although Volvo’s Managing Director Leif Johansson now announced that he wanted to achieve a merger by negotiations, Scania’s management continued seeing the takeover attempt as an act of hostility that the company had to defend itself against. Since economies of scale and the necessity of a critical mass for being a successful truck manufacturer were common pro-merger arguments, Scania needed to show that it could be successful on its own. One means to demonstrate this was to present a strong financial report. Scania worked day and night and published a preliminary income statement for 1998 on January 18th, only three days after Volvo’s share purchase and one month earlier than planned. The income statement revealed a strong result. Moreover, Scania made an assessment of the prospects for 1999 that was unusually specific, including an explicit estimate of the operating income. Scania believed that it was possible to increase the operating income by SEK 1.5 billion from the current 3.6 billion. Actually, Scania missed this forecast only marginally by the end of the year.

We managed to close our books over a week-end and moreover we said how much we believed we would earn. You defend yourself in different ways. I mean before there is a bid you don’t know what it will be, but you have to safeguard the interests of all shareholders. Information is important. I think we managed this really quickly and really well if you think of how inexperienced we were as a listed company.

Jan Gurander, Chief Financial Officer, interview 2003

Scania managers I talked to also believed that Scania’s willingness to show its ability to stand alone resulted in a temporary emphasis on volumes. Traditionally, Scania has avoided short-term volume focus and has been an industry leader in price hikes rather than engaging in battles for market share. However, the Volvo attack created a pressure to show a very good profitability, which in the short term could be most easily achieved by higher volumes.

The volume focus was driven 1999/2000 by what was happening with Volvo and our ownership situation. Of course you want to create a high market value in such a situation. And the easiest way of doing this in the short run is to increase sales volumes. It would certainly be possible to get higher volumes today, and to increase market share in the short run and increase profitability in the short run,
but that also means that you compete on price and in the long run it lowers our margins and those of the entire industry.

Jan Gurander, Chief Financial Officer, interview 2003

The preliminary income statement was presented at a press conference by Leif Östling. When speaking to journalists, Östling stressed the intention to offer the market as comprehensive information as possible. He rejected allegations that Scania intended to force up the share price in order to make a takeover more expensive. The main message of the press conference was that Scania was well-equipped to stand on its own feet and that mergers were not a good recipe for success in the truck industry. Östling was again cautious not to comment on Volvo’s purchase directly. However, he expressed a strong belief in organic growth repeating the well-known formula $1+1 \neq 2$. This statement at least indirectly confirmed that a merger with Volvo ran contrary to Scania’s understanding of the truck industry. Scania was comfortable with the role of a spectator in the restructuring of the truck industry, developing its operations undisturbed by mergers and acquisitions among competitors and capitalising on the unrest created by such deals.

If we manage to grow by 4-5% a year in the future, we can achieve an operating margin of 10-15% on the EBIT level. That’s enough for this company to generate cash flow for product development. My way of reasoning has been that simple. And then I’m of course happy when there are structural changes in the market that help me achieving the 4-5%.

Leif Östling, Managing Director, interview 2003

Scania hired Deutsche Bank and the investment bank Alfred Berg to advise the board and the management in their deliberations about how to deal with the situation. Scania’s management had limited freedom of action as Volvo’s merger plans primarily were an issue for the owners and not for management. However, Scania could try to convince the public that the company had a viable strategy on its own.

We tried to convince the media, investors, fund managers and so on that we had sufficient economies of scale to make it on our own. The discussion too small to survive did not exist. And then we had to show that ok, one plus one is not two when it comes to mergers and we have shown a number of cases in the industry. We showed Iveco for example which is a brand that has maybe 10% in Europe today, but if you add all brands that have been merged you should have 20 or 25.

Magnus Hahn, Head of Business Communications, interview 2002

During the weeks following Volvo’s share purchase, Investor engaged in discussions with Volvo’s management, partly with Östling’s participation. While negotiations about Scania’s future were going on, one of Scania’s main concerns was that the uncertainty about the ownership situation would harm the company. The insecurity might worry employees as well as customers and
other business partners. To their own organisation, the message was 'business as usual'. This was communicated in a letter to management and a video titled 'Business as usual' shown to all staff. In both cases Leif Östling once again emphasised Scania's ability to stand alone. The best thing employees could do was to continue working as usually to ensure Scania’s strength. After the initial shock, the threat form outside created a spirit of harmony among Scania’s staff. The fighting spirit was strong. [...] Then there was of course a game going on above our heads. For most it was a late awakening that we were exposed to the market. In the beginning most were very scared thinking of a Volvo takeover. What would happen to Scania’s corporate culture, to independence and so on? Would it all be one Volvo? How long would this process take? Then after the first shock we experienced it as a strengthening process. The organisation came together and it became easy to pull in the same direction. The nemesis was very obvious.

Jan Andark, Head of Business Development and Control, interview 2003

The discussions between Investor and Volvo about the future for Scania went on for more than a month. The period was characterised by turbulence and speculations. These were additionally enforced by Ford Motor Co’s acquisition of Volvo’s passenger car division that was announced on January 28th, giving Volvo a large amount of cash to re-invest in the truck business. In parallel speculations about alternative acquisition targets for Volvo and alternative buyers for Scania flourished in press.

9.3.2 Volvo backs out and comes back

Despite a period of intensive negotiations, Volvo and Investor aborted their negotiations regarding a Scania deal on February 21st. The two parties had not been able to reach an agreement on the price tag for the company. Although the merger plans were off the agenda and despite Investor urging Volvo to sell, Volvo was not willing to divest its minority stake in Scania. For Scania, the threat of a takeover was fended off at least for the moment. However, the situation with the main rival as a minority owner was not comfortable. Volvo might attack again and the role of the main owner, Investor, could be questioned after Volvo’s takeover attempt. On the one hand Investor had stated that it might remain the owner of an independent Scania for a longer while. On the other hand, it had become clear that Investor had been involved in negotiations about a divestment of Scania with various actors. It was thus doubtful if Investor would retain its ownership.

While it had been the strategy of Scania’s management to emphasize the stand alone option, it also became clear from interviews and other statements that Scania had preferences for certain owners if a takeover was unavoidable. The reasoning once again took its departure in the 1+1≠2 formula. Mergers in the truck industry harmed the combined market share for the parties involved. Thus, if a merger was to be successful it should involve as few overlaps in terms
of markets, products and distribution channels as possible. From this point of view, a merger with Volvo was the worst case. An acquisition by for instance the American manufacturer Paccar would create similar, albeit smaller overlaps with Paccar’s DAF brand, while in the case of an acquisition by Volkswagen which did not have any heavy trucks in Europe, overlaps would be very small. On the contrary, Volkswagen’s strength in the light vehicle market might be a suitable complement on the distributor’s level. A merger with a producer that had no substantial heavy truck operations of its own would also ensure a large degree of independence for Scania and prevent Scania’s brand from being diluted by mixing the operations of two manufacturers. Volkswagen’s Managing Director Ferdinand Piëch whom Leif Östling knew well, had remarked in 1998 that his company might consider cooperating with Scania or acquiring a stake in the company. Östling was more positive to such a solution than the Volvo option.

As far as I understand it, Ferdinand Piëch thinks along the lines that [responsibility for heavy trucks would end up in Södertälje if Volkswagen bought Scania]. I think this is the way he has expressed himself in the press also and it’s logical to think that way since Volkswagen does not have any own competence in such a case. A Volkswagen scenario would not imply any overlaps, but be complementary.

Leif Östling, Managing Director, interview in Göteborgsposten February 19th, 1999

The threat of a Volvo takeover reappeared two months after the aborted negotiations when Volvo increased its share of the votes and the capital in Scania to over 20%. Investor countered, bringing the combined voting power of Investor and other owners belonging to the Wallenberg ownership sphere to more that 50%. Volvo envisioned a constellation where the two brands existed side by side within the Volvo group and cooperation was limited to areas where no direct competition occurred, like for instance purchasing. However, Scania did not believe that two brands in one group would be trustworthy to the market. Scania’s defence strategy was the same as before. The company’s management stressed the ability of the company to stand alone and the ‘business as usual’ message was communicated to staff. Again, Leif Östling addressed Scania’s employees in a video.

There is no doubt that Volvo’s intrusion into Scania disturbs us in this company. On the one hand internally and on the other hand on the distributor’s level as customers ask the justified question what is going to happen with Scania. […] It is now extremely important for Scania in our defence strategy, in order to retain our independence, to show a good profitability and we can all contribute to that. […] It is important now that we produce a good result during the coming 1-2 years. It is extremely important that we do it this year and I count on all of you that you do your best to defend a fine, old company with rich traditions that has a very good future. Namely, our own Scania. And that we remain independent. Thank you to all of you.

Leif Östling, video “The President’s View” May 1999
Organisational self-understanding and the strategy process

Compared to the situation in January and February, Scania’s management could now be more open in repelling Volvo’s takeover attempt as the main owner Investor had rejected it and urged Volvo to sell its shares. In the meantime, the continued uncertainty was particularly worrying those of Scania’s distributors and dealers that were still held by independent owners. In case of a merger with another truck manufacturer they might be among the first victims as double distribution networks offered excellent opportunities for rationalisation. Such concerns speeded up the forward integration of Scania as distributors chose to sell their operations.

9.3.3 Investor agrees to sell to Volvo

Despite the attempts of Scania’s management to defend the company’s independence and Investor’s annoyed reactions to Volvo’s share purchases, Volvo and Investor finally reached an agreement on August 6th, 1999. Investor would sell its shares to Volvo and payment would be made partly in cash and partly in Volvo shares, making Investor Volvo’s biggest shareholder. In parallel, Volvo would make a cash-bid for all remaining Scania shares. The bid would be at SEK 315 per share compared to the SEK 176 for a B-share before Volvo’s first purchase and the SEK 244 for a B-share the day before the agreement was announced. Volvo’s Managing Director Leif Johansson announced that Scania and Volvo should become “competing partners” (TT 1999a), realising synergies in areas that were less important from a competition point of view. Scania should be an independent unit within the Volvo group and be separated from Volvo’s truck division. The brands as well as the distribution networks should be held apart from each other. Investor’s leadership rationalised the decision to finally sell with the general trend towards larger actors in the market. Investor’s Managing Director Marcus Wallenberg stated, at a press conference, that the arguments for a merger were mainly related to economies of scale. Hence they stood in sharp contrast to the understanding of the industry Scania’s management had communicated before. For Scania’s management as well as for staff the decision was a backlash after a long period of struggle. However, despite the unsuccessful defence, the general attitude was that there was no choice, but to accept the solution.

There were some sleepless nights, but finally we could only accept the situation as it was. What was maybe a result of our resistance was that Scania was supposed to be one company among seven Volvo companies. It should keep its name, its sales network and the whole brand thing. This made people able to accept it.

Magnus Hahn, Head of Corporate Communications, interview 2002

Although Scania’s continued independence as a company had been impossible to defend, the ambition was now to make Scania as independent as possible within the Volvo group. Scania had after all been highly independent as a division in Saab-Scania. However, this time the situation was more difficult as Scania had to find a modus vivendi with the Volvo truck operations and the two
were expected to deliver synergies. Leif Östling drew upon a biological metaphor used by Johnson and Bröms in their book on Scania and Toyota.

Inside the plant cell to this day reside bacteria, chloroplasts and mitochondria, maintaining their separate identities as, working together, they make it possible for the plant cell to exist. Since business organizations are themselves natural systems, the story of the plant cell raises possibilities for the Scania-Volvo merger. Perhaps each company will be able to keep its separate identity and at the same time collaborate to create a third unique entity. Scania’s modular design expertise could make a distinctive contribution to the Scania-Volvo merger. Undoubtedly, Volvo’s system contains unique strategies that could make a distinctive contribution to the merger. Serious dialogue between Volvo and Scania should aim at discovering their distinctive qualities and cultures.

Leif Östling, Managing Director, in Johnson and Bröms (2000:214)

On a more specific level, the road was now open for discussions between Volvo and Scania on what cooperation could look like in practice. The prerequisites were however tricky. In response to Scania’s argumentation, Volvo’s leadership had announced that the two brands as well as the distribution networks would be kept apart after the merger. On the one hand the task was to realise synergies while on the other hand the operations should not be integrated too much. Scania tried protecting its independence and distinctiveness during the integration discussions.

Most [of us] hoped, believed and counted on that Scania’s basic competence was so strong that we would at least maintain [the] Scania [brand]. We tried to accept that ownership and production were two different things. […] People understood there would be an influence and that we would not be able to maintain everything to 100%, but people hoped that reason would win and that there was a need for these brands and the differences. Perhaps one started believing in having a strong [common] purchasing organisation and doing the non-competitive things together.

Jan Andark, Head of Business Development and Control, interview 2003

The prospect of being part of a combined Volvo-Scania group created urgency for Scania to reflect more explicitly upon its identity and that of its products. What distinguished Scania from Volvo and what distinguished a Scania truck from a Volvo truck? During the period of turbulence around Volvo, Scania worked on its product identity platform and included a passage on identity in its annual report72.

[When I came back from maternity leave] Volvo had gradually moved into Scania. I think they had bought 14% when I came back. One week later, they placed a bid on Scania and I got the job to work with Volvo in order to define

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72 This is further discussed in the bonneted cab case.
Organisational self-understanding and the strategy process

the Scania profile. What do we stand for? What is our brand? What is unique for Scania? We did not want to lose that when we were incorporated into Volvo.

Cecilia Edström, Vice President Strategy, Business & Brand Development, interview 2002

Scania approached the situation with a self-confident attitude. The belief in Scania’s organisation was that the company’s products could well outperform those of Volvo in a direct comparison. Particularly, components that were strongly associated with Scania’s identity, such as the V8 engine, were important to safeguard in the new constellation. At the same time it was clear that cooperation between Scania and Volvo implied that both give and take and that Scania would have to partly forgo some of the company’s central principles like modularisation.

The identity lying in [the V8] should be preserved, but we also discussed the introduction of an engine from the Volvo programme which of course had started to dissolve the modular system. There it is once again. It is very easy to calculate the advantages in terms of volume with a merger, but what you don’t get are all the negative effects on the organisation. Compromises and cooperations that start making inroads on various things.

Urban Johansson, Head of Powertrain Development, interview 2003

9.3.4 The EU Commission stops the merger

Although Volvo and Investor had reached an agreement concerning the future of Scania, the Volvo-Scania merger still had to be approved by the EU Commission. The Commission’s task was to examine whether the merger was a threat to competition. Initially, there were few doubts that the deal would be approved. Although Volvo and Scania had a bigger combined market share than the largest manufacturer, Mercedes, there were still a handful of serious competitors left. However, time went by and the Commission asked for additional information. In particular it was critical of the combined market share of Volvo and Scania in Sweden where the two held about 90 per cent of the market. In late 1999 doubts about the merger became more and more serious. The Commission argued that the truck market was largely local in nature and that most truck buyers did not shop around in different European countries to get the best offer. Thus the Commission concluded that dominant position in one EU member country alone might be enough to disapprove the merger. Volvo’s presented different packages with concessions, but the attempts to convince the Commission were unsuccessful. Finally, on March 14th the disapproval was made official. Volvo was allowed to retain its stake in Scania, however without exerting any influence. Practically this meant that Volvo would not have any representatives on the board of directors nor be able to vote on the annual general meeting.
9.3.5 Volkswagen steps in as an owner

The unexpected turn of events was welcomed by people at Scania. The most important competitor was not allowed to acquire the company. Scania could continue to stand alone, following the $1+1\neq 2$ formula. Still the ownership situation was far from easy. Though Volvo was not allowed to exert influence, Leif Johansson announced that his company would keep the stake in Scania as a financial investment. This gave rise to speculations for how long Volvo would keep the shares and to whom it might finally sell them. Moreover, the willingness of Investor to retain its ownership stake was questionable after the August agreement to sell Scania to Volvo. Consequently, Scania remained a potential target for further take-over attempts. In this situation, Leif Östling contacted Ferdinand Piëch the Managing Director of Volkswagen. As Volkswagen and Scania jointly owned the Swedish Volkswagen agency, the two knew each other well.

It was quite obvious that [EU Commissioner] Monti would say no. Then I started getting active and I talked a lot with my old friend Ferdinand Piëch from Volkswagen because I knew he had a genuine interest and I wanted to have a stabilising owner […]. The signals [from Investor] had been that they did not want to be a long-term owner and I said such a company has to have a stabilising owner so I was really happy when Piëch came in and bought himself into this company. It was a quick deal. I would not have understood this if I had not had so many previous deals behind me and understood the need for a stable owner.

Leif Östling, Managing Director, interview 2003

Piëch and Volkswagen had earlier shown interest in their long-time business partner Scania, but kept silent during the Volvo period. Now, in negotiations with Investor, an agreement was reached that Volkswagen would buy a major stake of Scania from Investor. Volkswagen acquired shares corresponding to 34.0% of the voting power and 18.7% of the capital in Scania. Given that Volvo was forbidden to use its voting power, Volkswagen alone held the majority of votes at Scania’s annual general meeting. Investor kept a stake, making the company the third largest owner after Volvo and Volkswagen. At a press conference together with Östling and Marcus Wallenberg, Piëch announced that it was Volkswagen’s intention to be a long-term owner in Scania. However, there was no intention to interfere in day-to-day business.

We want to be a citizen here. Keep the culture. What we also did with Skoda in the Czech Republic, what we did with Seat so we want the flavour of the culture of the brands. That means that we give them enough freedom, but part of this is also the small shareholders here in Sweden and I think it’s dangerous if an owner gives too much direction. […]. We think he [Östling] should go on and I cannot tell him what he should be doing better.

Ferdinand Piëch, Managing Director of Volkswagen, press conference March 27th, 2000
For Scania’s management Volkswagen was by far a more comfortable owner than Volvo. Since the Germans did not have their own operations in heavy commercial vehicles, except some minor activities in Latin America, it was clear that Scania’s independence as a truck manufacturer would not be contested from within the Volkswagen group.

I think that Volkswagen is an ideal partner and owner in Scania and also will take the lead as owner in the company. And we know each other and have had many years of close co-operation and also a close co-operation with Dr. Piëch. We have been sitting in Svenska Volkswagen for quite some years with good achievements [...] and we also share the same common values and we are also committed to supplying the customers what the customers need and we know that it starts with technical excellence in the products. We are also both committed to long-term industrial value creation which is always the only way to give good value creation to the shareholders of a company. I know that today’s announcement will be received with great satisfaction by the whole of the Scania organisation and I have had a chance this morning to talk with some people and we feel that with the long co-operation with Volkswagen, more than 50 years we have a very good new owner in the company.

Leif Östling, Managing Director, press conference March 27th, 2000

On behalf of Investor, Marcus Wallenberg announced that his company would keep its stake in Scania for at least two more years in order to ensure a stable ownership situation. At the annual general meeting in May 2000, Ferdinand Piëch was elected chairman of the board at Scania. Two additional Volkswagen managers were represented on the board along with people from the Wallenberg sphere and a number of independent directors.

9.3.6 Volvo has to sell its Scania shares

Despite the entry of Volkswagen, speculations around the ownership of Scania did not come to a halt. Shortly after the deal between Investor and Volkswagen, Volvo sold off its passenger car division to Ford, using the money from the deal to acquire another truck manufacturer, RVI. This time, the EU Commission approved the deal. However, Volvo had to agree on selling its Scania shares by the end of the first quarter 2004. In a time of falling stock prices it was unlikely that Volvo would be able to sell the shares at the average SEK 265 they had cost. Hence, Volvo was interested in convincing the EU Commission to prolong the deadline. Scania on the other hand opposed postponing the sell-off date as the company wanted to have an end to the continued uncertainty about the ownership situation. Scania’s management particularly argued that the situation was harmful to the company’s shareholders since the share price suffered from the uncertainty. At the same time, people at Scania were concerned about who would be the new owner. Some employees looked back at the time when Investor was the dominant owner.

I think it is good with a long-term oriented industrial owner who has a rather big ownership share. It is not necessary to have a co-operation or a joint product, but
9.4 Communicating Scania’s ability to stand alone

Considering the continued threat of a take-over, management continued emphasizing Scania’s ability to stand alone. The main argument for a merger that was still upheld among industry analysts was the alleged need to achieve economies of scale. Hence, Scania needed to show that it had alternatives to the common recipe of achieving economies of scale through mergers and acquisitions.

It is very important to explain to [investors and analysts] that we can achieve economies of scale with our volumes thanks to our modular system and other things. [...] After our capital markets day we made a survey. We wanted to see what they thought about our strategies. The result was that they were sceptical about our economies of scale, about the fact that we did not make acquisitions. They were also sceptical about the fact that we did not merge with another company.

Joanna Daugaard, Investor Relations, interview 2002

The well-known 1+1≠2 formula is thus frequently recurring when Scania managers present the company’s strategy in interviews, at press conferences or at the capital markets days the company arranges. Except for showing the disadvantages with mergers and acquisitions, Scania also tries to show that it has alternative means to achieve economies of scale. Key arguments for this are the modular system together with Scania’s global production system; and more recently, Scania’s strategic alliances with other companies.

9.4.1 A global product and production system

In order to convince sceptics about the company’s ability to achieve economies of scale, Scania tries to emphasize its view that economies of scale are achieved within the scope of a truck programme, rather than within a company that may have different programmes in different markets.

[If you look at Daimler-Chrysler] you have the European programme with Actros, you have Daimler-Chrysler Freightliner in the US, which is a programme of its own and you have Daimler-Chrysler Latin America which is also a separate platform. If you are looking at Volvo you have Volvo Europe which is the European concept, you have Volvo USA, which is the old White, you have RVI and you have Mack. [Each with separate cabs and engines.] Scania has a cab and an engine. You have three and four programmes there. Here you have one.

Kaj Lindgren, Chief of Staff, interview 2002
Drawing upon its modular system, Scania basically sells the same products worldwide, in contrast to its competitors that have geographically limited programmes. Production-wise, Scania has recently been concentrating its European component production. On a global basis, components can be shipped from Europe to Latin America or vice versa in order to balance local demand variations or to take into consideration cost advantages, like after the depreciation of Latin American currencies in 2002. While there had been component shipments in the 1980s and 90s, the usage of the global production system accelerated in late 2002. The economic depression in Argentina and Brazil had led to overcapacity for Scania Latin America and exporting trucks to East Asia and other markets was a means to keep the plants occupied.

### 9.4.2 Strategic alliances

While the global product and production system is used to show that Scania can generate economies of scale internally, the company has more recently emphasised the possibility of increasing volumes by co-operating with external parties. The oldest strategic alliance Scania has today is one with the American engine manufacturer Cummins. Out of an almost accidental meeting contact, Scania saw an opportunity for becoming less dependent on Bosch as a single supplier for fuel injection systems. A joint development was signed in 1992 and six years later, Scania could present the first engines with the new unit injector. The year before Cummins had launched an engine that was also a result of the cooperation. However, at this point in time, economies of scale were not a rationale behind the alliance.

In 2002, Scania could present a further alliance. This time with Hino, a Japanese truck manufacturer, mainly producing medium-sized trucks. Again, the alliance was not the result of rational planning, but by taking an opportunity that occurred unexpectedly. Hino’s main owner Toyota had recently acquired the Swedish forklift producer BT where Leif Östling was chairman of the board.

> Hino came in. I had not really thought of them, but it came about through other engagements I have. I’m the chairman of BT and the company was sold to Toyota. […] I established contacts with the Toyoda family and also Toyota’s top management with Cho and Okuda. They had problems with Hino and I said this could be interesting for us as well. Maybe we might be able to help them in the long run with small and medium-sized trucks in Europe. And then we said [that we can sell] the heavy trucks that they can’t afford to develop.

Leif Östling, Managing Director, interview 2003

The first tangible outcome of the Hino alliance was the presentation of a Scania tractor unit at the Tokyo Motor Show in 2002. Due to different logistics systems the market for heavy trucks is relatively small in Japan. For Hino, it was questionable whether they would be able to develop heavy engines of their own in the future and the Scania truck complemented their own truck range. For
Scania it was the first step into a new market. The truck had dual brands and both Hino’s and Scania’s logotypes were on the grille. Sales started in 2003 through Hino’s sales network. Scania emphasises that the Hino alliance is long-term and that the outcome is not predetermined. In principle, it offers potential for a variety of joint efforts. Hino might sell medium trucks in Europe through Scania’s network or Scania might use Hino’s engines if a medium-sized Scania appeared on the agenda again. The financial markets have also speculated around a takeover of Scania by either Hino or Toyota. Such a constellation would result in less overlaps than a merger with another heavy truck producer.

After the Hino alliance, Scania’s activity in forming alliances accelerated. In autumn 2002 a co-operation agreement with Yanmar, a Japanese manufacturer of pleasure boats was announced. In this case, the existing Japanese connection around Toyota and Hino had led to the contact with the new partner. Scania was to supply Yanmar with engines in a performance range where the Japanese lacked their own products. This gave Scania an additional market for its marine engine production.

Half a year later, a fourth alliance was added to Scania’s portfolio. This time it concerned gearboxes and axles and transfer boxes. MAN would supply Scania with adapted versions of some transfer boxes and axles while Scania would adapt some of its gearboxes for use in MAN trucks. The MAN agreement was again the result of existing contacts as Scania’s former Technical Director, Håkan Samuelsson, was now in charge of MAN’s truck division. Scania had no objections to working together with a competitor as long as the solution did not question Scania’s product identity and was commercially reasonable. Through the co-operation, both firms would realise economies of scale.

> There you have economies of scale. Somewhere the [economies of scale] have a limit, but today our own production volumes are not big enough to realise all the economies of scale [...]. There is nothing in the co-operation around economies of scale that risks loosing the product identity part. That’s not allowed to happen. The economies of scale are not allowed to cannibalise on the brand image.

Tomas Karlsson, Head of Powertrain Production, interview 2003

The strategic alliances also became a recurrent point in company presentations for financial analysts and journalists who were still questioning Scania’s ability to stand alone. With the MAN co-operation agreement, the third in just 13 months, the forming of strategic alliances more and more emerged as a strategic recipe that was an alternative to achieving economies of scale by mergers. At Scania’s Capital Markets Day in May 2003, Leif Östling presented the alliances concluding with the prediction “We will see more of those”. The espoused principle was to share knowledge and realise economies of scale in areas that were not crucial from a competition point of view. Alliances were supposed to create win-win situations as opposed to mergers that were minus sum games according to Scania’s way of seeing it.

188
Organisational self-understanding and the strategy process

An alternative to merging with someone else is to make an alliance [...] If we find areas for an alliance we can achieve a volume that is much more harmonic than with this political cockfighting where each and every one has to be the most good-looking and strongest cock. It has to be an obvious win-win.

Per Hallberg, Head of Production and Procurement, interview 2003

So far, no strategic alliances have been added since that with MAN. Together with modularisation and the global production system, the alliances however constitute the cornerstones in Scania’s approach to achieving economies of scale and an alternative to a merger with another manufacturer.

9.5 The aftermath of the Volvo attack

In spring 2004, the period of Volvo’s ownership of Scania shares came to an end. Volvo did not manage to find a buyer within the time frame set by the EU Commission. The company thus sold off its B-shares to a number of institutional investors, not resulting in any bigger changes of the power structure among the owners. The A-shares with their higher voting power were particularly valuable if they were kept together rather than being spread among various investors. Hence, Volvo chose to create an investment company called Ainax which had the only purpose to hold the Scania shares. Ainax was distributed to Volvo’s shareholders and listed on the New Market, an unofficial market place for shares.

Although Volvo left as an owner, some uncertainty around Scania’s ownership structure prevailed. It was not sure what would eventually happen to the shares held by Ainax. Neither was it sure if Volkswagen would retain its ownership stake in the long run. For the time being, the Germans had their representatives on the board. In this position they gave Scania’s management relatively free hands. This was in line with management’s ambition to run Scania according to its understanding of the truck business.

The board of directors is mainly a sounding board. I have been and I still am on a number of boards and also been chairman and I think the role of the chairman is to be a sounding board [...] and so to speak the glue in building relations with others, where I know that I have the necessary contacts. Then it’s being a sounding board in strategic questions, but I think a board should be careful and not run strategic questions on its own. They don’t have the competence for that.

They know too little.

Leif Östling, Managing Director, interview 2003

The belief Scania’s management has in its understanding of the truck business is not only reflected in the desire to have a relatively free role vis-à-vis the board. It is also a source of the desire to stand alone and maintain Scania’s independence. The approach of growing organically with modularised, globally uniform products and concentrating on heavy vehicles partly stands in contrast
to what other actors in the industry do. Therefore, Scania’s management believes the company would be better to stand alone in the future also.

We have focused on heavy vehicles in a very goal oriented manner for four or five decades now. That has had a clear effect on performance and on [our industry] position. We have always grown in terms of volume and market share. From being a regional, marginal actor in a fragmented market we are more or less global today if you disregard our own choice not to be in North America. And that’s a consequence of our goal oriented work. Then you feel it would have been very unlucky if we could not have lead and control it ourselves, if something had been imposed on us that would destroy this in a short time. We don’t believe in it. If we had believed in it there would have been [the Volvo merger]. It’s as simple as that. So it’s not independence for its own sake, but independence for being able to continue developing the business. We don’t want to be seen as stubborn, as if we wanted to be independent for its own sake. But it offers more degrees of freedom. One key to success is our flexibility in many areas […]. That’s difficult for big organisations to handle, in particular if they have multiple brands.

Kaj Lindgren, Chief of Staff, interview 2003

It is discussable if Scania’s desire to remain independent and the company’s belief in its approach to the truck business is purely based on calculations about future success or if it also contains an element of stubbornness. After all, the Volvo episode shows that people at Scania identify strongly with their company and reacted emotionally when the attack came. The Scania members I interviewed, were proud of their company and wanted it to be independent. As the history of Scania has shown, the ambition to keep the company free from outside interference has been a continuous theme during the decades, no matter if Scania was part of a larger business group or an independent company. Scania has shown a strong desire to defend and if necessary regain its independence. The Volvo attack as such has been a reason to rethink what is unique about Scania. It has also been a reason to work on the arguments for an independent Scania and to articulate them openly. As a consequence, the desire to remain an independent has been even clearer after the Volvo episode than before it.

9.6 Scania’s self-understanding and the Volvo attack

From the description of the Volvo case, I now again turn to some first interpretations of the case. The previous cases have shown strategy both being guided by self-understanding and itself challenging self-understanding. In the bonneted cab case we saw that strategic actions, like the development of the STAX can be connected to different kinds of self-understanding in hindsight. Hence, self-understanding is also about interpreting what the own organisation has done strategically. We will now see what the Volvo case, as an example of a serious threat to an organisation, can contribute to getting further insights into self-understanding.
9.6.1 The Volvo-attack as a multiple threat to Scania’s self-understanding

The label ‘Volvo-attack’ that Scania uses for the takeover attempt by Volvo in 1999 in itself reveals that Scania perceived Volvo’s action as an act of hostility that was a threat to Scania. Consequently, Scania’s management did everything possible to ward off the attack as long as possible. As the takeover attempt was primarily an ownership rather than a management issue, Scania’s management could mainly communicate that Scania was a strong company that could stand on its own feet and would make the best contribution to its shareholders’ wealth by continuing to be independent. During the period it looked as if the deal would be concluded, Scania could at least try to fight for an independent position in the new group that would preserve some kind of distinct Scania identity and allow Scania to pursue the strategy it believed in. Finally, as the EU Commission had disapproved of the deal, Scania continued working actively for preserving its independence in a time of continued ownership uncertainty.

A desire to maintain Scania’s independence

The entire Volvo case is very much characterised by Scania’s strong will to defend its independence. This is hardly surprising if we recall that Selznick (1957) sees the defence of institutional integrity as one of the main functions of leadership. To him, organisations become infused with value and the maintenance of these values rather than survival alone is critical for the organisation.

The leadership of any polity fails when it concentrates on sheer survival: institutional survival, properly understood, is a matter of maintaining values and distinctive identity.

Selznick (1957:63)

Volvo’s attempt to take over Scania was a threat to Scania’s self-understanding in several respects and hence several aspects of self-understanding became salient during the case. First of all, the attack questioned Scania’s continued existence as an independent organisation. It was not clear what would happen to Scania after a merger. On the one hand, Volvo assured that Scania would retain some degree of independence, on the other hand, integration would be necessary to realise at least some of the synergies that had been the main argument for the deal. It was neither clear to what degree the distinctiveness of Scania’s products would be preserved. Scania would surely survive as a brand name, but how distinct would the trucks be apart from that? In the previous case where Scania had been part of a larger group, namely Saab-Scania, the Scania division had been able to preserve a high degree of autonomy and practically acted like a company of its own in many respects. However, the situation with Volvo was different. In contrast to Saab, Volvo had its own truck operations and a merger would certainly imply a more far-reaching integration.
A merger with Volvo was thus a bigger threat to Scania’s independence than for instance being acquired by Volkswagen which was focused on passenger cars. In addition, the fact that Volvo was Scania’s main rival trying to achieve control of Scania in an overnight raid, contributed to Scania members resisting the takeover.

**Distinctive strategy features as a part of Scania’s self-understanding**

Now, the defence against Volvo was not only about making Scania survive as an organisational entity, but also about defending Scania’s institutional integrity, i.e. in Selznick’s (1957) words its values and distinctive identity. It was not only a desire for independence for its own sake that created tensions between Scania’s self-understanding and the prospect of a takeover by Volvo. Over the years, Scania had developed a strategy that was distinct from those of its competitors in many respects. This strategy had resulted in continuously high profitability, but was now threatened through the Volvo attack. What was distinctive about Scania’s strategy vis-à-vis its competitors, was in particular the clear focus of the company, its emphasis on profitability and the belief in organic growth. These features had been characterising Scania’s strategy over many years and they themselves had become infused with value. Scania’s management and many members of the organisation saw them as keys to Scania’s success. The strategy features had become part of Scania’s self-understanding, being perceived as central and distinctive to the organisation, providing it with continuity over time.

Scania was a clearly focused company, concentrating on commercial vehicles for heavy transports with an emphasis in the high horse power, long-haulage segments of the market. As discussed previously, this focus was strongly intertwined with the modular product philosophy, creating considerable economies of scale internally. In contrast to this, Scania’s competitors appeared diversified. Most of them, in 1999 even Volvo, were active in the passenger car market. Moreover, they offered a variety of different truck models, with often various cab and engine families in the same market. A merger with Volvo might spoil Scania’s focus as well as its modular philosophy if there was to be any integration between the two companies’ programmes.

The merger ideas also by definition clashed with Scania’s self-understanding as being an organically growing company. Scania had been looking into some mergers and acquisition opportunities previously, but preferred to stand alone. Considering Scania’s modular philosophy, mergers were difficult per se as they would bring non-modularised components into the company. Moreover, other manufacturers’ experiences showed that mergers usually resulted in lower market share as customers moved to alternative suppliers. Scania’s understanding of the industry was thus that mergers always implied a loss of market share to competitors, which was expressed in the 1+1≠2 formula.

Finally, Scania members did not see the same profitability orientation in Volvo as in their own company. Since the Angers investment in the early
Organisational self-understanding and the strategy process

In the 1990s, Scania’s outspoken strategy was one of outspoken growth. However, as various examples show, growth was seen as a more or less automatic consequence of overall market growth. Hence, Scania usually did not go for market share and volume in the short run. It was rather part of the company’s self-understanding to be the industry leader who goes ahead increasing prices if the price level is perceived to be too low somewhere. At least in the short run, Scania has been willing to sacrifice considerable market share in such situations, like when the company increased prices in Latin America in 2002. In contrast to this, Volvo was considered being more volume driven by many Scania employees, who attributed this to Volvo’s consumer product tradition. For people at Scania, their company’s historically superior profitability was a sign that a merger might spoil profitability-orientation.

Table 9-1. Tensions regarding self-understanding in the Volvo case.

<table>
<thead>
<tr>
<th>Established self-understanding</th>
<th>Scania is:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- an independent company with distinct products</td>
</tr>
<tr>
<td></td>
<td>- an company with a distinct strategy (e.g. organic growth, profitability-oriented, focus on heavy vehicles, modularised design philosophy)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategic issue</th>
<th>Volvo tries to take over Scania</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Tensions regarding self-understanding</th>
<th>A takeover threatens the continued existence of Scania, the distinctiveness of its products as well as some major points of Scania’s strategic success recipe.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Source of tensions</th>
<th>Volvo – the major competitor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Institutional field – pressure to achieve economies of scale through mergers and acquisitions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Perceived seriousness of tensions</th>
<th>Severe. The handling of the takeover attempt becomes the major issue for top management</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Issue interpretation</th>
<th>Threat – Scania’s future existence is threatened</th>
</tr>
</thead>
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<table>
<thead>
<tr>
<th>Solutions</th>
<th>1) Ward off takeover by communicating Scania’s ability to stand alone</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2) If takeover cannot be prevented, fight for an independent Scania within the new group.</td>
</tr>
<tr>
<td></td>
<td>3) Strategic alliances as alternatives to mergers and acquisitions.</td>
</tr>
</tbody>
</table>

There were thus various reasons, why Scania members experienced tensions between Volvo’s takeover attempt and the self-understanding of their organisation. These tensions were perceived as severe since they questioned the very existence of Scania as well as many key features of its strategy that had become part of the organisation’s self-understanding. The primary source of these tensions was of course the takeover attempt by Volvo. However, there was also a more general trend towards mergers and acquisitions in the truck industry emanating from the institutional field. There had been a number of mergers, which had been motivated by a need to achieve economies of scale. Also industry analysts and the business press continuously questioned Scania’s ability to stand alone.
Strategies for preserving Scania’s independence

Scania’s primary strategy was thus to ward off the merger by communicating the company’s ability to stand alone. This was done by communicating Scania’s self-understanding, especially the distinctive features of its strategy both internally and externally. Management put particular emphasis on the advantages of being an organically growing company and the modular philosophy as a means to achieve economies of scale within the own organisation. The arguments partly referred to historical experiences from the industry. For instance, IVECO was frequently used as a negative example of a mergers and acquisitions strategy.

After the agreement between Investor and Volvo in summer 1999, it looked as if the defence strategy had failed. The best alternative was now to ensure that Scania could keep a relatively autonomous position in the post-merger constellation where the brands remained distinct and aspects of Scania’s self-understanding could survive. This need to preserve independence after a merger, triggered reflection among Scania members about what was important to the organisation’s self-understanding. The plant cell metaphor used by Leif Östling referred to two distinct entities each making its contribution to the new group. Scania’s modular philosophy was one contribution he explicitly envisioned Scania to make. In the overall discussions, Scania’s representatives tried to preserve things that were important to the company’s self-understanding, like the V8 engine.

Finally, when the Volvo merger was stopped and Volkswagen went in as a new owner, the immediate threat to Scania’s existence had vanished. However, the long-term ownership situation was uncertain and institutional pressures towards realising more economies of scale prevailed. As a reaction, Scania’s management continued its efforts to communicate Scania’s ability to stand alone. In this context, particularly Scania’s global production system and the company’s strategic alliances were used as arguments that Scania could realise economies of scale without merging with a competitor. Both these strategic features had not originally been conceived as arguments for organic growth. In particular the alliance strategy had started almost by an accident and was initially limited to the Scania-Cummins cooperation. It was not until in the aftermath of the Volvo attack, management started adding more alliances and explicitly defined the alliance strategy as an alternative to mergers and acquisitions.

Using history to defend Scania’s independence

History is present in the Volvo case in many respects. Karlsson (1999) remarks that the existential use of history tends to become particularly salient in times of change and turmoil. During such periods, people seek orientation in history, which may help them to make sense of their present situation and to get some anchorage while things around them are changing. For Scania’s employees the Volvo’s takeover attempt conjured up various memories from history, for
example of the long-lasting rivalry between Volvo and Scania, the history of
Scania’s independence that now might come to an end and the previous time
Scania had lost its independence and become part of the Saab-Scania group.

Apart from this existential use of history, also in the Volvo case, Scania’s
management used explicit references to historical events to support Scania’s self-
understanding as an organically growing company. This is particularly the case
when Scania contrasts its own history of organic growth with the M&A
strategies of its competitors, especially IVECO. The historical examples of
success and failure were supposed to show the superiority of an organic growth
strategy in the truck industry. Here, the view on history is again mythological.
Historical reference to IVECO does not aim at discussing the IVECO example
as such, but as illustrating the general principle that 1+1≠2 in the truck
industry. In Karlsson’s (1999) words the use of history is ideological since the
historical reference is used to legitimise Scania’s stand alone approach and
delegitimise Volvo’s takeover attempt as well as the general institutional
pressure towards more mergers in the industry.

9.6.2 The dynamics of strategy and self-understanding in the
Volvo case

If we once again try to visualise the dynamics of strategy and self-
understanding, we start out with the situation before Volvo’s share purchase.
Scania had a self-understanding, which among other things implied that the
company was independent and that it had a strategy that distinguished Scania
from its competitors in points such as organic growth, profitability-orientation,
focus on heavy vehicles and modularised design. At least as far as these key
features of strategy were concerned, Scania’s self-understanding provided clear
guidance and stabilised strategic action (1). For instance Scania refrained from
engaging in mergers and acquisitions. At the same time there was an external
pressure from the institutional field where actors suggested that Scania should
change its strategy, in particular with regard to organic growth vs. M&As.
There was a widespread opinion in the field that truck makers needed to merge
in order to achieve economies of scale. So far this pressure was perceived as
relatively moderate and is therefore symbolised by the short, thin arrows (2).
Scania’s strategy was not affected.

Nevertheless, Scania presented arguments to counter the institutional
pressure. This was partly done through historical reference, like by pointing at
discouraging examples of previous mergers in the industry (3). Together with
other arguments, this helped to reinforce Scania’s self-understanding as an
independent, organically-growing truck maker. The threat became much more
severe and tangible as Volvo purchased Scania shares (4). Initially, this had no
impact on Scania’s strategy except that the company may have become
somewhat more volume-focused in order to ward off the attack. However,
during the weeks after Volvo’s share purchase, Scania’s management continued
working on reinforcing Scania’s self-understanding, by communicating the virtues Scania believed it had, to both internal and external stakeholders.

Self-understanding as a context for strategic action

Figure 9-1. The dynamics of strategy and self-understanding in the Volvo case.

The story took a turn in summer 1999, when Volvo reached an agreement with Investor to buy Scania. Now Scania was forced to make concessions regarding its self-understanding as well as strategic action (5). Maintaining formal independence was no longer an option and the main strategy was to reach an agreement with Volvo that implied as little changes as possible and left Scania relatively intact. During this period Scania worked more intensively on reflecting upon the identity of its organisation and its brand in order to better distinguish itself from Volvo after the merger (6). A further turning point came in spring 2000 when the EU Commission disapproved of the Volvo-Scania merger. In terms of strategy and self-understanding, Scania could go back to the state before the Volvo attack. However, Scania’s self-understanding had become reinforced and more explicit during the efforts to defend the company’s independence (7). The Volvo threat is now over. However, the institutional pressure towards M&As still prevails. Scania continuously reinforces its self-understanding of being an organically growing company. One means of doing that is presenting strategic alliances as an alternative to mergers and acquisitions. Reference is made to history, i.e. the Scania-Cummins alliance (8). More cooperations follow and Scania increasingly talks of alliances as a part of the Scania approach for achieving economies of scale. One might even say that strategic alliances are introduced as a new element of the company’s self-understanding. Interestingly, all Scania’s alliances had originally been conceived for other reasons. However, against the background of institutional pressure to show economies of scale, the alliances are assigned a new meaning, namely creating such economies. This also provides direction for future action since
alliances are now seen as an appropriate means for Scania’s success. While the Cummins alliance was accidental, the interest in additional alliances is now clearly expressed.

**Managing self-understanding in the Volvo case**
The Volvo case contains several examples of rather deliberate management of self-understanding. Scania is under continuous pressure to engage in mergers and acquisitions although such a strategy would run contrary to the company’s self-understanding. In order to ward off pressure for a takeover, Scania’s management continuously tries to reinforce the company’s self-understanding by pointing at the virtues of organic growth and the deficits of an M&A strategy. Once again, historical reference is used to illustrate principles legitimising Scania’s self-understanding. Management continues to reinforce Scania’s self-understanding during and after the Volvo attack by repeatedly communicating the $1+1≠2$ formula. Facing the merger threat, identity issues are reflected upon more systematically and included in the annual report. Also the product identity platform was outlined during the period as Scania faced the pressure of distinguishing itself from Volvo in a post-merger constellation. After the Volvo takeover had been forbidden, Scania’s management continued reinforcing the company’s self-understanding by emphasizing arguments that supported the stand alone approach. Here, strategic alliances as an alternative to mergers and acquisitions were added to Scania’s self-understanding by management presenting alliances as a Scania approach for achieving economies of scale.

**Strategy-making and self-understanding**
More than the previous cases, the Volvo case deals with a severe threat to Scania’s self-understanding as the very existence of the organisation is being questioned. Interestingly, despite the strong pressures for change, little change happens to strategic action in Scania. The external threat rather makes Scania reinforce its self-understanding, by reflecting more consciously about it and by searching for arguments that legitimise it. As in the previous cases self-understanding relates to historical events that are used purposefully by management to shape Scania’s present self-understanding. Hence, the use of history is itself future-oriented. By incorporating interpretations of the past into the organisation’s self-understanding a new context for future action is created. The retrospective assignment of meaning to strategic action in its own past can itself be seen as an act of self-understanding, a theorising about what Scania is as an organisation. This in turn refines Scania’s self-understanding - its theory about its own identity - and hence shapes new preconditions for further strategic action.
10 Handelsbanken

Handelsbanken is one of the largest banks in Scandinavia. Its profits have exceeded the average of its competitors since the early 1970s. In recent years the bank has expanded its universal banking operations from its home country Sweden to Norway, Denmark, Finland and Great Britain. The history of the bank began with a conflict in 1871.

10.1 1871-1919: Foundation and domestic expansion

Handelsbanken was founded as the result of a schism at Stockholms Enskilda Bank, one of the ancestors of today’s SEB. Eight board members resigned, due to disagreements with the rest of the bank’s management. Among other things they did not feel comfortable with the Managing Director André Oscar Wallenberg’s ideas to internationalize the bank’s business. The dissidents set up a new bank, Stockholms Handelsbank. Initially, growth was limited to Stockholm and business relationships with the rest of the country were managed through co-operation with local banks. During the years before World War I, Stockholms Handelsbank acquired some local partners that had problems surviving on their own. By the end of the war, a number of larger regional banks had been acquired giving the company footholds in different parts of the country, particularly in Northern Sweden. When Stockholms Handelsbank bought Bank AB Södra Sverige in 1919, the bank had a nationwide branch network and changed its name to Svenska Handelsbanken, a name it still holds today. Simultaneously, it also changed its logotype to an octagon, which had formerly been the logotype of Bank AB Södra Sverige.

10.2 1920-1969: Further growth

During the first decades of the 20th century, Handelsbanken established itself as one of the three major Swedish banks along with Stockholms Enskilda Bank and Gothenburg based Skandinaviska Banken. When the Great Depression hit Sweden in the early 1930s all banks were severely affected. In particular, the suicide of the Swedish financier Ivar Kreuger who had established an industrial empire, was a shock to the national business community. Like the other banks, Handelsbanken found itself with major credit losses and had to take over a number of insolvent companies. In 1944, Handelsbanken established a holding company, named Industriärladen, for some of its ownership stakes in industrial companies. Through cross holdings Industriärladen and Handelsbanken managed to retain an important influence in companies such as Ericsson, SCA
Organisational self-understanding and the strategy process

The two decades after World War II brought less turbulent times for Handelsbanken. In a regulated market, there were limited opportunities for developing the business. However, the bank made a few additional acquisitions, including the mortgage bank SIGAB and the finance company Svenska Finans. In the 1960s, Handelsbanken also set up its first representative offices abroad.

10.3 1970-1990: The Wallander era

Towards the end of the 1960s Handelsbanken got into trouble. Profit was falling and the bank was accused of violating the Swedish foreign currency regulations, which were very strict at the time. Most top managers resigned and Jan Wallander who had previously headed a provincial bank in northern Sweden was appointed Managing Director. Wallander had radical ideas for restructuring the bank. Handelsbanken was to become a decentralised organisation where most decisions were to be made at the local branches, close to the customer. Central departments were cut down or completely closed, for instance the marketing department. Moreover, Wallander abolished budgeting and introduced a system of benchmarking and internal pricing to manage resource allocation and to follow up performance in the bank. The decentralisation efforts led to a strong emphasis on the branches, which were considered to be the bank’s primary units. The branches were grouped into eight73 regional banks. Regional banks and branches formed the so called ‘branch organisation’, which assumed a kind of organisational hegemony in the bank. Central units and subsidiaries were supposed to serve the branches and in all customer relationships it was the customer’s local branch that had the utmost responsibility, even if the branch was small and the customer was a multinational company.

Wallander’s reforms laid the foundation for the organisational structure that is still in effect today. Over the years, decentralisation has been further developed, giving the branches authority to make more decisions and allocating an increasing proportion of costs and revenues to the branches. As a result, the branch operations account for more than 3/4 of the bank’s profit.

A number of organisational arrangements and practices were important for implementing and developing Wallander’s ideas for change. One is the booklet ‘Our Way’, which he published in 1970 to communicate his idea of banking and management to the employees. Updated issues of the booklet have been published by Wallander’s successors, addressing the changes that have occurred in the bank and its business. Wallander also put a considerable effort into facilitating communication across organisational levels. He introduced annual

73 The number of regional banks in Sweden was later reduced to seven. Meanwhile the international expansion of Handelsbanken has led to the establishment of four regional banks abroad.
visits by the managing director to the different organisational units, including visits to a substantial number of branches every year. Since Wallander’s days, all branches and other units also submit monthly notes to their superior, e.g. the head of the respective regional bank. The notes, which include suggestions, complaints and stories from everyday business are an important input at the monthly meetings of Handelsbanken’s management team, the so called MD-info. Suggestions are passed on to the relevant unit. The managing director addresses all employees in a letter each month. Similar letters are written by other top managers of their subordinates.

Finally, Wallander also introduced a profit-sharing system, the Oktogonen Foundation. Each year that Handelsbanken’s profitability exceeds the average of the competitor’s profitability, a certain part of the extra amount can be allocated to the employees. The money is divided equally between all employees and put in a pension foundation, Oktogonen which invests most of its assets in Handelsbanken shares. The value of an individual’s share in Oktogonen fluctuates with the development of the stock market. In spring 2002, the share of an employee who has been employed since 1973 on a full time basis was worth SEK 4.3 million. Meanwhile, the system has made Oktogonen Handelsbanken’s largest single owner and the foundation is represented on Handelsbanken’s board by two directors. In addition to providing the bank with a stable ownership structure, Oktogonen provides a strong incentive for employees to stay at Handelsbanken.

### 10.4 1991-2004: New markets and new products

Having stepped down as Managing Director, Wallander took over the chair of the board which he held until 1991. His successors as Managing Directors, Jan Ekman and Tom Hedelius continued to develop the bank as a decentralised organisation. In terms of product and market development their degree of strategic freedom was limited by the regulated Swedish banking market, which became more liberalised during the 1980s. In 1989 the bank made a major strategic move by starting street-level banking operations in Norway. During the following years, Handelsbanken established branch networks in Norway, Finland and Danmark and most recently in Great Britain. Internationalisation was achieved through a combination of organic growth and small acquisitions. Handelsbanken also developed its business in Sweden. The bank moved into life insurances by acquiring the companies RKA in 1992 and SPP in 2000. Handelsbanken’s largest deal however was the acquisition of the mortgage bank Stadshypotek in 1997. The acquisition gave the bank a substantial stock of mortgage loans as well as many new customers.

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74 Oktogonen means "the octagon" in English. The octagon is an ancient logotype of Handelsbanken that is seldom used today. In the bank’s official English documents the name "Oktogonen" is not translated to English.
Handelsbanken’s self-understanding

The self-understanding of Handelsbanken is very much focused on Jan Wallander’s reforms, the decentralisation of the bank and the important role of the branches in the organisation. This self-understanding is expressed in statements like ‘The branch is the bank’ and much effort is put into communicating the Handelsbanken way of doing things to new organisational members. Handelsbanken’s employees attribute the bank’s outstanding performance to its distinctive approach to banking and management. Decentralisation and the organisational hegemony of the branches are principles that are not to be questioned. As the following cases will show, there is a strong determination to stick to them even when the bank enters new territory in terms of strategy. Jan Wallander along with many current managers attributes the success of Handelsbanken to the supposedly universal validity of the decentralisation recipe. Wallander (2002) describes his decentralised philosophy as being in line with human nature and managers involved in the bank’s internationalisation assume that the decentralised approach holds across different cultures.
11 Internet banking – a development questioning Handelsbanken’s self-understanding

One of Handelsbanken’s major identity claims since the days of Jan Wallander has been the statement that “the branch is the bank”. In times when other banks reduced their branch networks, Handelsbanken saw local presence and decentralised decision making as major virtues that helped it to be successful. However, as Internet technology started spreading in the mid 1990s questions where suddenly being asked whether Handelsbanken’s large branch network had become obsolete. The new technology seemingly promised to eradicate physical distance and make visits to the branch unnecessary. Internet banking, at least in the way Handelsbanken’s competitors conceived it, seemed incompatible with Handelsbanken’s self-understanding. It was a potential rival to the branches which were claimed to be the primary organisational unit. However, there was little choice for Handelsbanken but to adopt the new technology as customers requested it and it also constituted an opportunity to process routine transactions in a more rational way.

The Internet case shows how Handelsbanken dealt with a major threat to its self-understanding, finally resulting in a solution that was novel to the banking industry. It also addresses the issue of Stadshypotek Bank, a niche bank that posed similar problems as it also appeared as a potential rival to Handelsbanken’s branch network.

11.1 Technological innovations in banking

Like few other technical developments, the rise of Internet technology has had an impact on the financial services industry. The new technology was a particularly delicate issue for Handelsbanken since it challenged its identity claim of seeing the local, physical branch as the most important organisational unit of the bank. As the phenomenon emerged in the Swedish market in the mid 90s, specialised niche banks challenged their established competitors. They

Sometimes niche banks are distinguished from small banks, meaning that niche banks offer a very limited range of services, while small banks, although being similar in size to the niche banks, offer a more or less complete range of services at least in the private market. According to this definition, Stadshypotek Bank would be a small bank rather than a niche bank. I will nevertheless stick to the niche bank concept when talking about Stadshypotek Bank. The concept is more widely used and Stadshypotek Bank is often referred to as a niche bank by Handelsbanken’s top managers.
did not establish any branch networks, but kept in touch with their customers via telephone or electronic media. Banks had generally been affected by changes in the technological environment relatively early and were already using sophisticated information systems in the 1960s. However, these systems had not seriously questioned the need for physical branches which customers visited in order to do business with the bank.

This started changing in the early 1990s with the emergence of telephone banks. Some niche actors, usually only providing a limited number of basic services for private customers, were established in Sweden. In most cases their main product was savings accounts offering high interest rates. The established banks also started introducing telephone based services. Customers could get information on their account balance or recent transactions on the phone. Subsequently, a couple of banks also introduced separate telephone banks. Customers had to register for these banks and sometimes they had to pay an annual fee. In return they received access to specific products such as savings accounts with high interest rates. S-E-Banken launched its phone bank Sesam which was clearly separated from the traditional banking operations. It was acceptable to be a customer in both banks at the same time, but accounts were held separately. Handelsbanken was not very fond of the idea of establishing a phone bank in addition to the branch network. Arne Mårtensson, the Managing Director at that time, said that “running a bank on the phone might be all right in other organisations, but not in Handelsbanken” (Einar 1995). He emphasised that in his opinion the best way of running a bank was still through a branch network. Handelsbanken therefore limited its phone services to offering better accessibility to its branches. Customers could do certain transactions without visiting the branch and outside ordinary office hours, but they remained customers of their branch and the branch was allocated the costs and revenues related to each customer.

11.2 Banking on the web

Telephone banking did not pose a serious threat to traditional branch networks, as the range of services that could be offered was very limited. However, this changed as both existing niche banks and established universal banks started to introduce Internet banking in 1996. Internet constituted a potential threat to Handelsbanken’s self-understanding as the raison d’être for having an office network came under question.

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76 For legal reasons, even telephone and Internet banks in Sweden were required to have at least one physical branch office that could be visited by customers. However, these played a marginal role in the newcomers’ businesses. It was not until the early 21st century that some of the new banks tried to increase local presence by establishing local offices, mostly for advisory purposes.
There were substantial worries. Our whole strength builds on geographical division and local presence. Then someone invents a medium that aims at erasing geography and local presence.

Lars O Grönstedt, Managing Director, interview 2003

If electronic channels replaced local offices this would provide an opportunity to reduce costs for personnel and premises. Handelsbanken’s competitors quickly adopted the new technology. The predominant recipe for using the new technology was accounting for Internet and branch transactions separately. The Internet had thus become a separate distribution channel in addition to the branch network. As we know from previous research, e.g. Mols (2001), this view is not uncommon. Branch banking and Internet banking are often seen as two opposing strategies and managers’ willingness to cannibalise from branches is regarded as a prerequisite for introducing Internet banking (Mols, Bukh and Nielsen 1999).

It was some time in the early or mid 90s that the idea of Establishing Internet Banks appeared [in the industry]. All the other banks were doing it. They called them Internet banks. On the one hand the customer was a customer at the branch and on the other hand on the Internet. There were even separate customer registers. This looked like a death-blow to our idea of decentralisation. It would take away a major share of business from the branches.

Leif Lundberg, former Head of Corporate Communications, interview 2003

The branch managers at Handelsbanken had mixed feelings with regard to the new technology. On the one hand they saw an opportunity to get rid of routine transactions and more and more customers started asking when the bank was going to introduce Internet banking. On the other hand, it was difficult to see how Internet banking would fit into Handelsbanken’s branch centred self-understanding.

We had a lot of discussions about these issues. During a short period there was also a fear that the time for branches could be over. Would everyone do everything on the web and would anyone still do anything at the branch in the future? I would not say that people were seriously worried, but I know that for some time I really wondered myself in what direction we were going. […] there was fearful delight about what was going to happen.

Björn Börjesson, Head of Central Credit Department, former Head of Regional Bank Southern Sweden, interview 2003

Handelsbanken started moving relatively late when it came to finding an appropriate Internet solution. This may have been partly related to the fact that some people in the bank did not feel comfortable with the idea. Moreover, Handelsbanken employees, of course, watched the other banks’ solutions which were launched one after the other. These were all centralised and did not fit into Handelsbanken’s self-understanding at all.
Organisational self-understanding and the strategy process

There was resistance and hesitance towards the Internet. Instinctively. A feeling that the Internet was our enemy rather than something we could use and that is part of the explanation as to why we were late.

Lars O Grönstedt, Managing Director, interview 2002

Grönstedt’s view that there was instinctive hesitance towards the Internet is however not shared by everyone at the bank. At least not on the branch level where employees were under pressure from customers who complained that Handelsbanken could not yet offer Internet banking while all major competitors had introduced their solutions. Customers came to the branches and asked when they would be able to do transactions on the web. The feeling of lagging behind all competitors was not positive for the self-confidence of Handelsbanken employees at the branches. They were afraid of acquiring an image as being overly conservative and less developed technologically.

When the Internet came we were initially a little disappointed that we were so late. We were last actually. Our colleagues or competitors from S-E-Banken and Sparbanken77 had their solutions much earlier.

Claes Ericson, Branch Manager Jönköping, interview 2002

There were obviously mixed feelings about the Internet in Handelsbanken. Employees’ conception of the issue was very much influenced by the behaviour of other actors in the industry. While the predominant recipe for dealing with the Internet was deterrent, the speed at which competitors introduced the new technology was also a trigger for people in Handelsbanken’s organisation to put pressure on the Central Development department to come up with its own solution. Being responsible for stock-broking, Lars O Grönstedt was among the first to personally experience competition as Swedbank introduced the opportunity to buy and sell stocks over the web. At that time Central Development was running a project to develop an Internet solution, but there was little progress due to the hesitance about which solution would be suitable for the bank. Grönstedt was not willing to wait so he started developing his own solution.

I felt that we did not have time to wait. I thought the bank could choose whatever option it wanted. I was on the stock-broking side. I have to compete with stockbrokers so we have to set up our own solution anyway. […] I created a solution, as I thought it should be, on my PC on a flight from the US and then I

77 Sparbanken emerged out of a series of mergers of Swedish savings banks. Internationally, Sparbanken used the name Swedbank. Meanwhile the group has merged with the agricultural cooperative banks, forming Föreningssparbanken. The Swedbank name has been retained for international business.
The plan to launch a website for stock broking was not realised, but the initiative from the stock-broking side increased the pressure on Central Development to come up with a solution. Setting up a stock-broking site was less sensitive that the overall Internet issue in the sense that it only concerned a limited range of services which were rather centralised anyway. Meanwhile, under pressure, created by Grönstedt’s initiative, Central Development increased its efforts to find a solution for the entire bank. There were a number of technical options to choose between, but the most challenging question was to find a way to reconcile Internet banking with the central role of branches in Handelsbanken. Usually Handelsbanken strives to carry out most IT projects using its own staff. For major development projects, such as the Internet one however, the bank also takes advice from external consultants. The problem in this case was that these experts also were affected by centralised solutions applied in other companies. The people responsible for the project at Handelsbanken felt that consultants had difficulties integrating Handelsbanken’s self-understanding into their solutions.

We worked with [a consultancy firm] and they made some brave attempts, but they were not really fun. You were supposed to manage your savings by clicking on a piggy bank. That was all they had been able to capture of our soul.

Jörgen Nielsen, Branch Manager Birger Jarlsgatan/Stockholm and former project manager for Internet banking at Central Business Development, interview 2003

It looked as though we would have to revert to something really centralised. We started working with a number of consultants in this area. Experts on Internet development. They could by no means handle this. I was really worried how this would end.

Leif Lundberg, former Head of Corporate Communications, interview 2003

The consultants’ view on Internet banking was already coined by the centralised approaches that other banks had taken. As Handelsbanken looked around among its competitors’ Internet projects, it became obvious that centralised Internet banks were the cornerstones of all solutions.

In all contacts I had [with other banks], I saw that they were building [their Internet bank] in a completely different way from what we wanted. For [the consultants] who came to help us it was just another Internet bank. They did not understand what we wanted at all.

Jörgen Nielsen, Branch Manager Birger Jarlsgatan/Stockholm and former project manager for Internet banking at Central Business Development, interview 2003
Finally, Handelsbanken established contact with Johan Wall, the founder and owner-manager of Net Solutions, a young IT firm. Wall’s approach was different from that of his colleagues. Before starting with the development work he went around in the organisation, met various people and talked to them in order to understand the organisation in a better way.

He did what consultants seldom do. He listened and he did not have a ready-made solution as consultants usually have it. [...] We were completely taken aback when he came to us with the solution that we could let all [Internet users] go via the branches. Each transaction on the Internet goes via the accounts of the branch. It is done with the knowledge of the branch and everything remains the branch’s. It was such a tremendous relief and this guy deserves all honour for this.

Leif Lundberg, former Head of Corporate Communications, interview 2003

Wall’s solution built on the idea of creating an individual website for each of the more than 500 Handelsbanken branches. When a customer enters the Handelsbanken website for the first time s/he is asked to pick his or her personal branch. A cookie is then stored in the computer, directing the customer to the right branch every time s/he enters the website. The branch websites are individually managed by the branches. What is standardised is the general layout and a number of basic services that are handled by a central transaction engine. Beyond that, the branches are free to design the websites themselves. As Handelsbanken was in a hurry to get the Internet up and running, the first version of the branch websites was a compromise. The sites were still produced centrally, but had the branch name on top.

The branch name was individual and there was one other thing – each branch would submit a photo, a photo of the staff, the branch, the market square or whatever, but something with a local connection. [...] That was the only thing that was individual originally, but at least it was a beginning and an important signal that the branch was central even on the Internet.

Mats Heidenberg, Corporate Communications, interview 2003

It did not take long, until the branches could manage their websites themselves. Meanwhile, the opportunities to individualise the site go far beyond mere information. Like the original websites, many branches still emphasize the local connection by putting pictures of the office, the staff or local sights on the home page. It is also common to promote local activities, such as seminars for customers. The presentation of products and services is also individualised. Each branch emphasizes the products it finds most suitable for its local market. The branches can put centrally produced product descriptions on their site, but it is also possible for them to create their own information. Some branches, for instance, have established local alliances with real estate brokers which they promote on the Internet. There are branches that have agreements with corporate customers to offer products on beneficial terms to employees of these
companies. The employees can then get information on these products by visiting the website, using a special log in. Other branches however, believe that special agreements are an unprofitable way of doing business in the long run. Consequently, their websites lack such offers.

A general problem, not at least from an ideological point of view, is that Handelsbanken claims not to sell products in a push manner. The ambition is rather to take the customer’s individual situation as a point of departure and to sell the products s/he is in need of. On the Internet this is easier said than done as it is difficult to adapt the content to specific customers. Some branches have chosen to emphasize offers for corporate customers during the day when people are at work and to put information for private customers on the web in the evening when people do their banking transactions from home. There are attempts underway to include some kind of consultative approach in the reasoning on the website. How to do this in a good way has not yet been solved.

I would like to have consultative reasoning, a holistic reasoning on the Internet, but it’s difficult. It becomes quite clumsy and if you have those pages in the beginning customers might wonder why? I don’t want to read this, I want to read about mutual funds. We don’t have a good solution, but I believe it is possible.

Mats Heidenberg, Corporate Communications, interview 2003

Internet banking is offered by all regional banks and also the foreign units that report to Handelsbanken Markets. The concept of letting the branches have their own sites is the same everywhere. Regional as well as national differences are reflected in the content of the websites. In Britain, where Handelsbanken is a newcomer, some branches publish lists of successful deals that may give them increased legitimacy in the market. A peculiarity of the British market is also the frequent use of intermediaries, such as accountants and solicitors, to establish customer contacts.

I know at least two of the branches that use it deliberately for their intermediaries. They say to accountants and solicitors look here if you want to keep track of the sort of business we are doing. They include a deal sheet on their site. They take the names out. These are the most recent deals or important deals that we have done. […] That’s one use and I have seen specifically where they use it to establish credibility with people who don’t know us.

Derek Burgess, Area Manager Regional Bank Great Britain, interview 2003

The branches use the opportunity to develop their websites to a varying degree. As bank employees are rarely proficient web designers, the Corporate Communication department has developed a toolbox, containing banners, pictures, templates, product descriptions, etc. that can be used by the branches. The development of the website is considered to be important by most branch managers, but at the same time it competes for time with other tasks at the branch. Time is a restriction especially for small branches.
Organisational self-understanding and the strategy process

We have one person who is responsible for updating it [the website] and making sure that something happens all the time. Our level of ambition is not extremely high, but it should at least be updated.

Robert Pettersson, Branch Manager Vaggeryd, interview 2002

At Jönköping branch which is one of the major branches in Regional Bank Eastern Sweden three people share the job of managing the website.

It’s supposed to be updated and changed continuously so you really get something out of visiting it. Otherwise it would be better to hand over the job to Handelsbanken in Stockholm. I am the legally responsible editor so once a week I look at it and the rest of the staff can make suggestions. For instance, the end of the year is now approaching and customers might look through their stock portfolios, so we said let’s address this on the web site.

Claes Ericson, Branch Manager Jönköping, interview 2002

The system of an individual website for each branch has been in use since 1997. When it was launched, Handelsbanken lagged behind all its major competitors. SEB had launched its Internet bank more than one year earlier. Handelsbanken’s solution had been delayed by the difficulties in finding an approach that was congruent with the bank’s self-understanding. In the final development phase there were also some problems with implementing the security solution the bank had chosen and this caused further delays. Moreover, in order to help the customers to use the new technology, a support service was needed. Considering Handelsbanken’s decentralisation it was not evident from the beginning if that task should be handled by the branches or centrally.

The branches had just recently introduced PCs themselves. They were far from this [technology] and then suddenly the heads of the regional banks proposed that the branches should handle support. That was really interesting. After all it was the branches that had the customer contact. That was shortly before everything was launched and it was Lars O [Grönstedt] among others who managed to change their mind. […] It would have been a catastrophe otherwise.

Sverker Arvidsson, Central IT Operations, interview 2003

The regional banks were finally convinced that it was not a wise idea to let ordinary bank clerks handle technical support. The support function was instead located in Malmö, where it shares a building with Regional Bank Southern Sweden and Malmö City branch. The support issue was a minor episode in the overall Internet question. However, it illustrates how Handelsbanken’s branch centred self-understanding influenced the way in which the issue was approached. The support function was likely to have frequent contact with the branches’ customers. Thus people in the branch organisation perceived it as obvious that the branches should handle it.

Handelsbanken never considered the Internet as a cornerstone of its strategy as some of its competitors did. Especially before the turn of the millennium at
the peak of Internet hype, some banks believed that the Internet would make branches redundant and that it was a means to expand internationally without having to invest in a branch network. Particularly SEB was fond of that idea and announced that it was going to become a European e-bank (Thunell 2000). SEB envisioned that the new technology could give the bank easy access to various European markets as basically no branch network was required to enter a new country. The Danish Codan Bank was acquired with the idea in mind to use it as a basis for e-banking operations in Denmark. SEB saw itself as a forerunner of e-banking in Europe and believed in gaining a considerable competitive advantage by exploiting its technological lead. In contrast to SEBs enthusiasm for e-banking, Handelsbanken managers never saw the Internet as more than an alternative entrance to the branch. The Internet was a useful tool, but not as a source of competitive advantage.

Of course we will provide good Internet services. That’s an important part of our service and it’s a good tool for us to further lower our costs. So the Internet is a matter of course for us, but it will never be a substitute for the branches.

Arne Mårtensson, Managing Director, interview 2000

After the IT-bubble burst, Handelsbanken felt reinforced in the view that the Internet did not have the potential to replace branches. The other Scandinavian banks have also revised their views, putting less emphasis on electronic solutions and more on their branches again (Tapper 2001). However, especially during the heydays of e-commerce, Handelsbanken risked getting reputation of being a late adopter of technological innovations. Being the last bank to introduce Internet banking did not harm Handelsbanken’s business significantly, but it was neither good for the bank’s external reputation nor for the self-esteem of its employees. In the media, Handelsbanken was criticised for being notoriously late in introducing new technologies (Anonymous 1999b; Creutzer 1998).

Quality is more important than being early. Other banks being ahead of us is not a problem. Usually they make the initial mistakes. We were first to offer [banking services on] the WAP phone and this was partly to show that we do not always lag behind in technology. This is a dead product today and one can say it would have been good if someone else had made the mistake. […] It was not expressed that we had to be first to provide WAP just because we were last with the Internet, but as we had the reputation of not adopting new technology so quickly, we wanted to show that we could do it if we wished.

Björn G Olofsson, Head of Central Development, interview 2003

Although WAP services turned out to be a flop product wise, they were a relatively inexpensive project that permitted Handelsbanken to stand out as a technology leader. WAP has not had any impact on the way of doing business. The opposite was true of Internet banking. Although the new technology did not result in any major reduction of the number of branches, the number of
employees per branch has gone down significantly. Self-service has reduced the need for processing routine transactions manually.

During the last year [2002] we have gone down from eleven to nine employees. […] Still we are among the branches with the highest volume growth in the regional bank. With today’s automatisation that is possible. We feel that it is important to make more money and we do that by doing more business with better margins, but also by adjusting our staff to the increased efficiency.

Jens Claesson, Branch Manager Värnamo, interview 2002

As branch managers are evaluated based on the economic performance of their branch, there is an incentive to use Internet banking for rationalisation. Since salaries stand for a major part of the costs, branch managers are prone to keep the number of employees low. More self-service has created scope for staff reductions. However, Handelsbanken has not made anyone redundant due to rationalisations so far. Staff is instead reduced by not filling vacancies or by offering employees other jobs. As manual routine transactions disappear, the tasks of bank employees have changed a lot. More and more time is devoted to actively approaching customers and offering them advice. Internet banking has thus dramatically changed the work of the branches without making them redundant.

11.3 Stadshypotek Bank

Handelsbanken was just on the verge of finding a solution to the Internet question when a difficult issue of similar nature appeared. In the acquisition of Stadshypotek in 1997, the mortgage bank’s two subsidiaries which were of no particular interest to Handelsbanken, were included in the deal. One of them was a real estate company, which was easy to divest. The other one was a more problematic issue. Stadshypotek had recently launched a niche bank, called Stadshypotek Bank. It had been set up in order to offer mortgage customers the opportunity of saving some money that they could later use to pay off their loans. As the niche bank was mainly a means for Stadshypotek to raise capital for the mortgage operations, Stadshypotek Bank was not very profit oriented. At the time Handelsbanken acquired it, the niche bank was actually losing money. Moreover, as a niche bank relying on telephone and Internet contacts, it did not fit into Handelsbanken’s idea of branch-based banking. Hence, most Handelsbanken managers favoured divesting it.

Stadshypotek Bank was not what Handelsbanken wanted. […] The original idea was to sell it or to close it down because Handelsbanken has a clear direction. We do not work with telephone banking and such things. It’s the branches that count.

Yonnie Bergqvist, Managing Director Stadshypotek Bank, interview 2003
However, selling Stadshypotek Bank was easier said than done. Looking through the bank’s customer register, Handelsbanken found out that it was to a large extent identical to that of the mortgage section. Divesting it would thus have implied disclosing the customer register, including most mortgage customers to the buyer. Moreover, investigations revealed that nobody was willing to pay much money for the unit. The issue was discussed by management during a meeting in spring 1998. Although there were concerns about giving the customer register to a competitor, there were still worries that the niche bank might be difficult to integrate. Handelsbanken takes pride in its consensual management. However, this time a consensus was difficult to reach and Managing Director Arne Mårtensson had to use the nemesis of the traditional rival SEB to bring about a decision.

Then Arne [Mårtensson] did something from which I have learned a lot. When he understood that he could not make us reach a consensus he said ‘No, then we will sell it. I call Thunell’ at once. He certainly wants to buy it.’ He rose and started walking towards his room, but then we stopped him and said ‘Eh, no…’ It was me who stopped him and then he said ‘Ok, then you have to become Chairman of the Board of Stadshypotek Bank.

Lars O Grönstedt, Managing Director, interview 2003

Handelsbanken was now confronted with the dilemma of having to find a role for Stadshypotek Bank that was congruent with Handelsbanken’s idea of doing banking. This was not easy as the niche bank could be conceived as a potential rival to the branch network. Having a quasi monopoly on serving the bank’s customers, the branches were not likely to accept another distribution channel. For this very reason, Handelsbanken had refrained from establishing its own niche bank as its competitors had done it a couple of years before. The solution was to define it as a part of the bank that could serve the branches. On the one hand it was a unit for testing products; on the other hand, branches were allowed to pick customers from Stadshypotek Bank that were particularly interesting.

The solution was to make Stadshypotek Bank a kind of experimental workshop. We learned that you could quickly introduce new products. You could set processes and do everything so quickly. In this giant [Handelsbanken] with all the interconnections between the systems it is much slower. […] I think it was Arne Mårtensson who described it thus: Stadshypotek Bank is a trawler catching much small fish. If they catch a big fish the branches are allowed to take it.

Björn Börjesson, Head of Central Credit Department, former Head of Regional Bank Southern Sweden, interview 2003

7 Lars Thunell was Managing Director of SEB.
Moreover, an agreement was reached that Stadshypotek shared their profits from each customer 50:50 with the branch that had the customer within its geographical area.

There were many discussions between the heads of the regional banks, Arne [Mårtensson], Lars O Grönstedt and I [...]. It shifted back and forth several times from ‘we will keep it’ to ‘no, we will close it down’. But the conclusion was [to keep it] and I think it was much due to the fact that we found the model of sharing profits with the branches, allocating the customer to a branch from the beginning.

Yonnie Bergqvist, Managing Director Stadshypotek Bank, interview 2003

The integration of Stadshypotek Bank forced Handelsbanken to rethink its negative stance on the niche bank phenomenon. While such banks had previously been unthinkable, there was now actually a niche for them in Handelsbanken. Yonnie Bergqvist could see from the notes branches were writing that concerns about competition between his unit and the branches had disappeared.

The monthly notes that all regional banks write are an important channel. It must be two to three years since there was anything negative [about Stadshypotek Bank] in them and usually you get to know if something is working or not from the notes. If there is nothing in the notes then it is working.

Yonnie Bergqvist, Managing Director Stadshypotek Bank, interview 2003

Stadshypotek Bank has meanwhile become accepted by the branch organisation as one among Handelsbanken’s subsidiaries. As a telephone and Internet bank it has developed a specific competence in using these means of communication. Some Handelsbanken branches take advantage of this. For instance in Regional Bank Western Sweden, the branches have handed over parts of SPP’s customer register to Stadshypotek Bank in order to offer their services to these customers. The niche bank thus does the cross selling that the branches lack the capacity to do. Stadshypotek Bank primarily tries to attract SPP customers to its own operations, but the branches retain the right to pick individuals that are particularly interesting for them. Hence, they can capitalise on the virtues of a niche bank and still maintain their organisational hegemony.

Although Stadshypotek Bank still shares part of its name with Handelsbanken’s mortgage operations, there is no longer any specific administrative connection between the two. In order to avoid confusion, Stadshypotek Bank has tried to distinguish itself more clearly from the mortgage operations by modifying its logotype. As a telephone and Internet bank, Stadshypotek Bank of course works differently from Handelsbanken’s branches. Even though ‘Our Way’ is also valid for the niche bank, the management of Stadshypotek Bank has found it appropriate to publish a
supplement called *Helt enkelt från Stadshypotek Bank* (Stadshypotek Bank no year) that is distributed to all employees. It aims at clarifying Stadshypotek Bank’s position in the market as well as in the Handelsbanken group. A reoccurring concept in the booklet is that of simplicity. The assumption is that there are banking customers who have relatively simple needs and value simplicity in the relationship with their bank. It is understood that there are customers that are not attracted by Handelsbanken’s profile of offering value-added at a relatively high price and that such customers are not likely to become profitable for the branches.

Strangely many things become more complicated when one gets older. This seems to be true of most things, including banking services. Stadshypotek Bank is not a cure for complex needs — however we are a bank for everyone who does not need complicated banking and insurance services. [This is] an illustration of our place in the Handelsbanken group. And we dare to take a place. This becomes clear not least in our fundamental goal: Achieving a higher profitability than Handelsbanken.

*’Helt enkelt från Stadshypotek bank’, p. 29*

Although the booklet differentiates Stadshypotek Bank from the rest of the Handelsbanken group, many parts resemble an echo of ‘Our Way’ and the principles that are important to the branch operations. Like the branches, Stadshypotek Bank does not compete on offering the best interest rates. Focus is on reducing costs and costly advertising campaigns are explicitly ruled out. The central role of Handelsbanken’s branches in the group and Stadshypotek’s subordination to them is acknowledged.

*’Helt enkelt från Stadshypotek bank’, p. 29*

Interestingly, the small bank is meanwhile the most profitable unit in the Handelsbanken group, despite the fact that it has to share its profit with the branches. The return on equity amounted at 33.6% for 2002 compared to 14.6% for the bank in total. This has clearly contributed to the legitimacy of the Stadshypotek Bank in the group. However people from the branches also point out the fact that the profit per employee, an important key ratio for the branches, is clearly lower in Stadshypotek Bank than in the branch organisation. Handelsbanken is particularly proud of the fact that Stadshypotek Bank is highly profitable, while most other Internet and telephone banks in Sweden have shown disappointing results.

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*Simply form Stadshypotek Bank*
Organisational self-understanding and the strategy process

11.4 Handelsbanken’s self-understanding and Internet banking

Following the presentation of the Internet case, we will once again move on with some low-abstract interpretations. In the three Scania cases, self-understanding has provided guidance to strategy. However, strategic action has also been able to challenge the established self-understanding. Looking at strategic actions in retrospect, management has assigned new meanings to them and thus been able to influence self-understanding, for example by reinforcing it, adding new elements or engaging in arbitration activities between organisational fractions. We will now see if these findings from the Scania cases help us to make sense of the dynamics of strategy and self-understanding at Handelsbanken as well.

11.4.1 Can Internet banking be reconciled with Handelsbanken’s self-understanding?

Since Jan Wallander carried out his decentralisation reforms in the bank, the self-understanding of Handelsbanken has been emphasizing the role of the local branches as the most important organisational unit. The identity claim ‘the branch is the bank’ had come to stand for the role Handelsbanken’s branches had assumed. While major strategic decisions, like acquisitions or the move into life assurances were still made centrally, virtually all business with the customers was delegated to the branch level. Also in the top management of Handelsbanken, the representatives of the branch organisation had more influence than the heads of central units and subsidiaries. The situation could be characterised as an organisational hegemony held by the branches.

Now, the appearance of Internet banking as a new technology in the financial services sector resulted in tensions regarding a self-understanding that saw the branch as the primary organisational unit. Internet technology could electronically create what so far had been created by the large network of physical branches, namely proximity and easy access to the bank. The number of occasions when customers had to visit their branch would drop dramatically if they used the Internet and one could question whether there was still a raison d’être for the branch network.
Table 11-1. Tensions regarding self-understanding in Internet banking.

<table>
<thead>
<tr>
<th>Established self-understanding</th>
<th>The branch is the bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic issue</td>
<td>Telephone and Internet banks without physical branch networks appear Other large banks launch telephone and Internet services that bypass local branches</td>
</tr>
<tr>
<td>Tensions regarding self- understanding</td>
<td>Internet banking questions the organisational hegemony of branches</td>
</tr>
<tr>
<td>Source of tensions</td>
<td>a) Technological development b) Institutional field: institutionalised recipe for using Internet technology in banking</td>
</tr>
<tr>
<td>Perceived seriousness of tensions</td>
<td>Moderate-severe. As a potential new sales channel there is a possible conflict between Internet banking and local branches.</td>
</tr>
<tr>
<td>Issue interpretation</td>
<td>1) Threat (questions if branches are still needed in times of Internet banking) 2) Opportunity (Internet may relieve branches from routine transactions)</td>
</tr>
<tr>
<td>Solutions</td>
<td>Re-define the Internet as being an alternative entrance to the branch</td>
</tr>
</tbody>
</table>

In their discussion on technological change, Tushman and Anderson (1986) talk of competence-enhancing and competence-destroying technological change, depending on how a new technology fits into a company’s existing technological configuration. The emergence of Internet banking appeared as potentially competence-destroying, since Handelsbanken’s way of delivering banking services built on the ability to offer physical proximity and personal contacts. The value of such competences was now suddenly questionable. Moreover, as the role of the branches was not a mere organisational arrangement, but a highly valued element of Handelsbanken’s self-understanding, the technological change was also perceived as potentially identity-destroying.

The technological development was consequently met with concern in the bank. However, there were differences as regards how different organisational members perceived the severity of the tensions. Some people in the bank primarily saw the opportunity to relieve the branches from costly and time-consuming routine transactions. However, even the optimists also saw a threat in the introduction of a technology that might allow the branches to be bypassed. If this were the case, it was not sure that the organisational centrality of the branches could be maintained in Handelsbanken. The situation was not made easier by the fact that a recipe for using the new technology, which ran contrary to Handelsbanken’s self-understanding started emerging in the industry.
11.4.2 Resistenz against the institutionalised recipe

Handelsbanken was not an early mover in the adoption of Internet technology. The difficulties of reconciling Internet with Handelsbanken’s self-understanding as well as a generally cautious approach to quickly adopting new technologies may have been the major reasons. Handelsbanken’s competitors acted more quickly and some of them offered Internet services more than one year before Handelsbanken. This was a considerable time span, bearing in mind the enormous pace of technological development in the IT sector during the 1990s. The Internet banking approaches of Handelsbanken’s competitors were all similar in the respect that customers did their business through company-wide websites, so-called Internet banks, which were disconnected from the local branches. This centralised approach to banking spread so quickly and was so widely accepted that we can talk of a recipe that had been institutionalised before Handelsbanken launched its own solution. Centralised approaches had become taken for granted in the institutional field, not only among the banks themselves, but also among the consultants who developed the solutions. Internet banking was seen as an alternative to the branch, which might soon drastically reduce the need for having physical branches at all. This view was also mirrored in the business press (Hallenius 1999), which questioned Handelsbanken’s seemingly old-fashioned preference for branches. Also the academic discourse conjured up a picture of Internet banking cannibalising on the branches (Mols 2001; Mols, Bukh and Nielsen 1999). The banking industry was supposed to go increasingly from brick-and-mortar to click-and-mortar\(^{80}\) (Hensmans, Bosch and Volberda 2001) or maybe even just clicks.

Given that there already was an institutionalised recipe for the use of Internet technology in the banking industry, it is striking that Handelsbanken did not adopt it. Although, there was not yet any known alternative to the centralised Internet banking approach and there was pressure from customers to come up with a solution quickly, Handelsbanken waited and tried several consultants before it was finally able to create a solution that was congruent with its self-understanding. In Oliver’s (1991) words, the bank defied institutional pressures, challenging the predominant model of Internet banking with its own Handelsbanken approach. Handelsbanken’s stance in the Internet question is similar to the Resistenz phenomenon described by Broszat and Fröhlich (1987). Handelsbanken showed non-conformity with the institutionalised idea of Internet banking. The bank managed to maintain its idea of branch-based banking despite the widespread claim that the times of traditional branch-based banking would soon be over. This Resistenz was grounded in a well-established understanding of what kind of organisation it was, namely a bank where the branch was the primary organisational unit. For Handelsbanken, the Internet question was an issue of defending its institutional

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\(^{80}\) The ‘brick-and-mortar’ and ‘click-and-mortar’ metaphors are often used to symbolise the Internet revolution in the financial services sector. While bricks and mortar refer to physical branches, the clicks stand for e-banking.
integrity (Selznick 1957) as the organisation’s self-understanding suggested that physical branches were central to the bank. As is typical for the Resi

11.4.3 Can a niche bank be reconciled with Handelsbanken’s self-understanding?

In many respects the issue of Stadshypotek Bank was similar to that of Internet banking. Having become the owner of a niche bank almost unwillingly, Handelsbanken has an organisational unit which was a potential sales channel bypassing the branches and questioning their organisational hegemony. In addition, Handelsbanken had already taken a clear stance on niche banks when competitors started their own telephone banks in the early 1990s. The standpoint was that Handelsbanken should not own a niche bank. The branch was the undisputed owner of the customer contact and should not be forced to share it with an apparent cuckoo in its own nest.

Table 11-2. Tensions regarding self-understanding in the integration of Stadshypotek Bank.

<table>
<thead>
<tr>
<th>Established self-understanding</th>
<th>The branch is the bank, no niche banks in Handelsbanken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic issue</td>
<td>Handelsbanken becomes the owner of a niche bank which is difficult to divest</td>
</tr>
<tr>
<td>Tensions regarding self-understanding</td>
<td>A niche bank questions the organisational hegemony of the branches</td>
</tr>
<tr>
<td>Source of tensions</td>
<td>Moderate. Stadshypotek bank is small</td>
</tr>
<tr>
<td>Issue interpretation</td>
<td>Threat (questions the hegemony of the branches)</td>
</tr>
<tr>
<td>Solutions</td>
<td>Re-define the niche bank concept as being a servant for the branches.</td>
</tr>
</tbody>
</table>

Now, Stadshypotek Bank was a very small unit and did not seriously challenge the branches, but as a matter of principle, the branch organisation did not like the idea that there was a way for customers to do banking with Handelsbanken without the branches being involved at all. Once again, there was also an institutionalised recipe for how a niche bank should operate that was challenged by Handelsbanken based on its self-understanding. However, due to the smallness of Stadshypotek Bank there was little public interest in what was happening and in this respect there was no institutional pressure compared to that during the Internet banking episode. Handelsbanken’s solution was finally to assign a new meaning to the niche bank phenomenon, namely making it a servant of the branches, giving full access to Stadshypotek Bank’s customers to the branches.

Stadshypotek Bank’s way of operating had to be adjusted in order to fit into Handelsbanken’s self-understanding. This particularly concerned the relation to
the branches, but also profit-orientation. While Stadshypotek Bank had originally been conceived as a fund-raiser for Stadshypotek’s mortgage operations, it now had to compete with the profitability of other Handelsbanken units in order to achieve legitimacy in the new group. Of course, there were still things in Stadshypotek Bank that were different from the new parent company. There was no face-to-face customer contact, the scope of products was narrower and the clientele was partly different from that of Handelsbanken. Stadshypotek Bank had to find a new self-understanding that showed awareness of the differences from Handelsbanken’s branch operation, but which still fit into the self-understanding of the Handelsbanken group as a whole. The supplement to ‘Our Way’ was an attempt by management to contribute to defining such self-understanding.

11.4.4 Did Handelsbanken change due to Internet banking and Stadshypotek Bank?

The introduction of Internet banking as well as the acquisition and integration of Stadshypotek Bank implied that Handelsbanken assigned new meanings to the Internet banking and niche bank phenomena. Handelsbanken’s approaches to these phenomena differed clearly from the institutionalised approaches that existed in the industry. One way of interpreting organisations’ treatment of institutionalised ideas is offered by translation sociology. The basic point is that ideas and fashions change as they spread among organisation. Ideas are noticed and then translated into a form that fits the local circumstances (Czarniawska and Joerges 1996) and edited to fit a new context (Sahlin-Andersson 1996). Handelsbanken’s approach to the Internet phenomenon goes beyond mere translation of an idea. The bank adopted a technology, however not the ideas its competitors had assigned to the technology, namely that of using the Internet as an alternative to branches. Rather than translating the prevailing idea, Handelsbanken showed Resistenz, rejected the idea and opted for its own idea, namely the Internet as a new entrance to the branch.

In the integration of Stadshypotek Bank the translation metaphor might be closer at hand. The niche bank maintains a larger degree of autonomy vis-à-vis the branches than the Internet operations which are practically a part of the local branches. Hence Handelsbanken’s niche bank idea comes closer to the institutionalised niche bank conception. Still, the idea of seeing the niche bank as a servant of the branches, even sharing profits with them, is far from the institutionalised concept of the niche bank as a parallel channel, bypassing the branch without connection. Hence, I interpret Handelsbanken’s use of Stadshypotek Bank as a new idea rather than as a translated one.

Nevertheless, the Internet example and particularly the Stadshypotek Bank example contain one parallel to the translation of ideas. Czarniawska and Joerges (1996) claim that the translation of ideas does not leave the translating organisation unchanged. The same was the case for Handelsbanken adopting Internet banking and integrating Stadshypotek Bank. In both cases,
Handelsbanken enhanced its competence (cf. Anderson and Tushman 1990) by adding new technologies and new ways of communicating with customers. Handelsbanken also enhanced its self-understanding, especially through the Stadshypotek Bank integration. While the bank had earlier principally rejected niche banks they now were no longer regarded as incongruent with Handelsbanken’s self-understanding.

How big was this change? Is the story about Internet banking and Stadshypotek Bank a story of change or rather a story of stability? Regarding the magnitude and impact of change, we can turn to Piaget’s distinction between accommodation and assimilation. While assimilation referred to the modification of new information in order to fit into existing cognitive structures, accommodation implied that the cognitive structures themselves had to be changed in order to be able to handle the new experiences (Piaget 1947/2001). Both e-banking and the Stadshypotek Bank integration are examples of assimilation where the Internet banking and the niche bank concepts are redefined in order to fit into Handelsbanken’s self-understanding. The changes to self-understanding itself are very limited and do not challenge the core assumption of the branches organisational hegemony. However, the assimilation/accommodation discussion does not bring us further in understanding why Handelsbanken abandoned its categorical rejection of niche banks. Here, Melander’s (1997) idea of institutional and situational beliefs may be helpful.

Melander distinguishes between institutional and situational beliefs where the former are relatively general and also stable over time, and the latter refer to specific situations and are in constant motion. Drawing upon Selznick (1957), I earlier described self-understanding as an institutional phenomenon, thus coming close to Melander’s institutional beliefs. Applied to Handelsbanken’s self-understanding the general claim ‘the branch is the bank’ is an institutional belief which offers some guidance, but does not give explicit answers to specific strategic issues. When an issue such as Internet banking or niche banks emerges, the institutional belief gives rise to situational beliefs such as ‘Handelsbanken will not allow an Internet bank to bypass the branches’ or ‘Handelsbanken is not interested in niche banks’. These beliefs quickly change when the issue to which they refer is reinterpreted and no longer perceived as incongruent with the institutional beliefs that are part of Handelsbanken’s self-understanding. New situational beliefs such as ‘the Internet is a new entrance to the branch’ and ‘the niche bank is a servant of the branches’ emerge. Such situational beliefs allow for the assimilation of new phenomena into Handelsbanken’s self-understanding. Drawing further upon Melander’s ideas, we might assume that many changing situational beliefs in sum lead to major change and finally require an accommodation of self-understanding. Based on the present case, this question however has to be left unanswered.
11.4.5 The use of history in the Internet case

In contrast to the three Scania cases, the Internet case does not reveal any explicit reference to history. However, as the previous introductory chapter on Handelsbanken shows, Handelsbanken’s self-understanding is closely related to Jan Wallander and the reforms he started in the early 1970s. This is particularly true of the organisational hegemony of the branches, which is central to the Internet case and which is a result of Jan Wallander’s decentralisation efforts. Wallander and his reforms are often referred to in people’s stories at Handelsbanken. Since Wallander despite his age actively takes part in organisational life as Honorary Chairman and speaker at internal events, history in a sense becomes tangible to Handelsbanken’s employees. Moreover, Wallander’s books which are translated into several languages (and thus readable to Handelsbanken’s employees abroad) offer an account of history that describes Jan Wallander’s reforms from his own perspective and outlines his management philosophy.

As a history of change, the stories of Wallander’s reforms are in one sense processual. However, the way in which they are used, they primarily aim at presenting the principles behind Wallander’s management philosophy. Similar to Johnson and Bröms’s (2000) claims about Scania’s modularisation philosophy, Wallander (2002) sees his management ideas as reflecting timeless principles of nature. The stories about the decentralisation reforms hence gain a mythological character as they primarily aim at conveying such timeless principles. In Wallander’s books as well as in stories told by employees, reference is often made to the early years of Wallander’s tenure and the crisis years prior to that. The contrasting of the bad years with ridiculous sales campaigns and the successful years after Wallander took over, highlights the new management principles and establishes them as Handelsbanken’s success recipe with continued validity.

Strikingly little reference is made to the time before the crisis years prior to Wallander’s entry in Handelsbanken. A notable exception was the advertising campaign where Handelsbanken stressed that it had not changed its name since 1919. Of course, reference to pre-1965 history is made once in a while, but a very strong emphasis lies on the last 40 years. It is not that the first 95 years of Handelsbanken are depicted negatively. Rather they are hardly addressed at all.

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81 Older employees who worked for Handelsbanken before Jan Wallander often refer to their experiences. Younger employees tell stories about the turnaround which they have heard about colleagues or read about in Wallander’s books.

82 1965 is an approximate date. The point I want to make is that historical reference is made to the years from Wallander’s appointment as Managing Director as well as a few years before it. The latter serve as a contrast to the former, showing how extremely sales-driven and centralised Handelsbanken was before Wallander.

83 This becomes especially clear when contrasting Handelsbanken with Scania, where reference to history is distributed more evenly. For instance Scania employees often refer to the 1930s and 1940s, and also anniversaries of historical Scania cars and trucks are celebrated and receive much attention in Scania’s publications.
Using Karlsson’s (1999) terminology one could almost speak of a non-use of history. Although this non-use does not have to be deliberate, it has an ideological impact in combination with the frequent referencing to the tenure of Jan Wallander. His reforms and management principles are legitimated more clearly as Handelsbanken’s history is divided into the successful Wallander and post-Wallander eras on the one hand and the not so important pre-Wallander era on the other hand.

11.4.6 The dynamics of strategy and self-understanding in the Internet case

In a visualisation of the Internet case, Handelsbanken’s self-understanding as a system of institutional beliefs sets a context for strategic action. Internet banking and the institutional field’s recipe for applying it create pressure on Handelsbanken to abandon its branch focused strategy and open up to the Internet as an alternative channel for reaching the customer resulting in tensions regarding the bank’s self-understanding. (1). This pressure is successively increasing as the bank’s competitors launch their own Internet banks and Handelsbanken’s customers demand the new technology. Derived from the general institutionalised self-understanding, Handelsbanken derives the situational belief that a centralised Internet solution is incongruent with Handelsbanken’s self-understanding (2). Hence, no change in strategic action takes place for the moment and Handelsbanken hesitates to launch an Internet solution. As Handelsbanken works on the problem together with consultants, they finally find a solution which implies that Internet banking is perceived as congruent with Handelsbanken’s self-understanding. The situational belief changes and allows for the slight strategic change that the introduction of Internet banking implies (3). However, the bank’s self-understanding as well as the overall strategic direction remain untouched. Internet banking, which was originally perceived as an external pressure pushing the bank into a different strategic direction is now reinterpreted and assimilated into Handelsbanken’s self-understanding and brought in line with its strategic direction (4).
11.4.7 Managing self-understanding in the Internet case

In contrast to the Scania cases, the Internet case shows little deliberate management of self-understanding. There is no major change to Handelsbanken’s self-understanding and despite the pressure to introduce Internet banking, Handelsbanken’s self-understanding is so robust that management does not see any need to take action in order to reinforce it. During the rise of Internet banking, management is mainly concerned with defending the bank’s branched-based strategy towards external stakeholders who doubt if the strategy is still viable in face of the technological changes.

11.4.8 Strategy making and self-understanding

As in the Scania cases, in the Internet case, self-understanding is also important in guiding strategic action. The interpretation of the case reveals that the institutionalised self-understanding does not necessarily provide direct answers to strategic issues. However, situational beliefs that relate to a specific issue can be derived from self-understanding. Such situational beliefs can change without altering the organisation’s self-understanding. In the Internet case, the situational beliefs changed when Internet banking was reinterpreted in a way that assimilated it to Handelsbanken’s self-understanding.
Mergers and acquisitions are among the major strategic events in organisational life. In some cases they may imply that the involved organisations or at least one of them changes strategic direction. Even if this is not the case, mergers and acquisitions require time and resources. Not least from a self-understanding perspective, mergers and acquisitions may imply tensions and change. In their classical article, Albert and Whetten (1985) list changes in an organisation’s collective status as one of the occasions when identity issues become particularly salient in an organisation. If we recall Selznick’s (1957) ideas of institutional integrity, mergers and acquisitions can question whether such integrity can be upheld.

The acquisition of Stadshypotek in 1997 was Handelsbanken’s largest structural deal in terms of balance sheet. Moreover, about 1000 employees had to be integrated into Handelsbanken’s organisation. What made the integration work particularly challenging was the companies’ IT systems which each reflected different approaches to business and different organisational self-understandings. The integration of the systems forced Handelsbanken to rethink its strategy as well as to introduce new management practices.

12.1 Stadshypotek

Although the small niche operator Stadshypotek Bank was temporarily a headache for Handelsbanken’s management, it was only a by-product of a larger deal. In late 1996, the partly government-owned mortgage bank Stadshypotek was for sale and Handelsbanken saw an opportunity to expand, particularly in the mortgage market where it had a relatively small market share compared to its position in other sections of the financial markets.

Stadshypotek was one of the major Swedish mortgage banks. Its roots dated back to the middle of the 19th century and it had originally consisted of mutually owned association that were spread all across Sweden. Each association had its own management, board and head office. Beyond the head office, there were also a couple of local branches in the major cities of each region. While the associations with their regional structure and mutual ownership stood for a decentralised, private organisation, they had a central counterpart which was under government control. The so-called Stadshypoteekskassan served as a central service organisation and internal bank, issuing bond loans in order to provide the regional associations with capital. As the Swedish capital markets were deregulated in the 1980s, the Stadshypotek associations faced more competition from banks and had to take a more proactive, market-oriented stance. This development was mainly driven by
Stadshypotekskassan and lead to more centralisation of Stadshypotek. Eventually, Stadshypotek was demutualised in 1993 and listed on the Stockholm Stock Exchange the following year. Although ownership was now spread, the Swedish state was the dominant owner. The formerly independent regional associations became sub-units within the Stadshypotek group and reported to the head office in Stockholm.

The traditional core of Stadshypotek’s operations was mortgage loans to private and corporate customers in Sweden. While Stadshypotek had a limited network of regional offices, the loans were mainly sold through a mail-order like distribution system without any face-to-face contact with customers. In order to acquire customers, the bank spent a lot of money on direct mail, newspaper and TV advertising. Due to this strategy, Stadshypotek relied on standardised loans with standardised interest rates. In the mid 90s, the development of information technology promised to make distribution even more efficient. Processing Stadshypotek loans was easy both for the bank and for the customers. Although there was little room for customisation, the convenient approach was appreciated by customers and Stadshypotek was a strong brand in the Swedish mortgage market.

During the first half of the 1990s Stadshypotek diversified its operations. As a consequence of the real estate crises that hit Sweden at that time, the bank had involuntarily become the owner of a large stock of real estate. In 1996, Stadshypotek was looking for ways to divest these assets. Diversification into retail banking on the contrary was a proactive step. Stadshypotek Bank was established in 1995 in order to have an additional source for short-term borrowing. The bank was one of the niche players that popped up in the Swedish market at that time and offered high interest deposit accounts to private customers. Stadshypotek Bank did not have any branch network and handled customer contacts by phone.

12.2 Stadshypotek is for sale

The financial markets in Sweden had been expecting for some time that the Swedish state’s share in Stadshypotek would be for sale and, the government announced in June 1996 that it wanted to divest its ownership. Rumours about potential buyers spread quickly and the press discussed most Swedish and a number of international institutions as new owners of the mortgage bank. Stadshypotek’s board and executive leadership did not want to remain passive during this period and looked for a new owner that might leave the company relatively untouched. Although customer contacts were mainly handled by mail and by phone, Stadshypotek had regional offices that were a heritage from the time the institute was mutually owned and had a federative structure. Many

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84 The short overview of Stadshypotek’s history is mainly based on Sjögren et al.’s (2002) anthology about Stadshypotek. The volume offers extensive information on the development of Stadshypotek from the 19th century until the acquisition by Handelsbanken.
regional managers feared that they would lose their position if Stadshypotek got a new owner.

There was lots of speculation and we believed that a foreign actor might enter the picture and that we might keep our organisation [relatively intact].

Magnus Siösteen, Regional Bank Central Sweden, former regional manager at Stadshypotek, interview 2003

The Managing Director Lars Wohlin, who had recently resigned, had been appointed advisor in Nordbanken so Nordbanken was considered a likely buyer. Moreover Stadshypotek’s Executive Vice President Leif Melloqvist had earlier worked at the bank. However, it was not a deal with Nordbanken, but with the Swedish insurance company Skandia that came to be the main alternative for Stadshypotek. In November Skandia and Stadshypotek’s board announced that the two companies had negotiated a merger. Skandia placed a bid on the mortgage bank.

[We would not be affected so much if we were acquired by an insurance company as if we were acquired by a bank]. Stadshypotek would have had a much freer role. It was said that Stadshypotek would live on, do its business and be a subsidiary to Skandia.

Eric Callans, Regional Bank Stockholm City, former regional manager at Stadshypotek, interview 2003

Overall, Skandia had a rather strong organisation in Halmstad and in [the] Halland [province]. This was positive, especially since it was our own alternative and it seemed to be exciting. Insurance companies and Skandia were really successful at that time.

Magnus Siösteen, Regional Bank Central Sweden, former regional manager at Stadshypotek, interview 2003

The deal between Stadshypotek and Skandia though was not supported by the Swedish government. Minister of Finance Erik Åsbrink publicly declared that he had lost confidence in Stadshypotek’s Board since the state had not been informed about the negotiations with Skandia. Although Skandia did not withdraw the bid, it was obvious that the government was unlikely to accept it. Then on December 12th Handelsbanken stepped into the arena and announced that it had placed a cash bid on Stadshypotek which had been accepted by the state in the event that nobody placed a more attractive bid. Handelsbanken had been interested in the mortgage bank for some time. The bank was relatively weak in the mortgage business and wanted to strengthen its positions there. Moreover, Handelsbanken saw great opportunities for cross selling other products to Stadshypotek’s customers and making them full scale customers in the bank. Michael Zell, who was appointed Managing Director of Stadshypotek after the acquisition, was involved in the preparations as he was heading Regional Bank Western Sweden.
We had a management meeting in spring; I believe it was the early spring of 96. We felt that we had developed the bank in a good way. Arne [Mårtensson] had been Managing Director for five years and it felt as if we had time for something more. […] Arne had been sitting together with Sven Grevelius who was Head of our Group Control and Accounting Department at that time. […] They had worked on calculations and come to the conclusion that the calculation was good, especially if one could combine Handelsbanken with Stadshypotek. [Stadshypotek] had two problems. Namely that they did not have a channel out to their customers, no distribution organisation and they did not have any natural borrowing with floating interest rate. They needed that as customers more and more demanded floating interest rates. If they needed that, Handelsbanken would be the perfect partner.

Michael Zell, Head of Regional Bank Central Sweden, former Managing Director of Stadshypotek and Head of Regional Bank Western Sweden, interview 2002

This deal was driven very much by Arne Mårtensson as a hypothesis originally. Then, based on how the bank works, one has to make sure that the decision is anchored among the heads of the regional banks. The deal is consumed locally.

Kjell Ormegard, Head of Securities, interview 2003

Many people at Stadshypotek did not originally consider Handelsbanken as an attractive buyer at all. They knew that Handelsbanken did its business through the local bank branches and that the chances for Stadshypotek to survive as an independent entity within the bank were minimal.

Earlier during the summer we had discussed different alternatives and there were people who saw Handelsbanken as the absolutely worst case scenario. […] It was quite clear that they would not retain our organisation, but rather that they would slaughter it. That was the feeling. […] When I presented our company, I always did it by describing the two opposite extremes. They were Handelsbanken and Stadshypotek. A universal bank with the whole package […] and a niche company. We worked like a mail order company.

Magnus Siösteen, Regional Bank Central Sweden, former regional manager at Stadshypotek, interview 2003

At the same time Stadshypotek’s employees recognised that they had few if any possibilities to influence the success of Handelsbanken’s bid. The fact that Handelsbanken’s Managing Director had announced that no Stadshypotek employees would be made redundant due to the deal brought some relief however.

12.3 Handelsbanken’s bid is successful

In contrast to Skandia, Handelsbanken had remained relatively silent during the period prior to the bid. However, during the time before the bid was accepted by a sufficient number of shareholders, the heads of the regional banks
revealed different degrees of activities. Some of them contacted their regional counterparts at Stadshypotek and started discussing integration issues immediately, while others decided to wait until the acquisition was really certain. Stadshypotek’s executive managers rebuked some of their subordinates for prematurely engaging in the integration process.

[At the Regional Bank Southern Sweden] they invited us to a meeting. We sat down with the management team and discussed the deal as if it would definitely be concluded, as if everything was clear. That was very early. […] Leif Mellqvist called me and was very angry with me because the news about this had spread. We gave information to Regional Bank Southern Sweden. […] At Eastern Sweden Regional Bank they asked Leif directly and he did not tell them anything so they were mad at Leif.

Magnus Siösteen, Regional Bank Central Sweden, former regional manager at Stadshypotek, interview 2003

Stadshypotek’s top management felt that it was a matter of integrity not to start integration work before the deal had formally been concluded.

I called the people [who had given information to Handelsbanken] immediately. That was too sensitive. […] We did business as usual as far as we could and some heads of the regional banks did not like that.

Leif Mellqvist, former Executive Vice President of Stadshypotek, interview 2003

However, in early February a large majority of shareholders in Stadshypotek had accepted Handelsbanken’s bid and full-scale integration work could be started. Michael Zell was appointed Managing Director of Stadshypotek. An important qualification for the new job was his experience as Managing Director of Svenska Finans, a Handelsbanken subsidiary. When Michael Zell took over leadership of Svenska Finans the company had lost touch with the group, leading a life of its own and putting little emphasis on Handelsbanken’s culture. Michael Zell managed to re-integrate the subsidiary; naming it Handelsbanken Finans and making it work through Handelsbanken’s branch network instead of bypassing the branches in customer contacts. Stadshypotek was thus another challenge for Michael Zell to prove his integration skills. On a central level, the management of Stadshypotek was changed. Handelsbanken had little confidence in the members of the old management team so they left with the exception of Leif Mellqvist.

Leif was an old banker. He came from PK Bank, Nordbanken and he was a genuine banker. A person we immediately liked. […] He stayed on as my Executive Vice President. But we said from the beginning that if this were to work out well someone from Handelsbanken had to be managing director and lead the whole integration work.

Michael Zell, Head of Regional Bank Central Sweden, former Managing Director of Stadshypotek, interview 2002
It was clear from the beginning that a major part of the responsibility for the organisations would lay on the regional banks. Mortgage loans were a product Handelsbanken’s branches had a lot of experience with. Nobody doubted that it would be possible to integrate Stadshypotek’s business in the ordinary operations of the branches. Handelsbanken was relatively weak in the mortgage market compared to its market share in other areas. The deal promised an increased share of the mortgage market and a big inflow of new customers to whom the branches might sell other banking products. On the other hand, integrating Stadshypotek’s employees and integrating the two companies’ IT-systems would require a lot of work initially. Hence, the heads of the regional banks needed to express their support for the deal, before the way for Handelsbanken’s bid was finally open.

We could not have bought a Stadshypotek in Norway because we could not have joined forces in the same way there. Therefore it is more natural for us to acquire a big company in Sweden where everyone can help, rather than doing it in another country. […] In the Stadshypotek case there was complete support. All regional banks were very committed and enthusiastic.

Björn Börjesson, Head of Central Credit Department, former Head of Regional Bank Southern Sweden, interview 2003

As usually, the heads of the regional banks gathered monthly for the MD-info meetings and their lunches with the managing director. On the same day Michael Zell usually had an additional meeting with them during which only Stadshypotek issues were discussed. If necessary, additional meetings were held. The pace of the integration and enthusiasm among the regional banks was even greater than Michael Zell had expected.

I believe Arne [Mårtensson] and I had planned to keep it together centrally for a longer time than we did. […] But in the orderly chaos the regional banks took quite a lot on themselves. I believe they themselves were surprised by their appetite. […] They almost chased each other to take more and more so sometimes we almost laughed at it. The whole thing was bigger, faster and more brutal than we had imagined.

Michael Zell, Head of Regional Bank Central Sweden, former Managing Director of Stadshypotek, interview 2002

On a regional and on a local level, practical integration work started by establishing contact between Handelsbanken branches and the regional Stadshypotek offices. There was no standardised approach to this work. The decision was in the hands of the people involved locally, but in many cases contact was established through informal meetings, office visits or similar activities. For all the regional banks it was important to get the Stadshypotek employees out to the bank’s branches as quickly as possible. The practical approaches differed. Regional Bank Eastern Sweden interviewed Stadshypotek employees and assigned them positions at branches. In Stockholm, people
themselves had to apply for jobs at a branch. However, nobody had a problem getting a position in this way. The new jobs did not necessarily imply that the Stadshypotek employees had to work with mortgage loans. Some of them applied for positions as branch managers and got these rather prestigious positions in Handelsbanken. In such cases they often had previous experience from banking. Such appointments played an important symbolic role as a sign of the Stadshypotek employees’ integration. There were also individuals who got positions on a regional or central level.

The branches had the task of integrating the new employees. Again, it was left to each branch manager to decide on the procedure. While the smaller branches in most cases were not allocated any Stadshypotek employees there could be several at the bigger ones.

On the one hand we were supposed to turn them into ‘Handelsbankers’ and on the other hand we had to acquire the knowledge they had. They had a different kind of knowledge, namely from the real estate market. […] We rearranged parts of the office and placed ‘Stadshypotekers’ next to ‘Handelsbankers’ so they could help one another. The group helped each other in learning about Handelsbanken and in learning about Stadshypotek and all went very well.

Claes Ericson, Branch Manager Jönköping, interview 2002

Besides the integration of staff, the distribution of loans to the branches was an important technical question. As Handelsbanken’s branches are evaluated as profit centres it was not possible to force branches to take over a credit that lay within their geographical area. Problematic loans had to be negotiated between the branch and Stadshypotek centrally. Leif Mellqvist was in charge of this work and managed to get out most credits during 1998.

12.4 The IT system question

One issue that unexpectedly turned out to be one of the major questions during the integration of Stadshypotek was that of IT systems. Handelsbanken and Stadshypotek had been applying almost opposite approaches to the administration of mortgage loans, reflecting their respective self-understandings. To Handelsbanken it seemed obvious to let the branches set the interest rates. As the branches were supposed to have the best knowledge of the local market and moreover were evaluated based upon their profit, Handelsbanken’s mortgage subsidiary Handelsbanken Hypotek did not announce any interest rates centrally. While all other Swedish mortgage banks regularly announced their interest rates in the media, Handelsbanken customers could not turn to the newspaper to find out the current rates. They had to visit their branch and negotiate. On the contrary, Stadshypotek’s approach reflected the ambition to process loans without forcing the customers visit one of the few branches. Loans were standardised and Stadshypotek considered it a virtue that all customers were treated equally. Nobody had to fear that his or her neighbour had received
a more beneficial interest rate through negotiation. Moreover, Stadshypotek applied a system of so-called eternal promissory notes that allowed prolonging loans by mail. Handelsbanken’s loans usually expired after five years, meaning that the customer had to visit the bank and re-negotiate. Initially, it was Handelsbanken’s ambition to convert all Stadshypotek loans to its own system.

We were to take the customers from Stadshypotek and transfer them to Handelsbanken’s own mortgage system. It was a system the branches knew and it meant that we would not have to devote much time to training [the branches] in Stadshypotek’s system. […] The idea was to change the name of Handelsbanken Hypotek. It was not thoroughly considered, but we wanted to keep the Stadshypotek brand.

Michael Zell, Head of Regional Bank Central Sweden, former Managing Director of Stadshypotek, interview 2002

Although most Handelsbanken employees perceived it as an obvious choice to stick to their own system after the acquisition, this decision soon turned out to be problematic. Abandoning Stadshypotek’s system SOL and converting the loans to Handelsbanken’s system would mean that all Stadshypotek customers would have to visit Handelsbanken branches and sign a new contract. Given that Stadshypotek had much more mortgage customers than Handelsbanken, this would have implied an enormous amount of work.

I believe that as a buyer you think that you can incorporate [the acquired company] in your organisation, your way of thinking, your way of working. That’s it.

Björn Börjesson, Head of Central Credit Department, former Head of Regional Bank Southern Sweden, interview 2003

We travelled around and visited most of Stadshypotek’s branches and told them [about our plans], but I recognised that there was something that they did not buy into. As we proceeded, around spring 97, in May, June there were many people who came and said that this was going to be a terrible amount of work. We have one million loans in Stadshypotek. Shall we convert them all from Stadshypotek to Handelsbanken Hypotek? Is this a good solution? Moreover, we had quite complicated routines in Handelsbanken Hypotek.

Michael Zell, Head of Regional Bank Central Sweden, former Managing Director of Stadshypotek, interview 2002

The problems associated with converting the Stadshypotek loans were recognised simultaneously in different parts of the organisation. The system issue was discussed at local branches and regional head offices. The Head of Regional Bank Southern Sweden, Björn Börjesson, took the initiative to find out what the people involved actually thought about the system issue.

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*SOL stands for Stadshypotek on line. As a Swedish play on words, SOL-system can also mean solar system.*
I hired a Gallup-like firm to conduct a survey both among Stadshypotek’s customers and our own staff and it showed very clearly that we were wrong and should adopt the Stadshypotek model instead.

Björn Börjesson, Head of Central Credit Department, former Head of Regional Bank Southern Sweden, interview 2003

Börjesson was not alone in his doubts. Michael Zell as well as most of the heads of the other regional banks had started questioning whether it was wise to stick to the own system.

During the discussions I felt that I had colleagues who also had their doubts. […] Moreover we learned that […] Stadshypotek’s loans were renewed automatically. You just decided on a new interest rate and a period and that was very rational.

Björn Börjesson, Head of Central Credit Department, former Head of Regional Bank Southern Sweden, interview 2003

We started getting in people from Stadshypotek [to our branch] and they saw how we processed loans and compared it with their way of processing loans and then they started questioning why they should learn our system. I got this information from the Regional Manager of Stadshypotek in Jönköping and then I passed the question on to Harrison [the Head of my regional bank] and there were others who acted in a similar way in other regional banks.

Thommy Mossinger, Head of Regional Bank Southern Sweden, former Branch Manager Jönköping, interview 2002

The issue was discussed on a number of occasions during the meetings Michael Zell had with the heads of the regional banks. Finally, Michael Zell and Johan Widerberg who was Head of Regional Bank Western Sweden invited the group and Lars O Grönstedt, at that time Head of Central Development, to a special meeting in Stenungsund where they decided to opt for the Stadshypotek system.

We had the opportunity to choose a more rational system that was easier to handle and gave us better results […]. There was a consensus that we should, in fact, change direction. It was quite dramatic to turn by 180 degrees half a year after the acquisition. It was up to me to convince Arne Mårtensson that this was right so I called him and told him that I had something to discuss with him. […] I went to his home, it was in August, and presented the idea. Arne listened. He thought that it was somewhat strange to turn so sharply, but it shows the strength of both Arne and the bank as a whole that they recognised that we could not proceed as [we had originally planned].”

Michael Zell, Head of Regional Bank Central Sweden, former Managing Director of Stadshypotek, interview 2002

After the meeting with Michael Zell, Arne Mårtensson was at least in principle convinced that Handelsbanken should turn to Stadshypotek’s system. However, he wanted to confirm that Michael Zell’s proposal had support in the
Organisation. Mårtensson’s annual visits to the regional banks were on the agenda and they were a good opportunity to test the attitude in the bank. Northern Norrland was the destination of the first trip. In 1997, the system issue was a major topic during the visit.

The Stenungsund-meeting was Wednesday or Thursday and on Monday Arne Mårtensson visited our regional bank. Michael Zell had met with Arne on Sunday and told him about our ideas to change. As soon as Arne had landed he got into my car and said ‘Do you support this decision?’ ‘Yes, I do.’ Arne checked if we were behind it. It was up to us to take responsibility.

Stefan Nilsson, Managing Director of SPP, former Head of Regional Bank Northern Norrland, interview 2003

Michael Zell had recognised that Arne Mårtensson’s visit to Northern Norrland was highly important for solving the system question. It gave him an opportunity to show that the change of mind in the system issue was not a mere management idea, but actually had broad support throughout the branch organisation.

I understood that Arne would devote the whole visit to the system issue so I talked to the head of the regional bank and said that this was going to be the main issue. Please show Arne how this system works. So at every branch he visited, people showed him the Stadshypotek system and Arne was convinced personally. He asked the employees which system they wanted and they said they wanted Stadshypotek’s if it was possible.

Michael Zell, Head of Regional Bank Central Sweden, former Managing Director of Stadshypotek, interview 2002

The subsequent visit to another regional bank also supported the idea to switch to Stadshypotek’s system. The formal decision was made in September at a meeting of Handelsbanken’s management team. Now it was possible to announce the decision in public and start working with the practical implementation. The initial reaction, especially among former Stadshypotek employees was very positive.

It was a big decision and there was a big turnaround in attitude among [Stadshypotek’s] staff. Suddenly we recognised our value. We had knowledge that Handelsbanken did not have. […] Without thinking of prestige [Handelsbanken] said that we recognise that Stadshypotek has got the better system and we are going to use it.”

Eric Callans, Regional Bank Stockholm City, former regional manager at Stadshypotek, interview 2003

Handelsbanken’s willingness to change opinion thus contributed to the integration of Stadshypotek’s employees. However, the systems decision was not unproblematic from an ideological point of view. Handelsbanken had abandoned the central announcement of interest rates just a few years before in
order to strengthen decentralisation. This did not mean that there was no central influence on rates at all. The branches still had to pay an internal interest rate for the money they lent to the customer. However, they were free to decide what rate the customer would pay and there were no central announcements that suggested any level. If a branch manager believed it was worth sacrificing some element of margin in order to keep an important customer satisfied, the branch manager was free to do so. In addition to strengthening decentralisation, Handelsbanken had also hoped to be able to achieve higher margins using the new approach. However, the concept did not spread within the industry. Many customers obviously wanted to be able to compare mortgage rates by reading the newspaper. Handelsbanken found a compromise to adopt Stadshypotek’s system. Rates were announced centrally, but the branches had the right to offer their customers a discount. As calculations showed that Stadshypotek, using its centralised rates had achieved the same margins as Handelsbanken with its locally set ones, there was no resistance to the decision among Handelsbanken’s branches.

Our point of departure was to stick to our relatively new philosophy not to announce any interest rates. […] That was very natural for us and we hoped that the idea of centrally announced rates would fade out and be less focused. Now, we did not succeed and [centrally announced rates] are still in focus so it was not an easy decision.

Björn Börjesson, Head of Central Credit Department, former Head of Regional Bank Southern Sweden, interview 2003

The possibility to offer discounts helped the branches to retain at least part of their freedom and made it easier for them to accept the higher degree of central control.

If you talk to a customer you have to be able to move away from the standardised price. Since the interest rate is standardised the only way of doing this is by offering a discount. You need to have this possibility because you are looking at the customer’s entire situation. It is not only the loan you also have to see the whole picture of the customer’s needs, your offer and how much money you want to make.

Lotta Juul Martin-Löf, former Head of Administration at Stadshypotek, interview 2003

While the decision in favour of the Stadshypotek system was now made, practical arrangements around it still had to be made. The person in charge of the system issue was Lotta Juul Martin-Löf whom Michael Zell had recently recruited to Stadshypotek as Head of Administration. She had been with the Handelsbanken group for almost two decades and she had worked with Michael Zell at Svenska Finans. With her experience from the re-integration of Svenska Finans she came to be an ambassador for Handelsbanken’s way of thinking at a central level in Stadshypotek’s organisation. While most of
Stadshypotek’s staff was soon spread out to Handelsbanken’s branches and thus integrated with Handelsbanken employees there were few Handelsbanken employees at Stadshypotek centrally. It was now Lotta Juul Martin-Löf’s task to adjust the SOL-system to Handelsbanken’s needs. Both the system and people’s way of thinking at Stadshypotek still reflected a high degree of centralisation.

> Computer systems are [almost always] coined by the culture of the company where they operate. [...] Some ‘Stadshypotekers’ thought that now that we had understood the splendour of their system we would soon understand the splendour of their centralised way of working also. So if they just waited for a while they would not have to do those things they thought would destroy their philosophical world.

Lotta Juul Martin-Löf, former Head of Administration at Stadshypotek, interview 2003

For Handelsbanken’s self-understanding the organisational centrality of branches implied that each branch should be allocated the costs and revenues of its business in order to calculate a fair profit or loss. Moreover, branches should have as much autonomy as possible to influence their costs and revenues, by setting prices and interest rates, for instance. This diverged from Stadshypotek’s approach where interest rates were announced centrally and the lending system just generated a rough estimate of the branches’ margins. Working with estimates however was not acceptable to the branches, at least not in the long run. It took about half a year to solve the margin issue and all in all, the bank needed about two years to adjust the system, make it stable for an increased number of users and enable it to provide the branches with proper feedback. In line with Handelsbanken’s decentralised philosophy much of the training work was left to the regional banks and the local offices where former Stadshypotek employees had a crucial role.

The nice thing was that each regional bank had to make sure that the branches were trained. They were not really, but [the regional banks] took the decisions themselves as we left it to them. Some branches managed to do it in a good way and then people looked at them and asked how they had done it. Then they learned from them. That was a much better solution because if we had 500 branches the idea was that at least 400 would manage it and only 100 would fail.

Lotta Juul Martin-Löf, former Head of Administration at Stadshypotek, interview 2003

Finally, Handelsbanken had managed to solve the system issue in a way that was congruent with the bank’s self-understanding. Due to the late decision in favour of the Stadshypotek system, which implied a radical turn, there was a need to make various changes in order to make it fit into Handelsbanken’s decentralised self-understanding. Decentralisation was also reflected in the decision making process itself, where a problem occurred on the operating level in branches and the heads of the regional banks took the initiative to
implement a change. Arne Mårtensson supported the idea as he found that it was well-grounded in the needs and desires of the local branches.

12.5 Finalising the Stadshypotek acquisition

With the IT system issue the major obstacle towards the integration of Stadshypotek was solved. Meanwhile most former Stadshypotek employees were working at Handelsbanken branches and mostly they were well integrated. Relatively few, primarily high ranking managers, left the group. Heading a Stadshypotek region had traditionally been a prestigious position in the respective regional community. Now, the Stadshypotek managers had to reconcile themselves with the idea of working in an organisation that was much broader in scope and where the local branch with its manager was claimed to be the most important unit. Some managers succeeded in making a successful career in Handelsbanken and their stories are told as examples of the successful integration. However, there are also stories about people who left to continue their careers in other organisation or, what is more tragic, stayed at Handelsbanken and failed to succeed there.

Some people were given a kind of 'retirement job'. They went on working for a few years and then they retired. Some were more successful than others. It was hard for them to accept [their situation]. One colleague in Skogstad was very unlucky. Right after the acquisition the [Handelsbanken] branch manager job in Skogstad became vacant. He thought it was crystal clear that he would be appointed, but he was not. He started working at a Torgstad branch and started commuting. Others just waited for their retirement.

Magnus Siösteen, Regional Bank Central Sweden, former regional manager at Stadshypotek, interview 2003

When Handelsbanken employees talk about the success or failure of people who come to the bank through acquisitions, the general attitude is that those who want to work for the bank have to accept its way of doing business. Otherwise, it is better for them to leave. Most lower-level Stadshypotek employees have meanwhile acclimatised themselves to Handelsbanken. Several of those I met, argued that the decision in favour of Stadshypotek’s mortgage system was a key event in making the post-merger integration succeed. Handelsbanken’s shift to Stadshypotek’s system was interpreted as the recognition of Stadshypotek’s competence and a sign that the former Stadshypotek employees could make a valuable contribution to their new organisation. Nevertheless, a few things were still to be done. While Handelsbanken had made the acquisition mainly in order to strengthen its mortgage business and to get access to Stadshypotek’s customers, the real estate

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86 Places anonymised.
ownership was divested by distributing it to Handelsbanken’s shareholders. Stadshypotek Bank remained in the Handelsbanken group 87.

A few years after the Stadshypotek deal, the acquisition is regarded as a big success by most people at Handelsbanken. The branches in particular are highly satisfied. Stadshypotek has given them a substantially increased share of the mortgage market. Moreover, the branches have also been able to cross-sell other banking products to Stadshypotek customers, winning them as full-scale customers to Handelsbanken. Some people I met at Handelsbanken went so far as to describe the Stadshypotek acquisition as a turning point in the bank’s history, finally giving Handelsbanken a strong position in the private market. The successful cross-selling made Handelsbanken eager to try to replicate the success. Thus, the cross-selling potential became one of the major arguments for the acquisition of SPP a few years later. Today, the mortgage section of Stadshypotek is legally a subsidiary of Handelsbanken, while most of its business is done at Handelsbanken’s branches. Stadshypotek is Handelsbanken’s brand for mortgage loans and all Handelsbanken Hypotek loans have meanwhile been converted. The central organisation of Stadshypotek has shrunk to a group of people who work mainly with financial and credit controlling.

12.6 Handelsbanken’s self-understanding and the Stadshypotek deal

In the previous chapter we saw that Handelsbanken’s self-understanding was initially challenged but not finally changed by the introduction of Internet banking and the acquisition of Stadshypotek Bank. Handelsbanken’s more general, institutionalised self-understanding gave rise to situational beliefs that allowed them to make sense of strategic issues. We now turn to some low-abstract interpretations of the Stadshypotek case to see what dynamics of self-understanding and strategy were created through the acquisition. We will see, whether Handelsbanken’s self-understanding was equally robust in the Stadshypotek case as it was in the Internet case.

12.6.1 Does the acquisition of Stadshypotek result in any tensions regarding Handelsbanken’s self-understanding at all?

Although mergers and acquisitions are a delicate issue with regard to organisational self-understanding (cf. Albert and Whetten 1985), the acquisition of Stadshypotek did not imply any obvious conflicts with Handelsbanken’s self-understanding at all. From a business point of view, the mortgage bank fit well into Handelsbanken. Rather then engaging in diversification, Handelsbanken acquired more volume in an existing business. Considering Handelsbanken’s identity claim of being a universal bank, i.e. 87 The details about the Stadshypotek Bank issue are discussed in the previous chapter.
offering products for private and corporate customers as well as investment banking, trading and life insurances, the Stadshypotek deal made Handelsbanken even more universal. The acquisition strengthened Handelsbanken’s relatively weak position in the mortgage market and brought a large number of new private customers as well as a strong brand to the bank. With regard to the integration of employees, the acquisition was somewhat more challenging. However, most Stadshypotek employees were soon assimilated into Handelsbanken’s culture by their new colleagues.

The biggest challenge, however, was the practical work of integrating the working procedures of the acquired company. Handelsbanken and Stadshypotek had been offering more or less similar products in the same market, but their ways of doing this had been almost diametrically opposed. While Handelsbanken’s organisation was built around physical branches, which owned the customer contact and set the conditions of a mortgage loan individually, Stadshypotek had recently developed into a centralised organisation, offering standardised contracts with standardised rates. Stadshypotek saw it as a virtue that the customer did not have to visit a branch personally.

The aspect of Handelsbanken’s self-understanding that was salient in the system issue was once again the claim of the branch being the bank. Handelsbanken had relatively recently abandoned centralised announced rates and fully delegated interest rate setting to the branches as one step in its continued decentralisation efforts. Individually set rates at the branches were a situational belief derived from the bank’s self-understanding. Applied to the specific issue of mortgage rate announcement, Handelsbanken’s self-understanding as a decentralised bank had implied that the branches should announce the rates themselves.

Table 12-1. Tensions regarding self-understanding in the Stadshypotek case.

<table>
<thead>
<tr>
<th>Established self-understanding</th>
<th>The branch is the bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic issue</td>
<td>Stadshypotek’s mortgage system is obviously better than Handelsbanken’s and seems to be the only feasible way to handle a large number of loans.</td>
</tr>
<tr>
<td>Tensions regarding self-</td>
<td>Stadshypotek’s mortgage system implies a recentralisation of authority away from the branch</td>
</tr>
<tr>
<td>understanding</td>
<td></td>
</tr>
<tr>
<td>Perceived seriousness of tensions</td>
<td>Moderate. Affects one area of the branches’ autonomy, but does not question the branches’ autonomy in general</td>
</tr>
<tr>
<td>Issue interpretation</td>
<td>Threat (reduces freedom of action for branches) Opportunity (helps branches to save time and work more efficiently)</td>
</tr>
<tr>
<td>Solutions</td>
<td>Adopt Stadshypotek’s mortgage system</td>
</tr>
</tbody>
</table>

Now, Stadshypotek’s mortgage system stood in apparent conflict with Handelsbanken’s self-understanding as a decentralised bank. Once again
introducing centralised rates would practically imply a recentralisation and a step backwards in the efforts to transfer more authority to the branches. The bank found itself facing the dilemma of either questioning its self-understanding in this point or facing an unmanageable amount of manual loan processing. The decentralised approach had worked well in relatively small-scale production while it was not suitable for mass production. Against this background, Handelsbanken’s branches were willing to sacrifice one piece of autonomy, namely setting mortgage rates without central interference. What made them willing to take this step was also the continued possibilities to customise rates by offering discounts, as well as the finding that Handelsbanken’s decentralised rates had not resulted in the desired increase in margins. It was also clear to the branches that the re-introduction of centrally announced rates was an act of pragmatism in a specific situation and did not question their autonomy as such. Against this background, a new situational belief could be attached to the IT system issue, namely that turning to Stadshypotek’s system would not substantially violate Handelsbanken’s self-understanding. Even though the bank had to take one step backwards in terms of decentralisation it managed to assimilate the new mortgage system into its self-understanding.

12.6.2 Self-understanding offers content guidance and procedural guidance

Once again, Handelsbanken’s self-understanding could thus offer guidance to strategic action. Even as tensions around the system issue emerged, Handelsbanken finally found a way to resolve the tensions without changing its self-understanding. However, the issues resulting in tensions regarding self-understanding are not the only interesting factors to examine in Handelsbanken’s strategy process. What is particularly striking in the Stadshypotek case is that many potential questions relating to Stadshypotek’s integration are never controversially discussed. Based on Handelsbanken’s self-understanding, the answers are more or less taken for granted and tensions never arise. This is the case both concerning the outcomes of the strategy process and the procedures relating to how strategy is made.

Content guidance

There are relatively few examples of strategic planning in the Stadshypotek case. There were of course calculations on the expected profitability of the deal and estimates as to the amount of time Handelsbanken would need to catch up with the volume loss that was likely to occur after the acquisition. When it comes to the way of integrating Stadshypotek or the desired outcome of the integration process, relatively little was planned in advance. It was understood that the acquisition would have certain characteristics. Against the background of Handelsbanken’s self-understanding many things that could have been the subject for discussion were taken for granted by decision-makers. In particular,
the beginning of the integration process was driven by the bank’s self-understanding. Self-understanding offered guidance for the outcome of strategy making or what we might call *content guidance*.

As a comparison of a possible Skandia-Stadshypotek merger with the actual Handelsbanken-Stadshypotek deal shows, the outcome of the buyer more or less swallowing the entire acquisition target was not self-evident. In a deal with Skandia, Stadshypotek might have remained relatively intact as an organisation. For Handelsbanken however, it was never an option to have two parallel structures selling mortgage loans. An additional structure bypassing the branches was perceived as incompatible with Handelsbanken’s identity claim that the branch is the bank. Thus the situational belief regarding the integration procedure was that Stadshypotek’s operations should be incorporated with the branches. Stadshypotek’s staff was to be distributed to Handelsbanken’s branches as quickly as possible.

Initially, also the answer to the IT-question had a taken-for-granted answer based on Handelsbanken’s self-understanding. Handelsbanken Hypotek’s system reflected the autonomy of the local branches by giving them the possibility to set interest rates individually. The identity claim of being a decentralised organisation was interpreted in the sense that as many decisions as possible should be left to the local branches. However, the course of action suggested by Handelsbanken’s self-understanding met practical problems here. As the conversion of loans to the Handelsbanken system proved to be infeasible, Handelsbanken had to rethink whether decentralisation and the autonomy of branches necessarily implied locally set rates. It was only after the inferiority of Handelsbanken Hypotek’s loan processing routines had been recognised that the situational belief was changed and the SOL system was introduced under the precondition that branches could still customise rates by offering discounts. The identity claim could be upheld, but its practical implications for Handelsbanken’s strategy were re-interpreted.

The examples from the Stadshypotek deal show that organisational self-understanding offers content guidance by giving rise to situational beliefs that suggest specific strategic actions. Strategic choice was simplified as several choices were more or less prescribed by the understanding Handelsbanken had of its own identity. Detailed plans for strategic actions were not necessary. Instead the implementation of the Stadshypotek acquisition could be left to the regional managers without further central directives. The strategic activities performed by these actors varied, but still followed a similar pattern departing from the assumption that the identity claim ‘the branch is the bank’ should guide the work. Although there were for instance different modes of finding new workplaces for the former Stadshypotek employees and the regional banks varied in how quickly they approached Stadshypotek managers, the overall pattern was that Stadshypotek’s organisation should be dismantled without delay and that as many of its employees as possible should be placed in Handelsbanken’s branch organisation.
Organisational self-understanding and the strategy process

Procedural guidance
Handelsbanken’s self-understanding did not only offer guidance with regard to the content of strategy. It also set a framework for the practices of strategy making, for instance what arenas were used, how initiatives were taken by strategic actors, and what practices of strategising were considered as legitimate. In this sense Handelsbanken’s self-understanding offered *procedural guidance*.

For a bank, claiming that the centrality of branches is constitutive of its identity, the question of how branches are involved in strategy making is crucial. When it comes to the decision of placing a bid for Stadshypotek, the branches were not involved directly; however the representatives of the branch organisation on the management team, i.e. the heads of the regional banks played a central role. A prerequisite for going ahead with the bid on Stadshypotek was that the regional banks stood behind the idea and were willing to ‘consume’ the deal. Once they had expressed their commitment, there was however no centrally decided strategy for integrating Stadshypotek’s offices. The practical work was left to the regional banks and they found different ways of approaching the problem.

Handelsbanken’s identity claim of being a decentralised organisation becomes manifest in a number of practices like the monthly MD-info meetings, the monthly notes written by the branches and the annual visits by the managing director to the regional banks and the branches. These practices were also important in the acquisition of Stadshypotek. The MD-info meetings and the monthly lunches were arenas where the question of buying Stadshypotek or not was discussed. The same was later the case for issues concerning the practical integration. Branch managers could engage in the process by writing about Stadshypotek in their monthly notes to the regional bank. The monthly notes were at the same time a measure of the branches’ acceptance of the changes occurring. However, the existing practices were not sufficient for handling the entire integration process. Self-understanding also offered procedural guidance beyond Handelsbanken’s set of formal practices. Michael Zell created an additional practice for managing the integration process, namely his monthly meetings with the heads of the regional banks which were held in conjunction with the MD-info meetings. Interestingly, neither the managing director, nor the representatives of central units were part of this group. Handelsbanken’s self-understanding, emphasizing the branch operations and limiting head office influence, was thus reflected in the structure of the group.

Overall, the phase of the acquisition process in which the corporate headquarters played the most important role was the deal as such. Once Stadshypotek had been acquired, the process was taken over by the regional banks along with Michael Zell who experienced that the regional banks took over more and more of Stadshypotek faster than expected.

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88 With a few exceptions, e.g. the participation of Lars O Grönstedt, Head of Central Development at the Stenungsund meeting.
During the integration process, the regional heads played a proactive role, having a significant impact on how the deal was handled. Their role was thus not the execution of any centrally agreed upon plan. This became particularly clear in the system issue where the initiative for changing loan systems emerged out of the meetings Michael Zell had with the heads of the regional banks. It took a few meetings before consensus was reached that change in the system issue was inevitable. With this consensus the decision was practically made without the involvement of the managing director. Arne Mårtensson’s approval was required, but no attempts were made to anchor the decision with him beforehand. As representatives of the bank’s core, the heads of the regional banks felt strong enough to go forward on their own. From Handelsbanken’s self-understanding, the participants of the Stenungsund meeting derived the situational belief that they could make a decision on the system question. In order to finally get Mårtensson’s approval, it was however crucial to show that the decision was well anchored in the branch organisation. It was important to show that there was consensus within the group of regional banks and that the decision was supported by the branches that had to live with its operational consequences. Michael Zell therefore made some preparations for Mårtensson’s visit to Northern Norrland, making sure that the managing director would get a positive picture of the SOL-system during his branch visits.

Handelsbanken’s self-understanding as a decentralised organisation, built up around the branch operations legitimised this course of action. Thus the events around the integration of Stadshypotek mirror the centrality of the regional banks and the branches to Handelsbanken’s self-understanding. Both in terms of existing formal practices as well as in the creation of new practices the situational belief was that the branch operations had to be involved. The bank’s self-understanding did not permit a procedural approach that implied top-down decisions without support from the operational level.

12.6.3 The dynamics of strategy and self-understanding in the Stadshypotek case

In my research on the Stadshypotek acquisition, I did not come across any explicit use of history. With respect to Handelsbanken’s historically developed self-understanding as a decentralised bank, history was in the background as in the Internet case. Since this issue has been discussed in the previous chapter, I will now proceed to attempt to visualise the dynamics of strategy and self-understanding in the Stadshypotek case.

In order to visualise content guidance as well as procedural guidance, I use two figures, the first (A) referring to the content dimension and the second (B)
Organisational self-understanding and the strategy process

referring to the procedural dimension of strategy making. The figures start before the acquisition of Stadshypotek by Handelsbanken. In the beginning Handelsbanken’s self-understanding offers content guidance as well as procedural guidance to the strategy process (A1&B1). The self-understanding as a decentralised bank serves as a context for strategic action. For instance, Handelsbanken does not use any centrally announced mortgage rates (A1). At the same time this self-understanding is also mirrored in the bank’s procedures for strategy making, for example the MD-info meetings which are accompanied by a lunch with the managing director and the representatives of the branch operations (B1). As Handelsbanken acquires Stadshypotek (A2&B2), the banks self-understanding gives rise to situational beliefs that again guide content and procedures. Concerning the system question, it is initially taken for granted that Handelsbanken should stick to not having centrally announced rates (A2). As regards procedures a new forum for managing the integration work that mirrors the decentralised self-understanding of the bank is introduced, namely the meetings between Michael Zell and the heads of the regional banks (B2). Subsequently, as Handelsbanken works with the two mortgage systems, the IT system issue emerges as an issue of increasing urgency (B3). Here, tensions regarding Handelsbanken’s self-understanding arise as a choice of the SOL system is considered as a step back towards centralisation.

Self-understanding (institutional belief) as a context for strategic action

It is discussable whether these two dimensions should be treated separately. After all, procedures have outcomes in terms of content and the introduction of a new procedure could itself be regarded as influencing the direction of strategic action. My intention is thus not to conjure up the traditional process-content dichotomy, but to show that there are content-wise and procedural aspects to strategy processes. These are interrelated; however it would be messy to mix them in one and the same figure. Showing the two figures above each other, assuming a common timeline, emphasises that the two have to be considered together.

243
Figure 12-1. The dynamics of strategy and self-understanding in the Stadshypotek case.

There is still no decision to abandon the plan of keeping the Handelsbanken Hypotek system. As the perceived urgency of the system issue rises, Handelsbanken assimilates centrally announced rates to its self-understanding by a compromise. The situational belief is now that centrally announced rates are congruent with decentralisation (A4). This change in strategic action is brought about by a decision made by the heads of the regional bank. Handelsbanken’s self-understanding as a decentralised bank legitimises that the regional heads create a procedure for making this decision (B4). Later, the integration activities are finally concluded with Handelsbanken going back to centrally announced rates (A5). The meetings between Michael Zell and the heads of the regional banks can be discontinued.

12.6.4 Managing self-understanding in the Stadshypotek case
As in the Internet case, there are no attempts to manage Handelsbanken’s self-understanding as such. The view that Handelsbanken is a decentralised bank with a high degree of autonomy for the branches is not disputed and neither is there anyone who wants to change it. What happens rather is management activity to find a mode for using the SOL-system in a way that is legitimate in a decentralised bank with autonomous branches. The idea of announcing interest rates centrally is modified and reinterpreted until it can be assimilated into Handelsbanken’s self-understanding.

12.6.5 Strategy making and self-understanding
As in the Internet case, change happens on the level of situational beliefs. Apparent tensions between strategic issues and Handelsbanken’s self-understanding are resolved by finding solutions that can be assimilated into
Handelsbanken’s view of itself as being a decentralised bank. These solutions are perceived as legitimate with regard to the self-understanding and new situational beliefs allow for change, albeit not radical change, in strategy. However, the guidance provided by self-understanding does not only become apparent in situations of tensions. Self-understanding rules out many strategic options that might result in tensions from the beginning. Only certain options are regarded as legitimate. Such guidance also occurs with regard to the procedures of strategy making, where the choice of legitimate procedures mirrors the bank’s self-understanding.
13 Going abroad with universal banking – self-understanding during an internationalisation process

The internationalisation of Handelsbanken dates back to the early history of the bank. However, the character of the bank’s international ambitions has changed dramatically over the years. From being a domestically oriented Swedish bank upholding a network of foreign contacts to serve its Swedish customers, Handelsbanken is now running universal banking operations in five countries, namely Sweden, Norway, Finland, Denmark and Great Britain.

From a self-understanding point of view, the internationalisation case is interesting in several respects. First, one may ask what Handelsbanken’s self-understanding implies for the bank’s way of internationalising its operations. Secondly, it is interesting to see what happens to the bank’s self-understanding during the process. Does the internationalisation of activities also mean that the bank sees itself as an international rather than a domestic bank? Finally, it is interesting to see whether Handelsbanken’s self-understanding is the same abroad as in Sweden. We know from previous research [Salzer, 1994 #191] that organisations which strive for a common international self-understanding do not fully achieve this.

13.1 The early internationalisation

Although reluctance concerning André Oscar Wallenberg’s interest in the international financial markets had been one reason for the dissidents from Stockholms Enskilda Bank to start-up Stockholms Handelsbank, the bank soon went international. Initially, this was primarily done through contacts with foreign banks abroad. Through its network, Handelsbanken could provide internationally operating customers with service outside Sweden. Handelsbanken’s foreign activities developed in parallel with the international business the Swedish industry was involved in. After a decline during the Great Depression and the Second World War, an upswing followed during the post-war period (Marquardt 1994)90. Among the Swedish banks, Handelsbanken, Stockholms Enskilda Bank and the Gothenburg-based Skandinaviska Banken were especially active internationally. All of them had worked through international networks for a long time, but it was Handelsbanken that was the first to open a representative office abroad. The office was established in São Paolo in 1961, a city where traditionally many Swedish companies had

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90 Rolf Marquardt’s doctoral dissertation offers a comprehensive overview of the internationalisation of Swedish banks, in particular from the 1960s to the early 1990s.
production facilities. Additional representative offices followed in New York, Paris and Beirut.

Whereas the first foreign units were representative offices Handelsbanken ran on its own, soon a new recipe for foreign establishments emerged. Handelsbanken as well as its major competitors started engaging in consortia of Nordic banks, co-owning banks located in international financial centres. Handelsbanken’s partners were Kansallis from Finland, Köpenhamns Handelsbank from Denmark and Den Norske Kreditbank from Norway. The idea was to be able to gain experience and volume in an international market with limited individual risk-taking. The major drawback of this arrangement was, however, that the different interests were difficult to reconcile. For Handelsbanken, the consortia were merely a complement to the Swedish branches, aiming at offering better service to Swedish customers with foreign connections. In the context of regulated banking markets, there were limited opportunities for international activities.

13.2 Setting up universal banking in Scandinavia

In the 1980s, financial markets became more and more liberalised and the Nordic banks saw opportunities to become more active internationally. While maintaining its consortia, S-E-Banken started a new venture in 1984 by establishing a group called Scandinavian Banking Partners with banks in Norway, Denmark and Finland. The purpose of this arrangement went far beyond that of the consortia. The agreement did not only aim at cooperation in markets outside Scandinavia, the banks actually entered into each others’ domestic markets and established cross holdings of shares, creating a pan-Scandinavian constellation. The four partners were Bergen Bank from Norway, Union Bank of Finland and Danish Privatbanken. This meant that S-E-Banken more or less established itself in the other Scandinavian markets, although not under its own brand, but through ownership in banks in these countries. Handelsbanken’s leadership felt a need to catch up with the competitors.

The internationalisation venture started very ad hoc by sending Björn-Åke Wilsenius […] to Oslo to open a representative office. It was very much a counter-move to SEB buying themselves in. They established Scandinavian Banking Partners through cross ownership and we were thinking about what we should do. We had previous cooperation in the form of banking consortia outside the Nordic countries […] and we were not very happy with their development. So we were reluctant to acquire a stake in a local bank, therefore we started by setting up a representative office in Oslo.

Lars O Grönstedt, Managing Director, interview 2002

At that time the Scandinavian banking market was just about to be liberalised and the national markets opened up for cross-border acquisitions. Banks from continental Europe were about to establish themselves in the Nordic markets.
While Norway had opened up its market for foreign banks there was a demand for reciprocity from the Norwegian authorities and neither S-E-Banken nor Handelsbanken could enter before Sweden had also liberalised its market. This happened in 1985. Originally, the ambition was primarily to use the office to serve customers with cross border business between Sweden and Norway. However, Björn-Åke Wilsenius who headed the Norwegian operations, believed that the Handelsbanken concept was viable for domestic banking operations. In the late 1980s Norway was suffering from a financial crisis, bringing domestic banks into trouble and opening up opportunities for a foreign newcomer like Handelsbanken.

[Against the background of the financial crisis] Björn-Åke discovered that there was an opportunity to do ordinary Norwegian business in a Norwegian branch and he convinced Tom [Hedelius] who was Managing Director at that time that he should have a try. […] It was not a staff unit product that we have identified something and now we are going to do this and that and than you take the plan, give it to someone and say ‘implement it’. Here is someone who has been in the place, who has an idea and who believes in it so much that he is willing to risk his own career.

Lars O Grönstedt, Managing Director, interview 2002

Handelsbanken’s representative office in Oslo was converted into a wholly owned subsidiary in 1988 and in 1989, the bank started offering banking products in the domestic market, beginning with corporate customers. Soon after this, in 1990, the bank acquired Oslo Handelsbank, a small bank, with just one single branch in the Norwegian capital. However, with the acquisition Handelsbanken also acquired a stock of private customers. The deal was hence the true starting point for universal banking abroad. At this time, Handelsbanken saw potential for growth not only in Norway, but also in the other neighbouring Nordic countries. In 1990 and 1991 Handelsbanken converted the representative offices in Helsinki and Copenhagen into subsidiaries. The idea was to expand in both countries, initially with corporate banking and later also with private customers.

A basic assumption behind Handelsbanken’s internationalisation ambitions was that the Handelsbanken concept relying on decentralisation and strong local branches would be successful outside Sweden as well. Although the idea of decentralisation in itself implied that operations could be adapted to the local market, there were no intentions to compromise the basic Handelsbanken concept in order to adapt to different national cultures. The ideas underlying Handelsbanken were assumed to have universal validity, offering competitive advantage in any country.

When it comes to adapting culture to different countries I can say from my own practical experience that I don’t believe in it […] My perspective is [that culture should be adapted] the level of risk in the whole operations increases radically. I see it like this: we at Handelsbanken have a culture, a philosophy and a soul that has come from a history and a tradition we can never be free from […] It has
Organisational self-understanding and the strategy process

proved that our way of looking at the customer and delivering banking services is appreciated by many people regardless of cultural background [...]. This makes me more and more convinced that the values driving Handelsbanken are universal at least in Western culture and therefore we shall not compromise them.

Pär Boman, Head of Handelsbanken Markets, former Head of Regional Bank
Denmark, interview 2003

In line with the development to expand in the neighbouring countries, Handelsbanken also converted its Central International Division to a regional bank, called Svenska Handelsbanken International (SHI). Magnus Uggla, who had been in charge of Handelsbanken’s New York branch, was appointed head of the new regional bank. The unit was not only responsible for the Scandinavian expansion. It also controlled Handelsbanken’s existing foreign operations, except for London branch and the subsidiary bank in London. There were now two regional banks mainly outside Sweden: SHI had offices in international financial centres like New York and Frankfurt as well as in a number of other markets that were interesting for the bank’s Swedish customers. The British operations were called Regional Bank United Kingdom and comprised the British operations as well as the subsidiary banks of the London subsidiary in Paris, Madrid and Tokyo. However, at that time all operations outside Scandinavia were limited to particular niches and there were no ambitions to start universal banking operations in these places. Growth in the Nordic area was prioritised.

[We will see continued expansion of the bank’s operations outside Sweden], but I think that the largest expansion during the 90s will be close to home, mainly in the Nordic area. And to a certain extent in Europe. I have said before that we should be the leader in Sweden, large in the Nordic area and have a presence in the major financial centres in the rest of the world.’

Arne Mårtensson, Managing Director, interview in Remissan 4/90, p.4

Handelsbanken’s growth in the Nordic countries continued. In 1994 there was another re-organisation of the foreign operations. Regional Bank United Kingdom was dissolved and the operations were divided between SHI and the newly formed Handelsbanken Markets that took over all currencies and securities trading. During the first half of the 1990s, Sweden was hit by the severest financial crisis since the Great Depression and Handelsbanken’s Swedish competitors were not able to continue with their internationalisation plans. S-E-Banken’s Scandinavian Banking Partners alliance was dismantled and Nordbanken scaled down its ambitions to become an everyday bank for

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91 The two regional banks outside Sweden actually overlapped. Regional Bank United Kingdom was basically built on Handelsbanken’s London subsidiary Svenska International Ltd, with operations in Britain, France, Spain and Japan. The name of the other regional bank was Svenska Handelsbanken International, which was in charge of international operations elsewhere. Both regional banks had operations in Tokyo.
Swedish customers. Both were occupied with reconstructing their domestic operation and recovering from their tremendous credit losses. Handelsbanken went through the crisis with minor losses and could subsequently increase its branch network outside Sweden. In 1991, Helsinki branch was opened. Originally, only corporate customers were served, but in 1994 business was extended to address private customers also. Meanwhile, the bank had continued to grow in Norway by acquiring Stavanger Bank with one branch and about 40 employees in 1991. However, growth in Norway was mainly achieved by organic expansion. The bank set up new branches both in cities where it was already represented and in places where it did not have previous operations.

The idea, [from the beginning, was to expand through a combination of organic growth and minor acquisitions]. And we were also very careful from the beginning to create profitability early. That was a very crucial part of the strategy along with the question of how quickly we should grow. There were people [outside the bank] who said, ‘put 100 million on the table and make an effort that you really get started.’ But then you know, you can’t be sure to ever will become profitable and you may make losses year, after year, after year.

Magnus Uggla, Head of Stockholm City Regional Bank, former Head of Svenska Handelsbanken International, interview 2003

This approach was facilitated by the fact that there were interesting targets for acquisitions available at least in Norway. Handelsbanken also identified an interesting object to buy in Finland, namely the healthy parts of Skopbank. Like Sweden, Finland had its financial crisis in the early 1990s. Skopbank, the central bank of the Finish savings banks was one of the victims. A portfolio of healthy loans was for sale and Handelsbanken acquired it in 1995. Although there were no branches linked to the deal, Handelsbanken used the new customers as a basis to extend the Finish branch network. As confidence in the Finnish banks had suffered due to the crisis and only few actors had survived, this was a good opportunity for Handelsbanken to present itself as an alternative.

Denmark was the last of the Nordic markets in which Handelsbanken established universal banking operations. The Copenhagen branch was opened in 1992 and growth started slowly. Initially, the branch only served corporate customers. Private customers were not added until 1996. In contrast to Norway and Finland there were limited opportunities to complement organic growth with acquisitions. Although the Danish market was more fragmented than those in the neighbouring countries, the smaller, local banks were not for sale. As branch networks in Scandinavia grew, Handelsbanken Liv also established operations in the neighbouring markets. By 1997 there were 15 branches in Norway, 12 in Finland and 3 in Denmark. The operations in the three countries were now considered big enough to be regional banks in their own right. SHI was dissolved and the remainder of the foreign operations was transferred to Handelsbanken Markets.
Handelsbanken continued its activity in the acquisition arena. Not all initiatives were successful however. An announced bid for Romsdals Fellesbank, a local Norwegian bank in 1994, failed due to lack of support from the bank’s minority owners. A bid for Fokus Bank, considered in 1998, was particularly interesting from a strategic point of view as the target was the third largest Norwegian bank. Such an acquisition could hardly have been labelled as a mere complementary acquisition since it would have more than tripled the number of Handelsbanken branches in Norway. However, Handelsbanken finally lost the bidding for Fokus. The following year, Handelsbanken appeared as a potential buyer in an even larger deal. Kreditkassen, the second largest Norwegian bank was for sale and MeritaNordbanken was interested in buying it. However, it was not yet clear at this point in time if the Norwegian government would accept foreign ownership in such a large bank. Arne Mårtensson announced that Handelsbanken might bid for Kreditkassen if the government gave its approval. The approval finally came, but Handelsbanken never engaged in the bidding against MeritaNordbanken which finally bought Kreditkassen.

Acquisitions of Fokus or Kreditkassen would have implied a shift in Handelsbanken’s growth strategy from organic growth with complementary acquisitions to putting stronger emphasis on acquisitions. However, they did not become reality and Handelsbanken continued along its established path. After some years of organic development, Handelsbanken bought Bergens bank in 1999, adding six branches to the existing 17. Two years later, Handelsbanken finally found an acquisition target in Denmark, namely Midtbank, which had the focus of its operations in Jutland. It was fairly large for a regionally operating bank, but substantially smaller than Fokus or Kreditkassen. The Midtbank deal was Handelsbanken’s largest deal outside Sweden at the time. With its 23 branches, compared to Handelsbanken’s seven Danish branches, Midtbank’s operations were clearly bigger in terms of business volume and employees than those of Handelsbanken. In one single step Regional Bank Denmark caught up with its peers in Norway and Finland, at least in terms of the number of branches. The acquisition was made on the initiative of the regional bank.

That’s the way it always works in Handelsbanken. Stadshypotek is an exception, because all the regional heads in Sweden had to stand behind the deal. Normally in Handelsbanken it’s always the head of the regional bank who has to commit himself. [...] If you want to make an acquisition in Denmark it’s the boss in Denmark who has to prepare the deal and convince the bank’s management team. Committing oneself implies that it’s like a group of friends playing football. The one who scores an own goal is teased. That is how it works.

Kjell Ormegard, Head of Securities, interview 2003

Ormegard uses the Swedish expression *panta sig*, which implies personally guaranteeing something.
In the Midtbank case it was Pär Boman who was head of Regional Bank Denmark. He had been scanning the market for some time, looking for an opportunity to complement organic growth with an acquisition.

I felt quite clearly when I went to Denmark that we had too few branches in relation to the cost that was necessary to run the infrastructure. We have a certain amount of costs day one no matter if we have a customer or not. This means that we need a few more branches. Therefore, I felt it was very natural after a while to open new branches and to start the process in a calm manner. But I also felt that my task was not to miss an opportunity to buy a minor branch network and to go a step faster that way. This does not mean there was a road map or that my boss told me I had to make an acquisition within two years.

Pär Boman, Head of Handelsbanken Markets, former Head of Regional Bank Denmark, interview 2003

In parallel with the development in Denmark growth in Finland also speeded up when twelve branches were added to the existing 16 in 2000 and 2001. All these were new establishments. After a number of mergers in the Finnish banking industry, staff from the merged banks approached Handelsbanken and proposed opening Handelsbanken branches in the cities where they had worked. This made rapid expansion possible. However, a number of the new branches did not develop in a satisfactory way. Regional Bank Finland had profitability problems and did not undertake any new start-ups in 2002 to consolidate operations. With the expansion in Finland and the Midtbank acquisition, Handelsbanken had reached a size of about 30 branches in all its new markets. Now the bank took a step outside Scandinavia and made an attempt to implement its universal banking concept in Great Britain.

13.3 Universal Banking in Great Britain

When Handelsbanken established universal banking operations in the Nordic countries, there was not yet any talk of plans to carry the concept further. The extension of operations outside Scandinavia still aimed at serving customers who had relations with Scandinavia. Handelsbanken’s operations in Great Britain had had such a character for a long time. On the one hand London was an international financial centre, making it an important market place to be in. On the other hand there were many Swedish companies doing business in Great Britain or vice versa. The presence of Handelsbanken in London dates back to 1970 when a representative office was opened. It was replaced by a consortium in 1971. As the operations in the financial markets increased, these were transferred to a newly established merchant bank, Svenska International which was established in 1982. The remaining corporate business stayed with the Nordic Bank until the cooperation was dissolved in 1983 and Svenska International took over those operations. The London branch of Handelsbanken was established in 1987. Meanwhile, business was expanding
and by 1988 there were more than 200 Handelsbanken employees working in London. As business in Great Britain was growing, the operations in London were complemented by branches in Manchester and Birmingham in 1989 and 1994.

13.3.1 From Nordic related to domestic banking
Although Handelsbanken’s British operations were hit by the recession in the early 90s they quickly recovered and continued expanding. As Handelsbanken established branch networks in the other Scandinavian countries, this added a new potential of corporate customers for Handelsbanken in Britain. By the mid 1990s there was, however, little room for further development if Handelsbanken was to stick to business related to Scandinavia only.

When I was at Manchester branch, we got to a point where we had gone as far as we could with our Nordic related business. We were the market leader. We had 30 or 40 per cent of the net market in a very narrow market segment. […] Of course, we got to know the decision makers and finance directors and all these people extremely well over the years and we became confident that these guys really liked working with us. They told us so and in many cases we had multi-bank situations so they had other banks. […] They showed us everything before they went to the clearing bank. They asked us for our opinion before they took it to the other banks because they valued [our] concept.

Derek Burgess, Area Manager Regional Bank Great Britain, interview 2003

Through its Nordic related business, Handelsbanken had established contacts with a substantial number of corporate customers in Britain. Handelsbanken managers also felt that customers were increasingly dissatisfied with the British bank’s policy of moving decision making away from the local operations. At Handelsbanken, people thus believed that there was potential to get involved in the domestic business of their British customers and also to do business with customers they had no previous relationship with. Ulf Sylvan who headed the British operations, along with the three branch managers, raised the possibility of establishing universal banking operations with his superior Göran Björling who was head of Handelsbanken Markets at the time.

I think the idea successively came up in discussions I had with [Göran Björling] that one might develop these operations further. We were also reflecting on it here on our side. […] I can’t remember [who actually had the idea].

Ulf Sylvan, Head of Regional Bank Great Britain, interview 2003

We had a lot of contact with [Göran Björling] and of course with our colleagues in Sweden and we started talking about this with the branch manager in Birmingham and the London branch manager and Ulf himself and you know there was no particular day when we said, yes this is what we have got to do. Just over a period of time we started talking and eh, we used expressions like, all right we are doing extremely well in Great Britain, we have run as far as we can now,
so if we raised our level of ambition what would we do next or should we not raise our level of ambition?

Derek Burgess, Area Manager Regional Bank Great Britain, interview 2003

In order to build an argument, Sylvan and his branch managers carried out desk top analyses of the market, looking at the business potential and the competitive situation. They also had discussions with customers, asking them if they were willing to do more business with Handelsbanken. The replies were positive. Handelsbanken’s British managers took it for granted that such operations would rely on Handelsbanken’s idea of decentralisation. The three existing branches were working according to the established Handelsbanken concept and their managers attributed their success to the decentralised approach. In 1999, Arne Mårtensson officially announced that Handelsbanken was going for universal banking in Britain. While he kept doors open for further growth elsewhere in Europe he said that Great Britain was a good market to start with.

Great Britain is the nearest [market] for taking the next step. We have been fully occupied with Scandinavia, which was a great process. It has been a great entrepreneurial process to build up operations in the other Nordic countries. At the same time, we have learned very much in this process. We feel that we have built up knowledge that we can use in other countries in Europe. Great Britain is a good alternative to proceed with.

Arne Mårtensson, Managing Director, interview in Finanstidningen June 2nd, 1999

Compared to Norway, Finland and Denmark, Handelsbanken’s operations in Britain were already quite well developed when the bank took the step from Nordic related business to universal banking. There were already three branches up and running and this network would expand further. The Handelsbanken recipe for doing this was to grow organically in a relatively slow manner with complementary acquisitions. In Britain, the acquisition option did not seem attractive, at least not in the beginning. The market was dominated by four large clearing banks and even the existing medium-sized banks were rather large. Maybe in the long run when Handelsbanken has grown, an acquisition in Great Britain could become possible. For the foreseeable future however, Handelsbanken had to rely on organic growth. Between 2000 and 2003 the bank grew from three to nine branches. From 1 July, 2002, Great Britain has been Handelsbanken’s eleventh regional bank, giving it the same status as the branch operations in Sweden and the Nordic countries. The British employees are included in Oktogonen from 2004, which is a symbolically important confirmation of equality with the other regional banks.
13.3.2 The process of starting up a new branch

When Handelsbanken decided to launch universal banking operations, there were potentially many locations in which to open new branches as the British market with its 60 million inhabitants exceeds the size of all the Nordic markets together. The approach to search for locations was however not a purely geographical exercise where suitable places were identified by a desktop analysis. As Handelsbanken relied on its decentralised concept, the availability of a branch manager who would fit into the bank was finally to be the decisive criterion for starting up a specific branch or not.

If we do not see that [a candidate] is the right person we don’t open a branch in that place. There is a market everywhere for us. You can take almost any place and it’s bigger than the Swedish cities. So finding the market and starting if you have the right person is not the problem. The problem is that you have the right person.

Ulf Sylvan, Head of Regional Bank Great Britain, interview 2003

Although finding the right branch manager is the most important issue in finding a place to start up a branch, geography matters as well. For the time being, the branches cover large areas. Although the British market seems unlimited, the regional bank is primarily interested in establishing branches in economically dynamic regions. The ambition is thus not necessarily to cover all white spots on the map as quickly as possible. In the long run however, Ulf Sylvan expects that all parts of the country will be served by a Handelsbanken branch. Sooner or later some of the existing branches will also have to give up parts of their operational areas to new branches. The establishment pattern is the result of both economic consideration regarding the potential of a specific region and the availability of a branch manager. The first branch that was established after the decision to launch universal banking was the one in Nottingham. This location would not have been the obvious choice from the point of view of an economic analyst. However, Derek Burgess who has the main operational responsibility in the process of opening branches saw several advantages to the place.

Derek Burgess, Area Manager Regional Bank Great Britain, interview 2003

Derek Burgess joined Handelsbanken in 1989. Coming from a clearing bank, like most of his British colleagues, he worked at Handelsbanken in London before he became manager of Manchester branch in 1992. He stayed in this
position until 1999 when he got involved in the establishment of new branches. Since Great Britain was given the status of a regional bank, he has been its only area manager. However, in contrast to his Swedish colleagues who can do a substantial part of their job from the regional head office, Derek Burgess is seldom in London. His main task is to open new branches. Such a start-up process typically starts with a desk top study of potential locations, looking at demographics, corporate activity and other economic factors. Usually, Handelsbanken works on several locations simultaneously and it is the availability of a branch manager that decides where a branch is finally opened. The first customers of a new branch are often customers the branch manager and other staff bring from their previous banks. Managers at Handelsbanken in Great Britain believe that the British banking business is particularly local and based on personal relationships. Therefore, the bank wants to recruit branch managers locally. Taking a person from elsewhere in Britain is not considered as an option, at least not for start-up branches.

Candidates are often identified through recommendations from existing staff or local business people. Sometimes the bank also gets help from head hunters. Once a candidate has been identified, a rather long recruitment process begins. Usually, the candidate will have a couple of meetings with Derek Burgess. S/he will also get the opportunity to visit a Handelsbanken branch and talk to the people working there. Rather than finding out details about the candidate, the aim of these meetings is to familiarise him or her with Handelsbanken’s way of working. The bank’s decentralised approach differs from that of the clearing banks and in order to keep its culture alive during the British expansion, Handelsbanken needs to find managers who like the concept and would adopt it easily. Hence, the contacts usually start with Derek Burgess explaining the Handelsbanken concept to the candidate.

I see with all of [the people I meet] a bit of scepticism, thinking well, is this possible. Some of them their eyes sort of glaze over and I can see them thinking, what they are going to do there is wrong. They have lost interest because they [think] this is something which is too distant. And others I see a sparkle and I see, they sort of sit up, they come forward. […] I’m of course looking for somebody who has a local network, well-connected, somebody who identifies with the concept. If we come to agree that yes, that is the case then I really step back in that case and I invite the person to contact another branch manager and go and spend some time with that branch manager to look at how that branch has been established. Talk to a peer group.

Derek Burgess, Area Manager Regional Bank Great Britain, interview 2003

Many candidates have worked for ten or twenty years at one of the major clearing banks where they have held senior positions. Mostly they have experienced frustration over increased centralisation. They feel that at their previous employers have been driven by sales targets while actual decision making has been moved away from the local level.
Handelsbanken is in complete contrast to what happened at the main UK clearing banks. I don’t know how it works in S-E-Banken or Nordea or whatever, but certainly in the UK there was a big move within the UK clearing banks towards a very autocratic, hierarchical structure. What’s the senior management, what’s the different ways of management? Big head office structures [...] and a big emphasis on personal and individual sales targets for a whole different host of things.

Simon Raine, Branch Manager Manchester, interview 2003

Although Handelsbanken’s decentralised approach evokes sympathy among the candidates Derek Burgess meets, some of them are sceptical and wonder if the decentralisation story is just the same buzzwords they have heard at their own bank.

Thankfully for me people that I knew already had gone to the Nottingham branch which was the first of the new branches so I was able to talk to those people about the culture and make sure that all that I had been told by Derek was actually the truth […]. I guess I was naturally suspicious as to whether an organisation in the same sector as mine, Yorkshire Bank, could operate successfully on such a different business model.

Andy Copsey, Branch Manager Leeds, interview 2003

If the Handelsbanken employees who have met the candidate believe that the person would fit in the bank, s/he is invited to London to meet Ulf Sylvan and other people at the regional head office. If everyone then agrees that the candidate is the right person, s/he will get the job and can start to work on opening the branch. In line with Handelsbanken’s decentralisation ideal, it is the branch manager who is in charge of the establishment process and makes the practical decisions. This is also the case for major issues like the location and the size of the office and the number of staff. Consequently the new branches differ. In some cities, the branch is located in the city centre while the manager elsewhere may believe less in the importance of geographic centrality and look for cheaper office space. Managers may be more or less cautious in employing staff. The high degree of freedom the new branch manager has during the start-up process also serves as a learning experience in the bank’s decentralised culture.

That’s what I describe as the Handelsbankanisation process. Where you actually then realise how the culture of the organisation and the structure of the organisation, matter throughout the day and really there is no new branch opening team [from head office] going to descend on you. […] I still had [the centralised approach from my previous employer] in my mindset when I was trying to decide whether we would employ Mike or Adam because Nottingham branch had opened with one individual banking manager and I remember clearly Derek and I discussing that with Ulf [Sylvan] and Ulf said well if they are both up to it and up for it and either can do the job and they are the right people why don’t you employ them both?

Andy Copsey, Branch Manager Leeds, interview 2003
Like elsewhere in Handelsbanken, the performance of branches and their managers is evaluated based on their profitability. Therefore, decisions such as the number of staff or the location chosen very much affect the possibilities of the branch to reach break even quickly. The desire to become profitable however also affects minor purchase decisions the branch manager has to make. At Leeds branch for instance, Andy Copsey likes telling customers, and other guests how he managed to get a 20 per cent discount on the chairs in the board room. He went to a furniture store in jeans and a t-shirt, which made the salesman believe that he came as a private person and could not afford to buy the chairs at the same price that corporate customers paid.

I saw these chairs and the salesman saw me looking at them and the reason I was looking at them was that they are the same chairs that Yorkshire Bank, my previous employer, use in their board rooms and they were always comfortable. And he said, ‘hey lad’, because he called me a lad, ‘we knock them out to Yorkshire Bank at £200 each’ and he looked over his shoulder in case his boss was listening and he said, ‘but we could do them for £160 to you.’

Andy Copsey, Branch Manager Leeds, interview 2003

Such anecdotes are not kept secret. Rather, they are used actively in order to convey the meaning of Handelsbanken’s decentralisation and the power of local decision making to people in and outside the organisation. Copsey believes that the stories trigger positive reactions among potential customers when they see that the bank is cost conscious and that operations are run from the grass-roots. At his branch, the cost conscious localised approach is even on the wall. All artwork in the office rooms was done by his wife. Before the start-up he had looked for suitable art work in the local galleries.

We looked around and we tried to get something in keeping with the colour scheme, the colour scheme of the bank and we saw the price and we felt we don’t really want to pay that. And then my wife said, ‘oh why don’t I have a go and just paint something?’ […] What it did for me was make this feel like a family business. I mean you know, I don’t own shares in the business yet, but the family is involved.

Andy Copsey, Branch Manager Leeds, interview 2003

13.3.3 Managing growth and preserving the Handelsbanken culture

After the start-up of a new branch, Derek Burgess spends a lot of time with the team for the first six months to give assistance and serve as a sounding board for the manager. Of course this close contact between the branch manager and the area manager is also a form of control, ensuring that the Handelsbanken culture is adopted by the new employees. The bank makes little effort, however, to formalise the ‘Handelsbankenisation’ process. Like all newly appointed managers at Handelsbanken, the British branch managers attend a leadership course in Stockholm. Regional Bank Great Britain has also developed a short introduction programme for new branch managers that mainly aims at letting
them meet and get acquainted with the key people at the London head office. The rest of the introduction is carried out on an informal learning-by-doing basis. As in other countries, all employees get their personal copy of ‘Our Way’. Several of the people I met had read books by Jan Wallander in the English translation. In contrast to Swedish branches, Oktogonen was not an issue the managers brought up themselves when talking about the bank. They knew about it, but as it was not yet introduced in Britain they lacked personal experiences of seeing their Oktogonen share grow or having colleagues retire with a giant pension. Generally, the British Handelsbanken employees I met showed an even greater enthusiasm for the Handelsbanken culture than their colleagues in Sweden. One reason might be that they all have made a conscious choice to join Handelsbanken and that the bank’s concept of decentralisation usually was a major reason for giving up their previous career. Swedish Handelsbanken employees often have not chosen Handelsbanken for its particular culture, but rather as one bank among the others.

Like many Swedes, [I ended up at] Handelsbanken rather by chance. There is a fascinating difference in those we recruit abroad and who have previous experience from another bank. They have usually chosen Handelsbanken’s way of working deliberately. [...] So I can say that for me it was in no way a deliberate choice of an ideology or a particular way of running a company.

Lars O Grönstedt, Managing Director, interview 2002

So far, there have not been any failures in the recruitment of branch managers in the sense that someone has not adopted Handelsbanken’s way of doing banking. The new branches have on average become profitable in about one year. However, the approach to expansion is time-consuming and sets limits to growth. The key role of Derek Burgess in the process made his personal working capacity a bottleneck. Thus, in spring 2003 the strategy for expansion was still limited to two or at most three branches per year. As the profit from existing branches is used to finance new establishments there is also a financial growth limit if the regional bank wants to retain a profitability that does not lag behind that of its peers too much.

We have chosen so far to open two new branches a year. Maybe three a year. When we have come up to about 15 branches by opening two per year we will have created quite a good basis that will start earning money really well. Then also profitability is going to improve. As long as we are opening two branches a year we have that cost. We are below average [compared to the other regional banks in terms of profitability], but we are not lagging far behind.

Ulf Sylvan, Head of Regional Bank Great Britain interview 2003

Just a few months after the interview however, Lars O Grönstedt announced in his press conference on the bank’s results for the third quarter 2003 that the expansion speed in Great Britain as well as in Norway, Finland and Denmark was going to increase. For the two coming years he announced the opening of
ten new branches in Britain, doubling the total number from the current 10 (November 2003) to 20 by the end of 2005. Assistants were to help Derek Burgess cope with the increased work load.

13.3.4 Differences between Britain and Sweden

Although Handelsbanken employees in Great Britain seem to identify strongly with the bank, there are differences between how Swedish and British branches approach their operations. Although the establishment of universal banking operations is often described with the metaphor of introducing street-level banking, most British Handelsbanken branches are on higher floors of an office building. The branches do not physically invite people to come in spontaneously. The British branch managers say that being on the upper floors best suits the needs of their local markets. However, personal preferences as well as role models created during the establishment of universal banking operations in Britain also play a role.

If you have a head of a regional bank who is inspired by the idea of building on the second floor up the stairs then you get branches on the second floor of course. But that does of course not mean that all heads of new regional banks are think that way.

Pär Boman, Head of Handelsbanken Markets, former Head of Regional Bank Denmark, interview 2003

Essentially, this means that the interpretation of Handelsbanken’s self-understanding in a new context is not purely dependent on the geographical market. Rather, key decision makers in the bank bring their own preferences, experiences and ways-of-thinking with them when making sense of what Handelsbanken’s self-understanding implies in specific market conditions. In Britain the location of the branches is not the only difference to Sweden. All cash handling has been outsourced to the clearing banks with which Handelsbanken has agreements. The absence of cash handling significantly lowers the cost of running a branch. The focus of operations is put on giving advice to customers and negotiating deals.

I mean from my point of view it would probably be a retrograde step for us to move into having cashiers, counting cash and that. I personally would not want to see that.

Simon Raine, Branch Manager Manchester, interview 2003

I can’t see us opening, if the next branch that we open would have a counter and cash handling I would be absolutely amazed. Because, of course it turns up your overheads to be on the ground floor and have staff there. There are five staff here and four of them are fee earners.

Andy Copsey, Branch Manager Leeds, interview 2003
The idea of running branches without cash handling is also being applied at some newly established branches in Sweden. The rationale is the same, namely reducing costs for security and routine transaction and concentrating on making deals with the customers. However, as the bank has a tight network in Sweden, cash transactions often migrate to a nearby Handelsbanken branch. After a couple of years the cash-free branches in Sweden often take cash on board.

It is very difficult to turn a branch dealing with cash to a cash-free one. There would be a fierce reaction from the customers. On the other hand you can start-up branches without cash […], but I believe that there will be a day when they feel pressure from their customers to have cash. The same is true in England. Sooner or later they may feel in certain places that they should add cash, too.

Magnus Uggla, Head of Regional Bank Stockholm City, interview 2003

A few years ago, Handelsbanken ran one of its rare central ad campaigns using the slogan *A real bank*\(^5\) in order to differentiate themselves from new emerging niche banks. There was no consensual answer among the Swedish Handelsbanken managers I asked whether being a real bank implied handling cash. Once, when I raised the question with the management team of a Swedish regional bank, it triggered a lively discussion, revealing that the managers had not yet made up their mind whether banking without cash was compatible with the identity claim of being a real bank. In accordance with Handelsbanken’s decentralisation ideals, there is no corporate policy on the cash handling issue. In Sweden, customers are historically used to getting cash at Handelsbanken branches. This is not the case in England, but cash could enter the British operations in the event that Handelsbanken acquired another bank. Lars O Grönstedt believes that cash is going to come to Regional Bank Great Britain sooner or later.

I do not travel all around England asking everyone when they are going to start handling cash. However, I think that if we made an acquisition, then it would most probably be a bank. Maybe not from the beginning, but somewhere along the way. This bank has lots of branches that handle cash and that way we are going to get in cash ourselves. […] With experience from places where we have been operating longer, I believe that being cash-free is not a stage a really successful bank can defend. If I’m right, reality will convince [the British branch managers]. The customers do that much more effectively than I could. If I’m wrong it’s better that I don’t say anything anyway.

Lars O Grönstedt, Managing Director, interview 2003

\(^5\) The slogan was originally launched in June 1995 at Handelsbanken’s spring conference. The audience comprised more than 100 of Handelsbanken’s most senior managers. However, the following advertising campaign was mainly directed at countering the niche bank phenomenon emerging in Sweden. The slogan has since then been reused on other occasions as new niche providers have appeared in the Swedish market. The official translation of the Swedish *En riktig bank* was *A proper bank*. However, the translation *A real bank* reflects the sharpness of the original Swedish wording even better.
Another difference lies in the way the British branches select their customers. Since the British branches had a limited stock of customers when universal banking was launched, they had little heritage of existing customers. The branches were thus able to be very selective in attracting new customers, picking the most promising companies and individuals. In Sweden, as again the slogan *a real bank* suggests, Handelsbanken attracts all kinds of customers and relationships have often existed for a long time. Individual customers may generate a loss for the bank or previously profitable customers may have turned unprofitable over the years. Although Swedish Handelsbanken branches put particular emphasis on working with customers that are likely to offer a potential for profitable business, virtually everyone is welcome as a customer. In Britain, new customers may more or less have to go through an application process before being accepted.

What we want is to do business with people we know well, we have done business with before or who come to us with a proper recommendation from an existing customer or an accountant or a solicitor we know very well, in whom we trust. We have to look them in the eyes and spend a lot of time with them before we get to the application stage. There is a big premium within the bank if you really know the customer. It’s like old style private banking but for corporates if you will.

Simon Raine, Branch Manager Manchester, interview 2003

The British branches are aware that their concept of doing banking differs from the approach their Swedish colleagues take. While they see themselves as private bankers, they see their Swedish colleagues as mass market providers.

[The Swedish regional banks] are a mass market provider. I mean they reflect their market place and their stage of development in the same way that we reflect our market place and our stage of development. We are still emergent and we will be in this situation for many years and I’m sure we will be able to be highly selective in terms of the sort of customers we bring on board because we are not in competition for the marginal business.

Derek Burgess, Area Manager Regional Bank Great Britain, interview 2003

The British branches are thus, partly like some newly opened Swedish branches, in the lucky situation of being able to select the most profitable customers while they do not have any unprofitable ones on board. Ironically, the privilege of being a niche actor is likely to disappear if they are successful and manage to grow. Although, there are no volume targets and Handelsbanken’s ideology prioritises profitability before growth, the further expansion of the British operations is understood in all discussions.
13.4 The development of Handelsbanken’s international strategy

Looking back at the development of Handelsbanken’s international strategy, the most substantial change occurred in the late 1980s. At that time the bank took a step from supporting its domestic business by being present in selected locations to exporting its Swedish success recipe to other countries. From this time onwards, the bank has pursued its ambition to establish universal banking operations abroad. However, during the last 15 years the approach for doing this has undergone some changes.

13.4.1 The early ambitions for universal banking abroad

The idea of establishing universal banking operations abroad was an initiative from a local manager in Handelsbanken’s foreign operations that was approved and supported by top management. Initially, the geographical framework for the expansion was limited to Scandinavia. In the 1991 annual report, Arne Mårtensson described it as an “obvious” (Handelsbanken 1992:6) choice to start in that area as there were supposedly small cultural differences to Sweden. In the beginning, the bank was reluctant to present any schedule for the Nordic expansion. The pace was to be set by the customers’ reaction and no rapid growth was to be expected.

In parallel, the bank also started looking at the newly independent Baltic States, Estonia, Latvia and Lithuania. It was a matter of definition if they were regarded as Nordic countries and thus as a part of the bank’s domestic market. Sweden had historical ties to these countries and Swedish firms had started to do business with their eastern neighbours. Handelsbanken was the first Swedish bank to establish a closer relationship with the Baltic market, offering training and advice to Baltic bankers. The activity of Swedish companies created a potential for banking business. Thus in the 1991 annual report, Arne Mårtensson stated that the Baltic States might “possibly mean as much to Sweden as Finland and Norway and represent an important part of Handelsbanken’s Nordic home market” (Handelsbanken 1992:7). As the other Swedish banks acquired Baltic banks in the mid-90s and proclaimed that the Baltic region was their domestic market, Handelsbanken’s interest in the Baltic markets had cooled down. After all they were still underdeveloped and the business environment was insecure, both legally and economically\(^94\).

The pace of Handelsbanken’s growth abroad was slow in the beginning. After acquiring parts of Skopbank, Arne Mårtensson took good care to point out that acquisitions were not the primary means for Handelsbanken’s internationalisation. Mårtensson also linked the internationalisation strategy to

\(^{94}\) More recently, against the background of strong economic growth in the Baltic States, Handelsbanken has again shown more interest in the Baltic markets. In a newspaper interview, Lars O Grönstedt said he regretted that Handelsbanken had not entered the Baltic States Ljunggren (2004).
Handelsbanken’s approach to strategy making in general. Small, incremental steps were typical of the bank.

It is unlike Handelsbanken to take big steps all at once. However, we saw a historic opportunity that we did not want to forfeit. The two largest Finish banks had announced that they wanted to merge. This created a desire for a ‘second bank’ in the market. [...] In Norway we used the historic opportunity for expansion that was created by the Norwegian banking crises.


13.4.2 The size of the Scandinavian branch network

After a number of years of organic growth with complementary acquisitions, Handelsbanken started reasoning more explicitly about goals for its expansion. In the 1998 annual report it was stated that Handelsbanken had branches in all Nordic cities with more than 85000 inhabitants, except for three cities in Denmark (Handelsbanken 1999). Although this statement was not explicitly formulated as a goal, it conjured up an image that Handelsbanken should be present in every Scandinavian city with more than 85000 inhabitants. Even before the 1998 report was distributed, the bank declared that the aim was to have a branch in every city with more than 50000 inhabitants (Anonymous 1999a). Although the size criterion became more ambitious, there was no ambition to achieve the tight coverage of the Swedish network with its more than 450 branches. Around 100 branches in Norway, Finland and Denmark together would be sufficient to reach the goal. Compared to Sweden, the access by phone or by the Internet would play a more important role. Phone and Internet banking were not just additional entrances to the branch, they were also a means to increase geographical coverage in areas where the next branch was far away.

The branches [in Norway] are to be complemented with a telephone bank since we don’t have a branch network that covers the whole country. A telephone bank is the best alternative if the bank hasn’t got a branch network.

Arne Mårtensson, Managing Director, interview in Finanstidningen May 11th, 1995

While it was a central issue in Handelsbanken’s introduction of telephone and Internet banking that the new technologies did not result in the closure of existing branches, they were seen as a means to limit the need for opening new branches in Norway, Denmark and Finland anyhow. Hence, one might discuss whether Handelsbanken has not after all regarded the Internet as a substitute for branches, albeit not for existing ones, but for new branch establishments. Handelsbanken was coming close to the 50000 inhabitants target for its Nordic expansion in the late 90s. This coincided with the initiative from Great Britain to launch universal banking operations there.
Organisational self-understanding and the strategy process

After the acquisition of Bergens Bank we have 23 branches in Norway. We shall perhaps have 30 in the long run and a well-functioning Internet service in parallel. Therefore we can now see the end of our Nordic expansion. Today we may need 10-15 additional branches to cover all places in the Nordic countries with more than 50000 inhabitants. Then we have fulfilled our Nordic concept from a strategic point of view.

Arne Mårtensson, Managing Director, interview in Finanstidningen June 2nd, 1999.

Although Mårtensson’s statement presented a picture of a strategically mature branch network, he principally left the door open for further growth if conditions for this were favourable. In fact, the expansion in the Nordic countries did not come to a halt when the start-up of new branches in Britain began. Neither did it stop at 10-15 branches. The Midtbank acquisition alone added 23 and from 2000 to 2002, the branch networks in Norway, Finland and Denmark grew by 20 newly started branches excluding acquisitions. The goal to be in every city with more than 50000 inhabitants turned obsolete. For a short while, a 30000 inhabitants criterion was used, but also this was finally abandoned. As a lesson from previous start-up experiences, Handelsbanken shifted focus from demographics to the availability of branch managers.

A few years ago, Arne said in presentations that we should have a branch in every place with more than 50000 inhabitants and then successively 30000 inhabitants. That became sort of a road map for the Nordic countries. It was rather a question of stating the order of priority of the different places than saying we don’t have a branch manager there. You had to find a person in that place because it was on the road map. We have changed this totally. There is no longer such a guideline. Instead we have successful people in Karleby and Jakobstad in Finland which both have 20000-25000 inhabitants. There we found the right persons. On the other hand we don’t have a branch in Kotka with 60000 inhabitants not far from Helsinki. One would think we should be there, but we have not found the right person.

Lars O Grönstedt, Managing Director, interview 2003

13.4.3 Further internationalisation ahead

The establishment of universal banking in Britain was a sign that operations were no longer limited to a particular home market, be it Sweden or Scandinavia. In principle, the road was open for staff in other countries to take similar initiatives to their British peers. The bank was also growing outside the regional banks. In 2001 and 2002 branches were opened in Amsterdam, Vienna and Warsaw to serve customers of the existing regional banks. All foreign operations that are not regional banks in their own right are parts of Handelsbanken Markets. The idea is that the branches in each country where Handelsbanken does business could be embryonic regional banks. However, there is no centrally established road map for further internationalisation. Local staff should take the initiative.
It does not matter if it is the branch in Amsterdam or in Vienna or in Shanghai where someone comes and says, 'now I have shown that I can earn money in the Handelsbanken system, I think I understand the system, I think I am trustworthy in the bank as a whole and I would like to broaden the perspective.' Well, then we would probably, if everything is prepared, help with all encouragement and enthusiasm to make it work.

Lars O Grönstedt, Managing Director, interview 2003

If the local staff sees a potential of offering broader banking services to local customers it is up to them to convince Handelsbanken’s central management that they should support the idea. This is basically the way universal banking was established in Norway and England. However, it is only recently that it has been expressed that this is the Handelsbanken approach to entering new markets. Entering a new market through an acquisition is out of question today.

I think this is our model and it has actually been our successful model. I have codified [it] and become clear on the point that we will not buy ourselves into a country. It was not done this way before. We actually looked – at least superficially – at lots of offers to acquire banks, even I did it in my early days. This [model] is nothing I have added or invented. I have put down in words what has become clearer and clearer among those of us who are involved into these processes.

Lars O Grönstedt, Managing Director, interview 2003

There are no explicit criteria for when the step from Handelsbanken Markets to being an independent regional bank is be taken. A prerequisite for launching universal banking operations is that the existing business is going well. Also Handelsbanken’s control system, in terms of culture as well as accounting systems, should be in place. While starting up universal banking operations, the local activities would still remain under the umbrella of Handelsbanken Markets for a while. During this time there would be tighter restrictions concerning risk-taking and credit limits than for a regional bank.

By the end of 2004, 120 out of Handelsbanken’s 573 branches were outside Sweden. During the year an average of 1318 employees were on the payrolls of the foreign regional banks as opposed to 4577 people in the Swedish branch operations. Although most of the newly established branches become profitable quickly, it takes time for the foreign regional banks to catch up with their Swedish peers in terms of profit. A substantial share of the money they earn is re-invested in establishing new branches. In 2003 the foreign branch operations earned 1 193 million SEK of 10 720 million SEK for Handelsbanken’s branch operations in total. The bank goes for continued internationalisation and further growth in its new markets. The reasons for becoming more international are numerous. Firstly, the bank emphasizes its belief in being able to contribute to markets outside Sweden by doing banking in a better way than local competitors. Secondly, there is little room to grow further in Sweden.
Thirdly, in particular Lars O Grönstedt emphasizes that other economies are growing quicker than the Swedish economy, meaning that going abroad automatically means a higher growth potential. Finally, branch managers have emphasized that the more branches there are the more there are to share the fixed costs on group level. This argument is not really in line with Handelsbanken’s expressed lack of belief in economies of scale. However, it reflects branch managers’ interest in increasing their branch’s profitability by lowering costs.

13.4.4 Handelsbanken – Swedish, international or both?

While Handelsbanken’s international operations started out as a complement to the domestic operations they meanwhile stand for a significant and growing share of the bank’s business. Major parts of the foreign operations are now independent units alongside the Swedish regional banks and not just their extended arm abroad. Now, how much has this development actually changed Handelsbanken’s self-understanding? Some indications can be found in the bank’s public communication as well as in internal practices.

A statement that is almost an explicit identity claim, appears in the presentation of Handelsbanken’s objectives, policy and organisation which has been a reoccurring part of the annual report for many years. In 1991 for the first time the Nordic countries Denmark, Finland and Norway were mentioned as Handelsbanken’s domestic markets (Handelsbanken 1992). Then in 2002, for the first time Great Britain appears as an additional domestic market (Handelsbanken 2003). The point of reference for Handelsbanken’s benchmarking is another indicator of the importance of internationalisation to the bank’s self-understanding. Since Jan Wallander took over it had been Handelsbanken’s goal to outperform the average of its listed Swedish competitors in terms of return on equity. In 1993 this was changed to the listed Scandinavian banks reflecting the expansion in the other Nordic countries (Handelsbanken 1994). In the future it might become relevant to include British banks in the benchmark as Handelsbanken’s British operations are growing.

Also the use of language and career opportunities for non-Swedish Handelsbanken employees can be seen as indicators of how international the organisation’s self-understanding is meanwhile. The staff journal Remissan has been bilingual Swedish/English since 1994. Before that, there was a separate English edition for a few years. Also the few central training seminars are

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95 In line with Handelsbanken’s decentralisation philosophy such costs are allocated to the local branches to the greatest possible extent. In this sense, the bank does not regard them as fixed group level costs. Still, these costs are related to activities performed at central units and they do not necessarily increase when new branches are added to Handelsbanken’s network. Hence, Swedish branch managers see a potential for lowering costs in internationalisation.

96 This benchmark is, not least, important since outperforming the benchmark is a prerequisite for allocating money to the Oktogonen profit-sharing system.
nowadays offered in Swedish as well as in English⁷. When it comes to the language used in everyday work, it is usually the local language that applies. On occasions where Handelsbanken employees from different markets meet, such as at corporate level meetings in Stockholm, it is still Swedish that dominates. If necessary, interpreters help non-Swedish speaking managers. Handelsbanken has not explicitly decided on an official corporate language, but in practice Swedish is usually the language that is used.

I got a question when we had [a seminar on Handelsbanken for SPP people] after the SPP-acquisition. ‘When will Handelsbanken change its corporate language?’ someone asked. […] Corporate language? I had never thought of it. The concept not even existed for us. Then we addressed it at a MD-info meeting and I think for our culture it is important to say that we are a Swedish bank that operates internationally. We take our concept abroad.

Anna Ramberg, Head of Human Resources, interview 2003

In order to advance to the highest management levels in the bank, a good command of Swedish is a prerequisite. So far Petri Hatakka, head of Regional Bank Finland is the foreigner who has advanced highest in the bank’s management. However, he speaks Swedish and has worked at the central head office previously.

Although this is not specifically expressed, Swedish is the corporate language. Maybe Markets is more internationally anchored and English is the main language there. However, I can hardly imagine having a MD-info with 20 Swedish speakers and being forced to speak English for the sake of one or two. That would in fact wash away something of the glue that unites us. […] My opinion is that you cannot advance to the core part of corporate management, not just a small niche, unless you speak Swedish. […] I have an academic degree in English so I speak English well, but just because of that I have much respect for how much a common culture depends on a common language.

Lars O Grönstedt, Managing Director, interview 2003

At least so far, Handelsbanken thus sees itself as a Swedish bank that operates increasingly internationally. Also in its foreign markets, Handelsbanken makes no secret of being Swedish. Even at branches in Britain, where all staff is British, they present themselves as a Swedish or Scandinavian bank, which tends to evoke an image of credibility among customers. It remains to be seen whether Handelsbanken’s self-understanding of being a Swedish bank will prevail when operations abroad grow and more international employees join the bank.

⁷ The ambition is to mix nationalities at all seminars. Many Fins speak Swedish while Danes and Norwegians may be able to make themselves understood to Swedes due to the similarity of the languages. Swedish managers also take part in English language seminars.
13.5 Handelsbanken’s self-understanding and universal banking abroad

The previous Handelsbanken cases have highlighted how Handelsbanken has been able to assimilate strategic issues with its self-understanding. The bank has thus managed to keep its self-understanding relatively unchanged while going through, albeit not revolutionary, strategic changes. This has been accomplished by deriving new situational beliefs from the self-understanding and by reinterpreting strategic issues in a way that has resolved apparent tensions regarding the bank’s view of its identity. Self-understanding has also provided guidance both regarding the content of strategy and procedures for strategy-making. This guidance has implied that relatively little strategic planning has been necessary. Instead, self-understanding has suggested certain courses of actions while it has ruled out others. In the following section, I will try to refine and extend these findings with a low-abstract interpretation of the internationalisation case. Compared to the previous cases on Scania and Handelsbanken, the internationalisation case does not contain the same inherent tensions between strategic issues and organisational self-understanding. The structure of this discussion will thus differ somewhat from the previous ones, putting less emphasis on tensions.

13.5.1 Planning and guidance in the internationalisation process

Looking at the establishment of universal banking operations outside Sweden in hindsight, the development appears as a highly consistent, gradual development of an international branch network. The self-understanding as a decentralised bank with the local branch as the most important organisational unit has also been applied abroad. Handelsbanken’s foreign operations are thus based on the well-tested domestic success recipe. The pace of development has been cautious, but increased subsequently. Organic growth has been complemented by acquisitions which have been small compared to other structural deals in the industry. Hence, the bank has been able to avoid diluting its culture of decentralisation by sudden inflows of staff. High emphasis has been put on the recruitment of branch managers that fit into Handelsbanken’s organisation, a process also delimiting the speed of expansion. Also this fits with Handelsbanken’s self-understanding where the branch manager’s job is claimed to be the finest in the bank.

Although this pattern of development appears to be almost similar to the pursuit of a rational plan in retrospect, a closer look reveals that this has not been the case. Only minor parts of the internationalisation had been planned in advance. At the outset in late 1980s the idea was first to establish universal banking in Norway and soon after this in the other Nordic countries. How this would happen in detail, what means would be used, what size the foreign operations would have and what should happen after the Scandinavian expansions were issues that were solved in an incremental manner. Ideas for
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how internationalisation should take place were modified several times based on experiences gained along the way. Subsequently, a Handelsbanken approach to internationalisation emerged. This happened through top management making sense of the experiences during internationalisation and codifying them as principles for future strategic action.

**Guidance through self-understanding**
As in the Stadshypotek case, content guidance as well as procedural guidance can also be observed in the internationalisation of universal banking. Content wise the foreign operations were by and large a replication of the domestic success recipe abroad. Decentralisation and the central organisational role of branches constituted a framework for Handelsbanken’s emergent international strategy. Also the procedures for developing international operations reflect the decentralisation ideals that are central to the bank’s self-understanding. The two major initiatives, namely those for starting universal banking first in Scandinavia and later outside Scandinavia were taken by local managers in Norway and Great Britain respectively. The role Handelsbanken’s head office in Stockholm played during this process was one of approving and supporting local initiatives and incorporating them into a wider strategy. The management style resembles what Bourgeois and Brodwin (1984) call the crescive management model. Initiatives are taken locally while the central head office acts as a premise setter and judge. In Handelsbanken’s case, premises are not even explicitly set by management, but provided by the organisation’s self-understanding. In Finland and Denmark the establishment of operations was more head office driven than earlier in Norway. Central management took the Norwegian initiative and decided to launch similar ventures in the other two neighbouring countries. As the young operations were about to expand, initiatives for acquisitions also lay within the responsibility of local management.

13.5.2 **Assimilation of new practices abroad**  
Although Handelsbanken’s self-understanding provided guidance in the establishment of foreign operations, the domestic approach to banking was not copied straight away. A number of new practices were actually assimilated into the bank’s self-understanding. In a situation where organisational self-understanding sets a framework for how internationalisation is carried out, it is an interesting question to see what degree of adaptation to other national contexts Handelsbanken’s self-understanding permitted and how this was done. Generally, the Handelsbanken managers I met were consistent in the belief that Handelsbanken’s way of banking built on universal principles. Although they supposed that each local market, even in Sweden, required a certain degree of adaptation, they believed the main features of the bank’s self-understanding such as decentralisation and independent branches could be more or less
Organisational self-understanding and the strategy process

directly transferred. The degree of adaptation that was required in a new context was thus assumed to be fairly low.

Looking at how Handelsbanken’s operations outside Sweden are organised, the important role of the branches resembles the situation in Sweden very much. Handelsbanken employees abroad even tend to be more zealous about the virtues of decentralisation and the Handelsbanken concept. However, there are also clear differences from Sweden. In particular, these are apparent in Regional Bank Great Britain. Whereas Handelsbanken in Sweden in recent years has strongly emphasized its self-understanding as “a real bank”, presupposing that this implies offering a full range of services to all kinds of customers, the British branches have assumed a much more exclusive self-understanding. The slogan “a real bank” has not been used in Britain. Hence a picture of Handelsbanken addressing the same customers as the clearing banks has not been conjured up. Customers are instead hand-picked and have to go through an extensive procedure before being taken on board. Generally, a wide range of services are offered, but the costly cash handling is outsourced. In contrast to what would apply to a Swedish Handelsbanken branch, their British counterparts are mostly not on street level.

The British branches have thus to a certain degree re-interpreted what it implies to be a Handelsbanken branch. While it is considered as important to be decentralised and leave decisions to branches, the British branches do not see it as important to have street-level operations, handle cash or offer services to everyone. Actually, Swedish branches are also selective in what customers to emphasize, but they address a much wider clientele than the British ones, offering basic services to virtually everyone. Some newly established Swedish branches run their business without cash during their first years, but this is still a temporary exception. The Swedish managers I met expressed the belief that being “a real bank” will imply cash handling for a foreseeable future.
Table 13-1. Tensions regarding self-understanding in the internationalisation case.

<table>
<thead>
<tr>
<th>Strategic issue</th>
<th>Sweden</th>
<th>Great Britain</th>
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<tbody>
<tr>
<td>Tensions regarding self-understanding</td>
<td>A real bank (a universal bank for everyone)</td>
<td>An old style private bank</td>
</tr>
<tr>
<td>Perceived seriousness of tensions</td>
<td>Serious. At least an openly selective attitude would not be acceptable</td>
<td>-</td>
</tr>
<tr>
<td>Issue interpretation</td>
<td>Threat. Opportunity to become more profitable does not outweigh threat to self-understanding and image.</td>
<td>Opportunity to become more profitable</td>
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<tr>
<td>Solutions</td>
<td>Accept all customers, but put more effort into profitable or potentially profitable ones</td>
<td>Be selective in the choice of customers</td>
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</tbody>
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If we compare the two regional banks in Sweden and Great Britain, they have similar self-understandings as regards decentralisation and the mode of organising banking operations. However, they have developed somewhat different self-understandings when it comes to their relationship with the respective market. The Swedish operations see themselves as a real bank, meaning a universal bank for all kinds of customers that offers services through a branch network and which has banking as its core business. The self-understanding of the British counterpart is however that of an old style private bank, meaning a bank offering distinguished services to an exclusive group of customers.

To the Swedish operations, excluding certain groups of customers would run contrary to the identity claim of being a real bank. It would not be perceived by the banks members as being congruent with Handelsbanken’s self-understanding and it would most likely also result in a bad image since the Swedish public is used to seeing Handelsbanken as a bank for everyone. To the British operations, on the contrary, being selective is – at least for the time being – an important part of their self-understanding and a way of achieving high profitability. British branch managers even take pride in the obstacles one has to overcome in order to become a customer in their bank. The Swedes stick to their idea of being accessible to everyone. Selectivity is limited to the effort that is devoted to different customers.

In Sweden, the bank is also legally obliged to offer certain basic services to everyone. However, even without this coercive pressure imposed by government, Handelsbanken would hardly exclude people from becoming customers.
Ironically, the differences in self-understanding between Swedish and British operations are themselves a result of another feature of the bank’s self-understanding that is shared across the different national markets, namely that of being a decentralised bank. Decentralisation implies that each branch manager should have the autonomy to decide how to approach his/her local market. Within Handelsbanken’s self-understanding as a decentralised, branch-based bank, there is thus a certain degree of freedom to re-interpret what this self-understanding implies in practice. However, this variation in self-understanding does not concern those aspects of self-understanding that are most highly valued by Handelsbanken. Any questioning of decentralisation or the central role of branches on the other hand would most probably have resulted in very serious tensions. An issue that could lead to tensions in Britain in the future would be the acquisition of a company with traditional street-level banking operations. However, these tensions would not arise with regard to Handelsbanken’s self-understanding at large, but rather in relation to the specificities of the British operations.

13.5.3 Codifying the Handelsbanken way of internationalisation
Handelsbanken’s internationalisation, at least when it comes to universal banking abroad took its departure from a local initiative. Although there were international units for Nordic related business, there were no established procedures for internationalisation and no relevant experiences to fall back on. The ambition to establish universal banking operations in all the Nordic countries was formulated early in the process. However the way of doing that emerged incrementally along the way. Different means, principles and goals for the internationalisation process were formulated along the way. Some of them survived while others were modified and again others abandoned.

Organic growth or acquisitions
Handelsbanken was early in stating that the bank’s approach to international growth was one of organic expansion to be complemented with acquisitions. Björn-Ake Wilsenius described the Norwegian operations as a role model for the Scandinavian expansion in 1994 (Blomberg 1994). Potential targets for such acquisitions were small to medium-sized, mostly local or regional banks, not the major players in the respective countries. Oslo Handelsbank was, in 1990 the first acquisition of this kind and it was followed by a number of other examples in the Scandinavian countries. An important rationale behind refraining from large acquisition was the desire not to dilute Handelsbanken’s culture by taking in too many new employees in the still small foreign operations. However, during the late 1990s there were instances where Handelsbanken at least thought of making acquisitions in Norway that were substantially larger than the existing operations in the country. Ultimately, Fokus Bank was not acquired and Handelsbanken did not make a bid for Kreditkassen. Still, the fact that both opportunities were addressed by
management, suggested that Handelsbanken had become more open to increasing volume quickly by making large acquisitions. Even after the millennium shift, the possibility of buying into a new market was considered as a realistic option. However, more recently, Lars Ö Grönstedt has stated that the establishment of new regional banks has to be based on the initiative of local Handelsbanken staff, i.e. the regional banks are to grow out of existing Handelsbanken operations. The latest foreign acquisition, Midtbank, is on the one hand the biggest Handelsbanken has made abroad. On the other hand, the bank had already gained so much volume through organic growth in Denmark that it seemed realistic to digest the acquisition. The recent speeding up of branch start-ups in Norway, Finland and Great Britain gives an indication that Handelsbanken’s approach to growth abroad is shifting more towards organic growth again.

**Establishment of new branches**

In the beginning of Handelsbanken’s internationalisation in Scandinavia, there were no explicit criteria for how to select locations for new branches, except that the first branch was located in the respective country’s capital. Neither were there any specific targets for the size of Handelsbanken’s branch network outside Sweden. In the late 1990s however, as Handelsbanken’s Nordic branch networks had grown considerably, the bank started stating size targets in reports and press conferences. Handelsbanken aimed to have branches in all cities over a certain size. Initially, the size was 85000, later it was reduced to 50000. The target in principle created a road map for further expansion. A simple and seemingly objective decision criterion for establishments was created, leaving little room for managerial discretion, except for the order of branch start-ups. Although the size of the locations for Handelsbanken branches was subsequently lowered, it also set a roof for the size of the foreign network, at least in Scandinavia. It was measurable when the Scandinavian market was saturated with Handelsbanken branches according to the 50000 inhabitants criterion. As late as in 1999 (Långström 1999), Arne Mårtensson referred to the imminent completion of the Scandinavian Handelsbanken network when motivating the bank’s step to opt for universal banking in Great Britain. Despite this fact, expansion in Scandinavia continued and meanwhile the 50000 inhabitants criterion has been dropped. It is discussable, to what extent the criterion actually was a guideline for expansion or if it was rather a rationalisation of the emergent pattern that was used in external communication to make Handelsbanken’s growth strategy appear more rational. The stepwise lowering of the size level shows that the criterion was not a static dogma. It was rather adjusted to the emergent pattern of internationalisation. Still, by being publicly stated, it also influenced how the pattern emerged. At least temporarily efforts were directed towards filling the remaining cities with 50000 inhabitants with Handelsbanken branches.
Meanwhile, attention has shifted from the size of the local market to the availability of branch managers. This development was again triggered by the emergent pattern of development in the three new Scandinavian regional banks. As operations grew, the regional banks also considered going to smaller locations and the size threshold was subsequently lowered. Former staff from other banks approached Handelsbanken and asked if they could start-up a branch in their city where they had their personal network. This was not necessarily in larger cities. Experience with new branch managers from outside was mixed. In some smaller locations, the new operations turned out to be successful. Elsewhere, Handelsbanken encountered problems. Not all branch managers from outside seemed to fit in the bank. As a consequence of this, the bank has put even more emphasis on the recruitment of branch managers. The youngest of the regional banks, Great Britain, was the first one to explicitly make the availability of potential branch managers their primary localisation criterion for new branches. Meanwhile, it is communicated by the bank’s management centrally, that branch manager availability is a key criterion for Handelsbanken’s way of internationalisation. Considering the importance of the branches to Handelsbanken’s self-understanding, the branch manager criterion of course fits in more nicely than the size criterion which lacks any obvious connection to the bank’s identity claims.

The [central role of the branch manager to the localisation of new branches] is not specific to England. Rather England is our latest establishment and we have been able to codify our experience more clearly. We have become clearer and clearer in the Nordic countries as well that the branch is extremely important. Secondly, we have much more freedom to refrain from being in a place that would qualify for a Handelsbanken branch otherwise if we don’t find the right person.

Lars O Grönstedt, Managing Director, interview 2003

There have thus been different criteria over time for the development of Handelsbanken’s branch networks abroad. While there were no expressed guidelines in the beginning, there was a size criterion for a number of years around the turn of the millennium which has recently been replaced by a branch manager criterion. The shift between criteria did not occur as a discrete decision at a specific point in time. Rather, it emerged out of actions and experiences during the international expansion, which highlighted the importance of finding the right branch manager. The role of central management was not to make a decision, but to interpret the experience and to communicate it as a principle for Handelsbanken’s way of internationalising its branch activities. What emerged as a pattern of local experiences has now become a general principle.
New regional banks

In the same manner, there was no established procedure for the start-up of new regional banks, Handelsbanken staff in Oslo took the initiative to convince central managers to start-up universal banking in Norway. The following decision to set up operations in Denmark and Finland was taken centrally and followed the idea that the Nordic countries in general were the most obvious markets for a Swedish bank to enter. However, at this point in time there were no ideas for further expansion. Handelsbanken was, after all, occupied with developing its business in Sweden and the three new markets in Scandinavia. It was about one decade after the initiative from Norway that the same pattern repeated itself. This time, it was Handelsbanken in Great Britain that had developed the idea to go beyond the Nordic related business and offer full scale banking operations. The procedure was similar to the Norwegian venture. Local managers convinced Handelsbanken’s top management that their operations were mature enough to try out the Handelsbanken concept full-scale in a new market. The initiative and, from a career perspective, also personal risk-taking came from a local level, while the action was finally sanctioned and supported centrally. The decision was then implemented locally. With this step outside Scandinavia, Handelsbanken not only went into a country that had been left aside by other Swedish banks, it also signalled that further countries could follow. Great Britain was a step beyond the Nordic Countries or the Baltic Region which had previously been defined as ‘natural’ markets for Swedish Banks.

The British venture with its similarities to the Norwegian one, was now also presented as a role model for other markets. When asked about further expansion plans for Handelsbanken, Lars O Grönstedt refrained from setting up a central road map for future growth abroad. Instead he pointed out the British and Norwegian examples, saying that new markets would have to proceed in a similar manner. Business was to be developed locally and the initiative for starting up full-scale universal banking would have to come from the respective market. This principle is presented in an identical manner by other top managers at Handelsbanken, for instance Pär Boman who is in charge of the foreign operations which are not yet regional banks. What Handelsbanken’s management has done, is to make sense of previous internationalisation experiences and to formulate them as part of the Handelsbanken way of internationalisation. What was a pattern of local experiences has become a general principle.

Codification

Looking at the development of Handelsbanken’s internationalisation process, it appears that this guidance mainly occurs in an implicit manner initially. In the beginning there is not yet any expressed Handelsbanken way of internationalisation. After some time however, management makes attempts to interpret the pattern of action and to derive some more general principles from
Organisational self-understanding and the strategy process

The bank’s experience. These principles are made explicit and communicated both inside the organisation and towards external stakeholders. Patterns of action are turned into codified principles. By stating them, a more explicit Handelsbanken way of internationalisation comes into existence. Hence, management’s role in this process lies rather in codifying than in detailed decision making, a procedure resembling Bourgeois and Brodwin’s (1984) cresive management model or Quinn’s (1978) idea of logical incrementalism, where the manager channels the incrementally emerging patterns of action into a consistent strategy.

The Handelsbanken way of internationalisation has comprised principles regarding the development of national branch networks as well as principles for entering new markets with universal banking operations. However, these rules neither have to be static nor very rigid, as the shift between criteria for new branch start-ups illustrates. As the 50000 inhabitants criterion became obsolete, the shift to the branch manager criterion occurred. Codified principles cannot only change, they may also shift in clarity. While it has been a principle for Handelsbanken’s internationalisation since the early 1990s that growth should occur through organic growth complemented by acquisitions, there was a period during the late 1990s where speculation about large acquisitions questioned the continued validity of this principle. In recent years, as organic growth and the importance of growth out of existing operations have been stressed, the principle of only seeing acquisitions as a complement to organic growth has been reinforced again.

The emphasis on organic growth, the branch manager criterion as well as the recently codified procedure for establishing new regional banks are all very much influenced by the self-understanding of Handelsbanken. The claim to be decentralised and to emphasize local leadership on the regional and branch levels is mirrored by all three examples.

If we look back at the Scania cases, we can actually identify an example of codification in the Volvo case also. When Scania after a number of new strategic alliances declared that strategic alliances were a means for achieving economies of scale without engaging in mergers and acquisition, this was a codification of a historical pattern. Originally, the first alliance with Cummins was not driven by a desire to achieve economies of scale. However, as new alliances were added and there was an urgent need to legitimate Scania’s stand alone strategy, the pattern could be codified as part of the Scania approach to achieving economies of scale while maintaining organic growth.

13.5.4 Codification and the use of history

Although codification is about principles, the view on history in the internationalisation case is processual rather than mythological. History is viewed as a trial and error process of learning where different initiatives are made. Some initiatives are turned into codified principles, but such principles may change over time. History renders evidence that codified principles have
been changed due to changing circumstances and new experience. Hence, although the codified principles are not meant to be fluid, it is acknowledged that they may be changed. In this context, history is once again used ideologically to legitimate codified principles for internationalisation. The codified principles are seen as the result of successful Handelsbanken practice. Hence, on the one hand management legitimises practice by codifying it while on the other hand the memory of successful practice legitimises the codified principles.

13.5.5 The dynamics of strategy and self-understanding in the internationalisation case

To visualise the dynamics of strategy and self-understanding in the internationalisation case, the picture starts out with Handelsbanken as it was during the early 1980s. The bank saw itself mainly as a domestic bank and hence strategic action was domestically focused. Foreign operations were a complement to the domestic operations and the bank had no ambitions to serve customers without connections to Sweden. Based on this self-understanding, a situational belief is that new establishments abroad should only be created if they serve such customers (1). Subsequently, actions in Handelsbanken’s foreign markets become more and more directed towards serving the local markets. The direction of Handelsbanken’s strategic action changes incrementally (2). However, it takes some time before this results in Handelsbanken re-defining its self-understanding from being a domestic to being an international, i.e. in the beginning Nordic bank (3). From this changed self-understanding as a Nordic bank, situational beliefs about, for instance, the pattern of establishment in the neighbouring countries, are developed. In the beginning it is understood – however not formally prescribed – that it is most urgent to establish or buy branches in the capitals and the major cities in Norway, Denmark and Finland (4).
After some time, the implicit criterion to let establishment be guided primarily by size is made explicit and expressed. Handelsbanken top management codifies the existing pattern of action and shapes more explicit guidance for the establishment strategy (5). Along the way the codified population criterion is modified, adjusting the population threshold. The relation of the codified principles to self-understanding is complementary. They do not replace self-understanding. Within the context for action constituted by self-understanding they provide a narrower frame of action for certain specified issues, in the present case the establishment of new branches and new regional banks. After some time, opportunities emerge to open-up branches with promising branch managers in locations that are smaller than suggested by the population criterion. New situational beliefs are shaped, suggesting that Handelsbanken should try to open branches where good branch managers are available. This situational belief corresponds with the bank’s self-understanding in so far as it reflects the important role of the branch manager, an important feature of Handelsbanken’s self-understanding. Strategic action thus leaves the frame of action suggested by the codified principle (6). As a consequence of these new experiences, Handelsbanken’s top management also rethink the meaningfulness of the population criterion. The new pattern of action is taken and codified as a new principle, namely the branch manager criterion (7). In the meantime, no significant tensions regarding Handelsbanken’s self-understanding occurred. However, Handelsbanken’s self-understanding developed incrementally along
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the pattern of strategic action. Originally, Handelsbanken saw itself as a domestic Swedish bank, subsequently it defined Scandinavia as its domestic market and today it has universal banking operations outside the Nordic countries as well. Although Handelsbanken’s self-understanding still defines the bank as Swedish, it is now an internationally operating Swedish bank with no expressed geographical boundaries to expansion (8).

13.5.6 Managing self-understanding in the internationalisation case
Managerial attempts to manage self-understanding in the internationalisation case are mainly limited to making sense of past strategic action and based on this, formulating frames of action for the future. As Handelsbanken had started its first activities directed at the local Norwegian market, Handelsbanken’s management declared that the bank was going to internationalise in the Scandinavian countries. Hence, central management opened the way for going from a domestic to an international self-understanding. The main initiative however came from incremental action on middle management level. Later, central management, in particular the Managing Directors Arne Mårtensson and Lars O Grönstedt continued setting strategic directions derived from previous patterns of action, namely through codifying principles for internationalisation.

13.5.7 Strategy-making and self-understanding
The role of self-understanding to Handelsbanken’s internationalisation process is mainly one of providing guidance to strategic action. This occurs once again through situational beliefs that are derived from the bank’s self-understanding and which suggest specific ways of acting during the internationalisation process. At the same time, Handelsbanken’s self-understanding also follows strategic action. As bigger and more sophisticated international activities conjure up an understanding of an increasingly international bank. Handelsbanken’s self-understanding also lays the ground for codified principles which top managers shape during the process to achieve additional guidance. The principles originate in situational beliefs that have been derived from Handelsbanken’s self-understanding. These beliefs are initially implicit, before they are made explicit and announced as the Handelsbanken way of internationalisation.
14 Self-understanding connecting history, present and future

The previous chapters with the six empirical cases were each concluded with a low-abstract analysis, presenting some preliminary reflections and findings concerning each of the cases. Although the analyses were partly built upon each other, they were primarily within case analyses. In the coming chapters I will move a step further, picking up theoretical themes from the different cases and interpreting them in theoretically more abstract analyses across cases. To begin with, I will address organisational self-understanding as connecting the organisation’s history and its future. In chapters two to four, I outlined that strategy as well as self-understanding are phenomena simultaneously relating to past, present and future. This view is confirmed by my empirical cases. In several of them, history is even used in a purposeful sense in order to manage strategy as well as self-understanding. In the present chapter, I will synthesise and interpret these observations to further our understanding of the dynamics of strategy and organisational self-understanding.

14.1 Past, present and future in organisations

Organisations have been shaped in the past and are heading for the future. This statement seems almost trivial, nevertheless it is highly important if we want to understand organisations, their strategies and their self-understandings. Research that is based on snapshot pictures of the present or purely emphasises the move from present to future, implicitly arguing that it is the future which counts and the past cannot be changed anyway, will result in limited understanding. As we have seen in the frame of reference, organisations are shaped over time and during this process, they become infused with value (Selznick 1957). Material structures as well as ideas are historically conditioned. Hence, we have to go back to history in order to understand the present value system (Rhenman 1974) or world of ideas (Normann 1975) that prevails in the organisation. These ideas are important in constraining (Kimberly and Bouchikhi 1995), restricting (Normann 1975) and why not enabling managerial action directed towards the future. Resulting from this, strategy may become the struggle between preserving the historically established and creating novelty for the future, as Melin (1998) describes it.

In organisational identity literature, history is often acknowledged as the time when present organisational identity was shaped (e.g. Albert and Whetten 1985; Bartunek 1984). However, history is not only important as it provides an implicit background of present conditions and future possibilities. History is also explicitly addressed by organisational members seeking to fulfil their existential need for remembrance or using it in a more functional sense in order
to restore past conditions or to rationalise and legitimise ideas and actions (Karlsson 1999). Hence it is not so simple that it is only history that provides meaning for our interpretation of the present and the future. The relationship also works vice versa. The past is interpreted in a way that makes it fit with present assumptions and motives. Nilson (1976) describes interpretation as simultaneously revealing and assigning meaning. His point is that in interpretation we on the one hand, look backwards, trying to understand the past from our contemporary perspective (revealing meaning) and on the other hand, look forward trying to understand possibilities for the future (assigning meaning). Understanding thus means looking forward and backwards at the same time. Consequently, also self-understanding is about understanding the organisation’s past, present and future. In the organisational identity literature, this is not often mentioned with the notable exception of Gioia, Schultz and Corley (2000) who refer to historical revisionism to explain how organisations reinterpret their history in order to make it fit with their self-understanding.

Let us now go back to the Handelsbanken and Scania cases in order to see how history is used in the companies’ strategy processes.

### 14.2 Uses of history in Scania and Handelsbanken

If we recall the typology suggested by Karlsson (1999), he proposed distinguishing between five different uses of history. The scientific use was primarily a task for historians, while the existential use reflected the general human need to remember in order to experience anchoring and orientation in a wider context. The moral use referred to the rediscovering of past events in order to rehabilitate and to restore what once has been forgotten and neglected. Finally, the ideological use as well as the non-use of history directly referred to the attempt of achieving political aims by reference or non-reference to historical circumstances. History is used to legitimise or delegitimise things in the present. In Scania and Handelsbanken all uses of history can be found, although particularly the final three have been emphasized in the previous cases as they most clearly have an impact on the organisation’s strategy process. I will first address the scientific and existential uses before discussing the other uses in more detail.

#### 14.2.1 The scientific and the existential use of history

Corporate histories have been written about Scania as well as Handelsbanken. This genre is not necessarily limited to one particular use of history. If the corporate history is written using scientific methods, aiming at reconstructing and interpreting actual historical processes, one can talk of a scientific use of

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**Footnote:** In my own reasoning I do not use revealing and assigning in the same way as Nilson does. To me, assigning meaning can also be about things in the past. Despite the different use of concepts, I believe that Nilson makes an important point in showing how understanding links past, present and future.
Organisational self-understanding and the strategy process

history. Now, corporate histories are often written on the company’s commission and sometimes also published and spread by the company. This may happen in conjunction with an anniversary or any other kind of event where the company is, of course, prone to be presented in a positive light. The scientific use of history can then be mixed with other uses, like the existential and the ideological. Hence, corporate histories may sometimes contain less critical reflection about the company than an ordinary research report written for primarily scientific reasons would do (cf. Kimberly 1987). In Handelsbanken’s case, Hildebrand’s (1971) work is an example of a corporate history written on commission of the bank. Also the works by the former Managing Directors Tore Browaldh and Jan Wallander contain comprehensive accounts of periods in Handelsbanken’s history. However, they are primarily autobiographies, in Wallander’s case with an element of normative management literature. A comprehensive account of Scania’s history emphasizing the company’s employees can be found in Giertz’s (1991) book on the people in Scania. Other books published by Scania put more emphasis on the company’s products (Olson and Erichs 1987; Sandell and Streiffert 1990). While the work of Giertz has the flavour of a research-based popular book, the latter have a more downright popular character. Hence, both in Scania and Handelsbanken elements of the scientific use of history can be found. They are however mixed with other uses. Particularly from the companies’ perspective, the corporate histories can be used in an existential as well as in an ideological sense. They provide employees with the possibility of deriving anchoring and orientation from history and the positive images of the companies’ histories that the books convey, contribute to the organisations’ legitimacy.

The existential use of history can be assumed to exist in all kinds of organisations since it refers to the human need to remember in order to achieve orientation in a wider context (cf. Karlsson 1999). The existential use thus concerns all members of a population, be it a nation or an organisation. If we follow Tajfel and Turner (1979) in believing that humans identify with the groups to which they belong, an understanding of the group’s or the organisation’s history is also important to individual identity. Of course, members of Scania and Handelsbanken also remember, either through their own experience or through stories they have heard or read. In Handelsbanken,

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100 Lundström (2004) provides a number of very interesting examples of how Ericsson has used history in conjunction with corporate anniversaries.

101 I am not a historian and it is not my ambition to judge the scientific quality of corporate histories about Handelsbanken and Scania from a historian’s point of view. The books by Hildebrand (1971) and Giertz (1991) both build on an impressive amount of data the authors have collected. In particular Giertz’s volume on Scania aims at a popular audience, which explains why he does not give reference to his sources like one would do in a scientific report. Hildebrandt was a trained historian, while Giertz’s research focus in engineering is on industrial practices, often with a historical perspective. Both authors manage to combine detailed historical accounts with an ambition to talk to a non-scientific audience.
particularly the books by Jan Wallander as well as the stories about his reforms offer rich material for giving employees orientation and making sense of their own place in the bank’s ongoing history. These memories often relate to Handelsbanken’s self-understanding as a decentralised bank, by referring to the bad times before Jan Wallander became Managing Director, the changes he initiated, the resistance his reforms met, and the way they have been carried on by his successors. In the sense that the memories are communicated by management in order to legitimise and strengthen decentralisation, the existential use of history overlaps with the ideological one. This is also the case for the existential use of history at Scania. Memories of Scania’s history as an independent company and as a part of the Saab-Scania group could provide orientation during the turmoil of the Volvo takeover. Such memories contributed to the aversion against a merger, many Scania employees felt. The history of Scania and its products is tangible to the organisation’s members. The newer products can be seen on the roads while many of the older ones can be seen in an exhibition on the Södertälje premises. Stories about Scania can be read in various publications and are told by organisational members. Hence, employees can identify not only with the company at present, but also find anchoring in relation to the history of the company.

14.2.2 The moral use of history

The moral use of history allows people to rediscover or to rehabilitate issues in an organisation’s past that have been forgotten or neglected. This may also involve pointing out villains claimed to be responsible for deficiencies in the organisation’s memory (Karlsson 1999). Neither in the Scania nor in the Handelsbanken cases is there an example rediscovering something that has been forgotten. However, the new and more systematic work with the modular system and the attempts to rediscover and communicate what is claimed to be the modular system’s original meaning shows obvious parallels with the moral use of history. The modular system at Scania was never forgotten. On the contrary it has been frequently emphasised as one of Scania’s major resources ever since its introduction with the 2-series. Nevertheless, the understanding of the resource – what the modular system implies and on what ideas it rests has changed over the years. Focus had shifted from the standardisation of interfaces between components to the standardisation of components as such. Now, Scania made efforts to rediscover, to describe and to communicate the original meaning of the modular system. Also the villains who were responsible for forgetting the original ideas were identified, albeit as a roughly defined collective and not personally. They were the young engineers who were recruited during the 1990s and did not know what the modular system ‘really’ implied. Instead they were said to be obsessed with cost cutting, resulting in an unreasonable standardisation of components.

Self-understanding in this case was not about changing self-understanding in the sense that modularisation as such had to be newly introduced. The view
that the modular system was a characteristic of Scania that was central, distinctive and continuous over time about the company had never been disputed. However, Scania needed to define what ideas there were behind the modular system label. The label as such had been the same all the time and would probably be so in the future. It was the meaning attached to it that in practice had changed over the years.

**Self-understanding as label and meaning**

Modularisation as an aspect of Scania’s self-understanding can hence be understood as consisting of two parts. On the one hand the label, i.e. the ‘modularisation’ concept and on the other hand the meaning, i.e. what ideas people associate with the modularisation label. Gioia, Schultz and Corley (2000) remind us that labels relating to self-understanding may be relatively stable over time, while the meanings attached to them change. Hence, a sense of stability is maintained although changes actually occur.

In the modularisation case, label and meaning did not only differ in terms of stability, but also in terms of clarity and sharedness. The modularisation label was explicit and shared throughout the organisation, while the meaning was more implicit and less shared. Of course, people at Scania talked about modularisation and what it implied to them. In this sense also, explicit statements about the meaning of modularisation occurred. Still, there was no commonly agreed upon meaning that was communicated clearly enough to be known and shared by everyone concerned with it in the organisation. As a result there was room to interpret the modularisation label differently. While the original meaning of modularisation had been to standardise interfaces between components as well as to standardise components within clearly defined performance classes, the idea of performance classes increasingly got lost. People interpreted modularisation as standardisation. Components were standardised across performance classes. Reducing the number of components by using the remaining components for as many purposes as possible became an idea that was associated with modularisation. Although the label had been the same all the time, the meaning attached to it had changed more and more. This change had occurred more or less unconsciously. The engineers involved in research and development believed that their understanding of modularisation was as it had always been. However, emphasis had drifted more and more towards standardisation.

As quality problems with the new 4-series were higher than expected and difficult to resolve, excessive standardisation was found to be one of the problems. Management’s reaction was to rediscover and revive what was claimed to be the true and original meaning of modularisation. The

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102 Symbolically, the decreasing awareness of performance classes became manifest in Scania skipping the M, H and E classes in the models for its 4-series trucks. This was partly also done for marketing reasons as the M model was difficult to sell. However, the change also happened substantially in the form of increasing standardisation between performance classes.
modularisation label was to be connected with another meaning and this meaning had to be communicated clearly and be shared throughout Scania’s organisation. This meaning was not simply invented anew, but it was derived from Scania’s history. With the recognition that the organisation’s understanding of modularisation had deviated from the original meaning, interest in history and in particular the historical development of the modularisation ideas increased.

Self-understanding in connection with Scania’s modularisation philosophy was thus on the one hand an understanding of Scania’s present, i.e. what meaning should be attached to the modularisation label now. At the same time however, it was an understanding of Scania’s history, i.e. how had the modularisation ideas developed and what meaning had originally been attached to the modularisation label. The understanding of history could be used for creating present self-understanding. First, the historical meaning of modularisation, or at least what was claimed to be the historical meaning, could be rediscovered and once again be attached to the modularisation label. Secondly, reference to history could be used in order to legitimise present action. Scania’s management could claim that the rediscovered meaning of modularisation implied returning to the company’s old success recipe, which is rediscovered as a success recipe for the future. Here, the moral use of history, i.e. the rediscovery of the meaning of modularisation overlaps with the ideological use. Conditions and events from Scania’s history are taken to construct and to legitimise present self-understanding and to provide direction for future strategic action. This change back to the roots is not limited to modularisation as such. Also other historical ideas like the absence of annual models are rediscovered and used in order to legitimise similar ideas at present.

History appears as a reservoir of ideas, which can be revived if they can be used to support current strategic action. The moral use of history, i.e. the rediscovery of historical meaning thus enables Scania to maintain a sense of continuity while the meaning many Scania employees attach to modularisation actually undergoes change. The change that occurs is not perceived as novelty, but as a return to the historical roots of the company’s success.

14.2.3 The ideological and the non-use of history
I will treat the ideological and the non-use of history under the same heading as they are similar as regards their users and their functions (Karlsson 1999). Both refer to attempts by elites, in an organisational context this could be management, to legitimise, rationalise and delegitimise action. Basically just the means are opposite. While the ideological use is based on reference to history, which supports the intentions of the elite, the non-use is characterised by the

103 In stating this, I do not mean that Scania’s reconstruction of the original meaning of modularisation is inaccurate. My point is rather that the belief of having rediscovered the original meaning of modularisation is more important to Scania’s self-understanding than the question of whether one has managed to reconstruct the original ideas in all details and with full accuracy.
Organisational self-understanding and the strategy process

absence of such reference. In this way, historical epochs can be devalued and
historical events that might question the legitimacy of the elite’s ideas are
forgotten.

In the Scania and Handelsbanken cases, we have identified various examples
of the ideological use of history, but there are also examples of non-use. One
example is the relatively low interest of Handelsbanken in its history prior to
Jan Wallander\(^\text{104}\). When the pre-Wallander history is referred to, reference is
usually made to the period of turmoil right before Wallander assumed office, in
order to use this phase as a contrast to the changes he initiated. Reference to
the bank’s earlier history is very rare. Let us briefly recall the examples of
ideological use and non-use.

- In the modularisation case, Scania uses reference to historical
  modularisation ideas as well as ideas of continuous product
development to legitimise similar ideas and action in the future.
- In the cab case, the advocates of the bonneted T-cab at Scania
  make reference to historical cab models in order to legitimise T-
cabs in the future. The bonneted cab is depicted as an important
feature of Scania’s historical heritage and the STAX initially has the
role as the inheritor of this tradition. As the STAX is finally
reinterpreted as a crash zone, historical reference is replaced by a
non-use of history, detaching the concept model from traditional
bonneted cabs.
- In the Volvo case, Scania’s management refers to historical
  examples of mergers and acquisitions in the truck industry to
delegitimise the takeover attempt and create legitimacy for Scania’s
stand-alone strategy. Moreover, Scania’s management codifies the
pattern of strategic alliances as a principle to achieve economies of
scale while not engaging in mergers and acquisitions.
- Across all Handelsbanken cases, historical examples are used to
  legitimise Handelsbanken’s way of doing banking, in particular its
decentralisation. They are contrasted with examples from the time
right before Wallander’s tenure in order to delegitimise centralised
approaches to banking.
- In the internationalisation case, Handelsbanken’s top management
  codifies historical experience. Thereby reference to successful
historical practices legitimises the codified principles.
- Across all the Handelsbanken cases, the low proportion of reference
to the pre-Wallander era emphasizes the dividing line between

\(^{104}\) In this context I want to recall that non-use here is meant in a relative and not in an absolute
sense. The pre-Wallander era is of course referred to once in a while. However, the discrepancy
between the strong interest in the Wallander and post-Wallander periods on the one hand and
the low interest in the pre-Wallander period on the other hand, is so large that the latter more or
less appears as a non-use.
Handelsbanken before and after Wallander. It is primarily the period since Wallander assumed office that is a legitimate point of reference for current and future action.

**Self-understanding as understanding of historical events**

Self-understanding refers, among other things, to the history of an organisation. History resembles a reservoir – or as Schulze (1987) expresses it, a quarry – of events and ideas that have existed in the organisation and in its context over the years. Not all aspects of history are equally salient in any kind of situation. Neither are the memories we have of the past objective. The understanding organisational members hold of their organisation’s past is rather the outcome of an interpretive process. The interpretation of history happens as a hermeneutic process. The past is re-evaluated and assigned meaning, based on the pre-understanding organisational members have at present. Some aspects of history are highlighted while others are more or less forgotten or even deliberately ignored. As we know from previous research, collective interpretive processes that occur in organisations can involve everyone and are not easily controlled by management (Smircich 1983a). However, management can influence members sense making by providing ready-made interpretations through so-called sense giving (Gioia and Chittepeddi 1991). This is what happens when people in Scania and Handelsbanken engage in the ideological use of history. Managers and other organisational members pick up events and ideas from their company’s history and assign meaning to them, which they then try to communicate throughout the organisation. Such sense giving is not purely limited to top managers. As we can see from the case, employees from lower levels of hierarchy also communicate their view of the company’s history.

Memories of history would not be very interesting from a strategy point of view if they were pure sentimental reminiscences of the past. However, they are much more than that. History is used to construct the organisation’s present self-understanding and in doing that, it is used for providing answers regarding current strategic issues and the future strategic direction. This is done purposefully, aiming at legitimising or delegitimising certain courses of action. It is in this purposeful use of history directed towards achieving strategic aims that the use of history becomes ideological.

**Using historical reference and non-reference in an interpretation process**

Ödman (1979), drawing upon Radnitzky (1970), describes hermeneutic understanding as a spiral. A process of interpretation is based on a pre-understanding, which is developed towards new levels of understanding, which again serve as pre-understandings for further interpretation. The development of Handelsbanken’s and Scania’s self-understandings, can be described as a hermeneutic spiral. By referring back to history, historical events are used to
Organisational self-understanding and the strategy process

develop and to legitimise alternative self-understandings. A closer look at the case of Scania’s bonneted cabs may serve as an illustration.

Before a handful of people at Scania started developing the STAX concept model there was already an established self-understanding in the organisation. To be precise, there were even two alternative self-understandings. Although they were similar in many respects, they differed with respect to the emphasis they put on quantifiable versus non-quantifiable features of the identity of their company and its products. Those people who worked on the STAX concept model were proponents of the emotional version of Scania’s self-understanding. Hence, their pre-understanding of Scania’s identity assumed that quantifiable technical performance as well as non-quantifiable aspects such as the legendary status associated with the company and its products were central, distinctive and temporally continuous characteristics of Scania.

Based on this pre-understanding, they started developing a concept model for a future T-truck. The pre-understanding that non-quantifiable features mattered provided a basis for working with developing a product with declining sales volumes. However, they needed additional legitimacy in order to carry their project beyond the state of a minor study for internal use and to show it to a public audience. There were various arguments for gaining such legitimacy. Some were primarily related to present and future conditions, such as the possibility to test the future market potential for bonneted cabs at a fair and the opportunity to provide more comfort for the driver in a newly designed cab. However, other arguments also related to the past, referring back to historical Scania cabs. The fact that Scania has produced many well-known bonneted cab models over the years was interpreted in such a way that the bonneted cabs were an important part of Scania’s historical heritage, implying that part of this heritage might be lost if Scania discontinued the T-truck. This line of argument was finally also reflected in the company’s initial presentation of the STAX to external audiences.

How should Scania extend its heritage of 20th century bonneted trucks into the 21st century? Some of the company’s industrial designers were asked to carry out a concept study, looking 2-3 generations ahead and using the T-truck as their starting point. […] At least as important as identifying new design concepts was the task of conveying the historical identity of Scania bonneted trucks.


By emphasizing the importance of bonneted trucks to Scania’s history and by labelling them a part of the company’s historical heritage, emphasis was also put on the importance of bonneted cabs to Scania’s self-understanding. Historical products were highlighted and ascribed meaning in order to legitimise T-trucks in the future. Since the T-truck symbolised the importance of non-quantifiable features of Scania’s self-understanding, the STAX project initially also put more emphasis on such non-quantifiable features.
During the development and the first presentations of the STAX concept model, something happened to Scania’s self-understanding. The hermeneutic spiral in the figure below illustrates the development of Scania’s self-understanding during this process. In the beginning, the development of the STAX was characterised by a focus on the non-quantifiable aspects of Scania’s self-understanding. This emphasis constituted the pre-understanding of the development work and this pre-understanding was further enforced by historical reference to examples of bonneted cabs in Scania’s past. The STAX was thus initially an outcome of an emphasis on the non-quantifiable features of Scania’s self-understanding. If the STAX was interpreted as a symbol of non-quantifiable features, it was also a potential means for further emphasising the importance of such features to Scania’s self-understanding.

However, the official interpretation of the STAX by management soon took another turn. Soon after the first presentation, the interpretation of the STAX was based primarily on an emphasis on the quantifiable features of Scania’s self-understanding. By refraining from historical reference, the STAX was detached from its meaning as an extension of Scania’s bonneted truck heritage. Instead it was labelled a study of a future crash zone, an interpretation that was more in line with the quantifiable aspects of Scania’s self-understanding. Rather than being a symbol of non-quantifiable features, the STAX had, at least for the time being, become a means for reinforcing the importance of the quantifiable features.

**Simultaneous use and non-use of history**

Making sense of and assigning meaning to historical events and ideas, is part of the interpretive process that shapes, maintains and changes organisational self-
understanding. Such making sense of history, at least indirectly, also occurs in refraining from historical reference. Non-reference implies that history or certain epochs of it are seen as more or less irrelevant to solving present problems or meeting future challenges, at least concerning the topics that are currently on the agenda. By openly assigning meaning to historical events or by refraining from addressing history when talking about the organisation, the making sense of history turns into sense giving, namely the ideological or the non-use of history. Interestingly, the ideological use and the non-use of history can exist side by side as is the case at both Scania and Handelsbanken.

At Handelsbanken, frequent reference is made to the early years of Jan Wallander as Managing Director, indicating that this period offers important lessons for the present and the future. Stories from the early 1970s illustrate the decentralisation principles that are still crucial to the bank’s self-understanding. At the same time the relative absence of reference to the 1950s and 1960s practically rules out this period as a model for Handelsbanken’s self-understanding.

Also at Scania, reference and non-reference to history exist side by side. In the cab case the proponents of an emotional self-understanding use history ideologically as they believe that history can legitimate their understanding of Scania’s identity and provide guidance for future strategic action. When management relabelled the STAX as a future crash zone, the non-use of history indicates that at least for strategic decisions about future cab models, calculative criteria are more important than history. This does however not imply that Scania’s management has no interest in history. In connection with other aspects, as shown in the modularisation case, management takes active part in the use of history for legitimising the meaning that is assigned to the modularisation label.

**Sense making and sense giving with regard to history and future**

In the literature on sense making and sense giving a strong emphasis is put on making sense of and giving sense to the present and the future. For instance, Gioia and Chittepeddi (1991)\[^{105}\] in their seminal article address how the new leader of an organisation makes sense of the present situation, based on this sense making envisions a future state (or self-understanding) and then communicates his vision throughout the organisation through sense giving activities. Organisational members make sense of the ideas conveyed by the manager, before they themselves engage in sense giving by giving feedback to the manager. In this example sense making and sense giving are almost exclusively focused on the future, except the manager’s initial sense making,

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\[^{105}\] We may here recall that Gioia, Schultz Corley (2002) later position the article within the field of organisational identity literature. While there is no explicit reference to organisational identity in the article, the positioning makes sense in so far as the strategic change process described aimed at change in the organisation’s identity.
which addresses the present state and maybe some historical characteristics of
the organisation.

The cases from Scania and Handelsbanken show, that sense making and
sense giving can also very much relate to the organisation’s history. One
possible interpretation of this could be that there are organisations that live very
much in the past and reproduce historical behaviour, while other organisations
are more future-oriented letting themselves be guided by visions of a future
state. However, neither Scania nor Handelsbanken support a view that sense
making and sense giving either have to be about the past or of the future.
Historical reference and visionary thought do not exclude each other, they are
complementary.

We have seen in the cases from Handelsbanken and Scania that historical
reference usually does not occur randomly. Views on history are not objectively
given. This does not mean that organisational members can construct any
arbitrarily chosen view of the history of their organisation. However, there is
room to choose what aspects of history to emphasize and what meaning to
attribute to them. Organisational members also have room to choose under what
circumstances they want to make reference to history at all and under what
circumstances they want to refrain from such reference. In all cases where the
ideological use of history or the non-use of history occur, the reference to
history is closely linked to ideas about the future. Reference to old strategies of
continuous component introduction at Scania is linked to the idea of skipping
major shifts between truck generations in the future. Reference to the failure of
Iveco’s M&A strategy is linked to the intention to continue a strategy of
organic growth in Scania. Similarly, Handelsbanken’s referring to the early days
de centralisation under Jan Wallander is linked to the intention to continue
running bank operations in a decentralised manner and the codification of past
strategic patterns in Handelsbanken is linked to the conviction that they may
serve as good principles for future strategic action.

History as a legitimation of the future and future as a derivation from history
When we look at how history is used in Handelsbanken and Scania, we
encounter a classical hen-and-egg problem. Usually, we might see it as self-
evident that history precedes the future, but what is the situation regarding the
sense we make of history in hindsight? Do strategic actors make sense of history
based on visions about the future in order to search for events and ideas that
might add legitimacy to their vision? Or is it perhaps an interpretation of
history that serves as a source of inspiration, maybe also as a cognitive
constraint, from which strategic actors derive visions about the future? In
specific cases, either the former or the latter variant may be more apparent.
However, it is difficult to reconstruct whether the understanding of history
preceded the understanding of the future or vice versa. In most cases, the
assumption of a linear relationship between the two is probably of as little help
as the attempt to sort out whether the right foot follows the left or the left foot
the right when we walk, to borrow Mintzberg’s example from the strategy-structure debate (cf. Mintzberg, Ahlstrand and Lampel 1998).

What is more helpful is to note that there is a two-directional relationship between history, the present and the future. First, present and future can be legitimised by reference to the past. In this case, the past is primarily interpreted from conceptions of present and future in order to deliver a legitimation for the present or for the future. We have noted examples of that in the Scania and Handelsbanken cases and similar examples can also be found in the literature, such as Gioia, Schultz and Corley’s (2000) example of the reinterpreted historical HP-Way that served as a legitimation of Hewlett-Packard’s changed self-understanding. Legitimising an option for the present or the future may often go hand in hand with delegitimising another, for instance by pointing at negative examples in the past. An example would once again be the reference to Iveco that simultaneously legitimised Scania’s strategy of organic growth and delegitimised M&A strategies. Secondly, ideas about the present and the future can be derived from the past. In this case, present and future are mainly interpreted from a conception of the organisation’s past. For instance, the ideas about Handelsbanken’s internationalisation were derived from historical strategic patterns. Similarly, Handelsbanken’s Internet solution was strongly influenced by the historically established self-understanding of Handelsbanken as a decentralised bank.

Both ways of linking past, present and future can create continuity. In the case of deriving present and future from the past, continuity is established prospectively. The past, or at least the understanding of the past that prevails in the organisation, serves as a model for present and future. In the case of seeking legitimacy for present and future in the past, continuity is established retrospectively. The past is interpreted in a way that makes it appear as a foreshadowing of present and future. In the case that a negative example from the past is used, the effect is of course the opposite and discontinuity is created instead of continuity. In practice, of course, the prospective and the retrospective establishment of continuity easily go hand in hand since for instance an idea that has been derived from the past also can be legitimised by reference to the past.

Based on the legitimation/derivation relationship, we can identify six ways of connecting understandings of the past, of the present and of the future, as illustrated in the figure below. Such understandings can be about things other than the organisation’s identity, for instance the strategy of Iveco. However, in our examples they all relate to the self-understandings of Handelsbanken or Scania.
De/legitimising understanding
The past is interpreted from conceptions of the present and the future in order to de/legitimise the present and the future.

Deriving understanding
The present and the future are interpreted based on an understanding of the past, i.e. understandings of present and future are derived from the past.

Figure 14-2. De/legitimising and deriving understanding.

The six linkages between past, present and future can be illustrated by the following examples from the cases.

1) An understanding of the past legitimises or delegitimises an understanding of the present, i.e. we should (should not) be x now because it has been good (bad) in the past.

During Volvo’s takeover attempt, Scania’s management referred to Iveco’s unsuccessful M&A strategy in the past in order to legitimise Scania’s stand alone strategy and to delegitimise Volvo’s takeover idea.

2) An understanding of the present legitimises or delegitimises an understanding of the future, i.e. we should (should not) be x in the future because it is good (bad) now.

During the integration of Stadshypotek Bank, Handelsbanken’s self-understanding as a decentralised bank with the branch as the primary
organisational unit deligitimised the option of allowing Stadshypotek to approach customers without any options of control for the branches.

3) *An understanding of the past legitimises or delegitimises an understanding of the future, i.e. we should (should not) be x in the future because it has been good (bad) in the past.*

In the modularisation case the historical example of continuous component introduction legitimises returning to continuous component introduction and abandoning major shifts between models at Scania.

4) *The understanding of the future is derived from the understanding of the present, i.e. x is good (bad) now, therefore we should (should not) be x in the future.*

In the internationalisation case at Handelsbanken, the practice that the availability of branch managers had come to guide the establishment of new branches was transformed into a general principle for guiding the bank’s growth pattern.

5) *The understanding of the present is derived from the understanding of the past, i.e. x has been good (bad) in the past, therefore we should (should not) be x now.*

In the modularisation case, the understanding of modularisation is derived from the historical meaning, modularisation has had in Scania.

6) *The understanding of the future is derived from the understanding of the past, i.e. x has been good (bad) in the past, therefore we should (should not) be x in the future.*

In the Internet case, the design of Handelsbanken’s Internet solution was guided by the bank’s historically established self-understanding as a decentralised bank with the branch as the primary organisational unit.

For illustrative purposes, the above list relates one example to each of the linkages. However, a specific case usually involves more than one linkage. Applied to a practical situation legitimation and derivation of understanding often go hand in hand. For example, Handelsbanken’s approach to Internet banking was derived from the bank’s historical and present self understanding as a decentralised bank. At the same time, Handelsbanken’s historically-established self-understanding also legitimated the accepted solution.
14.3 Processual and mythological views of history

In the cases from Scania and Handelsbanken we have seen that historical reference is frequently made and that it is used for legitimising present and future as well as for deriving ideas about the present and the future from history. In this context, it is interesting to see whether a processual, a mythical or maybe both views of history prevail in the organisations. To recall, a mythical view, basically sees history as a manifestation of timeless principles, i.e. the most important question about a past event is not whether it has actually occurred, but rather what it an tell us about principles that are still valid today and will be so in the future. Change plays a minor role in mythical accounts of history as these primarily refer to principles that are continuous. A processual view on the other hand, emphasises change. History is seen as a development process where a state that has existed once never reoccurs. Such a view and accounts of history render testimony that actors actually can bring about change in the world (Bonhoeffer 1949/1998; Karlsson 1999).

14.3.1 Timeless principles and mythological views of history in Scania and Handelsbanken

It is remarkable, that the self-understandings of Scania as well as of Handelsbanken involve principles that prescribe how the two companies should do their business. At Handelsbanken, it is primarily the principle of decentralisation, involving powerful branches. At Scania it is particularly the idea of modularisation that has become central to the company. Interestingly, in both cases it is claimed that the principles have universal validity that goes beyond the particular organisations and their businesses. Drawing upon Johnson and Bröms (2000), Leif Östling sees modularisation as resting upon biological principles, while Jan Wallander regards Handelsbanken’s decentralisation as corresponding to the nature of human beings (Wallander 2002). Depicting modularisation and decentralisation as practically resting upon the laws of nature, of course provides both ideas with legitimacy.

Modularisation being part of Scania’s self-understanding and decentralisation being part of Handelsbanken’s self-understanding, it is hardly surprising that there are historical accounts relating to both of them. These accounts are mythological in the sense that they aim at conveying timeless principles. The stories about the roots of Scania’s modular system, namely the standardisation efforts by August Nilsson and the experiments by Sverker Sjöström, are about ideas that in principle are still to be applied to day. The reference to the Teknikens Värld article about Scania’s historical continuous

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106 Modularisation primarily concerns the development and construction of vehicles. More recently, the Scania Production System (SPS) has been an attempt to formulate principles for production. On the market side, which is relatively young as an integral part of the company, there are not yet any principles that are as well-established as modularisation for construction and SPS for production.
introduction policy conveys that continuous introduction is still appropriate today. Similarly, stories of Jan Wallander’s decentralisation efforts in the early 1970s are about principles that are perceived to be central to the bank’s business in the 21st century.

The historical accounts relating to decentralisation and modularisation actually include accounts of change. However, this change is not related to the ideas once they have been introduced. It is rather the introduction of modularisation and decentralisation that constitutes the change. After that the ideas are only refined and made more explicit, but not fundamentally changed. The mythological view of history in relation to decentralisation in Handelsbanken and to modularisation in Scania implies that both ideas are perceived to be continuous over time. With regard to self-understanding, this fits with the idea that self-understanding as such addresses features that are regarded as central, distinctive and continuous over time about an organisation. The mythological view on history in relation to modularisation and decentralisation stabilises the self-understandings of the companies.

14.3.2 Change and processual views of history in Scania and Handelsbanken

When history is addressed in Scania and Handelsbanken, the view of history is not always mythological. In both companies there are past events that are addressed as historical development processes, characterised by changes that do not result in any supposedly timeless and fixed principles. Instead the course of further development is left open and change remains an option for the future.

One clear example of a historical view on history in the six cases can be found in the case of Handelsbanken’s internationalisation and the approach to establishing new branches abroad. Over the years, the approach to determining the pattern for new branch establishments has changed several times. The knowledge of previous changes also implies that the present approach will not necessarily last forever. In the beginning, there were no stated principles for the establishment of new branches at all. It was taken for granted that Handelsbanken should be present in the capitals of the countries. As operations abroad grew and Handelsbanken acquired small foreign banks as well as establishing new branches outside the capitals, this happened mainly in major cities that were regarded as important local markets. Subsequently, this resulted in an expressed goal that the bank should be present in cities above a certain size threshold, practically prescribing the pattern for further establishments. The size criterion was not fixed however. The threshold level was subsequently lowered and finally the size criterion was replaced by a fundamentally different branch manager criterion which has now been in place for a relatively short period of time. It remains to be seen whether the branch manager criterion will have a more permanent character or if it will be replaced by yet another criterion when circumstances change. The processual development of the criteria and the previous changes suggest however that further changes may
come and that the branch manager criterion is not necessarily a continuous feature of Handelsbanken.

In the three Scania cases, the company’s willingness to reconsider its stance towards medium-sized trucks is the clearest example of a processual view of history. In spite of the fact that the medium-sized truck projects have not been unproblematic with regard to Scania’s modular system, the company has repeatedly acted in an undogmatic way and tried moving into lighter segments. Although the projects have so far always been discontinued sooner or later, the stories of the medium-sized trucks indicate that Scania is open to reconsider its focus on heavy trucks if the market requires such a move. A processual view on history can also be found in stories about the development of Scania’s sales and services operations that has changed significantly through downstreaming in recent years.

14.3.3 Different views of history in relation to institutional and situational beliefs

Looking at the kinds of beliefs existing in Scania and Handelsbanken, we have seen earlier that these beliefs can be meaningfully divided into institutional and situational beliefs (Melander 1997). Beliefs about what is central, distinctive and continuous over time about the organisations, i.e. the self-understandings of Handelsbanken and Scania are often institutionalised and relatively abstract. However, they give rise to situational beliefs that address specific circumstances and are more easily changeable. In contrast to the institutional belief, the situational beliefs are less infused with value, i.e. the beliefs are seen as an appropriate response to a particular situation rather than having a value of their own. When we go through the examples of mythological and processual views of history in the Handelsbanken and Scania cases, the mythological view of history usually relates to institutional beliefs while the processual view of history relates to situational beliefs. The stability of the institutional beliefs is reflected in and reinforced by mythological accounts of the organisation’s past. A mythological view of history establishes a picture of continuity from the past to the present. Moreover, as myths are about timeless principles, continuity is also extended into the future. Regarding situational beliefs, on the contrary, the organisation’s history shows that these beliefs have changed over time. This also opens up the way for further changes in the future. However, even in a processual view of history there is room for continuity. Firstly, changing situational beliefs can be related to institutional beliefs about the organisation that are relatively stable over time. Secondly, continuity does not require adherence to the status quo as long as the changes that occur can be meaningfully related to each other. Such a relationship can occur through the institutional beliefs to which the situational beliefs relate. In the

107 The development of the sales and services operations lies outside the six cases of this dissertation. However, the reader can refer to a condensed description in appendix A.
internationalisation case at Handelsbanken, the criteria for establishing new branches changed over time. However, they were all the time related to the same institutionalised understanding of what a Handelsbanken branch was and what role a branch had in the bank’s organisation.

14.4 Self-understanding as an understanding of the organisation’s history

The discussion in this chapter shows that organisational self-understanding is partly about understanding the past of the organisation. It highlights, that students of identity-related phenomena need to pay more attention to history than they have previously done. First of all, this means that we need to include the past in our empirical accounts. Now, it is of course not the case that previous identity research has neglected history. The studies of Bartunek (1984); Dutton and Dukerich (1991) as well as Gioia and Thomas (1996), to name a few only, all address the past, in particular when it comes to seeing history as the origin of the current self-understanding. However, this is not enough. If self-understanding is an understanding of the organisation’s history we need to investigate how organisational members conceive and use the past. Attention than partly shifts from understanding what actually has happened in the organisation to understanding what members believe has happened.

In the strategy literature, such a view of the past is also still relatively uncommon. Sometimes, the past is simply neglected as strategy is conceived as dealing with the movement of the organisation from the present to the future (e.g. Porter 1991). In other cases it is seen as a constraint to be overcome (e.g. Romanelli and Tushman 1994; Tushman and Romanelli 1985). There are good reasons for both of these views. Managers can influence the future while it is impossible by definition to bring about any essential change of the past. It is also beyond doubt that historical patterns create different kinds of path dependencies that make it difficult for organisations to change (Gagliardi 1986; Johnson 1987; Kimberly and Bouchikhi 1995). Still, we need to have in mind that we can only know history through interpretation. While historical events in a sense are objective our memory of them, be it individual or collective, is subjective. This involves the possibility to interpret history in different ways as well as to be consciously or unconsciously selective in remembering.

An important aspect of members’ understanding of their organisation’s history is the construction of continuity. The questions about present and future identity, i.e. “Who are we?” and “Who are we going to be?” has to be seen in conjunction with the question of past identity, i.e. “Who have we

108 This is particularly the case for much normative strategy theory. The cited Porter article is especially illustrative as the author depicts the present state of the organisation as ‘initial conditions’. Considering the importance of history to the strategy process the labelling of the present as ‘initial’ however becomes problematic.
been?” (cf. Gioia, Schultz and Corley 2000). If the answers to these three questions are too different from each other, this may be problematic in so far that there is little that can provide the organisation and its members with a sense of continuity. If the answers are fundamentally different, one might even ask if we are talking about the same organisation in all three cases.

Now, the cases in the present study also show that firstly, continuity does not require that everything remains the same and secondly, continuity is in the eye of the beholder. Continuity can be established in two different directions, either prospectively or retrospectively. In a strategy context, the establishment of continuity and also discontinuity is in itself strategic as it legitimises or delegitimises a self-understanding and thus also legitimises or delegitimises strategic options that follow from this self-understanding. The understanding of the past goes beyond nostalgia. It is rather instrumentalised for strategic purposes by management. Metaphorically speaking, the past becomes a quarry (Schulze 1987) from which managers can pick ideas and events in order to obtain inspiration for strategy making as well as to legitimise their strategic ideas. Richard Normann addresses the possibility of deriving strategy from an understanding of the past in his last book, published shortly before his death (Normann 2001). While he sees the immediate past as a constraint, limiting the organisation in established ways-of-thinking, he believes that revisiting the original identity of an organisation can provide thrust for renewal\textsuperscript{109}. Normann addresses the derivation of strategy from the past. What is particularly interesting about his reasoning is that there are different aspects of the past to remember. Depending on whether the organisation takes its point of reference in recent history or in the time of its foundation, continuity created through reference to the past may either result in stability or change. What can be criticised in Normann’s discussion is that he takes the organisation’s original identity more or less for granted. There seems to be a historical identity ‘out there’ waiting for being discovered. If we however talk of self-understanding rather than identity, this highlights that what we conceive as the original identity is actually a retrospective interpretation of history.

Organisational self-understanding implies that the past of an organisation can be interpreted in multiple ways. Since our view of the past is not given, history matters in more respects than being a constraint for future strategy-making. We will return to the issue of understanding history when summing up the theoretical conclusions of this dissertation in chapter 16. Before however, we need to take a closer look at stability, change and continuity in self-understanding as it can be seen in Scania and Handelsbanken.

\textsuperscript{109} Normann’s case is about the Swedish consumer co-operative and supermarket chain KF Normann (2001:152-156). The organisation faced problems as consumers were dissatisfied with KF. There was no longer a need to buy consumer products from a cooperative in order to be treated in a fair way as a customer. Normann’s proposal was to return what he saw as the true, original identity of KF, namely the idea of cooperation between people. This idea might be used in ways other than by running a supermarket chain.
Stability, change and continuity in self-understanding

Stability and change in self-understanding is an issue that is central to the organisational identity literature as well as to this thesis. Considering the assumption underlying my dissertation that organisational self-understanding matters in the context of strategy dynamics, the question whether stability and change in strategy is accompanied by stability and change in self-understanding lies close at hand. In the present chapter I will discuss the dynamics of self-understanding in relation to the strategic issues discussed in the empirical cases. Important topics to discuss in relation to stability and change in self-understanding are the degree and the kind of change. Does change imply that the self-understanding is fundamentally altered or is change limited to minor aspects while self-understanding by and large remains the same? In this context we will also return to the issue of continuity, which was addressed in the previous chapter. Last but not least, an important question is whether there is a shared self-understanding in the organisation at all or if there are alternative self-understandings at hand. In the latter case, stability and change may exist side by side if one self-understanding stays the same while the other has to change.

15.1 Self-understanding and institutional integrity

To Selznick (1957), one of the most important organisational goals is the maintenance of institutional integrity. A similar idea is put forward by Gagliardi (1986) who believes that organisations strive to maintain their identity, even if this implies change in another area. Selznick’s institutional integrity refers to the creation of continuity by maintaining characteristics, particularly values, over time. During their existence, organisations institutionalise, i.e. they become infused with value, which gives them a particular character. To Selznick, therefore the main task for the institutional leader is to keep this character intact.

[The] process of becoming infused with value is part of what we mean by institutionalization. As this occurs organization management becomes institutional leadership. The latter’s main responsibility is not so much technical administrative management as the maintenance of institutional integrity.

Selznick (1957:138), original emphases
The leadership of any polity fails when it concentrates on sheer survival: institutional survival, properly understood, is a matter of maintaining values and distinctive identity.

Selznick (1957:63)

Put in other words, the task for an institutional leader is to maintain a sense of continuity in the self-understanding of the organisation. This comes close to Erikson’s ideas about individual identity. He claims that wholeness in a person’s identity requires a “fruitful association and organization” of different aspects of identity as well as the experience of continuity over time (Erikson 1964:92). Institutional integrity is thus an important aspect of organisational self-understanding. Like self-understanding, it is a subjective phenomenon. What matters is whether members perceive institutional integrity to be maintained. Only if the organisational characteristics that have become institutionalised remain continuous over time – at least in the eyes of the organisation’s members – institutional integrity remains intact.

15.1.1 Challenges to institutional integrity in the Scania and Handelsbanken cases

In the cases from Scania and Handelsbanken we have come across several instances where the companies’ institutional integrity has been challenged. The magnitude of these challenges has varied. In some cases only very limited aspects of the organisations’ self-understandings have been questioned. In other cases the organisations’ self-understanding was fundamentally challenged. The most substantial threats to institutional integrity in Scania and Handelsbanken were Volvo’s attempt to take over ownership in Scania and the introduction of Internet banking in Handelsbanken.

Volvo’s takeover attempt and institutional integrity in Scania

Volvo’s attempt to acquire Scania was first of all a threat in the sense that the organisation would cease to be an independent company. However, the threat went further than that. Also during the Saab-Scania period, Scania had not been independent. It had not even been a separate legal entity such as a subsidiary, but only a division in the Saab-Scania group. Nevertheless, Scania had managed to maintain much of its institutional integrity during the Saab-Scania era. The Scania division was practically run as an independent company although this was formally not the case. Products were developed, produced and marketed without interference according to Scania’s strategy and under the Scania brand. During the Saab-Scania period, the Scania division was able to maintain and even to further develop its self-understanding, as the rounding off of modularisation with the development of the 2-series shows. A takeover thus does not per se destroy institutional integrity if the features that are important to organisational self-understanding can be preserved.
Now, Volvo’s takeover attempt did not only question Scania’s existence as an independent company, it also challenged Scania’s institutional integrity as various aspects of the company’s self-understanding, i.e. features that had become institutionalised and infused with value, became questioned. Such aspects were for instance the distinctiveness of Scania’s trucks as well as the idea of modularisation which were both threatened if synergies were realised through using common components in Volvo and Scania trucks. Scania’s management therefore initially opposed the takeover and when Investor agreed to sell to Volvo in summer 1999, the strategy was to protect Scania’s institutional integrity during a merger. Features that were important to Scania’s self-understanding were to be preserved. The two brands were to be kept separate including the main components such as engines, transmission and cabs which were important in giving Scania’s trucks their distinctiveness.

**Internet banking and institutional integrity in Handelsbanken**

In contrast to the Volvo case at Scania, the introduction of Internet banking did not at all question Handelsbanken’s future independence. Nevertheless, the new technology was a potential threat to Handelsbanken’s institutional integrity. The threat was in the possibility to use Internet banking to bypass the local branches in customer contacts. However, the organisational centrality of the branches was a key feature of Handelsbanken’s self-understanding. In the course of Wallander’s reforms, the branches and their position in the organisation had become infused with value. They were claimed to be the most important organisational units. The only way of saving institutional integrity was by finding a way of reconciling Internet banking with the idea of basing Handelsbanken’s business on a network of physical branches. The solution of a separate website for each branch which was eventually accepted, was congruent with the self-understanding that the branch was the most important organisational unit and hence institutional integrity was maintained.

**Other potential challenges to institutional integrity**

While the Volvo attack and the introduction of Internet banking were the most severe threats to institutional integrity in the two companies, there were further instances in the other cases where strategic action was not congruent with the self-understandings of the organisations. However, it was not equally clear whether these were actually threats to institutional integrity. We will take a look at some of them:

- *The integration of Stadshypotek Bank into Handelsbanken.*
  Like Internet banking, Stadshypotek Bank which hardly had any physical contact with its customers was a potential channel for bypassing Handelsbanken’s branches. Still, due to the very small size of the bank, there was less potential for threatening institutional integrity in Handelsbanken than from Internet banking which was likely to
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encompass the majority of the banks customers. The solution that was eventually found for Stadshypotek Bank resembled that for Internet banking, giving the niche bank a role where its customers remained under the branches’ control.

- **The return to centrally announced interest rates on mortgage loans in Handelsbanken after the takeover of Stadshypotek.**
The decentralisation of the mortgage rate decision to the branches had just recently taken Handelsbanken’s decentralisation one step further. By once again introducing centrally announced rates, the sovereignty of the branches was somewhat delimited. However, this was not perceived as a major threat to institutional integrity as the branches gained financially from the step and since they retained the possibility to offer discounts on the interest rates.

- **The self-understanding of British Handelsbanken branches as old-style private banks.**
Handelsbanken branches in Great Britain had established a self-understanding that was different from the ‘real bank’ self-understanding of branches in Sweden. Still, this difference was not perceived as a threat to institutional integrity. Rather it was interpreted as being in line with Handelsbanken’s self-understanding as a decentralised bank where each branch manager was free to decide how to approach the local market.

- **The projects of developing medium-sized trucks in Scania.**
Scania has for a long time been emphasizing its focus on heavy vehicles. The company has also depicted this focus as a feature that distinguishes Scania from its competitors as well as a reason for the company’s commercial success. Nevertheless, Scania has repeatedly started projects to develop medium-sized trucks. Although some Scania employees have criticised these projects in hindsight, it has been possible to justify them by pointing at external pressures for medium-sized trucks and by stating that Scania should always re-evaluate strategic options instead of dogmatically discarding them. The repeated medium-sized truck projects along with other examples of undogmatic action have meanwhile established the ‘always re-evaluate’ philosophy as a part of Scania’s self-understanding.

The examples above show that not all kinds of strategic actions that are not completely in line with the companies’ self-understandings are regarded as threats to institutional integrity. There seems to be a willingness to accept at least limited changes in self-understanding. This willingness seems to differ from organisation to organisation. In Scania the possibility of questioning at
least some aspects of self-understanding has become legitimised through various historical examples. As a consequence the attitude that ‘at Scania we can always re-evaluate our stance’ has in itself become a part of the organisation’s self-understanding. At Handelsbanken, the willingness to question aspects of the organisation’s self-understanding is not equally explicit. However, the identity claim of being a decentralised organisation in itself opens up the way for local initiatives for change, though not for any kind of change. In both organisations, the willingness to accept limited changes in self-understanding also differs from situation to situation and depending on what aspects of self-understanding are concerned. In the Internet banking case for instance, new ways for the bank to reach the customer and the customer to reach the bank are accepted as long as decentralisation and the central organisational role of the branches are not questioned as such.

15.1.2 Changes that destroy and enhance competences and organisational self-understanding

In Handelsbanken as well as in Scania, some important aspects of the organisations’ self-understandings relate to the distinctive competences of the companies, namely Handelsbanken’s way of offering banking services in a decentralised organisation with autonomous branches and Scania’s way of making trucks from a box of bricks of modularised components. This interestingly coincides with Selznick’s (1957) observation that the character (or identity) of an organisation is closely intertwined with its distinctive competence.

> [The organization’s] defence of integrity is also a defence of the organization’s distinctive competence. As institutionalization progresses the enterprise takes on a special character, and this means that it becomes peculiarly competent (or incompetent) to do a particular kind of work.

Selznick (1957:139), original emphasis

In cases where organisational self-understanding relates to the organisation’s distinctive competences, stability and change in self-understanding is of course connected to stability and change in competences. Anderson and Tushman (1990) describe how technological changes can have different consequences for the competences of an organisation. Change can either have the effect of being competence-enhancing or competence-destroying. Considering that self-understanding can be closely intertwined with organisational competences the question of whether we can distinguish between changes that enhance or destroy self-understanding lies close at hand. Organisational members may perceive changes as identity-destroying if they fundamentally question the present self-understanding, while other changes may be perceived as identity-enhancing, meaning that some aspects are added to the self-understanding of the organisation without altering it fundamentally.
In the Internet case, Internet banking was potentially competence-destroying since an Internet bank bypassing the branches might render Handelsbanken’s competence of providing financial services with a decentralised branch network obsolete. Moreover, the bank’s self-understanding was threatened, as this competence was also an important part of Handelsbanken’s self-understanding. The change might be perceived as identity-destroying. However, the case shows that the appearance of a new technology is not competence-enhancing or competence-destroying per se. The answer depends on how the new technology is interpreted and then used by the organisation. Handelsbanken adopted Internet banking in a way that was congruent with the organisation’s self-understanding. In doing this, Internet banking became competence- and identity-enhancing. Rather than rendering branch based banking obsolete, Internet banking could be used to refine and improve Handelsbanken’s distinctive competence. As self-understanding was not significantly altered, institutional integrity was maintained.

Regarding Scania’s development of a medium-sized truck the question of whether the project was competence-enhancing or competence-destroying depended on whether it was feasible to make the truck with modularised components. If it was not possible to stretch the modular system towards lighter segments, Scania’s modularisation competence was not really destroyed, but its advantages were not usable for the medium-sized model. Scania’s self-understanding of seeing modularisation as a key feature of its identity would, if it was not destroyed, at least be diluted. If, on the other hand, lighter components could be incorporated within the modular system, Scania’s modularisation competence would be enhanced to an additional category of vehicles. Since the medium-sized truck was never produced, the case offers no definite answer to the question of what a new model would have meant to the company’s self-understanding and its modularisation competence. The Scania employees I met made somewhat differing assessments of the project. Obviously Scania had managed to stretch its modular system to the medium-sized segment, albeit not yet perfectly.

The other examples of strategic action not being fully in line with organisational self-understanding, e.g. the return to centrally announced mortgage rates after the Stadshypotek acquisition, the integration of Stadshypotek Bank or the ‘old-style private bank’ self-understanding of British Handelsbanken branches were less problematic. They were not perceived as being equally problematic for maintaining the institutional integrity of the company, in these cases Handelsbanken. In all cases, a solution could be found that was in line with the bank’s self-understanding as a decentralised organisation with the local branches as the primary organisational unit. In the mortgage system issue branches retained a possibility to customise rates, in the Stadshypotek Bank issue the branches retained some kind of ownership of the customer relations and regarding the British branches, giving each branch manager relatively free hands in approaching the local market was in line with
Handelsbanken’s decentalisation ideals. Hence, through all these changes, Handelsbanken’s competence in providing banking services with a decentralised organisation and strong local branches remained intact. Rather than being destroyed, Handelsbanken’s decentalisation was enhanced in the sense that it now also encompassed niche banking operations and a wider variation in the character of the branches’ operations.

15.2 The sharedness of self-understanding and its meaning to institutional integrity

It is only meaningful to talk about organisational self-understanding if this understanding of the organisation’s identity is shared by a significant number of the organisation’s members. Otherwise, it would be wiser to talk about individual members’ perceptions of the organisation’s identity. Now, we know that on the one hand there are systems of meaning that are socially created, shared and reproduced (Berger and Luckmann 1966). On the other hand, such systems of meaning are never totally homogeneous. They may be characterised by different sub-systems, each being relatively homogeneous internally while being differentiated from the other sub-systems and in some cases a picture of fragmentation rather than of sharedness may appear (Martin 1992).

Literature on organisational identity suggests that organisational self-understanding can also be characterised by different degrees of sharedness (Gioia et al. 1998) and the examples from Scania and Handelsbanken support this view. While there is largely consensus about self-understanding in most cases, the cab case reveals that there are somewhat different understandings of Scania’s identity held by different members of the organisation.

15.2.1 The sharedness of self-understanding and the acceptance of variation

If organisational self-understanding is not totally homogeneous, what this heterogeneity means to institutional integrity is an important question. Is there any institutional integrity at all that can be maintained? Are the different conceptions of identity seen as a threat to institutional integrity or does the organisation accept the variation? We can look more closely at this question by looking at the sharedness of self-understanding in the six cases from Scania and Handelsbanken. The matrix below illustrates the question in two dimensions. On the x-axis we see the degree to which there is a shared self-understanding in the organisation. Similar to organisational culture (Martin 1992), self-understanding can be integrated or differentiated between more or less clearly defined sub-groups. In the matrix, the sharedness only relates to those aspects of self-understanding that are salient with regard to a particular issue. On the y-axis we see whether a particular issue is perceived as a challenge to institutional integrity. The 2*2 matrix results in four different stances the organisation can
take with regard to a strategic issue, namely consensual adaptation, collective
defence, accepted variation and contested variation. As the examples will show,
such a stance can change over time.

![Figure 15-1. Ways of dealing with strategic issues in relation to self-
derstanding.](image)

- **Consensual adaptation.** This field can be exemplified by the Stadshypotek and the modularisation cases. In both cases there was no controversy regarding organisational self-understanding and its implications. The mortgage system issue as well as the medium-sized truck project were not perceived as major challenges to institutional integrity, provided that some limited adaptation was done.
- **Collective defence.** The Internet and the Volvo cases were both examples of collective defence. There was consensus regarding Handelsbanken’s and Scania’s self-understandings. Volvo’s takeover attempt and, at least initially, also Internet banking were perceived as major challenges to institutional integrity. As a response the members of each organisation collectively worked to defend institutional integrity. In Handelsbanken this was done by working towards a solution that reconciled Internet banking with decentralisation and strong branches. With the new solution, the Internet issue was finally reconciled with the bank’s self-understanding and moved to the ‘consensual adaptation’ quadrant. In Scania people tried to ward off
Volvo’s attack (i.e. making the issue disappear) or at least to achieve an agreement that granted the maintenance of institutional integrity within the Volvo group. If the latter option had come true, this would have implied a reconciliation of the Volvo issue with Scania’s self-understanding and a movement of the issue to the ‘consensual adaptation’ quadrant.

- **Accepted variation.** In the internationalisation case, there was some heterogeneity regarding Handelsbanken’s self-understanding. While the Swedish branches were mass-market providers, the British branches saw themselves as old-style private banks. This variation was however not perceived as a challenge to institutional integrity in Handelsbanken as the most important features of the bank’s self-understanding, such as decentralisation remained untouched. Not all aspects of self-understanding were equally institutionalised. A certain degree of variation in self-understanding was seen as acceptable if not even as a logical consequence of decentralisation. As some statements of interviewees in the case show, Handelsbanken’s management does not expect this variation to last indefinitely. Top managers rather expect that ultimately one option, most probably that of being a mass-market provider, will be selected by all branches.

- **Contested variation.** Finally, the cab case was an example where different actors in Scania’s organisation had somewhat different conceptions of the organisation’s identity. Though the two alternative self-understandings were not diametrically different, they were different enough to evoke actions that were perceived as challenges to institutional integrity by the opposing side. Discontinuing bonneted cabs was seen as a threat to institutional integrity by one side while their counterparts interpreted what they believed was a too strong emphasis on non-quantifiable aspects as incongruent with Scania’s profit orientation. The result of this dispute was a yet unresolved identity contest in which management assumed the role of an arbiter. Being open to different interpretations, the STAX concept model made the variation in self-understanding more acceptable. At least in the short run, management saw no reason to opt for either of the self-understandings. In the future, however, such a selection may occur.

The 2*2 matrix shows that the self-understanding of an organisation can be characterised by certain heterogeneity. Sometimes, it may even be meaningful to talk of alternative self-understandings as in the case of Scania’s cabs. Heterogeneity does not necessarily have to be perceived as a threat to institutional integrity. Not all aspects of self-understanding are equally institutionalised and as long as variation is not perceived to question institutional integrity, somehow different self-understandings can coexist. In other cases, however, there are rather two views colliding than two views
coexisting. Variation is then difficult to accept, since each party sees the opponents’ view as a threat to institutional integrity.

An interesting question that remains is whether the position of the strategic issues in the matrix remains the same over time. For the consensual adaptation issues, namely Stadshypotek and modularisation, this is the case. The same is true for internationalisation as an example of consensual variation. However, in this case there are at least indications that the variation may disappear sooner or later. Managers at Handelsbanken expect that the British branches will adopt the same self-understanding as their Swedish counterparts after some years. If this scenario came true, the internationalisation issue would move to the consensual adaptation quadrant.

The cases in the two quadrants with a perceived high challenge to institutional integrity are all characterised by attempts to eliminate the challenge. In the Volvo case, this succeeds as the takeover threat is warded off and the issue finally disappears. In the Internet case, a solution is found that is not perceived as a threat to institutional integrity and the Internet issue moves up to the consensual adaptation quadrant. Finally, in the cab case, the arbitration activities by management and the double meaning attached to the STAX, implies that the variation in self-understanding becomes acceptable to Scania. The cab issue moves, at least for the time being, from contested variation to accepted variation.

15.3 Assimilation and accommodation of change in the self-understanding of Scania and Handelsbanken

So far we have seen two things in this chapter. Firstly, aspects of the organisation’s self-understanding are infused with value, i.e. they are institutionalised. When strategic changes question these aspects of self-understanding this implies a threat to institutional integrity. This threat becomes particularly problematic where organisational self-understanding refers to the organisation’s distinctive competences. In such cases, change can be perceived as potentially competence-destroying as well as identity-destroying. Secondly, as aspects of self-understanding are not necessarily shared throughout an organisation, threats to institutional integrity can be perceived differently by different groups. Considering that strategic change can result in tensions regarding self-understanding, the question arises what changes in strategy, in self-understanding or in both are possible, how such changes occur and what they mean to institutional integrity.

The existence of tensions between self-understanding and certain options for strategic action are nothing new to the organisational identity literature. A common picture that can be found in the existing literature is that organisational self-understanding potentially inhibits change. Self-understanding is often seen as an obstacle to external adaptation (Bartunek 1984; Dutton and Dukerich 1991; Elsbach and Kramer 1996; Gioia and
Organisational self-understanding and the strategy process

Thomas 1996; Reger et al. 1994a) In some cases, pressure for change is seen mainly as originating in the environment (e.g. Dutton and Dukerich 1991) while in others there are also internal initiatives pushing for change (Gioia and Thomas 1996). The major question asked in these cases is usually whether it is possible to bring about change in self-understanding to make strategic change possible or if self-understanding proves to be too strong eventually inhibiting adaptation and resulting in strategic drift (Johnson 1987) with potentially disastrous consequences (Reger et al. 1994b). With such a view, the options for the organisation are very limited. There seems to be an implicit assumption that there is a more or less narrowly defined future state the organisation has to reach. This future state is taken as given. Either the organisation manages to reach it or it will fail. What then has to happen in the organisation in order to make change succeed? Self-understanding as the main obstacle to change is seen as a cognitive constraint that needs to be altered. The critical task becomes changing the organizational mindset (Reger et al. 1994b), the interpretive scheme (Bartunek 1984) the filter (Dutton and Dukerich 1991) or the perceptual lens (Gioia and Thomas 1996). To draw upon the concepts of Piaget (1947/2001), the organisations need to accommodate their cognitive structures in order to make sense of and to respond to the changes they encountered.

Now, my intention is not to deny that such situations do exist and that this may well have been the case in the studies cited above. However, the picture emanating from the Scania and Handelsbanken cases is somewhat different. In each of the examples from the two companies there were different strategic options. For the companies it was possible to either adapt their self-understanding to fit a specific course of action or to go for a course of action that was adapted to their self-understanding.

15.3.1 Assimilation and accommodation strategies for dealing with pressures for change

In all examples there was pressure for change on Scania and Handelsbanken. In some cases the pressure emanated from sources external to the organisation, e.g. industry trends or legal and technological changes on a more macro level of analysis such as Internet technology or legislation favouring medium-sized trucks. In other cases, management had to deal with decisions that had been taken internally. These had resulted in consequences that, partly unexpectedly, resulted in tensions regarding organisational self-understanding. Examples of the latter case resulted e.g. from Handelsbanken’s acquisition of Stadshypotek. The deal had side effects resulting in problems, which had not been fully taken into account from the beginning. Among those side effects were the difficulties in converting a large number of loans to Handelsbanken’s own mortgage systems and the problems in divesting Stadshypotek Bank.

To use Piaget’s (1947/2001) concepts, we can say that Scania and Handelsbanken had the possibilities of dealing with the pressures they experienced through either accommodation or assimilation. While
accommodation would mean that the companies had to reinvent their self-understandings in order to cope with the pressures, assimilation would mean that a solution could be found within the framework of their present self-understandings. In contrast to accommodation, institutional integrity would be maintained. Some change was necessary, but the self-understanding as such would not be fundamentally altered. Interestingly, the alternatives for accommodation were usually rather obvious as they often simply implied copying what industry competitors already did. Handelsbanken could for instance simply set up a separate Internet bank and allow Stadshypotek Bank to compete with the branches. Scania might develop a completely new range of medium-sized trucks without bothering about integrating it in the present modular system. What assimilation could mean practically was usually less obvious since it required finding a novel way of adapting change to the self-understanding of the company.

In the cases from Handelsbanken and Scania we thus usually find two types of strategic options for dealing with experienced pressures for change. The companies can either opt for accommodation strategies or for assimilation strategies. From the cases we can see that each type of strategy has some advantages and disadvantages.

### Table 15-1. Assimilation and accommodation strategies.

<table>
<thead>
<tr>
<th></th>
<th>Assimilation strategy</th>
<th>Accommodation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on institutional integrity</td>
<td>Is maintained as organisational self-understanding remains largely unchanged.</td>
<td>Is not maintained as the experienced pressure is dealt with by changing self-understanding.</td>
</tr>
<tr>
<td>Availability of a concrete solution</td>
<td>Often unknown in the beginning, particularly if the organisation’s self-understanding is clearly distinctive from that of competitors.</td>
<td>Often available through copying existing solutions in the industry.</td>
</tr>
<tr>
<td>Legitimacy of the solution</td>
<td>Legitimate internally. External legitimacy problems may occur when the solution is not similar to existing ones.</td>
<td>Difficult to legitimise internally as institutional integrity is not maintained. More likely externally if solution corresponds to existing ones.</td>
</tr>
<tr>
<td>Effect on organisational distinctiveness</td>
<td>Maintained or even strengthened if the self-understanding is clearly distinct from that of competitors.</td>
<td>May be weakened if the solution implies mimicking existing solutions in the industry.</td>
</tr>
</tbody>
</table>

By opting for assimilation strategies, Handelsbanken and Scania have been able to maintain institutional integrity while responding to pressures for change. Although solutions for assimilating novelty into the existing self-understanding were not always easy to find, Handelsbanken and Scania avoided accommodation of their self-understandings. Aspects of their self-

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110 In line with my reasoning on strategy in the frame of reference, such strategies do not necessarily have to be planned or explicit.
understandings such as decentralisation and modularisation were so infused with value that altering them would jeopardise institutional integrity. Hence, Handelsbanken and Scania chose the relatively difficult way of making change congruent with self-understanding instead of vice versa. Finding acceptable solutions for assimilation was sometimes difficult. One of the clearest examples of this is the introduction of Internet banking where Handelsbanken had to try out various consultants before one of them came up with an idea that would combine Internet banking with the idea of letting the local branch be in charge of the customer relationship. In other cases, like that of Scania’s medium-sized trucks the solution was much more obvious. The company needed to stretch its modular system towards lighter segments. However, here the practical implementation of the solution was much more difficult.

From a legitimacy point of view, the assimilation/accommodation distinction mirrors the dividing line between the old institutionalism with its internal focus and the new institutionalism with its interest in the field level (Greenwood and Hinings 1996). The assimilation strategy with its maintenance of institutional integrity is legitimate internally, at least if there is internal consensus concerning the organisation’s self-understanding. This internal legitimacy is a consequence of the fact that the strategy does not require any change in the self-understanding that has become infused with value over time. For example the arrangement that Handelsbanken branches got access to Stadshypotek Bank’s customers legitimised the integration of a niche bank. On the contrary, a solution allowing Stadshypotek Bank compete with the branches would probably not have gained legitimacy internally. The question of external legitimacy is more difficult to answer. Assimilation strategies may imply opting for a solution that is different from those that exist in the field. The organisation’s solution may be non-conformous with the institutionalised recipe in the field. Partly, there was a somewhat ironic undertone in reports about Handelsbanken’s Internet solution, which some commentators perceived as an exaggerated outcome of the bank’s decentralisation policy. Apart from this however, the Scania and Handelsbanken examples mentioned in this chapter none resulted in major problems of external legitimacy. Nevertheless, we have seen in the Scania cases that strategies which diverge from the prevailing industry recipe, such as Scania’s organic growth strategy, sometimes require a major effort from the company to be legitimised to external audiences.

Another effect of assimilation strategies, closely related to institutional conformism, is that they allow organisations with distinctive characteristics to maintain and even to enhance their distinctiveness vis-à-vis competitors. In Kondra and Hinings’s (1988) words, the organisations can remain renegades. Through diverging from patterns that are institutionalised on the field level they differentiate themselves from their competitors, which also increases the likelihood of a performance that is different from the industry average. In practice this is a risk that may imply over performance as well as under
performance compared to the average. Both Scania and Handelsbanken have historically outperformed their competitors for many years, which of course has contributed to legitimising distinctiveness in terms of strategy and self-understanding.

15.3.2 Assimilating change by changing situational beliefs

When it comes to accommodation of change, we have a number of studies that give us indications how such change in self-understanding can come about. The majority of these studies describe some type of dialectical process where the established self-understanding is confronted with an alternative view of identity. For instance, Bartunek (1984) talks of the interaction of old and new interpretive schemes resulting in a synthesis. In a similar vein, Gioia and Thomas (1996) describe how present identity is confronted with an envisioned future identity, bringing about change. In Dutton and Dukerich’s (1991) Port Authority case it is the organisation’s image that triggers change in identity. Similarly Elsbach and Kramer’s (1996) business schools started rethinking their identities after being confronted with Business Week’s survey rankings. Finally, Reger et al. (1994b) also propose confronting present identity either through sense giving activities communicating a new ideal identity or through leveraging organisational image, i.e. taking advantage of external pressures for change in bringing about change in the organisation’s own view of its identity.

The assimilation of change we have found in in the Scania and Handelsbanken examples has been different from the dialectics in the accommodation examples. Also in Handelsbanken and Scania there have been cases of dialectical antitheses to the companies’ established self-understandings. The external pressure on Scania to engage in mergers and acquisitions, the centralised Internet solutions of Handelsbanken’s competitors are just the most striking examples. However, the self-understandings of the two companies have largely remained stable. No major changes occurred to the institutionalised beliefs about what was central, distinctive and continuous over time about the two organisations.

Change however occurred in the situational beliefs (Melander 1997), which related the organisations’ self-understandings to specific issues. The self-understanding as such did not provide specific answers to every situation the organisations encountered. What did being a decentralised bank with the local branch as the primary organisational unit imply for Internet banking? The self-understanding, i.e. the institutional belief had to be translated into a situational belief providing guidance in the specific situation. In contrast to the institutional beliefs, the situational beliefs were more easily changeable, without evoking change in the institutional beliefs. What was necessary was finding a solution to the respective issue that was congruent with the organisation’s self-understanding. We can once again look at some examples.
### Table 15.2. Assimilation of change in Handelsbanken and Scania.

<table>
<thead>
<tr>
<th>Institutional belief</th>
<th>Issue</th>
<th>Solution</th>
<th>Situational belief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handelsbanken is a decentralised bank where the branch is the primary organisational unit.</td>
<td>Internet banking emerges</td>
<td>Establishment of a central Internet bank without connection to the branches.</td>
<td>Internet banking means bypassing the branch and is incongruent with Handelsbanken’s self-understanding.</td>
</tr>
<tr>
<td>Handelsbanken is a decentralised bank where the branch is the primary organisational unit.</td>
<td>Stadshypotek Bank works independently in competition with the branches.</td>
<td>Using Internet banking as an additional entrance to the branches.</td>
<td>Internet banking is helpful to the branches and is hence congruent with Handelsbanken’s self-understanding.</td>
</tr>
<tr>
<td>Handelsbanken is a decentralised bank where the branch is the primary organisational unit.</td>
<td>Need to find a common mortgage loan system after Stadshypotek acquisition</td>
<td>Stick to the Handelsbanken Hypotek system which allows branches to set mortgage rates.</td>
<td>It is important that branches can set mortgage rates independently. Hence centrally announced rates would be incongruent with Handelsbanken’s self-understanding.</td>
</tr>
<tr>
<td>Scania is a manufacturer focusing on vehicles for heavy transport.</td>
<td>Demand for medium-sized trucks</td>
<td>Start making medium-sized trucks although it might be difficult to capitalise on modularised components.</td>
<td>Scania should not start producing medium-sized trucks which are less profitable than heavy trucks and do not fit well into Scania’s modular system.</td>
</tr>
<tr>
<td>Scania is a manufacturer focusing on vehicles for heavy transport.</td>
<td></td>
<td>Define trucks slightly under 16 t as heavy trucks and try to stretch the modular system downwards.</td>
<td>If legislation favours trucks below 16t, Scania should try to stretch its modular systems downwards.</td>
</tr>
</tbody>
</table>
In each of the cases it was possible to relate different situational beliefs to the same institutionalised self-understanding. The initial situational belief implied the issue in question was perceived as a threat to institutional integrity. The prospective solution could not be made congruent with self-understanding unless an accommodation strategy was chosen and self-understanding was eventually changed. However, in all cases the organisations managed to find a solution where a new situational belief could be developed. The issue now appeared in a different light and the tension regarding self-understanding was resolved.

Among the examples above, there is one however that comes relatively close to an accommodation strategy. Concerning the medium-sized truck issue, there were actually considerations that Scania might change the meaning of its self-understanding while keeping the label unchanged. The change in meaning would not have been very large. It would have basically implied changing the own definition of heavy trucks from 16 tons to perhaps 12 or 14 tons. Still there would have been a change in meaning. By keeping the label in place Scania could still have claimed to be a manufacturer focusing on heavy trucks. Now, as the medium-sized truck was never produced it remains speculative whether Scania would actually have chosen such a strategy. If this had been the case, the strategy would have been a hybrid between accommodation and assimilation. On the one hand, strategic action would have been assimilated to fit the ‘heavy truck-maker’ self-understanding. On the other hand, the meaning of the ‘heavy truck-maker’ label would have been changed in order to accommodate trucks below 16 tons. In this case, changes would have occurred in the institutional belief as well as in the situational belief.

15.3.3 Issue interpretation based on organisational self-understanding

The examples from Scania and Handelsbanken show, how an organisation’s self-understanding can affect the way organisational members interpret different strategic issues. The importance of self-understanding to issue interpretation is not new to organisational identity literature. It is particularly addressed by Dutton and Dukerich (1991) as well as Gioia and Thomas (1996). In their Port Authority study, Dutton and Dukerich (1991) found that issues are interpreted through the lens of organisational self-understanding. Only a deteriorating image and as a consequence a revised conception of its own identity opened up the way for interpreting strategic issues in a new way. The institutionalised beliefs of the Port Authority had to be changed in order to bring about a change in issue interpretation. Gioia and Thomas (1996) made similar observations in their study of strategic change in academia. They share the view of identity and image as perceptual lenses. Particularly, Gioia and Thomas emphasize that it is important to issue interpretation as to whether an issue is associated with the organisation’s present image or a desired future image envisioned by management. Once again, in order to achieve
change in issue interpretation, the issue has to be seen through the lens of a changed or a different image/identity. It is change in institutional beliefs that triggers changes in issue interpretation.

While the cases from Scania and Handelsbanken support the view that institutional beliefs as part of organisational self-understanding are important to issue interpretation, they also indicate that a specific self-understanding can result in more than one interpretation of a strategic issue. The interpretations of Internet banking, Stadshypotek Bank, the mortgage system question and (with reservation for the changed meaning of self-understanding) the medium-sized truck issue changed without significantly altering the self-understandings of the companies.

15.3.4 Organisational self-understanding and solutions to strategic issues

The Handelsbanken and Scania cases indicate that even a strong and stable self-understanding does not have to foster the inertia that is sometimes seen as the major drawback of a well-established self-understanding, (e.g. Ashforth and Mael 1996; Bartunek 1984; Reger et al. 1994a; Reger et al. 1994b). Inertia neither has to occur when it comes to issue interpretation nor regarding the strategic action that is finally taken. As the examples from the two companies indicate, there is no single solution which is reserved for tackling a strategic issue. If that had been the case, there would have been very little room for assimilation strategies and the only way of overcoming perceived tensions between self-understanding and a strategic issue would have been to change self-understanding through accommodation.

Now, issues can actually be tackled with different solutions. It is not an issue as such that threatens institutional integrity, but rather a specific combination of an issue and a solution. Some issue-solution combinations would require an accommodation strategy, for instance abandoning Handelsbanken’s self-understanding as a decentralised bank in order to accommodate a centralised Internet bank. Other issue-solution combinations make assimilation possible, such as the idea of letting each branch have its own website. The different solutions to an issue open up the way for changes in situational beliefs concerning that very issue. Handelsbanken subsequently revised its interpretation of Internet banking, Stadshypotek Bank and the mortgage system issue. By developing solutions to the issues that could be assimilated into the organisation’s self-understanding, the bank revised the interpretation of the issues as such, from having been labelled as threats they were now seen as opportunities.
15.4 Self-understanding as a source of Resistenz against institutional pressures

The desire to maintain institutional integrity has led to a number of cases where Scania and Handelsbanken have not conformed to the success recipes (Spender 1989) that have characterised their respective industries. In these cases institutional integrity (on the firm level) has been more important to the companies than institutional forces emanating from the industry level. Clear examples of this are Scania’s refraining from the idea of achieving economies of scale through mergers and acquisitions and Handelsbanken’s choice not to use Internet banking as a substitute for physical branches. Mergers and acquisitions as a means of achieving economies of scale were one of the arguments used by Volvo and eventually Investor to rationalise Volvo’s takeover of Scania. The truck industry has been characterised by consolidation for several decades and Scania is continuously confronted with pressures from investors, analysts and journalists to jump on the M&A train. In the case of Handelsbanken and Internet banking, the strategy of the bank’s domestic competitors was to use Internet banking as a substitute for branches. This became particularly obvious in SEB’s European e-banking strategy, involving the closing down of many Swedish branches, but also the other banks’ strategies emphasized e-banking at the expense of branches.

In Rhenman’s (1973) words, both examples are characterised by dissonance between the organisations’ value systems and the predominant values in the environment. However, Scania as well as Handelsbanken interpret the issues economies of scale and Internet banking based on their own self-understandings rather than adopting the recipes already existing. Their behaviour can be described as Resistenz (Broszat and Fröhlich 1987). Ideas that are institutionalised in the environment do not get a foothold in Scania and Handelsbanken as they contradict the internally institutionalised self-understanding. In Rhenman’s (1973) words, values and norms in the two organisations are primarily internally-oriented. Issues are interpreted based on own self-understanding and the goal is to maintain institutional integrity when the organisations react to institutional pressures from outside. The result in our two examples is a strategy consistent with defiance in Oliver’s (1991) classification of strategic responses to institutional processes. Tactically, Handelsbanken and Scania challenge the validity of the rules and requirements suggested by the institutional environment. Scania does it by questioning whether mergers and acquisition actually do create additional value and Handelsbanken challenges the assumption that bank customers will be willing to sacrifice a close relationship with a nearby branch if Internet banking is.

To be precise, Scania and Handelsbanken – which are both important actors in their respective industries – are of course themselves involved in co-creating field-level norms. However, in the cases discussed here there has always been a polarisation between Scania or Handelsbanken on the one hand and the vast majority of actors in the field on the other hand.
Organisational self-understanding and the strategy process

offered as a substitute. Contesting institutional norms however also implies a need to explain the reasons for challenging these norms, this need becomes particularly obvious in publicly listed large firms like Handelsbanken and Scania, which are under constant media surveillance. Hence, the companies’ managers put considerable effort into convincing stakeholders of the superiority of their strategies. Scania has tried to point out alternative ways for achieving economies of scale, such as strategic alliances. Eventually, the two organisations thus want to re-establish consonance between their own values and those of their environments (Rhenman 1973). They thus combine their defiance strategy with what Oliver calls a manipulation strategy, i.e. they try actively to influence the values that are held in the institutional field.

Using the labels of Kondra and Hinings (1988) both Scania and Handelsbanken are renegades in withstanding institutional pressures. This leads to the opportunity to outperform competitors with a strategy that differentiates the companies from the other sections of their respective industries. Well-established self-understandings have been a source of Resistenz, leading to unique strategies. So far, both companies have also been successful in outperforming their competitors in terms of profitability. One needs to have in mind however, that according to Kondra and Hinings (1988), nonconformism with institutional norms is risky as it can lead to superior as well as inferior performance.

15.5 Making change and maintaining institutional integrity

Summarising this chapter, we can recall that according to Selznick (1957), organisations strive for the maintenance of institutional integrity. The cases from Handelsbanken and Scania show that the maintenance of institutional integrity implies the preservation of a specific organisational self-understanding. However, different aspects of self-understanding are institutionalised to different degrees. Moreover, self-understanding is not always homogeneous across the organisation. This does not have to be a problem. Variations may be tolerated as long as they do not threaten institutional integrity.

Strategic issues are seen in the light of self-understanding which influences how organisational members assess strategic issues and possible ways of dealing with them. Nevertheless, the discussions in this chapter also show that even a well-established organisational self-understanding leaves much, albeit not unlimited room for strategic action. The common picture that a specific organisational self-understanding leads to given issue interpretation and thus has to be altered in order to bring about change (Bartunek 1984; Dutton and

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112 My method does not allow confirming that the superior profitability of Scania and Handelsbanken is a consequence of their Resistenz against institutional pressures. However, managers at both companies see their willingness to be different as an important reason for their success. The reasoning of Kondra and Hinings (1988) supports this view.
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Dukerich 1991; Gioia and Thomas 1996; Reger et al. 1994a) has to be modified. The same issue can be connected to new situational beliefs if it is connected to a new solution. Changing self-understanding, i.e. accommodation, is thus only one strategy for dealing with apparent tensions between a strategic issue and self-understanding. In many cases the organisation does not have to reinvent itself. It rather reinvents the approach to the strategic issue, assimilating the solution to its self-understanding.

A question we have to ask is whether assimilation strategies can nevertheless in the long run result in a significant change in self-understanding. One could argue that many incremental steps of assimilation might add up to a big change over time. If we take the Handelsbanken example, the bank has within a few years managed to assimilate Internet banking as well as a niche bank into its self-understanding of being a decentralised bank where the branch is the primary organisational unit. This would have been hard to imagine just a few years ago. Will these novelties change the bank’s self-understanding in the long run? Based on my empirical data, the answer has to be left open. So far at least, there is no support for saying that such a change has occurred. One might expect that an incremental change in identity through many steps of assimilation would be perceived as less threatening to institutional integrity than revolutionary change through accommodation as organisational members have time to adapt. This assumption however remains hypothetical until the question is investigated by future research.
16 Strategy processes as processes of self-understanding

This final theoretical chapter returns to the beginning of this thesis, namely my aim to understand strategy processes by examining the role of organisational self-understanding. Considering the novelty of the self-understanding concept to the field of strategy, part of the aim was also to show the usefulness of the concept and to elaborate on it by conceptualising on strategy and self-understanding. In this chapter, I am therefore going to outline the findings from my study in an abstract way that goes beyond the empirical cases. The outline is structured around what I consider my main theoretical contributions. Firstly, the introduction of the concept of organisational self-understanding and secondly, the view of strategy processes as processes of self-understanding. In this context, self-understanding is seen as providing continuity in the strategy process. However, this does not rule out change in strategy and self-understanding.

16.1 The concept of organisational self-understanding

The concept of organisational self-understanding has been a point of departure for this study. It has depicted a specific phenomenon, which belongs to the broader field of research on organisational identity, namely the collective interpreting and the collective interpretation of an organisation’s identity by its members. As discussed in the frame of reference, this delimitation of the concept’s meaning helps pinpointing a phenomenon that is easily confused with other things through an undifferentiated use of the identity concept. The self-understanding concept thus covers a phenomenon that is treated in existing organisational identity scholarship (e.g. Albert and Whetten 1985; Dutton and Dukerich 1991; Gioia and Thomas 1996; Glynn 2000) albeit not always clearly delimited from other identity-related phenomena. Now, the question remains as to what the present study has helped us to learn about organisational self-understanding and if perhaps the concept as such helps in highlighting issues that have been little addressed in the identity field.

16.1.1 The dynamics of self-understanding

Self-understanding is a dynamic phenomenon. The interpretation of the organisation’s identity occurs in a field of tensions between the idea of sameness that is inherent to the identity concept (Erikson 1979) and the changes that occur in every organisation. I will argue here that the concept of continuity can help us to understand how stability and change in self-understanding can go hand in hand.
The dynamics of stability and change are a common issue in the existing literature on strategy and identity. Often, these dynamics are described in terms of a change/stability dichotomy where changes are categorised in terms of magnitude as radical or piecemeal changes (Miller and Friesen 1982) or where radical change is compared to periods of equilibrium/stability (Tushman and Romanelli 1985). Identity literature has stuck to the focus on magnitude and the stability/change dichotomy, sometimes complementing it with a middle ground approach such as tectonic change (Reger et al. 1994a; Reger et al. 1994b). As we have seen in chapter 2, different views on the changeability of identity play an important role in distinguishing the different lenses in identity research (Gioia et al. 1998). The problem is that it is not always sufficient to characterise strategy processes in terms of stability/change or incremental change/revolutionary change. It is hard to find an empirical situation that is purely characterised by stability or purely by change. The two occur simultaneously (Melin and Hellgren 1994) and the question whether we choose to characterise a situation as change or stability is a matter of judgement. For instance, in her religious order case, Bartunek (1984) emphasizes “fundamental” (p.358) changes in self-understanding, while affirming that the outcome of change is in fact a synthesis between old and new interpretive schemes. Despite being depicted as an example of radical change by the author as well as other scholars (Romanelli and Tushman 1994), the religious order case also shows that aspects of self-understanding remain stable during change.

Using the stability/change dichotomy in characterising self-understanding is thus problematic. The partly unfortunate debate on Albert and Whetten’s (1985) identity definition still mirrors the preoccupation of identity scholars with the stability/change question. However, as the present study shows, it is not necessarily the stability, but the continuity of self-understanding that is most critical. In existing literature, stability and endurance are often treated as synonyms of continuity (Ashforth and Mael 1996; Galbraith and Schendel 1983; Gioia 1998). Gioia, Schultz and Corley (2000) take a more differentiated stance, conceiving continuity as the existence of relatively stable labels which hide change in the meaning of organisational self-understanding. Still, this view in a sense sticks to the stability/change dichotomy. Stability is limited to labels while actual beliefs change significantly.

Continuity is however more than the stability of labels and it goes clearly beyond the stability/change dichotomy. It may very well involve change as long as the new situation is seen as a continuation of the past. In other words, if self-understanding is to be regarded as continuous, there has to be a sense of sameness over time. Still, this sense of sameness does not require that all elements of self-understanding remain stable. Change is possible and will be regarded as continuous as long as it is not perceived as disruptive and as long as elements from the past can still be recognised in the present and in visions of the future. Such recognition can of course be based on the stability of labels.
However, it can also imply that meanings from the past are rediscovered or that change in meanings occurs in a way which is not perceived as disruptive. As long as continuity is upheld, institutional integrity remains unchallenged. Self-understanding is thus concerned with the maintenance of institutional integrity rather than being an inertial force (Reger et al. 1994a) or a fluid ever-changing phenomenon (Gioia et al. 1998).

Institutional integrity
Over time, organisations become institutionalised. They are infused with value for their own sake (Selznick 1957). What is valued is not merely the variety of tasks the organisation can perform in a functional sense. The organisation as such – with the characteristics that make it possible to distinguish it among other organisations and over time – is ascribed a value of its own. The organisation’s self-understanding is worth defending. Organisational survival is not just about the survival of a certain legal entity, no matter how its characteristics may change, but about the survival of the characteristics that members see as constitutive of their organisation’s identity, i.e. organisational self-understanding. Due to the institutional character of self-understanding, the question of continuity in self-understanding is a question of maintaining institutional integrity. It is crucial to note in this context that institutional integrity exists in the eyes of the beholder. What matters is whether members perceive institutional integrity to be maintained and not whether any specific characteristics of the organisation remain stable in a more ‘objective’ sense.

Now if organisational self-understanding is concerned with the maintenance of institutional integrity, how much change in the organisation is possible before institutional integrity becomes threatened? From time to time, organisations are confronted with pressure for change, be it through members who want to accomplish change from an internal position or be it through external pressures that organisational actors experience. Of course, change does not necessarily have to question the organisations self-understanding at all. In line with this, Hatum (2002), Karlsson (1999) and Erikson (1964) argue for different units of analysis that a well-established self-understanding even promotes radical change as long as the change does not question the self-understanding as such.

Resistenz
While not all change questions institutional integrity, it happens that organisational members experience pressures to change features that are important to the organisation’s self-understanding. Such pressures usually do not question the future existence of the organisation, at least not its survival as a legal entity. Rather they may appear as necessary changes that are essential for ensuring long-term survival. Prototypes of such pressures are recipes spreading in the organisation’s institutional field, calling for the adoption of certain technologies, organisational practices or strategic options. Organisations with a
well-established self-understanding have organisation-oriented rather than environment-oriented values and norms, to use Rhenman's (1973) terms. This does not imply that they are not interested in the environment. However, maintaining institutional integrity is more important than meeting environmental expectations when it comes to the point. These organisations thus tend to show Resistenz (Broszat and Fröhlich 1987) against institutional pressures if they call for action that is perceived as being incongruent with the self-understanding. Here, change might allow or even facilitate survival as an organisation, but threaten survival as the organisation that has become valued for the specific characteristics that constitute its self-understanding. Merely surviving as an organisation at the expense of institutional integrity is not attractive, at least as long as there is hope that a feasible strategy for maintaining institutional integrity can be found. Strategies for maintaining institutional integrity can be the avoidance, defiance or active manipulation (Oliver 1991) of the pressures for change. Strategies that differ from institutionalised recipes can in the best case turn out to be successful and the organisation even outperforms its competitors as a renegade (Kondra and Hinings 1988) not following the grey mass of actors that conform with field-level norms. In the worst case, the organisation ends up in Gagliardi’s vicious circle (Gagliardi 1986), ignoring the need for renewal and reproducing established patterns of behaviour. In this case willingness to survive as an organisation may finally result in the failure to survive as an organisation. However, we need to remember that the question is not about either changing and sacrificing institutional integrity or being stable and maintaining institutional integrity. Change per se does not threaten institutional integrity. It only does so when it is discontinuous with regard to the organisation’s self-understanding. Resistenz functions as a defence mechanism against discontinuous change and in doing this it reinforces institutional integrity. The question of how much change is possible while maintaining institutional integrity is thus basically a question of what degree of change can still be conceived as a continuous development over time.

16.1.2 Self-understanding over time
This brings us to the importance of the temporal dimension of self-understanding. Considering that the organisation that exits at present also has a history and most likely will have a future, self-understanding is not limited to the understanding of the present state. It includes the understanding of at least aspects of the organisation’s biography as well as ideas about potential future developments. It is this temporal dimension in self-understanding that provides the possibility to talk of continuity and discontinuity.

Prospective and retrospective establishing of continuity
The concept of continuity by definition forces us to consider time. Something can only be continuous when some degree of sameness at different points in
time can be recognised. In the previous chapters of this dissertation, two ways of establishing continuity by linking past, present and future were identified.

- Continuity can be established prospectively by using the understanding of the past as a model for the present and the future. Understandings of the present and the future are derived from the understanding of the past. The question is 'Who are we/are we going to be, considering who we have been?'. Action can then be derived from the self-understanding of the organisation. Self-understanding becomes the “beacon for strategy” (Ashforth and Mael 1996:32) describe it as such, although they put less emphasis on the past.

- Continuity can be established retrospectively by using the understanding of the past to support the present or in the future. Understandings of the present or the future are legitimised by the understanding of the past. The question is 'What in the history of who we have been supports who we are/who we are going to be?'. Action can then be legitimised through the self-understanding of the organisation.

The distinction between these two ways of establishing continuity can be established in a relatively easy way theoretically. In empirical cases the two are often difficult to distinguish as they easily go hand in hand. If action is derived from the understanding of the past, the past can then be used to legitimise this action. Normann (2001) describes how organisations use their history (or the understanding they have of their history) as a source of inspiration for new strategies. This prospective establishing of continuity also helps them to establish continuity retrospectively by pointing at features far back in their history that correspond to the present. Although lots of organisational features – probably most – have changed, organisational actors can highlight the features that represent sameness and claim that the organisation’s self-understanding is still the same as in the beginning. They may even describe their latest strategic changes as a change back to the future, returning to the original or ‘true’ self-understanding of the organisation. Here, continuity is in the eye of the beholder and in the context of organisational self-understanding the beholder is the collective of organisational members. Leaders’ rhetoric skills may decide whether attempts to communicate continuity succeed or fail. Seeing continuity is not necessarily the result of interpreting history. Often, the assumption of continuity or the desire to find continuity precedes the interpretation of the past. Hence, Gioia, Schultz and Corley (2000) describe how continuity can be created by interpreting past events and revising history. Actors may even deliberately manipulate historical evidence in order to make the past appear as a continuous precursor of the present. The removal of
politicians who had fallen into disfavour from photographs in the Soviet Union is a prominent example (Karlsson 1999).

Now, treatment of the past does not have to imply conscious manipulation. However, the past is purposefully used in organisations in order to establish continuity from the organisation’s history to its present situation and to ideas about its future. As long as it is possible to maintain such continuity, i.e. as long as members perceive sameness between their understanding of historical identity and their understanding of present and future identity, institutional integrity is maintained and relatively painless change is possible.

Organisational self-understanding is thus not only about the understanding of the present. The identity question ‘Who are we?’ (Albert and Whetten 1985) is intimately connected with the questions ‘Who are we going to be? Who do we want to be?’ and ‘Who have we been?’ (cf. Gioia, Schultz and Corley 2000). Self-understanding is never purely related to interpretations of present identity. It also includes interpreting what the organisation could become and what it has been. Past, present and future cannot be understood individually, but only in an integrated way. The questions organisational members ask are in fact more complex than the simple ‘Who are we?’ They may rather be ‘Can we once again become who we have been?’ or ‘Who are we, considering who we have been before?’ etc.

The question about the future has been addressed in research on desired future identities/images, (e.g. Gioia and Thomas 1996), whereas interest in the past has been strikingly low. Gioia, Schultz and Corley’s (2000) work on revisionist history is one of the few contributions in management research that have addressed the issue of assigning new meanings to history in hindsight so far. The past is also considered in Soenen and Moingeon’s (2002) manifested identity notion. However, here the emphasis lies on understanding how present structures, which are important to organisational self-understanding have been shaped historically. In a similar vein, empirical research in the identity field sometimes includes some sort of historical review that aims at showing how the present self-understanding has been shaped over time, (e.g. Czarniawska and Wolff 1998; Dutton and Dukerich 1991). However, the role of the past in organisational self-understanding goes far beyond being background information on how present self-understanding has come into being. The past is much more ‘active’ in self-understanding in the sense that actors purposefully use it in order to affect members’ understanding of the organisation’s present and future identity.

Another interesting contribution addressing the same topic is a very recent article by Chreim, (2005). She discusses how managers construct continuity and change by referring to history. Continuity and change are seen as a duality called confluence, meaning that the two are complementary and interwoven. A major contrast to my study is the fact that Chreim primarily sees continuity on the level of labels (p. 587) which hide the change that actually occurs. To me, continuity goes beyond stability in labels. It also implies that change is carried out in a continuous manner by opting for assimilation strategies in dealing with strategic issues.

326
Using history in self-understanding

As Karlsson (1999) has shown, there are various ways for strategic actors of using history purposefully. Although the past has already occurred and we cannot do anything about what has happened, we can do something about how we make sense of what has happened. Organisational actors remember certain aspects of the past, while they forget others. Past events, present circumstances and visions of the future can be connected in various ways, using the past to legitimise or delegitimise things. In this respect the history an organisation relates to, is enacted in a Weickian sense (Weick 1979). History constitutes a reservoir of events that can be connected, assigned meaning and related to present and future in different ways. Smircich and Stubbart’s (1985) argument that organisational environmental context is enacted can be extended to the organisation’s temporal context. Depending on how actors make sense of their organisation’s history and how they link it to present and future, different answers to questions of organisational self-understanding are provided. Depending on these answers, change appears as continuous or discontinuous with regard to the organisation’s self-understanding.

In Karlsson’s (1999) typology, particularly the moral, the ideological and the non-use of history are interesting when we look at self-understanding and strategy as they are inherently political and can be used in order to affect the overall direction of the organisation.

- The ideological use of history, which may become an ‘invention of tradition’ (Hobsbawm and Ranger 1992) can be used to construct continuity over time. The interpretation of history that is upheld by organisational elites is suited to support a specific self-understanding. The crucial question is not whether this self-understanding is actually a continuation of past self-understanding. What is important is whether organisational members perceive organisational self-understanding as continuous thanks to the historical evidence that is presented to them. Analogously, the ideological use of history can also be used to establish discontinuity, if a change in self-understanding is actually desired and it seems appropriate to discredit the existing self-understanding by pointing at its negative consequences in history.

- The moral use of history is janus-faced in the sense that it implies continuity and discontinuity at the same time. A past that more or less has fallen into oblivion is revived and used to legitimise a self-understanding, which in itself constitutes a change in comparison to what was change in self-understanding. The new self-understanding is claimed to be continuous in relation to the supposedly original self-understanding. The organisation changes in order to be what it originally was. The new-old self-
understanding stands in discontinuity to the self-understanding that existed during the time in between.

- The non-use of history finally implies refraining from establishing continuity. The non-use of history may happen deliberately or unconsciously. Where actors deliberately refrain from using history, this can even be a way of emphasizing discontinuity by showing that the past has nothing to contribute to present self-understanding. On the other hand, limited knowledge of the past resulting from the non-use of history, can also conceal discontinuities that members would perceive if they knew of the historical changes in their organisation.

The construction of continuity and discontinuity is also intimately connected with the question as to whether a processual or a mythological view on history (cf. Bonhoeffer 1949/1998; Karlsson 1999) prevails in a certain context. A mythological view implies that remembrance conveys timeless principles. In this view, accounts of history therefore serve as templates for future action. A processual view on the other hand is more open for change. Remembrance then provides accounts of historical changes and hence changes in the future do not have to imply discontinuity.

When it comes to self-understanding, we have to move along the time axis in both directions. Of course, in order to understand self-understanding, we need to know how it has developed over time. As Kimberly and Bouchikhi (1995) correctly point out, the past shapes the present. However, the relationship does not stop there. It is also the present that shapes the past. The relating and not-relating to the past in organisational self-understanding plays an important role in constructing continuity and discontinuity in strategic change. The question as to whether members perceive change as continuous or discontinuous is critical to what change means to institutional integrity and what degree of change is eventually possible. Recapitulating this chapter so far, we have seen that self-understanding is concerned with the maintenance of institutional integrity. The latter is maintained as long as self-understanding changes in a continuous way while it is lost when the development of self-understanding is perceived as discontinuous. Hence, organisations tend to show Resistenz against pressures for seemingly discontinuous change. The Resistenz reinforces institutional integrity.

16.2 Strategy processes as processes of self-understanding

As we have seen in the frame of reference, strategy has been conceived in a multitude of ways. Categorisations such as Mintzberg, Ahlstrand and Lampel’s (1998) five Ps and ten schools of thought or Johnson, Scholes and Whittington’s (2004) three lenses reflect the variety of perspectives and demonstrate the fruitfulness of applying different lenses to the study of
strategy. I want to conclude this study by proposing the conception of strategy as a process of self-understanding. In doing this, it is not my intention to present a view of strategy that is superior to alternative conceptions, but a view that can be fruitful to further developing our knowledge of strategy.

In the initial theoretical discussion in chapter 2, I offered a definition of self-understanding as a verb and a noun. The point was that self-understanding can be the collective interpreting of an organisation’s identity (s-u as a verb) as well as the outcome of this interpreting, i.e. an interpretation of the organisation’s identity (s-u as a noun). In the strategy process, both interpreting and interpretation are important. There is an ongoing interpreting of the organisation’s identity, resulting in an interpretation. As any interpretation, this self-understanding is changing. The degree of change is an empirical question, but we have seen in the previous discussion that there is an inherent tendency to limited change that happens in a continuous manner. The question is now how self-understanding relates to strategic action in the organisation.

16.2.1 Strategy as the understanding of the organisation

The self-understanding of the organisation sets the stage for strategy-making. Smircich and Stubbart (1985) see the answer to the “Who are we?” question as a crucial part of the context that makes activity meaningful. There are always interpretations of what identity the organisation has and there is no way of bypassing these ideas in strategy-making. Self-understanding is important while organisational members act strategically and it also involves understanding strategic action in hindsight. Hence, we do not only act thinkingly in a general sense (cf. Weick 1983), we act self-understandingly. Ironically, even radical change has to be related to self-understanding in order to be conceived as change. Where self-understanding is not a template for strategy-making, it provides at least a contrast allowing us to distinguish novelty. No strategy-making occurs from a tabula rasa that is free from self-understanding. At the same time, self-understanding is not static. As with any kind of interpretation it is under constant development (Ödman 1979) and the strategic action that occurs again needs to be interpreted.
While self-understanding provides a basis for deriving strategic action (1), the strategic action also serves as a referent from which new self-understanding is derived (2). While strategic action is legitimised or delegitimised through the established self-understanding (3), new self-understanding is legitimised or delegitimised through strategic action from the past (4). Strategy is hence the understanding of the organisation in a prospective, future-oriented as well as a retrospective, historically-oriented sense. As Nilson (1976) puts it, interpretive acts are simultaneously directed towards the past and the future. The prospective self-understanding implies the guiding of strategy through self-understanding (5) while the retrospective self-understanding means that self-understanding is based on remembering historical strategy (6). As we have seen earlier in this chapter, such remembering can be purposeful and selective. The remembering of the past may well be influenced by the desire to create a self-understanding, which allows for deriving of a particular future strategy.

16.2.2 Assimilation and accommodation of change
If we now choose to see strategy as a process of self-understanding, the question remains as to what room there is for strategic change and hence change in self-understanding. Previous literature has emphasized how organisational self-understanding reinforces strategic and organisational inertia, which can only be overcome in hard and often painful processes (Bartunek 1984; Dutton and Dukerich 1991; Elsbach and Kramer 1996; Gioia and Thomas 1996; Reger et al. 1994a). The arguments in these studies are good and in most cases backed up by strong empirical support. My study does not question the inertial potential in self-understanding. However, I believe that we need to see change
in a more differentiated way. What kind of change are we talking about and how do organisational members interpret change and the identity of their organisation? There is not a given need for change encountering a given self-understanding. We have seen that self-understanding can be re-interpreted in order to make change appear as continuous. Also perceived pressures for change can be dealt with in different ways. There may be an option to assimilate change to self-understanding instead of accommodating self-understanding for a specific kind of change (cf. Piaget 1947/2001). Hence, there is no priori given that change will be perceived as continuous or discontinuous or that it will harm institutional integrity or not.

Self-understanding and continuous strategic change: assimilation

As we have seen in the discussion on institutional integrity, change is not continuous or discontinuous per se. Continuity is in the eye of the beholder. It can be established through the (re-)interpretation of the organisation’s identity over time and by designing change in a way that is perceived as congruent with the organisation’s self-understanding. Establishing continuity in change may thus require an adjustment of self-understanding as well as an adjustment of strategic change. The cases in this volume present several examples of how original ideas for change have been perceived as incongruent with self-understanding have been modified. Changes are assimilated to fit organisational self-understanding. They are not necessarily small, but they are perceived as continuous.

Self-understanding and discontinuous strategic change: accommodation

The empirical cases on which this dissertation is based, can easily be interpreted as stories of continuity. The companies from which they stem are firms that emphasise the continuity in their own development and for the time being they have succeeded in meeting strategic challenges with continuous change. In this sense, the present study has more to say about continuity than on discontinuity and a study of firms with a more discontinuous development would be a valuable complement. Still, based on the previous reasoning as well as on studies examining change that is perceived as discontinuous, (e.g. Bartunek 1984; Dutton and Dukerich 1991) it is possible to discuss what discontinuous change would imply. Discontinuous change requires an accommodation of self-understanding in order to cope with change. The change in self-understanding is thus so severe that members do not regard institutional integrity as maintained. The aspects of the organisation that have become valued for their own sake cannot be preserved, leading to members experiencing pain and even leaving the organisation (Bartunek 1984). The accommodation of self-understanding may be made more attractive through the prospect of a self-understanding implying better reputation (Dutton and Dukerich 1991) or success in the market (Élsbach and Kramer 1996; Gioia and Thomas 1996).
16.2.3 Heterogeneous self-understanding and strategic change
The discussion so far has implicitly assumed that self-understanding is a homogeneous phenomenon. Sharedness is presumed in Albert and Whetten’s (1985) classical identity definition as well as in the definition of self-understanding provided in chapter 2 of this dissertation. While most empirical studies in the identity field show that members tend to have at least some shared ideas of their organisation, studies like those of Albert and Whetten (1985); Salzer (1994) and Glynn (2000) show that consensus about the understanding of the organisational identity can be limited. On a parallel, even conflicting self-understandings can exist side by side. We need to look closer at this heterogeneity in order to understand the dynamics of strategy and self-understanding.

First of all, it is of course important to ask who defines organisational self-understanding. Considering that self-understanding is perceived to be organisational of course all members of the organisation have a stake in its definition. In chapter 5, I have outlined why I find it reasonable to focus on the self-understanding advocated by strategic actors in a study on strategy. Still such actors may exist on different hierarchical levels (Mintzberg, Ahlstrand and Lampel 1998) and they interpret their organisation’s identity in a social context comprising all organisational members as well as external actors who have ideas about the organisation’s identity (Dutton and Dukerich 1991; Hatch and Schultz 1997; Elsbach and Kramer 1996). Ultimately, the role and weight of different groups of actors in defining organisational self-understanding is an empirical question. What however gives top managers a specially prominent role in shaping self-understanding is their capacity to speak officially for the (Gioia and Chittepeddi 1991).

An interesting outcome of the present study is the plurality in self-understanding that may exist with the consent of management. In previous empirical studies, conflicts related to heterogeneous self-understandings have been in focus. Salzer (1994) found in her IKEA case that heterogeneity was denied, while Glynn’s (2000) orchestra case shows how different self-understandings lead to conflict. However, plurality in self-understanding is not necessarily that problematic. This can be demonstrated by looking at what happens to organisational self-understanding with regard to specific strategic issues.

In the 2*2 matrix below, strategic issues can either be seen as a challenge to institutional integrity or not. Moreover, organisational self-understanding is either shared or alternative self-understandings exist. It is institutional integrity that decides what plurality is possible. As long as plurality does not challenge institutional integrity, there is accepted variation. Only when one side experiences that its counterparts question the more cherished and institutionalised aspects of self-understanding, does the variation become contested. When organisational members have a shared view as regards organisational self-understanding, possible challenges to institutional integrity
come from outside the organisation. Members can then engage in collective defence against the threat. When a strategic issue does not challenge institutional integrity and the view on self-understanding is shared by members, at most limited consensual adaptation of self-understanding is necessary to cope with the issue. It is important to note, that none of the four quadrants implies strategic inertia. As we have seen in the empirical part of this thesis, even collective defence results in strategic activity and change, although the organisation tries to avoid changes that would threaten institutional integrity.

However, the positions of strategic issues in the matrix are not fixed. Organisations try to eliminate threats to institutional integrity as well as to reduce heterogeneity in self-understanding. While the former option implies moving an issue from the lower to the upper quadrants of the matrix, the latter is a movement from the right to the left. We can call these movements reconciliation and selection.

- **Reconciliation** refers to attempts to resolve the perceived tensions between a strategic issue and organisational self-understanding. This can for instance happen by coming up with new interpretations of an issue or by finding a way of dealing with an issue that is relatively
unproblematic from a self-understanding point of view, i.e. by assimilating the issue to the organisation’s self-understanding. In principle, although there have not been any examples in the present study, reconciliation might also be achieved through altering self-understanding through accommodation.

- **Selection** implies that organisational self-understanding is homogenised by opting for one of the alternative self-understandings. Using an evolutionary metaphor (cf. Weick 1979), one can speak of a variation-selection-retention mechanism in the development of organisational self-understanding. Variation occurs as different groups have different conceptions of the organisation’s identity. Selection does not necessarily have to occur. However, it can happen either through managerial decisions (e.g. managers opting more clearly for one of the alternative self-understandings) or through incremental developments (e.g. one self-understanding spreading in the organisation as it proves to be more successful in the market). The selected self-understanding is then retained, either as it is required by management or as it proves to be more successful in the market.

The most urgent question for the organisation to deal with is not the heterogeneity in self-understanding, but the challenge to institutional integrity an alternative self-understanding is perceived to be. The tendency in dealing with strategic issues is thus primarily to reduce challenges to institutional integrity through reconciliation, i.e. moving from the lower to the upper quadrants in figure 16-2. As long as this is achieved, heterogeneity can be accepted, at least for some time. Self-understanding can then also be homogenised through the selection of one of the existing self-understandings. The present study does not provide any empirical evidence of movements in the opposite direction, i.e. from the top to the bottom or from the left to the right. It would be interesting to see whether such cases occur. However, so far, this question has to be left open until it is investigated by further research.

### 16.2.4 The dynamics of strategy and self-understanding

Self-understanding has an inherent tendency to provide continuity to strategy in an organisation, while it is at the same time a moving target. Previous literature has often either emphasised the ‘struggle’ between a potentially conservative self-understanding and pressures for strategic change (Bartunek 1984; Dutton and Dukerich 1991; Reger et al. 1994b) or depicted self-understanding as fluid, following the changes in the organisation (Gioia et al. 1998; Salzer 1994). This dissertation does not attempt to deny either of these options. However, it tries to shift emphasis from the stability/change dichotomy to continuity. Self-understanding implies the maintenance of institutional integrity. Institutional integrity is maintained when features of the organisation that have become infused with value (i.e. institutionalised)
(Selznick 1957) are perceived as continuous. In the concept of continuity there is room for change and stability at the same time. This means that self-understanding is changeable, but not fluid. Moreover, it means that self-understanding is open to strategic change, but not just any kind of change. Self-understanding is also open to heterogeneity, but not just any kind of heterogeneity. What is decisive in all change is that institutional integrity is maintained. The development of the organisation is then not only characterised by continuity and change, but rather continuity in change.

16.2.5 The concepts of self-understanding and identity
A point of departure in this study has been the idea that the concept of organisational self-understanding can make a contribution to the identity field. Now, at the end of the theoretical discussion it is time to evaluate the usefulness of the new concept. When we compare the concepts of self-understanding and identity, the difference is not radical. In studies like those of Albert and Whetten (1985); Dutton and Dukerich (1991) and Gioia and Thomas (1996) the two concepts could be used interchangeably to a large extent without implying a major change in meaning. However, there are still differences. First of all, the self-understanding concept is more precise in depicting that it is concerned with a subjective understanding members have of their organisation’s identity. This is important in a time where the identity label is used for a multitude of phenomena, ranging from subjective ideas to supposedly objective facts. Secondly, self-understanding emphasizes the interpretive character of the phenomenon, meaning that it is shaped and developed in an interpretive process. The possibility to use self-understanding as a verb implies more dynamics than the rather static noun identity. I believe that this inherent dynamism in the concept, has made it easier for me to understand the temporal dimension of self-understanding and particularly the importance of history that has been central to this study. I thus see the concept of organisational self-understanding as being in the continuity of organisational identity research, however adding some clarity and highlighting aspects that have not yet received enough attention in the field.
17 Some concluding reflections

With the previous chapter, the theoretical discussion of this thesis is concluded. However, there are still a few things to address. First of all, the contributions and implications of my thesis need to be summarised. Secondly, an extensive research project calls for some retrospective reflections as well as ideas for future research.

17.1 Contributions and implications

The purpose of this dissertation implied an ambition to theoretically contribute to the fields of strategy and organisational identity. However, the comprehensive material of this study also makes an empirical contribution by enhancing our knowledge regarding Scania and Handelsbanken. Finally, the thesis points at a number of issues that should be interesting to consider in managerial practice. I will present these different contributions and implications of my work on the following pages.

17.1.1 Theoretical contribution

The theoretical outcome of this dissertation has been outlined comprehensively in the previous chapter. Here, I want to summarise the main contributions under three headings, namely organisational self-understanding as a theoretical concept, a more historical view of strategy and self-understanding and an emphasis on continuity rather than stability and change.

Organisational self-understanding as a theoretical concept

Previous identity literature has been characterised by a multitude of meanings that the concept of identity can have (Bouchikhi and Kimberly 2001). In particular it has been unclear who defines an organisation’s identity and whether organisational identity is a subjective or an objective phenomenon. Here, the concept of organisational self-understanding adds clarity. It is concerned with members’ subjective view of their organisation. Moreover – as organisational self-understanding can be used as a verb and as a noun – it allows capturing the process as well as the outcome dimension of collective self-reflection in the organisation. I define the concept in the following way:

a) Organisational self-understanding, as a verb, is members’ collective interpreting of their organisation’s identity, i.e. what is central, distinctive and continuous over time about their organisation.

b) Organisational self-understanding, as a noun, is members’ collective interpretation of their organisation’s identity, i.e. what
Organisational self-understanding and the strategy process

is central, distinctive and continuous over time about their organisation.

Strategy processes can be conceived as organisational members’ ongoing interpretation of their organisation’s identity. This means that self-understanding is never static, although it is characterised by an inherent tendency towards continuity. It provides guidance for future strategy, while at the same time refers to memories from past strategies. As all interpretive acts, self-understanding is thus simultaneously directed towards the past and the future (cf. Nilson 1976).

Towards a more historical view of strategy and self-understanding

The present study highlights the need for a more historical view of strategy processes as well as of organisational self-understanding. The criticism of ahistorical studies in the strategic management literature is not new (Kimberly 1987; Pettigrew 1997). There has been particular emphasis on the importance of historical context when it comes to understanding systems of meaning, (e.g. Melander 1997; Normann 1975; Rhenman 1974). This dissertation however shows that history’s role goes beyond being important as background knowledge that helps us to understand the origins of the present situation and the options for the future (cf. Kimberly and Bouchikhi 1995). History is present in everyday organisational life, as people remember, refer to history, rediscover it and use it. This remembering is an integral part of the self-understanding that goes on in the organisation and it is a powerful force influencing strategy making. Where interpretations of the organisation’s history are disseminated, also an interpretation of the organisation’s identity is presented. History serves as a quarry (cf. Schulze 1987) from which strategic actors can pick ideas and events that can be used for legitimising the present and ideas for the future. Ideas and events in history can also be used as sources of inspiration for the present and the future. Hence, it is not sufficient to see history as a matter of the past only. History rather becomes a contemporary phenomenon when it is used in organisations. The classification of the different uses of history by Karlsson (1999) – comprising the scientific use, the existential use, the moral use, the ideological use and the non-use of history – that I introduced into the field of strategic management can be a helpful tool in understanding how organisational members make use of history.

An emphasis on continuity rather than stability and change

When discussing the dynamics of strategy, strategic management literature (Miller and Friesen 1982; Tushman and Romanelli 1985), as well as literature on organisational identity (Bartunek 1984; Reger et al. 1994a), has often been preoccupied with the stability/change or incremental/radical change dichotomies. There has been little room for change and stability existing side by side. The continuity concept allows for change while emphasizing the need
for elements in the organisation that maintain a sense of sameness over time. Organisational self-understanding is not an inertial force per se. It is rather concerned with the maintenance of institutional integrity. This implies that organisations strive for continuity in those aspects of their self-understanding that have become particularly infused with value. In this sense, organisational self-understanding provides the strategy process with continuity while at the same time allowing for significant changes in strategy. It is important to note that continuity exists in the eye of the beholder. Hence, strategic actors can construct continuity by emphasizing organisational features that show sameness over time, while downplaying or ignoring things that have changed significantly. Here once again, we see a role for history, which allows strategic actors to create legitimacy for their ideas.

In the context of continuity, Selznick’s (1957) work on identity provides helpful input. Selznick’s work has not been used in the more recent organisational identity literature. However, it deserves to be reintroduced, particularly his institutional integrity concept, which helps us to understand how organisations maintain continuity when approaching strategic issues. In order to keep institutional integrity intact, organisational self-understanding needs to be perceived as continuous over time. Hence, organisations tend to show Resistenz when being confronted with change options that would challenge institutional integrity. In many empirically investigated examples such situations have been a choice (and sometimes not even a choice) between keeping the identity stable or to change (Bartunek 1984; Dutton and Dukerich 1991; Gioia and Thomas 1996). However, such an accommodation of self-understanding is not always the only alternative. The assimilation of change to self-understanding keeps institutional integrity intact and maintains continuity while going through change (cf. Piaget 1947/2001). A certain heterogeneity in self-understanding is not a threat to institutional integrity as long as it does not concern the most cherished aspects of self-understanding. When dealing with strategic issues, organisations thus tend to put more emphasis on eliminating challenges to institutional integrity through reconciliation than on reducing heterogeneity, which may exist in self-understanding, through selection.

17.1.2 Empirical contribution
Although we have contributions to the organisational identity literature from the middle of the 20th century, the growing interest in this area is a relatively recent phenomenon. If we take the Albert and Whetten (1985) article as a point of departure, organisational identity as an established field is about 20 years old. A consequence of this is that there is still limited empirical research. This is particularly true of extensive case studies which are time and resource consuming.

Against this background, extensive cases on two well-known companies are an empirical contribution as such. One aspect that makes Handelsbanken and Scania particularly interesting is the fact that they are profit-making companies,
while many of the most prominent existing identity case studies deal with public or non-profit institutions, usually in an American context (Bartunek 1984; Dutton and Dukerich 1991; Gioia and Thomas 1996; Glynn, Barr and Dacin 2000). The empirical chapters of this dissertation also provide us with knowledge about the specific organisations, Scania and Handelsbanken. Despite the fact that the companies are large, at least from a Swedish perspective and well-known, the literature on them is limited. Existing books do not cover the period, which is emphasised in this dissertation, namely the years after 1990. During these years interesting developments have occurred and some of them are treated in detail in the six cases of this thesis. In Handelsbanken’s case we learn about how the organisation has incorporated new markets, new organisational units and new technologies into its decentralised organisation. In the chapters on Scania, we can see how the company has handled strategic challenges during a period of change and uncertainty in ownership. Also with regard to the empirical setting of my study, there are options for further research. This concerns the investigation of other strategic themes, like Scania’s down-streaming, as well as the analysis of the present cases from theoretical perspectives that were not within the scope of this dissertation. For instance, it would be interesting to analyse the Volvo case from a corporate governance perspective. The Internet case could offer additional insights if analysed using theories on technology and innovation.

17.1.3 Implications for managerial practice
The purpose of this dissertation has not been to arrive at normative suggestions for practitioners. However, the understanding of strategy processes I have outlined can be applied by practitioners to their own organisations. Below, I summarise a few issues this study highlights and that can be fruitful for practitioners to consider.

- The importance of institutional integrity in the management process
Strategy practitioners need to be aware that strategy-making is a process of self-understanding where strategy is influenced by the way that members understand the identity of their organisation and strategic outcomes are eventually incorporated in the self-understanding. This means that managers should be cautious when considering strategic options that would be incongruent with their organisation’s self-understanding. Action that challenges institutional integrity is likely to meet resistance among employees. However, this does not mean that a well-established self-understanding stands in conflict with change. Change can be achieved in two ways, namely by accommodation and by assimilation. The latter option implies finding ways for change that are in line with the organisation’s self-understanding. As Selznick (1957) expressed it; the task of a manager is hence institutional leadership. S/he needs to make sure that organisational
members perceive institutional integrity as maintained during change processes.

- **An emphasis on continuity rather than stability or change**
  It is easy to depict the dynamics of strategy as a struggle between stability or change. In this context, managers may cherish either of the poles or they may experience distress related to the task of choosing the right amount of change. However, in practice the stability-change dichotomy is often of little help as change and stability occur simultaneously. The two do not even necessarily stand in opposition to each other. What matters for maintaining institutional integrity in a company is not stability at the expense of change, but continuity in change. By managing change in a way that is experienced as continuous, managers can gain acceptance for change more easily. Here, it is important to note that change is not continuous or discontinuous *per se*. Managers can establish a sense of continuity, particularly by providing interpretations of the organisation's history.

- **Self-understanding as a counterweight to institutional pressures**
  We know that companies are exposed to expectations and pressures that push them towards conformity with certain ideas. Managers may experience such pressures as a serious delimitation of their freedom of action. This study illustrates that companies' often have more freedom to go their own way than what is apparent at first sight. Scania and Handelsbanken have built their strategies, in a self-confident manner, on their respective self-understandings rather than on predominant industry recipes. Reflection on their own organisation's identity can help strategy practitioners to develop novel strategies that make their company different from the industry average and create a potential for outperforming competitors.

- **The importance of historical awareness**
  Awareness of the organisation's own history is important to self-understanding and consequently to strategy-making. Managers should therefore consider the understanding of its own history that prevails in the organisation. This includes knowing how history is interpreted and who is involved in providing interpretations. The organisation's own history is more than mere reminiscence. History can be referred to and used consciously in order to provide direction for the future. This provides strategy practitioners with the opportunity to use history as a powerful management tool. As history may allow for different interpretations, historical reference does not have to mean adherence to the status quo. However, reinterpretations of history also imply a need for ethical reflection.
Organisational self-understanding and the strategy process

as to what interpretations may constitute a manipulative falsification of history. 

One aspect that needs to be addressed in connection with the managerial implications of this study, is the impact of self-understanding on financial performance. We know from experience that research using performance as a dependent variable is highly problematic and has led to questionable results (Nicolai and Kieser 2002). In the context of the present study, financial performance has not been an issue, making it even more problematic to draw performance-related conclusions. Still, we should not just overlook the issue and at least reflect upon it. To practitioners, questions such as “Is it good for performance to have a clear self-understanding?” or “What kind of self-understanding should we have to be successful?” are of course important. If self-understanding had no influence on performance at all, doing research on the topic would be questionable. The cases of Handelsbanken and Scania which year after year outperform their competitors provide a strong indication that a well-established self-understanding pays off. After all the companies’ managers attribute success to factors such as decentralisation (Handelsbanken) and modularisation (Scania) which are central to the organisations’ self-understandings.

Two success stories do not provide a basis for statistical generalisation, and the historical success of Scania and Handelsbanken does not imply that the companies will continue outperforming their industry peers. However, self-understanding has implications for the dynamics of strategy in the companies and based on these, we can make some reflections related to performance. At least since the days of Burns and Stalker (1961) we know the importance of an organisation’s internal conditions to external adaptation. If we see the organisation as an open system, at least some degree of external adaptation is necessary in order to perform well. As we have seen, there is an inherent conservatism as well as a potential for change in self-understanding. Now, change is not necessarily positive. As the present study has shown, Resistenz against trends and fashions can have positive outcomes. However, it is difficult to foresee ex ante if non-conformous behaviour will make the company an underperforming dog or a successful renegade (Kondra and Hinings 1988). Seen over time, the successful conservativism of today can be tomorrow’s vicious circle (Gagliardi 1986). In this context, it is important to see the potential for change that lies in self-understanding. Rather than being opposed to strategic change, self-understanding provides a basis for maintaining continuity in times

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In a sense every ideological use or non-use of history is of course manipulative. Asserting that history can only be known through interpretation makes it of course tricky to talk of false and correct descriptions of history. Nevertheless, issues like the denial of the Holocaust by right-wing extremists illustrate that there are interpretations of history that contradict well-established historical facts and are highly questionable ethically. Even if many organisations do not face issues of similar severeness, this example shows that there is an ethical dimension to interpreting history and to providing other people with interpretations of history.
of change. Where change is necessary for continued success, an organisation with a well-established self-understanding has the prerequisites to go through change smoothly, as long as management finds a strategy for change that is perceived as continuous and in line with institutional integrity.

17.2 Issues for further research

At the end of a research project, there are often more questions than at the beginning. New knowledge generates new questions and the present study is no exception. I will address those questions that I find most interesting for further research here.

- **Self-understanding in companies undergoing discontinuous change.**
  As I have discussed extensively, the stability-change dichotomy is problematic. Nevertheless, most observers would probably characterise Scania and Handelsbanken as relatively stable companies from a strategy point of view. In this sense, the present study helps us to learn about continuity, but has rather little to say empirically about discontinuity. It would therefore be interesting to study the self-understanding of companies that are undergoing more radical strategic change where members experience that self-understanding develops in a discontinuous manner. What happens when institutional integrity is not maintained? Can it be re-established and does re-establishing institutional integrity mean creating continuity with the old self-understanding or creating a self-understanding that is radically new.

- **The use of history in organisations.**
  Research on the use of history is becoming increasingly popular in history (Aronsson 2004; Karlsson 1999; Zander 2001), but has so far been widely neglected in the field of management. Lundström’s (2004) study on Ericsson as well as the present dissertation are steps towards going beyond seeing history just as the creator of the present and the constraint for the future (Kimberly and Bouchikhi 1995). History is actively and purposefully used in companies and in this sense, the present also shapes the past. I believe that further investigating how companies use history implies a large potential for developing our understanding of strategy processes.

- **Organisational self-understanding and member identification.**
  Due to an emphasis on strategy, the present study has mainly focused on strategic actors’ understanding of their organisation’s identity. However, organisational self-understanding is, of course, not limited to specific members of the organisation. This becomes clear not least when investigating members’ identification with their organisation, (e.g. Ashforth and Mael 1996; Elsbach and Kramer 1996; Leana and Barry 2000). Such issues go beyond the scope of this dissertation, but they would certainly be interesting and relevant to investigate with relation to the topics, which the
Organisational self-understanding and the strategy process

The present study has emphasized. What does, for instance, the use of history mean to members’ identification with their company? For instance, Karlsson’s (1999) existential use of history addresses individuals’ need to remember. Hence, investigating the use of history implies a potential to learn more about member identification.

17.3 Some personal reflections and lessons

After approximately three years of work it would be a pity if either of the following two scenarios were true: if I regretted so much of my work that I came to the conclusion it had all been a waste of time or if everything had gone so smoothly that I had not learned any lessons while working on the thesis. Fortunately, neither of these two scenarios is true. I believe that the results of the thesis are interesting. Still, not everything in the process turned out as originally expected. I will therefore conclude with some personal reflections on my work.

Firstly, one point in this dissertation that is relatively uncommon for scientific reports needs to be addressed. The methodology chapter includes a section on my working paradigm, which among other things addressed my personal background and my Christian faith. In retrospect, I think that these aspects have been important to my way of approaching the organisational identity field. In particular, they have helped me to define a personal stance in relation to what I perceive as overly objectivist or overly relativist approaches to identity. My personal background, including my biography and my faith, influences how I approach issues in research. Hence I believe that it was a good choice to make my working paradigm explicit to my readers as well as to myself.

However, defining a standpoint in paradigmatic issues is not the only challenge in a research process. Not least the collection and interpretation of data implies situations that are difficult to handle. Several times, I became unsure about my initial conclusions and I had to revise standpoints in the interpretation of my cases. Different conference papers written during the thesis process bear witness of my changes in opinion. Concerning the Internet case for example, I struggled a couple of times with how people at Handelsbanken had viewed the issue when they started recognising it. Did they perceive it as a threat or as an opportunity? Different interviewees gave different answers. I finally had to draw my own conclusions from this ambiguous picture and was once again reminded of a lesson I learned during my master thesis, namely that different people in the same organisation have different conceptions of reality. As a researcher I learned the importance of studying a phenomenon from multiple perspectives. Against this background it was actually worth doing a large number of interviews and reading piles of documents although this work was very time consuming.
Another issue, on which I changed opinion while working, was the question of change in identity. In the early phases of my study, the stories of Scania and Handelsbanken appeared like stories of change in self-understanding, albeit incremental change. Today, I see the stories of the two companies as stories of continuity. The feedback colleagues gave me on my cases at different conferences played an important role in this change of opinion although the decision to revise my interpretation was finally mine. The need to revise preliminary findings is not easy as one is forced to rethink a lot of ideas. Still the experience gives me the confidence to believe that my findings are not just confirmations of what I believed at the outset of my research, but rather the result of a long process of interpretation and learning. I have also learned that interpretive research needs time to mature. It is however not only time as such that is important, but continuous work with the data iterations between empirical material and theory, as well as feedback from colleagues.

A question that I felt somewhat unsure about in the beginning of my study was the choice and the number of organisations to study. Should another company or maybe two be added? Should I select the companies according to some more theoretically driven criteria? In retrospect I can hardly imagine that the greater variety of observations from an additional organisation would have compensated for the loss in depth the splitting of time and resources between three cases would have implied. Learning about an organisation takes time. It also requires openness from the company and good access to information. Although my access was not unlimited, I experienced great openness from Scania and Handelsbanken. This is one of the most important preconditions for successfully doing case-based research.

Hence, I do not regret many things about my research process. What I would have done differently, however if I were to redo my study would be to try to collect more data early on in the process, even if data collection tends to be unstructured in the beginning. Now, it took me quite a lot of time to get started and to figure out what exactly I was looking for. This is partly due to the fact that such a process always takes time. I have however learned that it is actually difficult not to find interesting information once one has started searching. Structure is helpful to field work and I definitely do not want to advocate ignoring structure where data collection can be structured. However, one should not wait until everything is neatly prepared. There are far too many interesting things in the field to learn about.
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347


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Organisational self-understanding and the strategy process


Organisational self-understanding and the strategy process


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Appendix A - Scania

Scania is one of the world's major truck manufacturers. Today, the company has been the world's most profitable truck manufacturer for a number of years. Still Scania's history has not been free from trials. In the 1920s the company filed for bankruptcy and during the second half of the 20th century a merger with Saab and a takeover attempt by Volvo threatened the company's survival. During these decades lined with both success and threats, Scania has developed a self-understanding distinguishing it clearly from its competitors. The company sees itself as the industry leader, often choosing strategies that are different from those of other truck makers. Scania's philosophy of designing a wide variety of vehicles from a limited range of modularised components is unique in the industry and has important consequences for the company's strategy. The present chapter is an organisational biography of Scania, with an emphasis on the developments since 1970. My own data collection through interviews partly covers events dating back to the late 1940s. For the years before that as well as some developments from the 1940s until the 1970s, I have relied on secondary sources. Giertz's (1991) comprehensive volume has been very helpful as well as the anniversary publications by Sandell and Streiffert (1990) and Olson and Erichs (1987). Some historical events have also been covered retrospectively in Scania's own magazine 'Scania World'.

The early history of Scania

To explore the early history of Scania, today one of the world's largest truck manufacturers, one has to go back to the time before trucks were even invented. The roots of today's Scania can be traced to two different companies that merged in 1911. The two were Scania, having its head office and factory in Malmö in the province of Scania and VABIS or Vagnfåbriksaktiebolaget i Södertelge. As the name indicated, the company was situated in Södertälje and had specialised in the production of railway wagons. At the turn of the century, the company had also started making cars and trucks that soon came to replace wagons as the main product.

VABIS

Vabis was founded in 1891 although the formal incorporation of the company was not carried out until early 1892. The main driving force behind the foundation of the company was Philip Wersén, a young engineer who had

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115 The company had thus been named after the province which is called Skåne in Swedish and Scania in Latin as well as in English.
116 Literally this means 'Wagon factory ltd in Södertelge'. 'Södertelge' is an ancient spelling of Södertälje.
started a successful career in the prospering wagon industry during the heydays of the Swedish railways. During the last decades of the 19th century, the young railway network was expanding quickly in Sweden. Although the peak of the railway fever had already been passed in 1891, Wersén wanted to set up his own company in Södertälje. The city was strategically situated south of Stockholm, having good access to the railway network. Since Wersén lacked the money to fund the investment alone he turned to the Surahammar Bruk, an important supplier to the wagon industry. Surahammar was interested in forward integration and became the main owner of the new company.

Vabis soon became a successful actor in the wagon market. In 1895 the company had nearly 100 employees and was continuously growing. Wersén left the company in 1896 after a quarrel with Peter Petersson, the Managing Director of Surahammar. This did however not harm Vabis which continued to be successful. Meanwhile, Peterson had become interested in a new invention. Motor cars had been developed in Germany and were now produced on an industrial basis in Continental Europe. Since the market for railway cars was maturing, he believed that the motor car was an interesting product to go for. The cash flow from the wagons was still high and could be used for the development of the new products.

The maiden trip of the first Swedish automobile with an internal combustion engine took place in early 1898. Although it had many teething problems, Vabis continued working with automobiles. Petrol soon replaced paraffin oil as fuel. In 1902 the company also built its first truck. The commercial success of the new products was however modest. From 1900 to 1907 Vabis only produced five vehicles. In parallel the market for railway wagons was diminishing and Vabis took the decision to go for the production of cars and engines more whole-heartedly. Although the number of units produced slowly rose, the company turned unprofitable as there was less and less demand for the former cash cow, the railway wagons.

**Scania**

Almost simultaneously with Vabis, Scania had also started producing automobiles and engines in Malmö. The company was originally a subsidiary of the British bicycle manufacturer Humber & Co. However, in 1900, operations were taken over by a newly founded Swedish company, Scania. From the beginning, the company mainly produced bicycles. The logotype thus showed a pedal hub together with the griffin, symbolising the province of Scania. At the turn of the century, the first bicycles were equipped with engines. However, motor bike production never reached any big volume in the company. Instead the engineers started to work on automobiles and the first car was ready in 1901. In contrast to Vabis, Scania did not start out by making its own constructions. The first Scania cars were mainly copies of foreign models and many parts were imported. Successively, the Swedish company gained more experience and the foreign parts were replaced by its own constructions. Already
in 1902 Scania started working on a truck. The development progressed rapidly and in 1909 the company was able to present the first truck using wheels with ball bearings.

The merger between Scania and Vabis
During the early years of car and truck production, Scania was commercially more successful than Vabis. The declining sales of railway wagons and the still low automobile sales could not pay for the large investments Vabis had made in Södertälje. The main owner Surahammar lost its interest in VABIS and looked for an opportunity to divest the company. Scania which wanted to expand its operations looked like a suitable buyer. The arrangement that took effect in 1911 implied that Scania and Vabis became the owners of a newly founded company, Scania-Vabis, Scania holding the majority. The logotype of the company was a modified version of the one previously used by Scania. Per Nordeman, the Managing Director of Scania took over the leadership of the new company. To rationalise production, the factory in Malmö where the joint head office was situated became responsible for heavy vehicles including the first buses while Södertälje specialised in cars and other light vehicles as well as engines. The production of railway wagons was not included in the merger and was discontinued shortly afterwards. Scania-Vabis acquired the now unused factories and Surahammar successively sold off its shares during the following years. As the company expanded in Södertälje, the head office was moved from Malmö in 1912.

The first years of Scania-Vabis were successful. The sales of trucks, especially increased and public authorities like the national post office and fire departments placed large orders. Domestic competition was not very strong. The main competitors came from other European countries or North America. Scania-Vabis sold vehicles to a number of foreign markets. On the eve of World War I, the company started two major ventures abroad by establishing a subsidiary in Denmark and a sales office with a repair workshop in St.Petersburg. In Sweden where the trucks previously had been sold by an independent agent, a sales subsidiary was established in 1914.

Scania-Vabis is liquidated
The outbreak of the war resulted in a strong demand for trucks by the Swedish army. As foreign producers lost their access to the market, Scania-Vabis was able to increase its production substantially. The company also integrated backwards in order to ensure its raw material supplies during the war. The expansion was financed by the Wallenberg family and its bank, Stockholms Enskilda Bank. Additionally, Scania-Vabis issued new shares that were mainly bought by two investment companies that were also intimately related with the Wallenberg family, Emissionsaktiebolaget and Investor. With this corporate finance deal, the Wallenberg family entered as a major owner in Scania-Vabis, a position it still retains today.
When peace came in 1918, the management of Scania-Vabis expected that private demand would soon replace the orders from the armed forces. Awaiting a boom, the company expanded its workforce in Södertälje and Malmö as well as its sales organisation throughout Sweden. However, the high expectations did not materialise. The country was hit by a post-war recession and foreign competitors re-entered the market with their products. Moreover, the suppliers which Scania-Vabis had acquired some years ago now made losses that the company was not able to cover. Nordeman was fired, employees were laid off and the foreign subsidiaries were divested. However, these steps came too late to save Scania-Vabis. In August 1921 the company was liquidated.

In order to allow for a reconstruction of Scania-Vabis, the company had changed its name shortly before being liquidated. A new company with the same name was founded by the old owners and took over the Scania-Vabis name as well as some remaining assets from its predecessor. Also the staff was partly re-employed. However, the business of the new company was not successful either. The recession continued and the owners were more interested in realising the value of the remaining assets than in developing the company. The sales and services organisation was further reduced. In 1926 the production of passenger cars was drastically reduced and finally discontinued in 1929. In 1927 the production facilities in Malmö, which were the origins of the old Scania were closed down. All production was now concentrated in Södertälje. It was not until the late 1920s that Scania-Vabis became profitable again. Production was rising, but the market was dominated by foreign manufacturers. Scania-Vabis was particularly successful as a supplier of public institutions and marketed its products through well-established relationships with its customers. In the late 1920s, the company went for a broader market again and built up a new dealer network.

From the Great Depression to World War II

The growing operations were slowed down as the world was hit by the Great Depression in the early 1930s. However, Scania-Vabis managed to limit the loss in volume as the demand from institutional customers was relatively insensitive to business cycles. As the economy gained in pace again, Scania-Vabis mainly grew on the bus side. More liberal technical regulations opened the way for an increasing demand for buses, which now clearly outnumbered the trucks that were produced. In 1936 Scania-Vabis also launched its first diesel engine, starting a long tradition of diesel engine production in the company. During the late 1930s, two people who would play a central role in the future of Scania-Vabis entered the company. In 1937, Marcus Wallenberg jr. became a member of the Board of Directors, a position that he would retain until his retirement in 1980. In 1939, Wallenberg recruited Carl-Bertel Nathhorst as assistant to the Managing Director Gunnar Lindmark whom Nathhorst succeeded one year later. Under Nathhorst’s leadership, Scania-Vabis was going to introduce rationalisations that would be the seed for what was later to
become Scania’s modular system. Like the First World War also the outbreak of World War II had a strong impact on Scania-Vabis. The bus production almost came to a halt and trucks, mainly for the Swedish army stood for the major share of production. Scania also started making more specialised military vehicles like tanks and supplied other manufacturers like Volvo with tank engines.

**Scania-Vabis after the war**

Unlike the situation after World War I, peace did not mean a recession for Scania-Vabis this time. Although deliveries of military vehicles came to a halt, civilian demand quickly replaced government orders. The company’s turnover almost doubled from 1945 to 1946. Like before the war, buses stood for a substantial part of the production, but trucks soon took over the position as the main product of Scania-Vabis. While most trucks had been sold to public institutions previously, private haulage companies now emerged as new customers and quickly gained in importance.

With the concentration on new customer categories, Scania-Vabis saw a need to extend its dealer network. Already during the war, the company had established contacts with independent dealers that were interested in selling Scania-Vabis’s trucks. The trucks were however not sufficient to support a country-wide network. Therefore, the dealers also wanted to sell other vehicles, particularly passenger cars. Shortly after the war, Scania-Vabis managed to get the agency for the Willys Jeep. In 1948, the company got the agency for Volkswagen and Porsche and cooperation with Willys Overland was terminated. After the Volkswagen deal, Scania-Vabis could demand from the dealers to offer brands represented by Scania-Vabis exclusively. The Volkswagen agency was not only important with respect to the dealer network. It also generated cash that Scania-Vabis could reinvest into truck and bus operations. During the early 1950s the Volkswagen sales stood for the major part of the company’s profit. In 1954, the establishment of the sales and services subsidiary *Scania-Bilar* in Stockholm marked a first step to downstream integration. However, independent dealers would remain a cornerstone of sales and service operations in Sweden for a long time.

**A more modern approach to production and development**

When Carl-Bertel Nathhorst was employed by Scania-Vabis, he had become renowned as an expert on rationalisation in the companies he had worked for previously. At Scania-Vabis he was particularly interested in reducing the number of different components used to produce vehicles. This also implied using the same components for trucks and buses as much as possible. In 1939, the same year as Nathhorst entered Scania-Vabis, the so-called Unitary Engine was launched, enabling the company to produce engines with different numbers of cylinders on the same components. The development of the engine
and the component philosophy had already started before Nathhorst under August Nilsson who was one of the key persons in the engine development of Scania-Vabis. However, Nathhorst developed the idea further and extended it to other components. As travelling became more easy after the war, Nathhorst took the opportunity to learn from American practices by sending young engineers to the US. At the same time it also became more recognised that Scania-Vabis was concentrating on producing heavy vehicles. Besides the introduction of standardised components, the rejection of diversification ideas was one of the major strategic choices articulated under the leadership of Nathhorst.

I believe [the philosophy not to split forces too much] was Nathhorst’s idea from the beginning. ‘We shall work with heavy transports’ he said. ‘That’s where we have an opportunity.’

Sverker Sjöström, former Technical Director, interview 2003

After twelve years in the company, he stepped down in 1951 after a conflict with his former promoter Marcus Wallenberg. Nathhorst was succeeded by Henning Throne-Holst, a Norwegian, whose previous experience was from consumer products. Throne-Holst’s tenure was however short and after only two years he was succeeded by Gösta Nilsson who came from the electric power industry.

New markets and production facilities abroad
Scania-Vabis had been an international company for a long time. Already the precursors Scania and Vabis had exported vehicles. During the 1910s, up to 25% of the company’s production went abroad, in particular to the Nordic countries and to Russia. During the crises years also exports went down and with the outbreak of World War II access to foreign markets was very restricted. Although the exports of Scania-Vabis never came to a complete halt, foreign markets were not approached in a systematic manner. However, this changed in 1945 when exports particularly to the Nordic neighbours were resumed. The company also started to pursue sales opportunities in Continental Europe more actively. Already in 1946, Scania-Vabis managed to win a major bus order in the Netherlands where the local company Beers became general agent for Scania-Vabis. In other European countries, the company could capitalise on its connections to Willys-Overlands and use their agents. However, international ambitions were not limited to Europe. Nathhorst made trips to North- and South America in order to look for sales opportunities. In 1948, he found the company’s first general agent in Brazil and the first trucks were shipped the same year. Within a few years, agencies in most Latin American countries had been established.

While Scania-Vabis’s first steps into the international markets were successful, there were threats emerging when countries in Latin America as well
as in Europe increasingly established trade barriers. In Brazil, Scania-Vabis therefore decided to set up local production already in the 1950s. São Paulo was chosen as the site for the plant and the first Brazilian engine was delivered in 1957. A few years later, complete buses and trucks rolled out of the factory. Import restrictions turned to be particularly strict in Argentina that had become the second most important market for Scania-Vabis in Latin America. Therefore, a plant was established in Tucumán in 1973. This laid the ground for a division of labour between the Latin American plants. While trucks and buses were assembled at both sites, São Paolo made engines and Tucumán produced gear boxes. The components were then swapped between the counties based on a bilateral agreement.

In Europe, Scania-Vabis encountered similar problems when the establishment of the European Economic Community (EEC) endangered the company’s possibilities to sell trucks in Continental Europe. In the 1950s, the Netherlands and Belgium especially had become important markets for Scania-Vabis. The company also had ambitions to gain a foothold in Italy, Germany and France. However, this was more difficult as these countries had numerous well-established local producers. To secure the possibility of exporting to EEC countries, a plant for both component production and vehicle assembly was opened in Zwolle in the Netherlands in 1964. Although the establishment of the EEC implied some problems, Scania-Vabis actually gained an advantage in the British market. Through the EFTA customs union where both Sweden and the United Kingdom were members, Scania-Vabis as well as Volvo could enter Great Britain in the late 1960s. At that time, the Swedes were the only major challengers of the domestic producers, while the EEC competitors were practically locked out. This advantage disappeared when Great Britain entered the community some years later, but by then Scania had already gained a substantial market share in Britain.

The plants in Latin America and in the Netherlands have remained the corner stones of Scania’s production outside Sweden, together with Angers in France that was added during the 1990s. These facilities have been complemented by assembly plants in various places, especially in developing countries, but also in Australia. While there have been rather large single deals with particular markets in Africa and Asia over the years, a structure with Europe and Latin America as the two major geographical hubs, was established by Scania-Vabis in the 1950s and 60s. Brazil soon became one of the company’s major national markets. However, the market in Latin America has been characterised by strong volatility over the years. Recurring periods of high inflation, currency turmoil, political crises and military coups led to extreme shifts in sales. Despite heavy fluctuations, Scania-Vabis managed to increase its volumes over time and gain a market share that was clearly superior to those of the competitors.
New locations in Sweden

While Scania-Vabis grew abroad, the late 1960s were also characterised by investments in Sweden. In 1966, the company acquired one of its major suppliers, Be Ge Karosserifabrik in Oskarshamn on the Swedish East Coast. The company had been making cabs for Scania-Vabis since the end of World War II and had established a plant in Meppel in the Netherlands when the truck manufacturer opened its Zwolle factory. Before 1966, Scania-Vabis had only manufactured truck chassis, but now cabs were considered a vital component that should be produced in house. One year later, Scania-Vabis established a factory for frames in Luleå close to the Arctic Circle and in 1969 the company took over a plant for gear box production in Sibbhult in Southern Sweden where it had been doing some production for a while. Finally, in 1975, Scania moved its axle production to Falun in Mid-Sweden. The relocation of production within the countries had partly political reasons. The factories in Luleå, Falun and Sibbhult were located in regions that suffered from high unemployment, either because they lacked industrial tradition or because structural changes in the economy had wiped out the established industries. During the 1960s and 70s government interventionism to support economically weak regions was common in Sweden. Through a combination of regulations and incentives, companies were pushed to invest in these areas. Especially after the merger with Saab, Scania-Vabis was affected by this policy as the defence industry was dependent on good relations with the government.

During the late 1960s another political decision affected the business of Scania-Vabis. In 1967 the country was to change from left-hand traffic to right-hand traffic. The truck business was only marginally affected by this as Scania-Vabis had sold left-hand driven vehicles in export markets for a long time. However, the change had an enormous impact on the Swedish bus business. The entire Swedish bus fleet either was to be replaced or re-built in order to move entrances and exits from the left to the right-hand side of the vehicle. This would result in a heavy fluctuations in the market.

“At that time Scania made the buses up here [in Södertälje]. It was necessary to develop new buses with the right entrances and to re-build the old ones. And then the market dies out and Scania said, should we have buses? If so we must merge them with a [body builder] and it was Svenska Karosseriverkstäderna in Katrineholm. We simply bought the whole company and said you take care of the buses.

Bengt Palmér, former Technical Director, interview 2003

Building bus bodies was not an established competence at Scania-Vabis. The company had manufactured bus chassis that had many parts in common with the trucks. The superstructures were then added by a specialised company. The acquisition of the Katrineholm plant was thus an example of forward integration. As the market for buses went down steeply after 1967, the production of bus chassis was moved to Katrineholm from Södertälje where the
free space was used for an expansion of the truck production. The Katrineholm operations were run in a separate subsidiary called Scania Bussar from 1968. Body building differed in nature from chassis production as orders were customised, implying short series. The industrial production methods of Scania-Vabis could not be applied in a context characterised by craftsmanship.

**Saab-Scania**

In 1968, Scania-Vabis could look back on a history of 77 years. 57 years had passed since the merger of Scania and VABIS. During World War I, the Wallenberg family had become the major owner of the company. Although the Wallenbergs, in particular Marcus Wallenberg jr., had played an active role on the Board, Scania-Vabis could develop independently from other companies in the Wallenberg sphere. This suddenly changed on December 19th, 1968, when Marcus Wallenberg together with the Managing Directors of Scania-Vabis and Saab, Gösta Nilsson and Curt Mileikowsky, announced that the two companies were to merge.

**Saab and Scania merge**

Saab had been founded as Svenska Aeroplan AB in 1937 in order to establish a Swedish defence industry. Marcus Wallenberg had been one of the driving forces behind this development. While concentrating on military aircraft during the first years, Saab entered the market for civil aircraft before the end of the war and diversified into passenger cars by launching the Saab 92 in 1946. During the post-war period the company stood on two legs, namely the military aircraft production and the car business. By the end of the 1960s the car production was at a crossroads. New models had just been launched and further development required additional financial resources. Saab had recently abandoned its own two-stroke engines in favour of four-stroke engines that were bought from external suppliers. Saab lacked the resources to develop its own engines and in order to ensure long-term survival of the company something had to be done about this problem. Scania-Vabis looked like a good solution as the company both generated a steady flow of excess cash and had a lot of competence in engine development, albeit in the field of diesel engines. There were also hopes of realising other synergies. For instance, materials developed on the aircraft side might also become useful in the truck industry. On the marketing side the distribution channels in export markets might be coordinated. As both were part of the Wallenberg sphere, a merger was easy to bring about. Marcus Wallenberg, who was used to taking an active stance in the development of Swedish industry, went for this option. The decision took most members of Scania’s management by surprise.

[^117]: Swedish Aeroplane Ltd.
[The decision was not very popular.] In December 1968 I was called to Gösta Nilsson who told me that now Dodde [Marcus Wallenberg] has decided to merge Saab and Scania. That was the way he expressed it and that was the way it went. I don’t believe that it was possible [to do anything about it once Dodde had decided.]

Sverker Sjöström, former Technical Director, interview 2003

The practical solution implied that Saab acquired Scania-Vabis. The company changed its name to Saab-Scania, but Mileikowsky remained Managing Director. In order to realise synergies in an optimal way the truck and bus operations were put together with the cars in one single division, headed by Erik Nilsson, the commercial director of Scania-Vabis. There were however, no intentions to have any cooperation between Saab’s cars and the Volkswagen agency. Thus, the Volkswagen operations were put in a new subsidiary jointly owned by Volkswagen and Saab-Scania, called Svenska Volkswagen.

The Scania division

The automobile division was short-lived. The expected synergies did not materialise. In distribution, there were almost no synergies at all since trucks and passenger cars were sold to different customers that required different marketing approaches. There were some other areas which were appropriate for cooperation, however, they did not require a joint division. For instance, there was research cooperation between the truck and the aircraft sides although the two had never been part of a common division.

We got help from Saab when we looked at the air resistance of trucks. When we made the 2-series it was an important issue to reduce the air resistance. We made air deflectors and so on. We had an expert on aerodynamics from Saab who worked together with our guys here.

Stig Ericsson, former Technical Director, interview 2003

In 1972 the cars were split off and formed their own division whereas the trucks and buses formed the new Scania division, headed by Ingvar Eriksson, which was practically identical to the old Scania-Vabis. However, engine and gear box production for the passenger cars remained with Scania. The engineers of Scania had developed a petrol engine that replaced the Triumph engine that had been used for Saab’s cars and a new plant for the engines had been set up in Södertälje. With this arrangement, the Scania division could maintain a large degree of independence vis-à-vis the headquarters in Linköping. Scania could continue developing the truck business as before. However, excess cash flow was delivered to Linköping where it helped to fund the car and aircraft businesses. Still, the Scania division could retain the cash it needed to invest in its own operations. Belonging to a larger business group also implied that management time had to be devoted to group issues. After Scania had taken over the engine production for Saab’s cars, engineers went over to the Saab side within the
Scania division and were not available for the truck operations. One of them was Bengt Palmér who had been in charge of power train development and production for trucks and got the corresponding position for Saab’s cars.

We lost momentum, honestly speaking. We had lots to look at on the Saab side. Our management had to go to many meetings down in Linköping because now we were supposed to be a group. Scania guys had to go over to Saab and I was one of them and Scania had to help itself. My position here was vacant for about a year.

Bengt Palmér, former Technical Director, interview 2003

Saab and Scania-Vabis had also been characterised by different cultures and these differences became particularly obvious after the merger. The head office in Linköping had to approve all major investments and decision procedures were complex and time-consuming. In contrast, at Scania people were used to informal decision-making based on personal networks within the organisation. This had given Scania-Vabis an almost family-like culture.

We had the [financial] resources and we were about to decide on a new factory for [Saab] engines on the hill [in Södertälje]. It was about 800 to 900 million [SEK]. The money had to be found and it was from Scania. There was a long debate here in the house. Ingvar Eriksson was ill and I said I couldn’t wait any longer. Saab hadn’t decided that they should have the engine, but they had decided they should have the [car] volumes. So I took an informal decision and since I did not have a boss I went to the financial manager [at the Scania division] who was Sven-Bertil Johansson and I said ‘You have followed Saab for a long time and you know our financial situation, what do you say? Can I go ahead? It’s 800 millions. I will do it.’ And then after the pistol had gone off Saab had a meeting and said ‘we have to get a new engine for these volumes’ and they approved everything and granted me the money, but at that time it was already up and running.

Bengt Palmér, former Technical Director, interview 2003

In retrospect, there are different views on this situation. While there was discontent with the fact that Scania had to deliver its profits to Linköping, there were no particular instances where Scania lacked cash. Today, many people at Scania look negatively upon the Saab-Scania period as a phase where Scania had lost its independence. However, some people also express positive feelings.

I was really positive to this contact between Saab and Scania. You will hear many who say they were not positive because we made large profits and we delivered them to Saab-Scania where they were ploughed into aircraft and car operations. That’s correct strictly speaking, but on the other hand we always got what we needed to make investments on the truck side. […] So we never suffered from it.

Stig Ericsson, former Technical Director, interview 2003

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118 Engine, gear box and axles that are involved in power transmission.
Positive memories also often relate to a common interest in technology that Scania shared with Saab.

Technologically Saab did not interfere at all. Concerning money it was different. That’s the reason why many people here have an aversion to Saab. I see it differently [...]. We learned a lot by working on the Saab engine.

Sverker Sjöström, former Technical Director, interview 2003

Although Scania largely remained free to do its business, the division was affected by belonging to a group. The division had to report to Linköping and investment decisions had to be approved centrally. Although Scania usually got its way through in the end, this often required long discussions and the Scania division’s ideas were not always met with understanding. For example, the plans to invest in a new production plant in the early 90s in the midst of recession in order to prepare for the next economic upturn led to controversial discussions. However, the Scania division gained legitimacy from its superior performance and its economic contribution to the group as a whole.

When you are a part of a larger industrial group you are affected of course. That’s obvious, but on the other hand there was great respect within Saab-Scania’s group management for Scania. That was not strange because during the time Saab-Scania existed, Scania was responsible for [the group’s] entire cash flow if you take dividends into account. So it was self-evident that one had great respect for Scania and Scania’s way of working because Scania was needed in the group.

Leif Östling, Managing Director, interview 2003

In public, the truck and bus operations were put in the shade by aircraft and cars. This was partly due to the products. While aircraft are generally perceived as glamorous and cars are consumer goods that receive much public interest, trucks as a business to business product tend to get less attention. However, a lot of emphasis was put on the Saab part of the company from the head office in Linköping. From Scania’s perspective this had both positive and negative consequences. On the one hand the division had a low profile and got relatively little publicity. On the other hand the group management’s strong interest in the other businesses also made it easier for the Scania managers to run the division like an independent business.

**An attempt to merge Saab-Scania and Volvo**

Despite the merger of Saab and Scania, the car operations were struggling with low profitability. There were doubts if the Swedish automobile industry with comparatively small companies like Saab and Volvo would be able to survive in the long run. Marcus Wallenberg, in his role as an active industry builder, envisioned that a merger of the two manufacturers could ensure the survival of the Swedish car industry. In May 1977, the merger of the two domestic competitors in the car and truck industries was announced. However, both in
Saab-Scania’s car division and in the Scania division there was resistance against this initiative. Volvo had been the major rival of both businesses and Volvo was likely to dominate the new constellation. Scania’s management did not feel any need to grow in size. Anyway the deal had been designed to help the car side and not the truck side.

Most people were very hesitant concerning this [merger] and probably Marcus Wallenberg was also doubtful [...]. Erik Nilsson wrote a memo and Ingvar Eriksson and I wrote another memo where we motivated and advised against the merger. We were called to the Board of Directors with Marcus Wallenberg and could present our opinion. There was only one member of the board who wanted that we should merge. I don’t have to say who it was. I think Marcus Wallenberg himself was in two minds about the merger, but I don’t know what he really thought.

Sverker Sjöström, former Technical Director, interview 2003

The main argument of Eriksson, Sjöström and Nilsson was that a merger would harm the combined market share. Considering that the truck market had professional buyers, customers might not consider Volvo and Scania as separate manufacturers even if the brands were kept apart. A merger might thus result in customers turning to other brands in order to have competition between suppliers. In this context the expression “one plus one is not two, but rather one and a half” was coined to argue against a merger. The expression would subsequently be used by Scania management to argue for organic growth of the company and to reject different merger options.

We voiced [our opinion] and said that it was better if we competed. The main argument was that one plus one is not two, but rather one and a half. It would harm both truck operations.

Sverker Sjöström, former Technical Director, interview 2003

Resistance against the deal in Saab-Scania was too strong. Although the merger had already been publicly announced, the deal was cancelled. It would take more than 20 years until a new Volvo merger, this time only with Scania was close to coming true.

The Scania division develops its products and markets

Despite the ownership turbulence, Scania continued developing its traditional business with trucks and buses. The loss of independence had only limited impact. After all there were relatively few people in the organisation who were occupied with tasks on the group level or who were transferred from the truck to the car engine operations. This meant that the Scania division had freedom to pursue the development of its products, production facilities and markets.

In the late 1960s a number of important innovations were launched that had already been developed before the merger with Saab. In 1968 an entirely new programme of truck models called Program Scania was launched. With
Program Scania, the company introduced a modern cab with the driver’s cabin over the engine. Scania trucks like those of other producers traditionally had bonneted cabs, meaning that the engine was placed under a bonnet in front of the driver’s cabin. During the 1960s however, length restrictions in many European countries had made the bonneted cabs obsolete for economic reasons. Given that the law prescribed a maximum length for trucks, it was not reasonable to use a part of the available length for a bonnet instead of additional payload. Cab-over-engine cabs and the traditional bonneted ones existed side by side in Program Scania. Another major innovation that was introduced one year later was Scania’s 14-litre V8 engine. Germany had recently announced that a minimum engine performance of eight horse powers per ton gross weight would be introduced. Scania’s new V8 engine with 350 horse power surpassed this requirement with a margin. At that time, the engine was by far the most powerful in the market and soon gained legendary status. It became common to equip trucks with special V8 logotypes on the front. The engine came to embody the concept of the Scania truck as ‘King of the road’ that was originally coined by an employee at the São Paulo plant, referring the performance of Scania trucks in general (Faquinetti 2002).

The 1970s brought the successors of the models from Program Scania. Important features were more powerful versions of the 11-litre and 14-litre engines. Simultaneously with these technical developments, Scania also developed in its different markets. The plants in the Netherlands and Brazil were enlarged due to rising demand in Latin America and Western Europe. Now, Scania also gained a foothold in Germany and France where it traditionally had held a weak position facing the competition from domestic competitors. Outside its traditional markets in Europe and Latin America, Scania also established a subsidiary and an assembly plant in Australia and increased its exports to developing countries.

Breakthrough for the modular system: The 2-series

After the war, Scania had taken good care of Carl-Bertil Nathhorst’s heritage and his ideas of reducing the number of components by standardisation. It took however until the 1980s before these ideas had developed into what Scania today calls its modular system. The basic idea is to have a limited number of components with different dimensions to suit different truck applications. The interfaces between the components are standardised, allowing an almost infinite number of combinations. The breakthrough came with the development of the new Program Scania that was to replace the programme from the late 1960s.

119 The 14-litre V8 engine was continuously developed and produced until 2000. In the meantime the performance had been increased to 530 horse powers for the most powerful truck engine version. In industrial and marine applications, performance was even substantially higher. Today a 16-litre engine carries on Scania’s V8 tradition.
The project, called project Q, was launched in 1974 and the first result, a truck with a bonneted cab was introduced in 1980. The remaining models of what was then called the 2-series were introduced one year later. The focus of the project had been on modularising the cab and the frame. From a set of relatively few components, bonneted cabs, cab-over-engine cabs, cabs with different dimensions etc. could be made. The new basic model of the frame could accommodate all cab types. The programme offered three chassis classes for medium, heavy and extra heavy duty applications. The components for the modularised chassis had been designed to fit either of these classes in order to allow the customer to choose a truck that fit a specific application, but was not unnecessarily heavy. The 2-series was the first full programme Scania introduced in Europe and Latin America in parallel. Previously, Scania had only offered a limited range of trucks in Latin America. They all had bonneted cabs and were painted in orange. With the new programme, synergies between Scania’s different markets could be increased. In 1988 the 2-series was replaced by a face lifted version, the 3-series.

Whereas the modularisation of engines and gear boxes was not the main focus of project Q, Scania’s tradition of engine development went on in parallel with the chassis modularisation. After all, component standardisation had once started with the Unitary Engine in 1939. After the war, the first engines with direct injection were built, increasing efficiency significantly. In the early 1950s Scania-Vabis had entered the turbo age, producing turbocharged engines for the railcars of the Swedish State Railways. In 1960, finally a turbo engine for trucks was introduced. When the V8 engine was launched at the end of the same decade, Scania had moved to equipping its trucks with turbo engines. Turbo technology was further developed by introducing intercooler technology in truck engines in 1982. Again, the technology had been applied and tried in industrial and marine engines for a number of years. The intercooler concept implied that the combustion temperature was lowered, leading to additional efficiency gains. In 1990 efficiency was further increased by the introduction of the first turbocompound engine, using the energy from the hot exhaust fumes to drive the crankshaft. Although Scania’s 6-litre turbocompound engines could now replace the V8 engine in many cases, the V8 remained the undisputed flagship in Scania’s engine programme. Many customers valued not at least the king of the road image associated with the V8. While engine development had been dominated by performance and fuel consumption for a long time, environmental concerns have had increasing impact from the 1980s onwards. The externally imposed emphasis on meeting emission standards has made it more difficult for truck manufacturers to differentiate themselves from competitors in terms of the technical properties of their engines. Also in engine production the emotional, non-quantifiable aspects, like the image associated with a particular engine, gain in importance. Here, in particular the V8 engine plays an important role for Scania.
The consolidation of the European truck industry

After the failed merger with Volvo it was clear that the Scania division would retain its relatively independent position in the Saab-Scania group. As the group already contained various different businesses, there was no need for the Scania division to think of diversification which was in fashion during the 1970s and 1980s. The domestic competitor Volvo turned into a conglomerate comprising food producers and pharmaceutical companies that were divested again when it became modern to go back to basics. In Saab-Scania, diversification happened on the group level. In retrospect, Scania managers see this as a positive side effect of the Saab-Scania time as the Scania division was saved from the temptations of diversification and could stick to its core business.

One could say that [belonging to the Saab-Scania group] saved us from doing something stupid, but that’s really a hypothetical question.

Kaj Lindgren, Chief of Staff, interview 2002

Another industry trend that had a significant impact on the landscape of European truck manufacturers was that of an ongoing consolidation. During the post-war years there was a large number of truck manufacturers in Europe. Some of them were very much limited to their domestic market. From 40 independent producers in 1965, 19 were left in 1975 and this number had been further reduced to 7 in 1993 (Forsberg 1994). Initially, mergers and acquisitions happened in domestic arenas. For instance, five British manufacturers were swallowed by British Leyland in the 1950s only. Similar concentration tendencies could be observed in France, Italy and Germany. In the 1970s mergers also happened on a cross-border European basis. Italian Fiat was particularly active, forming a joint-venture under the name Iveco with French Unic and German Magirus-Deutz. Subsequently, Fiat took over the remaining minority stakes and became the sole owner of Iveco that continued to be an active player in the consolidation process. MAN and Mercedes-Benz, the major German actors, were mainly buying other vehicle producers in Germany, Austria and Switzerland, while RVI (Renault Véhicules Industriels) was the result of a series of mergers in France. British Leyland that had subsequently bought various British producers was acquired by DAF from the Netherlands in 1987. While the European truck market was continuously growing in terms of volume, the number of actors was shrinking. Both Swedish producers, Scania and Volvo had largely kept their hands off their European competitors with the notable exceptions of the failed merger between Volvo and Saab-Scania that however had its origins in the passenger car business. Volvo then engaged in another merger attempt in 1990, this time with Renault encompassing both car and truck operations. However, this initiative driven by management failed on lack of support from Volvo’s shareholders.

During the 1980s another phase in the international consolidation of the truck industry took off when European producers moved into the US market.
and took over companies that were hit by a declining market due to a downturn in the haulage industry. Mercedes-Benz bought Freightliner, RVI acquired Mack and Volvo took over White and GMC. With Navistar as well as Paccar, the owner of Kenworth and Peterbilt, the two major US producers remained independent. For the European newcomers, the structure of the US market has limited synergies with their European programmes. The North American truck producers are mainly assemblers. Customers select the main components of their trucks from different producers, resulting in the fact that particularly the domestic engine and transmission manufacturers have a strong position in the US.

Although the lack of integration in the US truck industry did not fit well with Scania’s concept of modularisation and in-house production of the main components, Scania made an attempt to enter the US market in the 1980s. However, not by making an acquisition, but through setting up its own operations. The potential volumes were tempting, but it was difficult to solve the question how to set up a sufficient sales and services network.

We saw the US as a giant market and we wanted to be there and compete with the prestigious names. We were strong in long haulage, but how should we build up a service network? It was not possible. Then the buses came [...]. What a volume increase it would be if we could sell 200 buses in America per year. The buses would stay in the city where we had sold them. We would manage the service and we would start in the North East, but where did they end up? The first deal was west of Chicago, the second was Halifax in Canada [...] then came the third deal: Hawaii!

Bengt Palmér, former Technical Director, interview 2003

While Scania actually managed to sell its products in North America, the deals that were eventually made did not match with the plans that had been made to make the new market profitable. One reason was that the buses required specific adaptations, resulting in low economies of scale. Scania also sold trucks in the US. However, they were mainly not the long haulage trucks Scania had envisioned to sell in the beginning.

The truck side started with local transportation. Garbage trucks and that sort of things in the North East. I said that’s not our image, garbage trucks! They were supposed to lift the containers over the cab and dirt was running all over the cab. I asked, is this Scania? It’s long haulage we are good at.

Bengt Palmér, former Technical Director, interview 2003

The North American venture soon came to an end as Scania did not find a satisfactory way to run its US operations. The falling exchange rate of the dollar made the market even less attractive. Since then, Scania has stayed out of the US in contrast to its major global competitors Mercedes and Volvo that both acquired US producers.
Scania was the only European producer of heavy trucks that grew purely organically, at least on the truck production side, after World War II. The equation $1+1\neq 2$, that was coined during the merger discussions with Volvo in the 1970s has since then been frequently used in connection with discussions around possible mergers of Scania and other manufacturers. However, Scania’s stance concerning organic growth has not been dogmatic. Acquisition opportunities that emerged were evaluated like in the case when Spanish Pegaso was for sale in 1986 and Ingvar Eriksson went to Spain and had a look at the company.

Opportunities come. They appear. I believe, for instance we looked at Pegaso in Spain when it was for sale and Iveco finally bought them. [We were interested] simply because it was a market that was relatively unworked, but we said no because there were too many problems connected to going in.

Cecilia Edström, Vice President Strategy, Business & Brand Development, interview 2002

In the Pegaso case, the bad shape of the takeover candidate together with the general reluctance of Scania towards mergers and acquisitions were decisive for not buying the company. As further takeover opportunities appeared during the coming years, Leif Östling who succeeded Eriksson as head of the Scania division in 1989 continued playing on the meanwhile well-tried mathematic theme. The lack of success following other mergers in the industry supported his stance. The merged companies had not been able to maintain the combined market share of their precursors. Instead, customers had turned to competitors in order to avoid being dependent on the dominant actor in their national market.

Mergers do not automatically imply a larger market share. Look for instance at Fiat when their boss Agnelli founded Iveco in 1975. There $1+1+1$ hasn’t become 3. It will instead be 1 again soon.

Leif Östling, interview in Scania World Bulletin 7/90, p. 7

During the decades of consolidation in the European truck industry, Scania’s success recipe of organic growth became more and more outspoken. On the one hand evidence showed that successful mergers in the truck industry were difficult to achieve. On the other hand, this strategy allowed Scania to retain its relatively independent position.

The Scania division prepares for organic growth

Scania had developed a strong belief in growing organically. Looking at the sales development, this strategy was successful. In 1951 Scania-Vabis produced more than 2000 vehicles during a single year for the first time. In 1960 the 5000 barrier was taken with margin, when almost 6200 trucks and buses were produced. Until 1970, production more than doubled to 13500 and during the
1970s it was doubled again to reach 26500 in 1980. The 1980s brought a certain slowdown in growth, but still a peak of 35600 vehicles was reached in 1989. After the war there has been a long term growth trend in the truck market. The industry is cyclical with ups and downs in the medium term. The time between two peaks tends to be between eight and ten years and follows the general business cycles. Scania has been able to ride on these waves and subsequently even increased its market share. From the continuous historical development of the market, the company has drawn the conclusion that the future development of the industry is predictable, at least as far as the medium and long term trend is concerned.

The long term increase in [truck] demand is related to economic growth and GDP per capita. It’s like putting carbon paper on it.

Kaj Lindgren, Chief of Staff, interview 2002

Angers

This assumption of industry growth correlating with GDP development also encouraged Scania to plan for further growth although the sales curve had just passed its peak in 1990 and a coming recession was threatening. There were also aspects of the product life cycle that were suggesting to think over the production organisation. In a couple of years the 3-series would be replaced with the first newly designed series since the introduction of modularisation in 1980. Moreover, a new engine generation was under development. In March 1990, Scania announced that it would set up a new assembly plant in Angers in France. The preparations for this investment had been going on for a couple of years. During the 1980s the output of chassis from the Zwolle plant alone had more than doubled. If the assumption of truck sales correlating with GDP development was true, Scania would run into capacity problems during the next economic boom. Hence, a new investment was needed. As Scania saw limited economies of scale in chassis assembly, the company went for a new plant rather than an extension of the existing ones in Södertälje and Zwolle. An argument against further expansion in Sweden was the lack of labour supply during the 1980s. Moreover, an establishment in a new country would bring production facilities closer to the markets and probably increase the acceptance of Scania in continental Europe.

With the help of consultants, Scania first identified 69 potential sites in a number of different European countries. This selection was then reduced to six for on-site scrutiny by Scania’s management (Danielsson 1990). As Technical Director, Stig Ericsson was responsible for the investment project and took part in the investigations. In most of the sites there were empty factories of companies that had closed down. Usually labour supply was good as workers had been laid off by the previous owner. Except for the economic circumstances, the possibilities to establish a good relationship with the local community played an important role for the decision.
The main alternatives were Scotland, France and Spain and finally, France turned out to be a rather obvious choice. We were able to buy a very good factory at a really low price. We had good contact with the mayor of Angers and got very positive response in the press. In Scotland they were not very interested and in Spain they were by far too interested. They wanted to give us subsidies that would never have been approved.

Stig Ericsson, former Technical Director, interview 2003

In Angers, Scania took over the closed-down factory of International Harvester. The industrial tradition of the region and high unemployment rates ensured good access to labour. Moreover, the central location in Western Europe provided for good access to the market. Scania was now a domestic producer in France, a large market where the Swedes had been relatively weak due to the dominance of RVI. Originally, the plans for the Angers plant even went beyond chassis assembly. There were plans to open a factory for the forthcoming 12-liter engine. However, these ideas were not put into practice as Scania finally opted for producing the engines close to its R&D facilities in Södertälje.

Scania Latin America

The coming introduction of a new truck generation would further enhance the degree of modularisation in Scania’s product programme. As the new series necessitated an upgrading of the Latin American production facilities, this was an opportunity to establish world wide commonality among products. Although the same truck series were offered in Europe and Latin America, the specifications available in Latin America were so far more limited. For instance, the famous V8 engine had not been available for a couple of years during the 1990s. Introducing a worldwide product structure would also allow globalising production by shipping components as well as complete trucks between continents to balance regional demand fluctuations and utilise production facilities more efficiently.

In this context, Scania found it appropriate to restructure its Latin American operations. There, economies were becoming more liberal and free trade agreements like Mercosur opened up for more integration of Scania’s operations. So far, the production facilities in Brazil and Argentina had been organised separately. Now they were unified under a common structure called Scania Latin America (SLA) that also came to incorporate a smaller assembly plant in Mexico. It took until 1994 before SLA could be formally established, but in the meantime the structure was used as if it already existed as a legal entity. On the one hand, the SLA headquarters in São Paolo implied a certain degree of independence from Södertälje that did not control the Latin American countries directly any longer. On the other hand, the new structure resulted in some more central control on the Latin American level. The different production units were to be co-ordinated towards more efficiency and also marketwise there was an intention to work towards more similar
prices across countries. Together with the new plant in Angers, the establishment of SLA was one of the major steps in preparation for more growth in the 1990s.

The Saab-Scania era comes to an end
Meanwhile, the car division of Saab-Scania was still suffering from low profitability and questions were raised about whether the operations would survive on their own. In 1989 it was announced that General Motors had acquired 50% of Saab’s car production. The car division was transformed into a separate company, Saab Automobile that was owned half by General Motors and half by Saab-Scania. For the Scania division this implied that it lost the car related operations, namely development and production of engines and gear boxes. Already at this point in time it seemed likely that General Motors would sooner or later buy the remaining 50% of Saab Automobile. For Saab-Scania this meant that only the relatively unrelated defence and truck operations remained within the group.

In parallel with the GM deal, there was unrest concerning the ownership of the group as a whole. During 1989 Sven-Olof Johansson, a financial investor had subsequently acquired a substantial part of Saab-Scania’s shares. The Wallenberg family that controlled Saab-Scania mainly through the investment companies Investor and Providentia also increased its shareholding. Finally, in spring 1989, Investor and Providentia bought off Johansson. The deal implied a considerable profit for Johansson and an increased dominance of the Wallenberg sphere in the company.

Changes in Scania’s ownership structure had not come to an end with this deal. Two years later, in spring 1991 Investor and Providentia placed a public bid for the outstanding shares of Saab-Scania. All major owners accepted the bid, resulting in the de-listing of Saab-Scania from the Stockholm Stock Exchange. Later the same year, the Wallenberg family concentrated its investment activities by letting Investor taking over Providentia. The motivation for taking over the ownership of Saab-Scania was announced to be the two investment companies’ desire to continuously play an active role in the development of Swedish industry. They therefore claimed to need an operating company in their portfolio. Although they had substantial stakes and took an active stance as strategic owners in a number of major Swedish companies, these holdings did not generate any cash except for the shareholders’ dividends. Saab-Scania, in particular the profitable truck business, was predestined to generate cash for coming investment projects. Being the sole owners of the company, Investor and Providentia had full access to its cash-flow. Additionally, the deal implied that the company was protected against raids like Johansson’s or any other hostilities. The owners announced that they did not have any intentions of changing the industrial activities of Saab-Scania.

Being at least partly relieved from the losses in Saab Automobiles, there was now also the potential for using Scania’s cash flow for developing the truck
operations in a novel way. Georg Karnsund, who was Managing Director of Saab-Scania, publicly announced that the excess liquidity might be used for buying another truck manufacturer. This idea ran contrary to Scania’s strategy of organic growth and Leif Östling did not hesitate to argue against such an option in public, even though this meant dissenting from his superior.

No, [Georg Karnsund and I] are perhaps not of the same opinion here. Before one buys another truck manufacturer one should think carefully.

Leif Östling, Head of the Scania Division, interview in Göteborgs-Posten, March 27th, 1990

This company wants security. The strategy has been to hurry slowly and to grow by one’s own efforts.

Leif Östling, Head of the Scania Division, interview in Veckans Affärer 3/1990

Östling’s statements expressed an attitude of loyalty towards the group while at the same time claiming the right to manage the division’s operations without interference from the central level. Scania’s stance with regard to the growth strategy manifested this independent position within Saab-Scania. The division acted as if it was an independent company. This had been the case before the de-listing from the stock exchange and was even clearer with the new ownership constellation that implied more weight for the truck business. In both internal and external communication, the Scania division now used the Scania name, skipping the Saab prefix. As a new international magazine for staff and external constituencies, Scania World Bulletin, was launched in 1990, Scania was presented as a company with 100 years of tradition. Reference to the Saab-Scania group was scarce and the emphasis lay on Scania’s identity.

By having Saab-Scania you had a lot of side-effects like double names that you cannot use […]. We changed a lot of that during 1989/90. It was called Saab-Scania do Brasil, Saab-Scania Argentina and so on. We changed it quite quickly without informing the management in Linköping about it. It was rather obvious. Linköping had also introduced the Saab-Scania logotype, which was actually the old Scania logotype, in the late 80s. That was an attempt to push through a Saab-Scania identity, but it was destined to fail.

Kaj Lindgren, Chief of Staff, interview 2002

It did not take long until Scania’s management’s desire for independence came true. Investor’s hopes to nurture its investment portfolio with an operating cash cow in the bottom did not materialise in the deep recession of the early 90s. Scania generated profits, but these were of course not as high as during economic boom periods. Parts of them were still eaten up by the losses of Saab Automobile and the remainder had to be used to cover the costs Investor had for the Saab-Scania acquisition. In February 1995, the board of Saab-Scania announced that the company would be split up into two independent companies. Scania, concentrating on the truck business and Saab specialising in
the aircraft and defence business. The new companies would be listed on the stock exchange. The 50% stake in Saab Automobile would be owned directly by Investor and was eventually sold to GM in 2000.

The re-gained independence was met with enthusiasm by most Scania employees. The changes were no surprise to Scania’s management as the entry of General Motors into the car operations, as well as Investor’s ambition to generate cash had put a question mark behind the meaningfulness of Saab-Scania. The re-establishment of Scania as an independent company made true what had been increasingly reflected in management practice at Scania. The impulse to make Scania independent came therefore not exclusively from the owners, but also at least indirectly, through management practice from the Scania division’s leadership. It can be inferred from this behaviour that Scania’s management most probably took an active stance in promoting the division’s way to legal independence. As there is no public data available around the discussions preceding the decision to split up Saab-Scania, the answer on this issue has to be left open.

**Scania regains independence**

Scania formally became an independent company on May 17th, 1995. In Sweden, May 17th is well known as the national holiday of Norway that is usually enthusiastically celebrated by the Norwegians. The choice of date made it easy to allude to the day as Scania’s independence day. The full name of the new company was *Scania Commercial Vehicles AB*, abbreviated *Scania CV AB*. However, except for legal documents just *Scania* was to be used. Scania also needed a new logotype. Like the Saab-Scania logotype it contained Scania’s traditional griffin. By adding a pedal hub, an element from the old Scania-Vabis logotype was taken back, alluding to the company’s history before the merger with Saab and establishing continuity over time. Independence and the prospect of becoming listed on the stock exchange created enthusiasm in the organisation. Although some individuals speak positively about the Saab-Scania period in retrospect, there had been widespread discontent with being part of a group and reporting to Linköping. The negative attitude towards the merger had been passed on from one generation to the other.

The old generation that had managed the Scania division was very much against the merger […], I have been told. There was very much left in the walls after that generation and also the generation that took over after them. It was self-evident. One wanted to be an independent company in all respects.

Carl Riben, General Counsel, interview 2003

In parallel with the split-up of Saab-Scania and in preparation of a coming IPO, Scania also had to complement its staff with additional competences, especially

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[^12]: Scania Commercial Vehicles Ltd.
for accounting, external communication and investor relations. Scania also had to set up an own finance department. The people for this were mainly recruited from outside. A couple of them came directly from Investor.

The 4-series
A couple of months after Scania’s independence, in autumn 1995, the company launched a new truck generation, called the 4-series. After 15 years, it was the first completely new programme since the 2-series, succeeding the 3-series that was an upgraded version of the 2-series. Simultaneously, a new 12-litre engine was introduced. Both introductions were additional steps in Scania’s modularisation. The 4-series trucks required 21000 components, down from the 23000 of their predecessors. The 12-litre engine was to become the first in a series of modularised engines, all using the same 2-litre combustion chambers. It was complemented by an 11-litre engine and additional variants of the 12-litre in 1998 and a new 16-litre V8 in 2000. A 5-cylinder engine, again based on the same combustion chamber, is to be introduced in the future. With these new engines, Scania became able to equip all its vehicles with the same engine family, hence achieving better economies of scale in engine production than its competitors. Some other manufacturers had larger engine volumes in total, but the volumes were split up between different engine families with low synergies. The 4-series was introduced in Latin America a few months after the introduction in Europe. Earlier series had been introduced with bigger time lags and with a more limited range of available specifications. The new programme was thus an additional step in globalising Scania.

Product developers at Scania felt a high pressure from the market side of the organisation to launch the new programme quickly. The 4-series implied a large number of changes that had to be introduced simultaneously. Due to this big bang introduction, the 4-series had some teething problems. Warranty costs were extraordinarily high and there were quality deficiencies that were unusual for Scania. Beyond the large number of changes from the 3-series, an exaggerated emphasis on component standardisation was the main reason for these problems. In order to bring the number of components down as much as possible, some components were used for applications they were not suited for. Scania was still struggling with the quality of the 4-series several years after its introduction. As a consequence of this, Scania decided to move towards a continuous introduction of novelties and putting less emphasis on new truck generations.

The IPO
On April 1st, 1996 Scania finally went public. The sole owner Investor sold off 50% of the capital to the public and institutional investors in Sweden and abroad. An additional part was reserved for Investor’s owners who received call options for Scania shares amounting to 20% of the total capital. As Investor retained a large proportion of the A-shares with higher voting power, the
Wallenberg sphere remained the dominant owner. Scania was listed on the stock-exchanges in Stockholm and New York simultaneously. Investor felt that the listing in New York was important in order to get access to the liquidity of the American market. At that time it was less common than today that American investors purchased shares via foreign stock exchanges. For Scania, the listing in New York implied additional publicity. On the other hand, it required additional management time for meeting the rigorous formal requirements from the US securities market. Generally, people at Scania saw the public listing of their company as a positive event. To many employees, the IPO was completing the process of regaining independence.

The important question was that Scania finally after many years became an independent, publicly listed company. Then you can also accept that there will be a lot of work with road shows and with reporting requirements. It was so important to become independent. […] It was overall a very positive process even if some people definitely thought that this could mean that [Scania was exposed to takeover attempts], but nobody was afraid of that. It was still better than being a part of Saab-Scania.

Jan Gurander, Chief Financial Officer, interview 2003

In the enthusiasm around the IPO, there were few concerns about the increased exposure to public attention and the possibility that ownership changes could happen over night and without the knowledge of management. Scania was listed at a price of SEK 180 per share. Many Scania employees as well as business partners of Scania took the opportunity to buy shares. Initially, the share price rose, but soon it became clear that Scania would have problems fulfilling the very high expectations that the market had had for the company. The year before the IPO had been extraordinarily successful. The operating margin of 15.4% for 1995 could however not be repeated. There were some problems in the changeover to the 4-series and market conditions, particularly in Latin America got tougher. Scania’s operating margin fell to 9.1%, which was still outstanding in the industry, but below the market’s expectations. The share price fell back below the introduction price.

There was a big backlash in late ’96 and ’97. […] The positive attitude did not turn into results in the beginning. We got bad headlines and the share price did not climb above 180 kronors. That was a disappointment. […] There was a lot of criticism and people started talking in the corridors about if it would have been better to be a division.

Jan Gurander, Chief Financial Officer, interview 2003

While Scania had recently been the market’s darling, the company now got under criticism for not living up to the market’s expectations. Disappointment did not only affect Scania internally, but also other stakeholders.

It was a terrible backlash. It was not fun at all. It’s not only the capital market and the media, it was in fact also employees and customers who had bought...
shares. There were many people involved with Scania who lost money on investing in a company that they believed in.

Kjell Ormegard, Head of Securities at Handelsbanken\(^\text{121}\), interview 2003

**Developing structure and practices**

While the years after the IPO were not as positive as desired from a business point of view, they were nevertheless relatively calm as regards Scania’s ownership situation. The company was now listed, it was free from the Saab-Scania group and there were no concrete challenges to its independence. Scania used these calm years to refine its own structure and practices. Continuous growth, increasing internationalisation and new possibilities for free trade across borders were seen as triggers for rethinking the structuring of the organisation.

**New corporate governance practices**

With the growth of the organisation, Scania had also built up a growing administrative body, headed by a management team that comprised 14 members in early 1998. That year it was split up in a two-tier management board, an Executive Board with five people representing the general functions and a broader group management also comprising the representatives of organisational sub-units. Each of the group vice presidents in the second tier reported to a member of the Executive Board. The Executive Board was later extended to six people as the responsibility for R&D and production was divided between two persons. The intention was to concentrate strategic work to the Executive Board. Members of group management were to be involved where their specific area of responsibility was concerned.

The group of six [Executive Board] has a clear strategic element in their work. Today the organisation is very clear in the respect that [each Executive Board member] has a number of members in group management who report to [him]. Then you use different individuals at different times. I would say that all members of group management are more or less part of the ongoing discussion. Then it is mainly run by the group of six. I would not say they run it by having meetings six times a year but by having an attitude of thinking about strategies in their daily work.

Johan Haeggman, Head of Corporate Relations, interview 2003

Informality in the strategic work of the Executive Board is also emphasized by having all members and their secretaries share an open office landscape. Though they are often away from office, this arrangement stimulates ad hoc discussions. The second tier managers are dispersed, located at their respective departments.

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\(^\text{121}\) Kjell Ormegard has long experience of working with Scania on different corporate finance issues.
Also the decision making structure at Scania was refined. Scania now had a formalised structure of decision making bodies with regular meetings. At least one Executive Board member is involved in every major decision making body. Several interviewees at Scania expressed their regrets over the loss of informality although they see the development as a logical consequence of growth.

Since 1986 when I started the company has grown very much and as a consequence the spontaneous contacts are not that easy to have any longer. One has to prioritise a little more. To be critical, the way we are geographically located makes spontaneous contacts more difficult. In 1986 we as lawyers worked much more with the marketing department. They had their offices right here and when you had some time to spare you could just walk over and see if they were in.

Carl Riben, General Counsel, interview 2003

While the formalisation is supposed to handle the complexity that has accompanied Scania’s growth, there are still many elements of informal decision making. This gives lower level managers the opportunity to influence strategy making and even to bypass their superiors and approach Executive Board members directly.

Scania’s internationalisation proceeds

The growth that called for new governance practices occurred internationally to a large extent. By the mid-80s the export share of Scania’s production had increased to more than 90% of the total vehicles produced and the major part of the company’s growth occurred abroad. During the 1990s this development was reflected in changes regarding the international production units as well as the global sales and services organisation.

The establishment of the Angers plant and the SLA structure in Latin America had already been carried out before Scania’s independence. Scania had also established a commercial network in the new market economies of Central and Eastern Europe after the fall of the Iron Curtain. In most cases, these activities started through agreements with small local companies who became distributors of Scania trucks. In a few cases Scania went into the new markets directly and started up operations on its own. The time of agreements with local entrepreneurs soon came to an end as they lacked the financial resources to grow with the expanding market.

I would not say [it felt important to own the distributors]. It was one factor, but mainly it was lack of alternatives […]. The actors we had contracts with did not have the capability to develop with the pace we wanted or to make new establishments with the pace we wanted so the alternative was not to be there at all or to step in ourselves.

Jan Andark, Head of Business Development and Control, interview 2003

An example of this is accounted for in the case of Scania’s bonneted cabs (chapter 8).
With the exception of Belarus, Scania took over all distributors in Central and Eastern Europe, but also in Western Europe Scania had started moving downstream. Rather than an outspoken strategy from Scania’s side, there were different triggers, like generation shifts or unwillingness to fund investments. Particularly during the recession of the early 1990s, local owners sold the national distribution companies to Scania. Scania also had internal goals for the development of individual markets. Despite the company’s outspoken reluctance towards volume goals, there was an ambition that each national market should have a critical mass in order to support a service network.

The sales and services companies on a national level, were privately held and we went in because they did not perform well or had strategic ideas that were different from ours. If they were satisfied with selling 2000 trucks where we believed it should be 3000 we had to look at it in a different way.

Kaj Lindgren, Chief of Staff, interview 2002

Although Scania’s forward integration was not planned beforehand, the company was interested in having tighter control of the distribution channels. Further benefits of this emergent strategy arose against the background of new EU regulations that aimed at facilitating dealers to sell trucks from different manufacturers, direct ownership was an advantage.

While truck dealers are now in principle allowed to sell any brand without the manufacturers’ approval, Scania can of course make sure that its wholly owned dealers, only sell Scania trucks. While Scania now owns the vast majority of national distributors, the degree of dealer integration differs from country to country. Some distributors, like Beers in the Netherlands, had already integrated their dealership network before Scania bought them, while Italy is still dominated by privately held dealers. In other markets, like the UK and Sweden, there are mixtures of wholly owned and independent dealers. Scania has no expressed policy on acquiring the remaining independent firms, but says it will evaluate possibilities to buy them from case to case.

Establishing an integrated business

In parallel with forward integration and partly as a result of it, the content of Scania’s business changed. Previously the company manufactured and sold vehicles. Now truck making was complemented with services and customer financing. The service part was not new as such, but it had previously been largely outside Scania. Customer finance was a new business comprising hire-purchase, leasing and renting of trucks. The customer finance business grew from 6 to 26 billion SEK in total assets between 1996 and 2001. Since then it has been fairly constantly on a high level. While Scania so far had been dominated by the physical vehicles, there were now additional products that were largely intangible and geographically detached from the factories as well as the head office in Södertälje. It was now less clear what the scope of Scania’s business actually was. The service business was no longer limited to repair and
maintenance. There were a large number of options to extend the business, ranging from training programmes for drivers to IT-based fleet management systems and the development of the customers’ logistics systems.

When it comes to developing the customer it is important to draw the line [how far we want to go] and I think the line is where we start competing with our own customers. We should not go that far. Then we are partly crossing it when it comes to fleet management systems. [...] Then you can go further with logistics systems. That’s the hauliers’ everyday work. Loading, unloading, navigating, positioning, billing. Then comes the question if we really understand all that. We don’t. It’s not our world.

Martin Ståhlberg, Managing Director of Scania Sverige, interview 2003

The move into service and financing did not only bring new products and services complementing the vehicles. The business model and the interests of the dealers were also different from those of the truck factory. The price of trucks and buses constitutes a minor part of the dealer’s turnover while the majority stems from the various services that are consumed during the vehicle’s life time. While Scania’s truck manufacturing has focused on profitability and the most profitable market segments rather than volume, there are incentives on a dealer level to boost volumes. A truck dealer might sacrifice a part of the margin for the truck purchase in order to increase volumes and subsequently get the money back through repairs and other services. A dealer may also be interested in selling medium-sized trucks or city buses that are relatively unprofitable from a corporate perspective.

When you talk about the city bus, then the opportunities from an after-sales point of view are huge. A bus has an after-sales potential of 15 years and in most cases with the same operator. Whereas the truck will probably have five or six owners in that period of time and locating each owner and keeping each owner coming back to you for parts and service is much more difficult because the truck may well move out of territory. Whereas if you buy 50 buses coming to the Milton Keynes area they are going to last here for 15 year. As a dealer I have a lot of after-sales potential to go after.

Tony Ballinger, Marketing Manager Scania Great Britain, interview 2003

Organising an integrated business

An integrated business with manufacturing as well as sales and services in the same business group also called for new organisational solutions. Although Scania-Vabis had made attempts to integrate downstream as early as on the eve of World War I, the ownership of distribution channels had remained an exception for a long time. Scania’s operations had been dominated by developing and producing vehicles. The distributors were supposed to have a free role. The relationship with Scania was a market-based one.

[The idea was] that the importers were autonomous. They were supposed to buy and sell. But then it started by degrees. It was the recession that affected us and
we ended up with a lot of dealers. We saw that it worked and it more and more became a part of the strategy. And that was especially the case when we concluded that we were a service provider and not so much of a blacksmith’s workshop for trucks.

Urban Erdtman, former Head of Sales and Services, interview 2003

Scania had had a central market organisation, and the independent national distributors had been able to provide input to production and product development via both formal and informal channels. As more and more distributors became wholly owned by Scania, it was decided to stick to a mainly market-based relationship. Also the wholly owned companies were supposed to be treated like business partners in the same manner as their still independent peers. Control from Scania centrally was exerted by the subsidiary boards. At least for the larger markets a member from Scania’s Executive Board was usually represented.

[The subsidiary boards’ composition] is a mixture, a colleague from group management, usually someone from the Executive Board or another high-ranking manager. Then there are those we call the pensioners […]. They have previously worked for Scania and they have time to engage themselves. They bring continuity and they often have a lot of drive […]. At the same time they are recently retired, not always 65, so they know quite well where Scania is heading. They are really useful for three, four, five years after they have retired. Then there is a third category of external people who neither have a background in Scania nor in the [truck] business […]. Generally skilled business people with leadership competence, maybe with a focus we want to have or with knowledge about a tricky market.

Jan Gurander, Chief Financial Officer, interview 2003

In 1999, Scania conceptualised the relationship with its distributors as a relationship between an industrial and a commercial system. The commercial system comprised all distributors with their sales and services networks, both wholly owned and independent. The industrial system on the other hand consisted of production and development as well as the central sales and marketing function. The companies in the commercial system were supposed to negotiate prices and volumes with the industrial system, in practice the central sales and marketing function. The latter also provided marketing support to the smaller national organisations that lacked the resources for e.g. making market analyses or training their workshop staff.

Scania had a long history of being dominated by the development and production organisation in Södertälje. In everyday language, Södertälje is still today called the factory, no matter if one refers to the actual production facilities or to any other central function, even central sales and marketing.

When I came here, it was clear that Scania was an engineering company and nothing else. Technology driven and driven by engineers and I think it still is. That’s very obvious. We don’t have a conflict, but there are of course tensions.
Organisational self-understanding and the strategy process

between the commercial and the industrial. What is driving what? We are not all on speaking terms regarding that. Unfortunately, we are all called the factory here [laughs].

Jan Andark, Head of Business Development and Control, interview 2003

While the industrial system was embodied in the Södertälje head office and the other production sites, the commercial system was a looser structure that had no joint leadership except for the common business relationship with the industrial system and, partly, the ownership by Scania. At the beginning of the new millennium, there were some initial attempts to change this. Since the companies belonging to the commercial system were operating in the same business, there might be opportunities to learn from each other. Moreover, the structure of the commercial system and the responsibilities within it were perceived as rather unclear.

On the [industrial system] side it’s more like control by command. There are clear flows and you have articles that are supposed to flow in a certain way, whether you call it Scania Production System or not. [On the commercial system side] we have more artistry. It’s another kind of business and it has been very independent. [The companies] have in practice been run by their managing director who is the boss. Or is it the chairman of the board who is the boss? Formally it should be like that or the owner? Where is he? Or is it the managing director of Scania who is the boss?

Kaj Lindgren, Chief of Staff, interview 2002

There were different ideas as to how far the integration of the commercial system could go. Should it be a loose cooperation or should one try to successively integrate the national companies into larger organisational units to achieve more economies of scale in the sales and services part of the business?

I was thinking very early on – these are my own private thoughts – that firstly one should look at a geographical sub-division of Europe. To make the importers’ work more efficiently. In an integrated Europe that job will not be as local as it has been, like investments and those things. You can do that in fewer places and become more of a sales organisation. Have a retail structure in the different countries and reduce the administrative organisation. Then I learned that I was out too early in thinking like that. We are not so similar, yet.

Jan Andark, interview 2003

The idea that was finally implemented was to establish a specific function in Södertälje, called Scania Commercial System (SCS), to organise the wholly owned subsidiaries. It was to act as an owner of the sales and service subsidiaries, lead them strategically and represent them when dealing with the industrial system. Despite the leadership role of SCS, the intention was to retain the autonomy of the national companies. SCS should mainly play its leadership role through the subsidiary boards.
In parallel with the establishment of the commercial system function, Scania was working on an additional system to co-ordinate the wholly owned distributors in Europe. Markets were grouped according their geographic location and each such grouping was supposed to form a council, comprising the managing directors of the companies involved and two chairpersons, usually “pensioners”, i.e. people who had previously been involved with Scania, either as employees or as managers of independent distributors. Usually, the chairpersons were already involved on the boards of the distributors belonging to their respective council. The councils were supposed to be a arena for benchmarking, discussing best practice and finding areas for co-operation. Although the councils did not have any formal authority, there was an idea that the benchmarking work in the councils would lead to a certain degree of peer pressure.

It works because it’s not fun to sit together with your friends once a month and if you don’t work like the others and the others perform better. It’s an elegant way of solving it. We don’t add an extra [management] level. It does not have to be consensus. I mean if nine out of ten do it one way, the tenth can do it differently, but that’s visible of course.

Kaj Lindgren, Chief of Staff, interview 2003

In relation to SCS, the councils were supposed to have a supportive role, facilitating hands-on cooperation between the subsidiaries. For a beginning two councils were established. The **European Council**, comprising the major Western European Markets and the **Nordic Council** with Sweden, Denmark, Finland, and Norway\(^\text{123}\). The overall intention with the councils was to nurture cooperation between the different distributors, but the councils a lot of freedom in defining their role and in choosing what questions to work with. In the beginning there were concerns that Södertälje might use the councils to increase central influence on the sales and services organisation. However, the participants soon found out that they could use the councils in order to join forces and to get a stronger voice in discussions with Södertälje.

[In the beginning the distributors] experienced [the councils] as both positive and negative which is only natural. In my opinion they have been far too independent. In many cases they had totally forgotten that they belonged to a business group and against that background they think that they [the councils] have limits their independence and the possibilities to develop their operations as they would like to. On the other hand it’s nice to experience that they now feel that they belong somewhere. Scania has been so focused on Södertälje. There was only Södertälje and nothing else and then the guys out there in the bush [the distributors]. Now they feel they have more strength and they belong somewhere and they have a chairman who is interested and interferes in their business and is willing to defend them against Södertälje if necessary.

Matti Sundberg, Chairman of Nordic Council, interview 2003

\(^{123}\) In 2003 the Baltic countries Estonia, Latvia and Lithuania were added to the Nordic Council.
The council meetings combine the two sides. On the one hand joint projects like benchmarking or joint purchasing are discussed. On the other hand the members also talk about how to defend their joint interests vis-à-vis Södertälje, for instance if the head office forwards costs to them. Attempts to use the councils for influencing the counterpart are not only made by the distributors, but also by Scania centrally. The head office tries to influence the councils to take up certain issues that Scania’s management thinks are important.

The European Council is supposed to give me good ideas as to what we can do differently and how it is done in other markets. At the same time there are a lot of projects, for instance a joint IS/IT platform Europe. There is some pressure put on that. It’s understood that you need to have very good reasons if you decide not to participate in it.

Dan Hoij, Managing Director Scania Great Britain, interview 2003

In order to co-ordinate the work of the different councils and to provide a formal interface with Scania’s management, a so-called Board of Councils was established. The board consists of the chairpersons of the councils and members from Scania’s Executive Board, including Leif Östling. The Board of Councils meets four times a year, but informal contacts between the members are more frequent.

Cooperation in the first two councils was not always without tensions. The managing directors of the national distributors who were used to make independent decisions were now expected to reach agreements with their peers from different markets, having partly different interests. There were also differences between the councils as to how smoothly co-operation worked out. Nevertheless, Scania’s management regarded the European and the Nordic Councils as successful and complemented them with similar bodies for groups of countries in Central and South Eastern Europe.

The central function for the commercial system that had been launched in parallel with the councils was not equally successful. It was closed down after just a few months. Scania members I talked to, attributed the failure partly to unclarity around the function’s role, partly to personal tensions around some of the people involved. The new function did not manage to establish acceptance throughout the organisation.

I think the aim was to establish a more active control of the subsidiaries. I don’t really know why the whole thing failed. It was perhaps a question of the persons involved and perhaps a question of overlaps with the councils.

Dan Hoij, Managing Director of Scania Great Britain, interview 2003

Together with the closing down of SCS, Scania also stopped using the commercial and the industrial system concepts. Scania’s management was not happy with the wording as all operations, including production and development were supposed to be commercial. The distributors with their
national networks were now labelled Scania’s sales and services network. The task of coordinating the sales and services network now lay on Scania’s management centrally, as well as on the councils. The different Scania managers on the subsidiary boards took over the ownership role SCS had been supposed to have. The councils on their hand, had gone beyond their initial function of being a benchmarking arena to being a voice of the sales and services subsidiaries when dealing with the factory.

Ownership turmoil and preparation for further growth
A couple of years after Scania had gone public, as the initial excitement over being listed on the stock exchange had vanished and the company worked on refining its business practices, the calm situation was all of a sudden interrupted by an announcement that was shocking to Scania’s employees. In January 1999, at the time of the Brussels Motor Show, Scania’s major rival Volvo announced that it had acquired Scania shares. It soon became clear that the share purchase was the first step in a takeover attempt. To Scania’s management there was no doubt that Volvo’s action was hostile. The major competitor had entered the company in an overnight raid, threatening the company’s recently regained independence. A merger with Volvo would question important characteristics of Scania, such as the belief in organic growth and the future existence of the modular system.

The defence of Scania’s independence
Considering the threat to Scania’s independence as well as its historically successful approach to the truck business, Scania’s management went for defending the company against what was labelled the “Volvo attack”. A major pro-merger argument put forward by Volvo as well as some industry analysts was the potential of achieving economies of scale. Thus a central part of the defence strategy was to show that Scania was able to stand alone successfully. Nevertheless, it was not Scania’s management, but Investor that had to decide whether to sell the company to Volvo or not. After various rounds of negotiations and further share purchases by Volvo, the two agreed on a merger in August 1999. There was however a further obstacle to overcome as the EU Commission had to approve the deal from a competition point of view. The investigation took several months and after negotiations with Volvo, the Commission came to the conclusion that no satisfactory agreement could be reached. In spring 2000, the merger was forbidden.

Despite the unsuccessful takeover attempt, a strange ownership situation with the main competitor as the major owner of Scania prevailed. In order to create a clearer, long-term ownership situation, Scania and Investor could convince Volkswagen to step in as a new owner, purchasing a large amount of shares from Investor. As a non-competitor with industrial knowledge Volkswagen was welcomed as an owner by Scania’s management. Together
with Investor that remained the third largest shareholder, Volkswagen was a guarantee for ownership stability. Volvo eventually divested its shares in spring 2004.

**Back to everyday business**
The ownership turmoil had lasted for more than one year, consuming a lot of management time during this period. Most attention from top management was directed towards defending Scania’s independence and, after Investor’s agreement to sell in August 1999, towards struggling for an independent Scania within Volvo. The threat of a takeover, had created anxiety among independent distributors as well as Scania’s own staff who were concerned about their personal future. Scania made financial efforts to ensure the loyalty of key people. Nevertheless, Technical Director Håkan Samuelsson left to MAN and several independent distributors sold their businesses to Scania, further speeding up the company’s downstreaming. It was not until the entry of Volkswagen as a new owner that Scania’s management could once again direct full attention to everyday business.

**Restructuring production facilities**
One point that was high on Scania’s agenda after the Volvo attack was to continue the restructuring of European production facilities. The work on this effort had been going on since the second half of the 1990s. The existing structure of production sites still mirrored the time when Sweden was not a member of the European Union and customs barriers existed. Now, such a separation of plants in Sweden and Continental Europe was no longer necessary. Rather, it was worth while thinking if concentration of production might lead to better economies of scale. This argument had become even more important considering that the alleged lack of economies of scale in Scania had been an argument for the merger with Volvo. Scania held the view that economies of scale through the concentration of plants were particularly relevant for component production, while it was difficult to realise additional economies of scale in the assembly operations. Moreover, it was interesting to have assembly plants close to the markets.

> The economies of scale in component production are obvious. Component production should also be close to product development. Product development is in Sweden. Is it possible to do it in Sweden? If yes, then we should concentrate it in Sweden. What about final assembly? Can we do all assembly in one place? No, there are too many articles, we want to be close to the customer to customise, the logistics cost for sending out a whole truck are high. Thus [we should] have final assembly close to the markets, but we should have a master plant close to product development where we establish methods standards, tool standards and so on. Where foreign representatives can come and work. Master lines and that sort of things. We don’t go for volume here [in Södertälje].

Per Hallberg, Head of Production and Procurement, interview 2003
After the Swedish labour shortage in the late 1980s that had been one driver for Scania’s expansion abroad, the situation was different around the millennium shift. Higher unemployment rates had resulted in a better supply of labour and Scania had improved the working conditions for its staff, reducing employee turnover. Agreements on flexible working conditions with the Swedish trade unions were an additional argument for the Swedish plants in their competition with their Dutch counterparts. The European gear box production was concentrated to Sibbhult in Sweden while axle production was concentrated in Falun. The locus of engine production lay in Södertälje after discarding plans to make 12-litre engines in Angers and closing down the Dutch engine plant in Zwolle. The redrawing of the map was finalised with the concentration of the European cab production to Oskarshamn in Sweden in 2002.

An additional structural move concerned Scania’s production of buses. Since the introduction of right-hand driving in Sweden in 1967, Scania’s bus operations had had their centre in Katrineholm where both bus chassis and complete city buses were produced. City bus production had been an unprofitable business for many years so Scania decided to split up the bus operations. The profitable chassis production was moved to Södertälje where it was integrated with the production of truck chassis, while the assembly of bus bodies was moved to low cost countries, namely Poland and Russia. Only limited prototyping and testing operations remained in Katrineholm.

Towards further profitable growth

Today, Scania is aiming for continued growth with continuously high profitability. The growth ambitions follow Scania’s understanding of the industry, that the overall truck market follows the growth of the economy. Following market growth alone should thus enable Scania to grow significantly. Scania likes extrapolating historical trends when it comes to estimating the long-term development of the market and its own position.

Scania is growing fast. And we are growing in our own way, we are growing organically. In 1960/70 we sold 10000 vehicles, 30 years later we sold 50000 and if we continue to grow at the same rate as before we will sell some 90000 vehicles around 2010. And if you look at the growth of the installed Scania population it is growing fast and will be as much as 700,000 vehicles around 2010 - what a potential for Scania and its service organisation.


So far, these relatively simple mathematics have worked out fine and Scania believes that they will do so in the future. Managers see few reasons why the mechanism linking GDP, transportation needs and the demands for trucks should not continue to work in the future. A critical task is thus to prepare the company for the expected peaks in demand. Given the current pace of growth tremendous capacity increases will be needed. During the last peak in the mid-1990s the new Angers plant played a central role in absorbing the additional
Organisational self-understanding and the strategy process

For the next peak Scania does not plan any new production sites. The capacity is going to be increased within the framework of the existing plants thanks to productivity gains and the elimination of bottle necks in production.

Refining the production system

One reason behind the increase of productivity in production is Scania’s intensive work with its production system during the last two decades. After trying out automatisation as well as the highly liberal production philosophies that were en vogue during the 1980s, Scania had decided to go back to more structured approaches. P90, standing for Production 90s was an initial attempt to bring back a more structured approach to production. Among the key aims of P90 was to improve quality, control costs in a better way, reduce lead times and to make production more demand oriented. There were similar programmes for product development, marketing and other areas. P90 was however just the starting point for a more structured work with Scania’s production system. Scania’s management had become interested in Toyota’s production system and wanted to learn from the Japanese. Like the young engineers around Sverker Sjöström that were sent out to learn from the Americans after the war, Scania now sent a group of talented engineers to Toyota.

It started somewhere around 93/94 when Leif [Östling] started getting interested in [Toyota]. Then it was decided to send a group of 'high potentials' to Toyota. We did it and took the ideas home. Things moved quite slowly in the beginning to put it carefully. Then in 95 the discussion really started. As it accelerated we started a pilot scheme at the chassis plant in Södertälje. It was about 98/99. Then things started to speed up and became more consistent. We started a discussion of principles, methods and results and understood the linkages between them.

Lars Wrebo, Head of Chassis and Cabs Production, interview 2003

The idea to conceptualise the production system in terms of principles, methods and results stemmed from a group of consultants around the Swede Anders Bröms and the American Tom Johnson who had been involved in establishing the contact with Toyota. Based on a number of main principles, specific working methods to achieve the desired results were identified. In contrast to the more improvisation-based production philosophies of the 1980s, this new approach implied a renaissance of structure. A normal situation, i.e. standardised working methods was one of the main principles. Constant takt times, balanced production flows, customer-supplier relations within the production process and much emphasis on visualisation were among the methods that were used in what came to be the Scania Production System (SPS). In particular the work with quality issues and the improvement of the system itself has been put into structured forms. Even though Södertälje has played a key role in pilot studies, all Scania plants in Europe and Latin America have been involved in the development of SPS. Today, Scania also tries to
implement its production philosophy in its suppliers’ operations, however on a voluntary basis.

Outlook: Continued success and/or continued turbulence?
In recent years, Scania’s strategy has been characterised by a clear emphasis on heavy transport vehicles that are based on the company’s modular product system. Doing this, Scania is focusing on highly profitable, growing segments. Modularisation enables the firm to producing a large variety of specifications in a highly efficient way. Today, the relatively recent integration of downstream activities into Scania’s own organisation, enables the company to offer an integrated range of vehicles, services and financing.

Business wise, the future currently looks bright for Scania. The company holds a strong position in the industry and continuously outperforms its competitors in terms of profitability. So far the theory of Scania growing with a growing market that follows growing transport needs due to a growing global economy works out. Moreover, Scania has been able to capitalise on the uncertainty that has accompanied structural deals among competitors. The entry of Volkswagen and the exit of Volvo on the ownership side has given new stability and help Scania to concentrate on business. At least for now, Scania’s independence has been successfully defended. However, ownership uncertainty may quickly reappear if one of the major owners decides to exit or the shares previously held by Volvo end up in the hands of a competitor. Together with the need to successfully improve and market its products, the development on the ownership side is likely to be the most important issue for Scania’s future.
Appendix B - Handelsbanken

Handelsbanken is today Scandinavia’s third largest bank in terms of total assets. During a turnaround in the early 1970s, Handelsbanken developed a self-understanding based on decentralisation and a strong emphasis on the local branches as the most important organisational unit. This self-understanding has been important to strategy making in Handelsbanken for the last three decades. The present chapter is an organisational biography of Handelsbanken, telling the bank’s story from 1871 until today with a special emphasis on the developments since 1970. This is also the period I have mainly covered with my own data collection, while I have covered the period before 1970 predominantly through secondary sources. In particular, Hallendorff’s (1921) anniversary book, Hildebrand’s (1971) work covering the history of Handelsbaken from 1871 to 1955, various books by two of Handelsbanken’s former Managing Directors, Tore Browaldb and Jan Wallander (e.g. Browaldb 1980; Wallander 1978; Wallander 1981; Wallander 1991; Wallander 1995; Wallander 1998; Wallander 2002), past editions of Handelsbanken’s staff magazine “Remiszan” and the Swedish central bank’s publication “It all began in Old Town” (Riksbank 2002). Regarding the early internationalisation of Handelsbanken, Marquardt’s (1994) dissertation has been a valuable source.

The early history of Handelsbanken

The history of Handelsbanken started with a conflict. In spring 1871, Stockholms Enskilda Bank, one of the ancestors of today’s SEB, lost eight out of twelve board members. At the annual meeting two of them were not re-elected, while six others decided to resign. The conflict mainly originated on a personal level as there was a dispute about the relationship between the board and the managing director. However, there were also diverging opinions on strategic issues. The Managing Director of Stockholms Enskilda Bank, André Oscar Wallenberg, wanted to engage the bank in bond issues that were made to finance the expansion of the railway network in different parts of Sweden. Moreover, Wallenberg was interested in the international financial markets. The chairman of the board Victor Cramér and seven of his colleagues showed little enthusiasm for business outside Stockholm or even in an international arena. As the disagreement could not be resolved, the eight left the board and decided to start a new bank where they could realise their strategic ideas. The result was the establishment of Stockholms Handelsbank which came to be located at Kornhamnstorg in the Old Town of Stockholm. The schism laid the foundation of a long-lasting antagonism between Handelsbanken and SEB that was still mentioned by Handelsbanken’s Managing Director Jan Wallander.
more than 100 years later (Wallander 1998). The rivalry was also reinforced through the success of the two banks.

The new bank was initially nicknamed ‘Frånskilda banken’, meaning ‘Divorced bank’ after the schism (Riksbank 2002). In the prospectus inviting potential investors to buy shares in the new bank, the secessionists announced that in contrast to Enskilda Banken, Stockholms Handelsbank would be dedicated to genuine banking. This implied that bank was to be a financial intermediary between lenders and borrowers and not an actor on the international bond and currency markets. Moreover, the intention was to concentrate on activities in Stockholm and customers with a direct relationship to the Swedish capital. Victor Cramér became Chairman of the Board and Theodor Lundquist was hired from a bank in southern Sweden to become Managing Director.

Initially, Stockholms Handelsbank grew rather slowly. A number of branches were established in different quarters of central Stockholm. During the 1880s and the early 1890s Sweden was hit by a severe recession that prevented the bank from expanding. It was not until 1893 that the economy started booming again and new business opportunities arose. The same year, Louis Frænckel was appointed Managing Director and under his 18 year tenure he initiated the expansion of the bank, both in Sweden and internationally. During this period, Stockholms Handelsbank established a position as one of the major actors in the Swedish banking market. Initially, this was not done by opening new branches, but rather through cooperation with banks in other parts of Sweden and abroad. Stockholms Handelsbank became a major actor in the funding of the growing Swedish industry, especially the forestry industry in the northern parts of the country. Although the bank was involved in the establishment of several local banks and did business all over the country, the strategy was to be located in Stockholm only. This changed under Carl Frisk who succeeded Frænckel in 1911. A number of the bank’s local partners had problems surviving on their own and merged with Stockholms Handelsbank. Already before the end of World War I, Stockholms Handelsbank gained a strong foothold in Northern Sweden with the acquisitions of Bank AB Norra Sverige in 1914 and Norrlandsbanken in 1917. The geographical expansion escalated and became more proactive when the bank opened branches in Gothenburg and Malmö in 1918. One year later, Bank AB Södra Sverige was acquired. Södra Sverige had an extensive branch network in Southern Sweden that was a good complement to the operations of Stockholms Handelsbank which was particularly strong in the central and northern parts of the country. Simultaneously, Stockholms Handelsbank changed its name to Svenska Handelsbanken and changed its logotype to an oktagon that had formerly been the logotype of Södra Sverige.
During the first decades of the 20th century, Handelsbanken established itself as one of the three major Swedish banks together with Stockholms Enskilda Bank and Gothenburg-based Skandinaviska Banken. Further acquisitions followed and in 1926 Handelsbanken also became directly involved in industry operations as it took over the Fagersta group that was hit by a crisis. This development accelerated as the Swedish financier Ivar Kreuger committed suicide in 1932. Kreuger had managed to build an industrial empire and controlled major parts of the world’s match industry at the outbreak of the Great Depression in 1929. As the depression developed, Kreuger got into severe financial problems and his group of businesses fell apart after his death as it was revealed that he had widely exaggerated the profits of his companies. The Swedish banks, including Handelsbanken, found themselves with considerable credit losses due to the “Kreuger crash” and other insolvencies that occurred due to the depression. Handelsbanken and its competitors took over a number of companies during the years of the recession and found themselves with portfolios of industrial companies at the outbreak of World War II. The years of the war were characterised by increasing public deficits and banks investing in government bonds. In 1944, Handelsbanken followed the examples of Enskilda Banken and Skandinaviska Banken and established a holding company, named Industrivärlden, for some of its ownership stakes in industrial companies, amongst them shares in Fagersta, Bolinder-Munktell and Ericsson. However the bank retained its ownership in SCA, one of the major Swedish pulp and paper companies. Industrivärlden was listed on the Stockholm Stock Exchange while Handelsbanken remained the major owner.

One of the key persons in the management of Handelsbanken’s industrial holdings was Ernfred Browaldh who represented the bank on the boards of several companies and became Handelsbanken’s Managing Director in 1944. Under his leadership the bank acquired all the shares in SCA before it listed the company on the stock exchange in 1950. Today, Industrivärlden and Handelsbanken are still the major owners in SCA. Through cross holdings Industrivärlden and Handelsbanken managed to retain an important influence in companies such as Ericsson, SCA and Skanska. The so-called Handelsbanken-sphere has been one of the most influential groupings in post-war Swedish industry (Collin 1990). Ernfred Browaldh was succeeded by his son Tore as Managing Director of Handelsbanken in 1955. The same year, Handelsbanken acquired the mortgage bank Inteckningsbanken, later named SIGAB. A finance company, Svenska Finans that later changed its name to Handelsbanken Finans, was started as a daughter company in 1963. During Tore Browaldh’s tenure Handelsbanken established its first units abroad by opening a representative office in Sao Paulo in 1961, followed by similar establishments in New York, Paris and Beirut. In 1964 the bank opened Nordfinanz in Switzerland as a consortium together with other Scandinavian
banks. Similar joint-ventures were subsequently set up in other cities such as Paris and London.

**Jan Wallander brings changes**

Tore Browaldh stepped back as Managing Director in 1966 to be succeeded by Rune Höglund. However, Browaldh stayed with the bank as a working chairman of the board. Höglund’s tenure was short and unfortunate. Handelsbanken got involved in financing security deals abroad as well as real estate projects in France and Switzerland. These deals were not accounted for in a correct way and the bank came under pressure by the Riksbank and the Bank Supervisory Authority. Handelsbanken was accused of violating the Swedish foreign currency regulations that were very strict at that time and of engaging in businesses that banks were prohibited from entering into. Moreover, the bank’s profitability was low as a consequence of loan losses and Handelsbanken got very bad press in the media. Rune Höglund and several other managers resigned in 1970. Höglund was replaced with Jan Wallander, an economist who had pursued a research career until the age of 40 when he was appointed Managing Director of Sundsvallsbanken, a provincial bank in northern Sweden. As an associate professor at the Research Institute for Industrial Economics in Stockholm, Wallander had been involved in the making of long-term forecasts for economic development. His own experiences had made him highly sceptical of the reliability of long-term plans on national, industry and organisational levels. At Sundsvallsbanken, Wallander tried to put into practice the lessons he had learned as a researcher. He abolished budgeting and decentralised operations. Now, Browaldh had hired him to manage Handelsbanken’s turnaround.

Wallander’s arrival at Handelsbanken gave rise to a lot of turbulence from the very beginning. He needed the support from the Board of Directors and its Chairman, Tore Browaldh, to implement radical changes. It was hardly surprising that Browaldh who had recruited Wallander had a positive attitude from the beginning. In a personal discussion, Wallander convinced Browaldh of the particular changes he wanted to implement.

We spent a long, long afternoon and evening at his home where I told him in detail what I wanted to do. And there it became obvious that Tore had the ability to re-think. He became enthusiastic. Maybe he had not been very fond of Rune Höglund who had come with American ideas and ideas around the Sune Carlsson group. I think, Tore had had his doubts about them. He would not have asked me if he had not had a feeling that my ideas were good. It was far from obvious to ask me, but he had experienced the competition from Sundsvallsbanken that had been uncomfortably efficient. So Tore changed and was obviously born again124. He became not only a reluctant, but an enthusiastic

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124 Wallander metaphorically uses the Swedish term “frälst” that means being born again in a religious sense.
supporter of [my] ideas. That was totally decisive. Otherwise it would not have worked out.

Jan Wallander, former Managing Director and Chairman of the Board, interview 2003

Wallander also managed to convince the remaining Directors. Most of them had traditionally held a relatively passive role vis-à-vis management. Now they felt relief that the new managing director wanted to bring the bank back to profitability and sort out the trouble with the authorities. While Wallander had ensured the support from the board, there were managers at the bank who openly opposed him.

After some time there were a number of managers at the central head office who went to the Board and said ‘this Wallander is driving our fine, old bank into a disaster. We have to get rid of him.’ They revolted or at least they tried, but they were not successful as the Board supported me.

Jan Wallander, former Managing Director and Chairman of the Board, interview 2003

Due to Handelsbanken’s low profitability and the bad press the bank had been exposed to in conjunction with the investigations of the Bank Supervisory Authority, there was a sense of urgency that something had to happen in order to bring Handelsbanken on the right track again. This feeling was further enforced as Wallander cancelled the bank’s 100 year anniversary celebrations. Cancelling such festivities was interpreted as a sign that the bank was in deeper trouble then it probably was. Concerning the bank’s top management, personnel changes were relatively easy to accomplish as a number of high ranking managers had to leave due to the investigations against the company. More than half of the members of the new management team were recruited externally. Several of them had no previous experience of banking.

As far as Handelsbanken’s products and the markets where they were offered, were concerned, Wallander neither felt a need nor an opportunity to implement major changes. In the early 70s the financial markets in Sweden were still heavily regulated, leaving well-delimited markets for banks. Hence he could put all his energy in restructuring Handelsbanken and developing new management practices for the bank. In many respects, Sundsvallsbanken served as a template for the changes Wallander was going to introduce.

Handelsbanken had been the most important competitor in the parts of Northern Sweden where Sundsvallsbanken had its stronghold. Wallander had observed, that Sundsvallsbanken had been outperforming Handelsbanken in times of market share growth and profitability for a number of years. This gave him confidence in the potential of his ideas on banking. A decentralised organisation with strong local branches along with a number of management practices supporting decentralisation were the core parts of Wallander’s recipe for turnaround. Most of these changes are still in place today with slight
modifications. The results of the “Wallanderian revolution”, as some of my interviewees have called it; have over the years become key parts of Handelsbanken’s self-understanding.

Decentralisation and new practices

As Wallander began his duties at Handelsbanken the bank was characterised by long-term planning, budgeting and a centralised organisation. Geographically, the banks retail operations had been sub-divided into 26 districts. At that time Handelsbanken was a modern bank in the sense that it introduced new management practices and was a forerunner among Swedish banks in introducing modern budgeting systems. Handelsbanken also had a large marketing department and tried to implement the most recent findings from consumer market research. Marketing activities thus became very focused on selling specific products.

Service companies that started thinking in terms of marketing in the late 60s of course applied the model that was out there and so did Handelsbanken. We took Kotler and appointed product managers, launched product campaigns and sales contests and all that sort of things you are supposed to do.

Leif Lundberg, former Head of Corporate Communications, interview 2003

It was Central Marketing’s task to plan advertising campaigns and to prioritise products in marketing during specific periods. There was an incentive structure that was meant to steer the staff’s sales efforts towards certain products. Sales volumes were prioritised and there were no mechanisms to ensure that the customers really needed the products they were convinced to buy.

Before Jan Wallander came there was a campaign that was called ‘Sell and choose’. That meant that if you were good at selling things you could choose prices from a catalogue.[…] Let’s say you sold a ‘Dream holiday’ [a savings account customers were supposed to use in order to save money for their holidays] in August, then you got 60 points. If you sold the same account in November you only got 30. That was hard to understand.

Hans-Olof Harrison, Head of Regional Bank Eastern Sweden, interview 2002

A common marketing practice that was inspired by contemporary consumer marketing was offering customers a gift for buying a specific product.

I remember we said that it was not reasonable that we sold so many accounts just because our customers got presents. The next day they went to another office and closed the account.

Barbro Johansson, Managing Director of Handelsbanken Liv, interview 2003
Jan Wallander did not believe much in marketing efforts in a traditional sense. From his own research he had come to the conclusion that advertising campaigns were only weakly correlated with actual sales. Moreover, he believed that banking had to rely on long-term customer relationships. Hence, it was important to find out the customer’s needs in order to sell the products s/he actually needed, rather than selling the products that were currently prioritised by Central Marketing. Wallander thus stopped all central marketing campaigns and closed down Central Marketing.

Management without budgets
The two most important changes, besides the closing down of Central Marketing, were the abolishing of budgets and a reorganisation implying strong decentralisation. Wallander’s disbelief in budgeting that dated back to the time the Research Institute for Industrial Economics had encouraged him to run Sundsvallsbanken without budgets. His main arguments for this were the recurrent inaccuracy of economic forecasts and the large amount of resources that was required to make forecasts that still became outdated quickly. Moreover, he saw the step as a necessary condition for decentralising operations. Since Handelsbanken had been a forerunner in the development of budgeting techniques for banks, the decision to run the company without budgets surprised many observers. Wallander has subsequently elaborated on his ideas on managing without budgets in a number of booklets and books (e.g. Wallander 1981; Wallander 1995), triggering a fierce debate. More recently, his ideas have inspired the creation of the Beyond Budgeting Round Table and resulted in a couple of publications, drawing upon the Handelsbanken case as an empirical example (e.g. Hope and Fraser 2003a; Hope and Fraser 2003b).

A decentralised organisation
While management without budgets was the change that got most attention initially, the decentralisation of operations that Wallander introduced was the most far-reaching reform. As we will see later, it was also the one that was most important to Handelsbanken’s self-understanding. In 1970, Handelsbanken’s Central Head Office in Stockholm had a very dominant role in the organisation. The structure consisted of three main layers: the top management team, consisting of 22 members, the 26 districts and the branches. At the Central Head Office, there were large departments and central staff units that could give direct instruction to the districts. While sticking to three hierarchical levels, Wallander made significant changes. The districts were replaced by eight regions. Although the reduction of regional units might have been interpreted as an act of centralisation, power was in fact transferred from the Central Head Office to the regional head offices. The heads of the eight regions were automatically members of Handelsbanken’s top management team which was reduced to 14 members, leaving only six members centrally in Stockholm. Each regional bank was run by a management team, usually consisting of the head of
the regional bank, a number of area managers and a personnel manager. The area managers were each responsible for a number of branches within the regions. However, they were supposed to be sounding boards for the branch managers rather than their superiors. Together with the branches, the regional banks constituted the so-called ‘branch organisation’ that was to become the core of the new, customer-oriented structure.

All central staff units only had a raison d’être to the extent they could serve the branch organisation and their task could not be taken over by the branches or the regional banks. Consequently, the central staff units were reduced drastically, losing more than two thirds of their members. In contrast to the earlier structure the regional banks gave instructions to the central staff units and not vice versa. Many people were also moved from the Central Head Office to the regional head offices or to local branches. At least formally, the Central Head Office could no longer give direct instructions to the regional head offices which in their turn were not allowed to give directives to the local branches. However, concerning specific questions control remained more centralised in some areas. For instance, branches could not decide independently on the number of staff until the mid-90s. Wallander’s decentralisation efforts were also reflected in the dimensioning of credit limits. The top management team was no longer a level in the hierarchy of credit limits and the managing director did not have a personal limit. Instead, the regional banks could decide on most loans. Only the very largest deals needed approval by the Central Board of Director’s where the credit issue was presented by the head of the respective regional bank. Also the limits at the branch level were increased and the majority of employees in the branch organisation subsequently got personal limits in order to move decision making closer to the customer.

Since decisions were to be made as close to the customer as possible, the local branches were supposed to be the most important units in the bank. Branch managers were authorised to make all decisions regarding their business with the few exceptions mentioned above. While branch managers got increased freedom to run their business without interference, their responsibilities increased as well. A cornerstone in the decentralisation efforts was the introduction of an accounting system that permitted evaluation of the branches and the regional banks based on their performance. The basic idea was to attribute as much as possible of the bank’s costs and revenues to the branches through a system of internal pricing. Hence, the branches had a strong incentive to economise as they were responsible for their profit.

Suddenly, you could make local decisions. The districts had been very centralised. One example was the follow-up. The district followed up on all the branches’ costs. Every month the costs went to the district for approval. When the regions came, the branches were given responsibility for their profit. When they bought pencils locally or entertained a customer that cost money they had the responsibility and did not need to forward it [to the district]. The branches got another kind of freedom. The control from above, you could even say the
Organisational self-understanding and the strategy process

...guardianship, diminished. However, there was just as much demand for performance. You were responsible for performance, not for details.

Hans-Olof Harrison, Head of Regional Bank Eastern Sweden, interview 2002

Benchmarking and operational planning

To put the autonomy as well as the performance responsibility of the branches into practice, a system of benchmarking and annual planning was introduced. Most units of Handelsbanken establish annual operational plans where they mostly state measurable goals. Having operational plans is not always unproblematic as there is a risk that they become budgets in disguise if regional banks ask their branches to state volume targets or profitability targets in absolute terms. In line with his scepticism concerning economic forecasts, Wallander was against targets expressed in absolute numbers. The performance follow-up he introduced, was instead based on a system of internal and external benchmarking. The goal at the corporate level was to be superior to the average of the other listed Swedish banks in terms of return on equity. As Handelsbanken has internationalised its operations, this goal is now measured against the performance of publicly listed banks in Scandinavia. On the regional level, the regional banks benchmark their return on equity against each other, while the branches are evaluated compared to their Handelsbanken peers in the same region. As it is difficult to allocate equity to single branches, the most common measure used for inter-branch comparisons came to be the cost/income ratio. Central units should use the profitability of competitor’s comparable units as their benchmark. In practice, central units often also try to beat the total profitability of the bank. As they feel a need to justify their existence in a decentralised organisation, high profitability is important to achieve legitimacy internally.

My most important internal goal is to have a higher return on our business than we have for the bank in total. As long as we achieve that, nobody is going to question [the existence of] our operations.

Kjell Ormegard, Head of Securities, interview 2003

Profitability is followed up continuously. Over the years, the accounting systems generating various kinds of management accounting reports have become more sophisticated. Some people I interviewed expressed the opinion that the large volume of reports almost resulted in data suffocation. However, at the branch level the cost/income ratios before and after loan losses are particularly important.

There are some key ratios that are measured and it’s like life in general if you are doing well then it’s good and you don’t need deep analyses as to why it is that way. If it’s not going well then you get more pressure of course [as a branch manager] and you have to look at why it’s not going well. Then you have to show that you are working in the right way and you can have a look at other
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parameters […]. You may have a branch that cannot match the cost/income ratios of the best branches because of a weak local market, but you may still work well. If you can show that you are working well there is a lot of patience [in the bank].

Mats Andersson, Branch Manager Nässjö, interview 2002

A prerequisite for the working of the internal benchmarking system as well as for the decentralisation was the allocation of costs and revenues to the individual branches. This has been achieved through a system of internal pricing. Prices are negotiated between central units and the branch organisation in a planning cycle, culminating in agreements on prices each spring. The arena for these negotiations is the so-called Planning Committee with representatives from the central units and the branch organisation. The idea is that the system with the planning committee should question the necessity of centrally provided services. In many cases, the branches may feel that they do not need the service or that they can carry out the task themselves. If the branches or other internal customers at Handelsbanken are no longer willing to pay for the work of the central units, these should stop providing services that are not requested. This system has contributed significantly to the downsizing of central functions that was initiated by Wallander.

Central Administration was a huge department 20 years ago. Among other things there was a large purchasing department with a big office service department and there were a lot of people running around in the house [Central Head Office] and distributing things. The planning process has implied that we have simply said we don’t need central purchasing agreements with all our suppliers and when we cut down unnecessary central agreements we could also cut down the purchasing department.

Lennart Francke, Head of Central Control and Accounting, interview 2003

Through their representatives on the planning committee the branches and the regional banks are supposed to influence the production at central units. Another channel to exert influence is by commenting on products and services in the monthly notes all branches submit to their regional head office. Comments are also made more informally, for instance by addressing the issues in contacts with the regional bank’s management team or at the managing director’s annual visits to the branches. Central IT Operations is one of the major internal service providers at Handelsbanken. IT meanwhile stands for the major part of the branches’ total costs, implying that branch managers are very much interested in the ongoing developments in IT. However, needs of course differ depending on the size of the branch.

Much has happened on the IT side. We have new software, new development opportunities, new possibilities to follow up profitability and so on. So I feel and many of my colleagues feel it too that we have what we need. We should focus on using it the best way possible. When it comes to internal pricing I feel
Organisational self-understanding and the strategy process

that at a small branch you buy, in a way, what is offered. The possibility of influencing is not so big. When there is something really wrong you have to fight of course, but normally you don’t prioritise quarrelling about internal pricing at a small office. You have enough other things to do.

Robert Pettersson, Branch Manager Vaggeryd, interview 2002

Monthly notes and ‘MD-info’

Although Wallander’s new organisation was comparatively flat, he introduced mechanisms for improving the flow of information especially from the bottom up. Communication across the three hierarchical levels of the bank was facilitated through a system of monthly notes written by the branches and the regional banks, and monthly letters written by the managing director. The monthly notes imply that all branch managers collect information, ideas and critique at their branch and compile it to a monthly report that they send to the manager of their regional bank. The notes can touch upon a wide variety of issues. One major part is usually devoted to interesting developments in the market, information on competitors, reactions from customers and experiences from recent deals. Other frequently mentioned topics relate to internal routines, products and IT systems. Branches may ask for new products, suggest changes in IT systems or complain about violations of Handelsbanken’s decentralisation ideals by central units. Sometimes the notes simply tell funny episodes that have occurred. There are branch managers who have established routines for handling the notes.

I am responsible at this branch for delivering the notes each month. This branch is so big that there should be something to report every month. […] Towards the end of the month I send an e-mail to all staff and ask if they have something for the notes and then the [suggestions] come. Sometimes they come in between also. […] One example is a man who was not a customer and came in to pay a bill. Then we usually take a charge when it’s not a customer and he complained and wondered how he could avoid it. ‘Then you have to become a customer’ the colleague replied. ‘Ok, what do I have to do?’ We made an appointment and now he is a really good customer with millions in shares and mutual funds.

Anders Ohlner, Branch Manager Malmö City, interview 2002

After the notes have been submitted to the regional banks, the regional heads compile the pieces of information they find most interesting and distribute their region’s notes to all members of Handelsbanken’s management team, before the team’s monthly meeting, the so called MD-info. Similar notes are prepared and submitted by the bank’s central units. If any information in the notes addresses a particular unit, the unit concerned gets a copy in order to provide direct feedback. The regional management also follows up notes and tries to give feedback.

I devote quite a lot of time to this and try to give feedback when it’s possible. Sometimes there are things where you think they have not thought in the right

409
way. Here you have to help or this is particularly interesting. Then I go to the area manager and tell him ‘you should talk to Sten’, I do not think this is really the way it works’. So you get a dialogue. […] I pick the most interesting things and share them with my colleagues. […] When I come home I take some parts of the notes I have received from my colleagues and send them out to the branches. Then they see what is going on in the rest of the bank.

Hans-Olof Harrison, Head of Regional Bank Eastern Sweden, interview 2002

The MD-info is not just an arena for the discussion of notes although the notes are an important point in the structure of a meeting. The MD-info is generally informal, and no protocol is made. The idea is not to make decisions, but rather to have a dialogue aiming at building consensus among the members. Before the MD-info, the managing director has a lunch with the heads of the regional banks. There, also informal discussions are held and the lunch gives an opportunity to prepare issues before the MD-info. It gives the heads of the regional banks a privileged position in Handelsbanken’s management team and thus underlines the centrality of the branch operations in the bank. As this group is only half as big as the MD-info, it is easier to have a discussion and reach consensus.

At MD-info there are 25 persons and the heads of the regional banks [plus the managing director] are only twelve and it’s easier to have a discussion. Moreover, these twelve have similar interests. You get deeper into the questions and I believe it’s important that the heads of the regional banks feel that they are particularly important. After all they stand for about * to ¾ of the bank’s profit. It’s especially important that they have their share in the main strategy.

Lars O Grönstedt, Managing Director, interview 2002

The monthly notes and the MD-info are two of the practices Wallander introduced to facilitate communication across organisational levels and between units. Wallander also started to write monthly letters to all employees in order to establish a channel for the managing director to share his ideas with the employees. Wallander’s successors have continued writing letters to the staff. The style is informal, mixing business issues with personal reflections.

Managing director’s visits

Another practice introduced by Wallander is that of the managing director’s visits to the bank units. Each autumn, the managing director visits all the regional banks. He is usually accompanied by the Head of Central Control and Accounting and the Head of Central Business Development. A tour of the central units follows in spring. The visits to the regional banks consist of a two-day programme, where the first day is devoted to discussions with the regional bank’s management team. In particular, the performance and the overall

125 Name changed.
business development for the region are gone through. The day is then concluded with a dinner for all the branch managers from the region. There is always an opportunity to ask the managing director questions at the end. On the second day the managing director visits a number of branches in the region, meets the staff and discusses the local business with the branch managers. As different branches are selected for the visit every year, Handelsbanken’s managing directors have usually visited the vast majority of branches after having been in office for a couple of years.

‘Oktogonen’
Beyond the various changes in Handelsbanken’s organisation Wallander introduced he also had the idea to let the employees have a share of the company’s profit if it exceeded the industry average. In the beginning of the 1970s the bank set up its profit-sharing system, the Oktogonen Foundation. Each year that Handelsbanken achieves its primary goal, i.e. that its return on equity exceeds the average of the competitors’ profitability, a certain part of the extra result can be allocated to the employees. This amount can never be higher than 15% of the dividend paid to the shareholders. The money is divided equally between all employees and put in a pension foundation, Oktogonen. The foundation manages the assets, investing a substantial part of the money in Handelsbanken shares. As a result of this policy, Oktogonen has become Handelsbanken’s largest shareholder controlling 10.1% of the votes at the end of 2001. Two members of Handelsbanken’s board of directors come from Oktogonen. When the foundation was set up, there was no legal requirement to have employee representatives on the board. Later as such a law was introduced in Sweden, Handelsbanken agreed with the unions that no additional employee representatives were necessary.

Since the introduction of Oktogonen in 1973 the bank has allocated part of its profit to the foundation every single year with the exception of 1992 when no dividend was paid on the peak of Sweden’s financial crisis. Due to Handelsbanken’s success, the assets managed by Oktogonen have widely surpassed the predictions made by Wallander when he presented his idea to the board in 1972. The value of an individual’s share in Oktogonen fluctuates with the development of the stock market. In spring 2002, the share of an employee who has been full-time employed since 1973 was worth SEK 4.3 million. From the beginning, nobody foresaw that the system would have an impact on the bank’s ownership structure. However, there are more positive consequences of the programme. Handelsbanken managers ascribe the high employee retention and the staff’s identification with their bank at least partly to Oktogonen.

126 Oktogonen means “the octagon” in English. The octagon is an ancient logotype of Handelsbanken that is seldom used today. In the bank’s official English documents the name “Oktogonen” is not translated to English.
[If you are 22] you do not think that this [pension thing] is so important. But the strength of Oktogonen is that when you have been on board for some time and you are a little older it creates a great enthusiasm among those who don’t have so many years left to retirement. In that category of employees, many are tired in other organisations.

Pär Boman, Head of Handelsbanken Markets, interview 2003

Handelsbanken managers also believe that Oktogonen contributes to the profit orientation and cost consciousness of employees as the system makes them benefit from good results. Oktogonen is often referred to in stories and conversations.

It’s this everyday talk we are all involved in. ‘We have to think of Oktogonen. We have saved seven kronor by not sending this letter so now we have contributed to Oktogonen.’ We talk like that and it creates a trigger in the organisation. In fact, I believe that Oktogonen has an effect on us.

Anna Ramberg, Head of Human Resources, interview, 2003

‘Our Way’

Wallander summarised his ideas on organising Handelsbanken – he usually refers to them as the corporate policy – in a booklet, called Mål och Medel, literally translating to Ends and Means. Meanwhile, an English translation entitled Our Way has been published. In the booklet the strategic direction of the bank, the main organising principles and the corporate culture are outlined. When it was published in 1970, it was distributed to selected managers and treated as highly confidential. There was a fear in Handelsbanken that competitors might find out the bank’s business secrets if they came across a copy. Each recipient had his/her name printed on the personal copy and was expected to know the content. The first edition of ‘Our Way’ was rather thick and contained data explaining and supporting Wallander’s ideas.

I hand a general idea of what I wanted to do. There were ideas I had applied before. […] The first edition of Mål och Medel was quite thick with appendices and investigations into where our deposits came from and that sort of things. You try to explain phenomena such as the fact that 10% of our customers stand for 80% of the business. It was like a text book. Nothing that came from outside, but from myself.

Jan Wallander, former Managing Director and Chairman of the Board, interview 2003

The booklet was used in internal training programmes. Wallander’s original version of ‘Our Way’ has been followed up by new editions that reflect changes in Handelsbanken’s business like internationalisation and diversification into life insurances. From originally being a book for managers only, soon all
employees at Handelsbanken got a personal copy. Each new version is written by the present managing director with input from colleagues who are well acquainted with Handelsbanken’s culture. Also Jan Wallander still provides input to new versions of ‘Our Way’. Today, confidentiality around the booklet is less strict although it is still a document for internal use only. There are hardly any things in ‘Our Way’ that have not been said by the bank’s managers in public and so far there have not been any serious attempts to copy Handelsbanken’s way of doing banking in a consequent way.

We happily share information from Mål och Medel. We know that it takes time to digest and getting a whole organisation to work like this takes a generation. It takes at least 25 years to have everything in place or maybe now 15 years is sufficient, now that we have found out how it works.

Anna Ramberg, Head of Human Resources, interview 2003

There is a large degree of consensus around the general philosophy outlined in ‘Our Way’. Most Handelsbanken employees I met, not only adhered to them in a dutiful way, but spoke of ‘Our Way’ in an enthusiastic manner. The branches also use ‘Our Way’ to defend themselves against anything they perceive as undue centralisation.

It started when Mål och Medel had developed from a working paper to a sort of gospel. It did not happen at once. It was questioned, but today it’s different.

Jan Wallander, former Managing Director and Chairman of the Board, interview 2003

Except for the early revolt against Wallander’s ideas, there have not been any major conflicts about the corporate policy. In the beginning, the ideas in ‘Our Way’ were questioned, but this seldom happens today. Those who do not like Handelsbanken’s way of doing banking, usually leave the bank on their own initiative after a relatively short time.

**Growth in Sweden and abroad**

While Jan Wallander’s time as Managing Director of Handelsbanken was characterised by revolutionary changes in the way of organising and doing business, there were few significant changes in Handelsbanken’s position in the market, in terms of products offered, customers served or geographical areas covered. As the Swedish financial services sector was still heavily regulated there was limited room for strategic manoeuvres. One of the major changes in the industry during Wallander’s tenure was the merger of Stockholms Enskilda Bank and Skandinaviska Banken in 1972. Skandinaviska Enskilda Banken, as the new company was named, remained dominated by the Wallenberg family and retained the position as Handelsbanken’s main rival that Stockholms
Enskilda Bank had held before. Wallander resigned as Managing Director in 1978 and was replaced by two successors, Tom Hedelius and Jan Ekman. At that time, a particularity in Swedish law allowed banks to have more than one managing director. Hedelius was still young when he was appointed and it was agreed that Ekman should be in charge of the bank’s foreign business for a while. Wallander himself went on to be chairman of the board after Tore Browaldh. Hedelius became the sole Managing Director when Ekman retired in 1985. Ekman had played an important role in developing Handelsbanken’s foreign operations since he was recruited from Stockholms Enskilda Bank in 1970. In this period the bank’s operation abroad mainly aimed at activities in the capital markets and at serving corporate customers from Sweden or foreign companies that had business activities with Swedish partners.

While the Swedish banking landscape had been stable for a long period of time, there was a phase of consolidation in the late 1980s. A number of provincial banks merged, forming the new groups Nordbanken and Gota Bank. Handelsbanken had become interested in a family-owned bank, Skånska Banken that had its stronghold in southern Sweden where Handelsbanken’s branch network was relatively thin. Skånska Banken was acquired in 1990 and the deal was the first major acquisition for Handelsbanken since the 1950s. It initially added 78 branches to the 440 of Handelsbanken. Most of them were retained, while there were mergers in 17 places where Handelsbanken already had a branch. In line with the bank’s decentralisation ideas it was left up to the branches if they wanted to keep or remove the Skånska Banken signs on their premises. Meanwhile, the Handelsbanken name has taken over everywhere, but on the façade of the Malmö City branch, the former head office of Skånska Banken, there are still both names.

That’s an important marking, the façade thing. It was a fine bank, Skånska Banken. Quite old and with a good clientele. They were quite big and we were rather similar players. It was a dream deal for us since we were underweighted here in southern Sweden. Keeping the name on the wall means showing an understanding for history. It’s not every day, but I frequently hear the comment that we haven’t taken down the old letters and replaced them with the new ones. We have respect for the old-established.

Anders Ohlner, Branch Manager Malmö City, interview 2002

At the time of the Skånska Banken acquisition, Handelsbanken was also starting to look for expansion opportunities in the neighbouring countries. While Handelsbanken’s foreign operations had previously been a niche business focusing on activities related to Sweden, the bank was now interested in testing its concept of branch centred banking abroad. The deregulation of the financial services sector in Sweden and other European countries made this possible. In the late 80s, the staff at the representative Office in Oslo started to do universal banking business with local customers and in 1990 Handelsbanken acquired a bank, Oslo Handelsbank, having its only branch in Oslo. The Norwegian
venture marked the starting-point for the expansion of universal banking operations abroad.

The acquisitions of Skånska Banken and Oslo Handelsbank coincided with another succession in Handelsbanken’s executive leadership. Arne Mårtensson took over as managing director after Tom Hedelius who had been in office for twelve years. Following the pattern of the previous succession, Hedelius became chairman of the board after Jan Wallander who was appointed honorary chairman. Wallander did not retain any other official functions in the bank, but until recently he kept a room at the head office in Stockholm, not far from the offices of the managing director and the chairman of the board. When Wallander celebrated his 80th birthday in 2000 he was still active, publishing books and lecturing on his management ideas, taking part in public debate and appearing in Handelsbanken events like conferences and training sessions. During Arne Mårtensson’s tenure Handelsbanken’s activities in Scandinavia grew. Branches were opened in Helsinki in 1991 and one year later in Copenhagen. From the capitals, Handelsbanken expanded its operations step by step through organic growth complemented with acquisitions of small, local banks. In 1999, Handelsbanken moved beyond Scandinavia starting with universal banking in Great Britain.

**Handelsbanken moves into life insurances**

In parallel with the establishment of full-scale banking operations in the neighbouring countries, Handelsbanken also showed interest in entering the life insurance business. Like the foreign expansion, diversification into insurances had become possible due to the deregulation of the financial services sector. In the second half of the 1980s it became clear that banks would be allowed to own insurance companies and vice versa. It was also likely that it would become possible to demutualise the mutually-owned insurance companies and let them distribute profits to their owners. Handelsbanken started investigating whether the insurance business was interesting and what mode the bank might use in order to enter the business.

The origins were in the late 80s. I was head of the development side and we investigated the feasibility of becoming an intermediary for insurances. The analysis implied that we should prepare for a cooperation agreement. Many of our customers were in need of insurance solutions for their private economy and that was very close to what we were doing. [...] There it became clear that it was the life side that was interesting, not the non-life side. Then we had cooperation agreements with some life insurers for a couple of years and then came the legislation on unit-linked insurance and that was even closer to us as we already had a mutual funds company.

Barbro Johansson, Managing Director of Handelsbanken Liv, interview 2003
One of Handelsbanken’s cooperation partners was the mutually-owned insurance company RKA that had been historically aligned with the Swedish savings banks. However, the savings banks were more and more drifting towards another partner, Folksam and thus RKA was interested in deepening the cooperation with Handelsbanken. The two set up, Svenska Fondförsäkringar, a joint venture for unit-linked insurances with an option for Handelsbanken to acquire the company as soon as this became legally possible. When Swedish banks were allowed to own life assurance companies in 1991, the collaboration was intensified and Handelsbanken finally acquired RKA in 1992, renaming the operations Handelsbanken Liv. Since Handelsbanken Liv was still a mutual company, meaning that all surpluses were distributed to the insurance holders. Handelsbanken could only charge fees for its management efforts. As a public investigation on the de-mutualisation of insurance companies was going on, the bank expected that it would be able to let the company distribute part of the profits to the owners soon.

The idea to transform the company was there from the beginning […]. I think it has a lot to do with our culture. We are a for-profit company that’s very focused on profitability. Satisfied customers and profitability that are so to speak our main tracks and it’s not easy to have a mutually-owned company in the group. It did not really fit and it felt more natural for us to have a company distributing profits, following the same patterns, the same demands, the same way of working as the rest of the group. This has been our direction all the time. When the possibility came it was very natural for us to try to make it happen.

Barbro Johansson, Managing Director of Handelsbanken Liv, interview 2003

Although the life assurance business was officially defined as just another kind of savings products, the branches did not immediately digest the new products. Employees perceived insurance policies as rather complicated and were reluctant to market them proactively. Initially, the branches predominantly sold products that were easy to understand, like group life insurances. However, these products were not very profitable and covered only a part of the customers’ needs. The situation improved as Handelsbanken Liv started developing products that were easier to understand for the branches. A further problem for the legitimacy of the insurance business in Handelsbanken’s organisation was the nature of the income stream generated by an insurance policy. Initially, the income is rather low and it takes a number of years and a substantial stock of insurance customers until the business generates a significant income for the branches. As branch managers are evaluated based on their present performance, such long-term concerns did not always rule everyday business.

People were working a number of years to show the branches how the growth [of the insurance business] would give them profitability. But a branch manager at Handelsbanken works according to the principle that he wants to have
Handelsbanken’s top managers have tried to emphasise the importance of the insurance business for long-term profitability. However, their ability to push for specific product areas is limited as internal subsidising of products is not accepted in the bank. The principle that all products should stand on their own feet, dates back to Jan Wallander who was strictly against sales campaigns for specific products. Even oral propagation for a product area is problematic as branch managers may interpret it as interference in the sovereignty of the branches.

I made an attempt in this region to focus more on the insurance business, but then I got a [monthly] note [from a branch manager] telling me that you can’t behave in this way. Well, my argument is still that the majority of people in Sweden need a life insurance.

Thommy Mossinger, Head of Regional Bank Southern Sweden, interview 2002

Sweden’s financial crisis in the 1990s

The diversification into life insurances and the early years of Handelsbanken’s expansion in Scandinavia coincided with Sweden’s most severe financial crises after the war. During the boom of the late 1980s, real estate prices had risen very quickly. Due to the deregulation of the financial markets in Sweden, lending restrictions had disappeared and most banks tried to surpass each other in the expansion of their credit portfolios. Handelsbanken was more cautious than its competitors and increased its lending with slower pace.

When the bubble in the real estate market burst in 1990, most Swedish banks ran into deep problems. The government reacted with an emergency programme, resulting in support to the banks threatened by insolvency and the takeover of Nordbanken and Gota Bank which were most severely hit. In 1992, Nordbanken alone reported an operating loss of more than SEK 16 billion. 1992 was an extraordinarily bad year for Handelsbanken also. The bank reported a loss and for the first time since its establishment, no money was allocated to the Oktogonen Foundation. However, it was a moderate loss of SEK 840 million and the bank never had to ask the government for assistance. While the financial crisis severely damaged public trust in the Swedish banks, Handelsbanken left the crisis strengthened, due to its superior performance. The bank’s track-record during the crises did not only strengthen the bank’s reputation in the general public. It also increased employees’ confidence that Handelsbanken’s approach to banking was the right one.
We have a lot of self-confidence concerning the way we are doing banking. And I believe, it was very much strengthened after the banking crisis. At that time I was manager of Jönköping branch and I remember our colleagues at Nordea [Mossinger means Nordbanken], it was an unheard-of hunt for volume. They sent reports to the regional head office every month on how much they had increased one thing or the other. I did not have to submit one single report. I managed the branch for profitability as I liked to do it. I mean the ability to withstand these waves of fashion or what one should call this rushing in different directions. I think it's a matter of self-confidence that we believe in [our concept] and that we have adapted to reality.

Thommy Mossinger, Head of Regional Bank Southern Sweden, interview 2002

The financial crisis significantly changed the Swedish banking landscape. Several banks disappeared and even the survivors were almost paralysed for a couple of years, struggling for their own survival. During the same period, Handelsbanken was able to continue the strategy it had pursued before the crisis, gradually expanding its foreign operations. Banking crises in the neighbouring countries facilitated some of the bank’s acquisitions abroad. Handelsbanken’s competitors recovered from their problems remarkably quickly during the second half of the 1990s. Nordbanken and Gota Bank had been taken over by the Swedish state in 1992. Nordbanken’s bad debts were transferred to a separate, state-owned company, Securum, and removed from Nordbanken’s balance sheet. Gota was put in order in a similar way and Nordbanken finally acquired Gota in 1994. With the help of the Swedish government, the banks that were most severely hit by the crisis could thus re-start with a clean balance sheet. As the country’s economy improved, all banks were back in the positive digits by 1995.

A changing financial services sector after the crisis

1997 became a year of mergers and acquisitions in the Swedish banking industry. The re-gained strength of the major actors opened up the market for re-structuring. SEB bought the insurance company Trygg-Hansa, retaining the life insurance part and divesting non-life operations. Sparbanken Sverige, the result of a series of mergers comprising most of the Swedish savings banks, merged with Föreningssparbanken, forming Föreningsföreningen. A number of savings banks that never joined Sparbanken Sverige are still independent. Nordbanken merged with the Finish market leader Merita resulting in MeritaNordbanken. The managers of the new bi-national bank announced from the beginning that they were open for additional mergers with banks in Denmark and Norway. In 2000 MeritaNordbanken acquired Danish Unidanmark and Norwegian Kreditkassen. The new banking giant adopted the name Nordea and strives for a pan-Scandinavian identity combining the best practices from the four countries.
Also for Handelsbanken, 1997 was characterised by a major acquisition. The bank bought Stadshypotek, the largest Swedish mortgage bank. Handelsbanken had been comparatively weak in the mortgage market and saw Stadshypotek as a good complement. The Stadshypotek acquisition was at that time the biggest in Handelsbanken’s history and required a large integration effort from all Swedish regional banks as it was the plan to integrate the mortgage bank into Handelsbanken’s ordinary branch operations as quickly as possible. Although, the acquisition initially resulted in a loss of market share from Stadshypotek’s side, this trend was quickly turned and Handelsbanken’s branches capitalised on the cross-selling of other banking products to Stadshypotek customers.

Like other industries, also the financial services sector was strongly affected by the rise of e-commerce and Internet technology at the turn of the millennium. Self-service on the phone was introduced as early as in the 1980s. Sweden was also an early mover in the adaptation of Internet technology (Flier et al. 2001). Handelsbanken was last among the major bank in Sweden to launch Internet banking in 1997, one year after the major rival SEB. While banks introduced the new technology at a different pace, they also differed in respect to the implications for strategy they drew from Internet banking. SEB went the farthest in believing that the Internet could replace physical branches to a substantial extent. Every fifth branch was closed down in 2000 and Managing Director Lars Thunell declared that SEB was to become a “European e-bank” (Thunell 2000). In contrast to its competitors, Handelsbanken put relatively little emphasis on Internet banking even at the peak of the Internet hype. The idea of the branch as the main organisational unit implied that the Internet could not be allowed to cannibalise on the branch network. Instead, Handelsbanken developed an Internet solution where each branch got its individualised website. Meanwhile, the other Swedish banks have become more cautious concerning the potential of Internet banking and put more emphasis on branches again.

**SPP: Handelsbanken strengthens its insurance business**

The insurance business that Handelsbanken entered with the acquisition of RKA in 1992 had grown during the 1990s. However, Handelsbanken Liv was still a relatively small player, particularly concerning the lucrative market for occupational group life insurances. As major parts of the insurance company SPP were for sale in 2000, Handelsbanken saw an opportunity. SPP’s main product was the ITP pension scheme, an occupational group life insurance based on an agreement between the Confederation of Swedish Enterprise and the PTK union. While the ITP scheme was not subject to competition, SPP had also started offering insurance products to parts of the market that not were affected by the agreement. There, SPP was competing with other insurance companies and in April 2000 the Board announced that it wanted to sell off the parts of the organisation that operated under competition. As usual under such
circumstances there were a number of potential buyers, but in December the same year, the deal with Handelsbanken was announced. The bank had presented the most attractive offer for SPP Liv, SPP Fonder and the SPP brand for 7.1 billion kronor. For Handelsbanken the deal was an opportunity to acquire a strong brand and to complement its existing insurance operations.

We were much stronger in private [insurances] and asset management. That was one of the reasons why we were interested in SPP, because they complemented us with occupational insurances in such a good way. There were few clashes between us. We were rather complementary.

Barbro Johansson, Managing Director of Handelsbanken Liv, interview 2003

An important factor behind the willingness to engage in such a big deal was the positive experiences from the Stadshypotek acquisition. The Stadshypotek deal had provided the branches with a large additional customer base they could sell other banking products to. Hence, Handelsbanken’s management held the belief that they could repeat the Stadshypotek success with the acquisition of SPP and turn insurance customers into full-scale customers of Handelsbanken. The Stadshypotek example was used as a comparison to legitimise the SPP deal both internally and externally for the capital market.

We have done it before and we can do it again.

Stefan Nilsson, Head of Regional Bank Northern Norrland, slide used at Handelsbanken’s pension and insurance seminar, November 26th, 2001.

However, it soon became obvious that turning SPP customers into Handelsbanken customers was easier said than done. The main reason lay in the fact that SPP’s main products, occupational group life insurances are purchased by the employer. The holder of the insurance, i.e. the employee is usually not very aware of the insurance and has no idea that hey were an SPP customer. Moreover, the integration of SPP coincided with the downturn of the stock market and declining confidence in life insurance companies due to a number of scandals, especially around Skandia.

SPP’s way of selling insurance products was different from the approach Handelsbanken had chosen. Following its principle of seeing the branch as the owner of the customer contact, Handelsbanken Liv had discontinued all cooperation with insurance brokers or so-called tied agents that sell insurances from a particular company on a franchise basis. However, such distribution channels are very common in the insurance industry in general. Hence, SPP was using three parallel channels: their own sales force, franchise-takers and independent brokers. Although this approach was difficult to reconcile with Handelsbanken’s church tower principle, implying that the local branch is in control of all customer contacts within its geographical area, Handelsbanken decided that a radical change in SPP’s sales approach was not good for business.
SPP’s franchise programme was still new at the time of the acquisition so the growth of the franchise network could be halted at a low level. The cooperation with brokers has been retained. In order to satisfy the branches, Handelsbanken’s profit from each customer is allocated to the respective branch, even when the insurance has been sold via a broker.

I think to get these volumes, to make SPP a profitable business, we need other sales channels. The broker is a customer. Not a competitor, but a customer. [...] The important thing is to show [the branches] that in the long run you get the profit. You even get it from customers who are not customers at your branch currently. Then there is not the same kind of competition. Since we have our own sales force we want to have customers via our own channel and that’s disturbing for the brokers. They want to sell our insurances, but I always tell them you are buying our insurances on behalf of your customer. You don’t sell SPP insurances and that’s difficult for the brokers to understand.

Stefan Nilsson, Managing Director of SPP, interview 2003

The role of independent brokers in Handelsbanken’s insurance business is thus somewhat paradoxical. On the one hand, they de facto function as a separate distribution channel. On the other hand, the role of the branch as Handelsbanken’s sole distribution channel is protected by defining the brokers as ‘customers’ rather than a sales force and by allocating profits to the branches.

When Handelsbanken acquired Stadshypotek, it was a central idea to bring out the employees to the branches as soon as possible. In the SPP case the dismantling of the old structure required more time. Handelsbanken had only limited experience of occupational group life insurances for larger companies. Such complex products required specific expertise and Handelsbanken’s management was reluctant to make too many changes in SPP’s structure that after all had been working fine for many years. In contrast to Stadshypotek, where most top managers were replaced by Handelsbankers at once, SPP’s Managing Director Anders Östryd remained in charge of the company. Due to the difference between banking and insurance operations the two organisations remained largely separate from the beginning. In early 2002 the majority of Handelsbanken Liv’s salespeople were moved to SPP. On the management level however, there was little inflow of people from Handelsbanken.

The separation of the organisations led to friction in the cooperation between SPP and the branches. It was not clear how to divide work between Handelsbanken Liv and SPP or between the branches and the insurance operations. As cross-selling to the new daughter company’s customers proved to be more difficult than expected and SPP’s economic performance suffered from the declining stock market, SPP started losing legitimacy in Handelsbanken’s branch organisation. Firstly, the branches felt confusion about all the different parties they had to deal with, secondly the existence of brokers and tied agents was met with some suspicion.
It has been a little more difficult [with SPP than with Stadshypotek…]. Before we had a contact person for all types of insurances. Company insurances, occupational group life insurances, private insurances. It was one person. She was in Jönköping and she had everything. Now it has been divided. For the occupational group life insurances we shall cooperate with SPP and the private insurances we are doing with Handelsbanken Liv. […] This has been somewhat unfortunate as SPP has different distribution channels. […] We were cooperating with a guy [a tied agent] in Vetlanda and at the same time we had SPP’s Jönköping office. Now it has been said that we are not going to work with him, but with Jönköping from next year. I think this is going to be better.

Mats Andersson, Branch Manager Nässjö, interview 2002

Handelsbanken had some work in simplifying and clarifying the structure of the insurance operations. In early 2003 SPP was reorganised to make its structure more compatible with that of Handelsbanken. A central aim was also to bring more Handelsbankers into SPP’s management. SPP was geographically divided into seven regions that corresponded to the regions in Handelsbanken. Two of the regional heads came from SPP while three were from Handelsbanken Liv and two from the bank. The regional heads of SPP closely cooperate with the regional bank in their territory and often take part in the regional management teams’ meetings. Anders Östryd left SPP and Stefan Nilsson was appointed Managing Director of the company. As the former Head of Northern Norrland Regional Bank he came directly from the branch organisation which increased his legitimacy among the branches. Moreover, he had experience from SPP where he had been on the board since the acquisition. Nilsson attributed some of the problems with the SPP integration to a clash between Handelsbanken and SPP’s cultures.

You sell insurances, you don’t buy them. […] To get these cultures together is what we have done during the autumn [of 2002]. One problem was that there was someone responsible for the customer at SPP and another one was responsible of the customer at Handelsbanken. There you have a collision. And during the autumn we have carefully tried to explain the fact that the branch owns the territory and it’s only there that you can have the overall responsibility for the customer. This means that SPP, Handelsbanken Finans or whatever can only have responsibility for the single business.

Stefan Nilsson, Managing Director of SPP interview 2003

At the time of the SPP acquisition, Handelsbanken held the belief that it was important to have a leadership with vast insurance experience to make the deal a success. Therefore, SPP’s top managers remained in office. In retrospect, Lars O Grönstedt believes that experience from Handelsbanken’s culture is more important than knowledge of a specific business sector when it comes to successfully managing the integration of an acquisition.

From all that I have seen close up, RKA that became Handelsbanken Liv, Stadshypotek, Stadshypotek Bank, Midtbank, Bergensbanken and SPP I’m
totally convinced that you should not keep the top managers in an acquired company. Even though they may be very nice and professional people, like Anders Östryd at SPP who is a man of honour and a very skillful person. Intellectually he had no problems in understanding what Handelsbanken is, but he could not put it into practice. It is even better to take an unknowing stranger\textsuperscript{127} from Handelsbanken and put [him/her] into place. It takes less time for that person to get acquainted with the new market and its specificities than it takes for someone who knows a specific niche excellently to understand Handelsbanken. This sounds almost disgustingly elitist, but in fact you have to know the culture to make it happen. It's only [the culture] that creates our additional profitability [in comparison to the industry average] and nothing else.

Lars O Grönstedt, Managing Director, interview 2003

Handelsbanken’s top management as well as the branch managers I have talked to express their belief that the SPP acquisition is running on track now. However, it remains to be seen how long it will take until insurance operations are fully integrated with Handelsbanken’s traditional banking business.

One issue that has distinguished Handelsbanken’s insurance subsidiaries from the rest of the bank’s operations is the mutual ownership of life insurance companies. While the perspective of a demutualised, profit distributing life insurance company was already behind the acquisition of RKA in 1992, the legislative process of making a demutualisation possible took longer than expected. Handelsbanken Liv was finally transformed to a profit distributing company on January 1\textsuperscript{st}, 2002. This has implied that there is now one mutual and one demutualised company in the Handelsbanken group. It is the declared goal of Handelsbanken to demutualise SPP soon in order to integrate the two operations even further.

Developing the Handelsbanken way after Jan Wallander

The changes introduced by Jan Wallander in the early 1970s constituted a turning point in the strategic development of Handelsbanken. The bank did not only become profitable again, Wallander’s ideas also laid the foundation a change in the bank’s self-understanding. Decentralisation and in particular the important role of the branches have since then become central to the understanding organisational members have of Handelsbanken. The decentralised approach has been reflected in the strategic development of Handelsbanken during the last three decades. Decentralisation is also referred to or implicitly underlies the ongoing reasoning, thinking and decision-making in the bank. While Wallander implemented his basic decentralisation ideas shortly after assuming office, their practical application has been continuously developed. Decision-making authority has increasingly been moved to the local level. In the mid-90s, the branch managers were given full authority over the

\textsuperscript{127} “Unknowing stranger” is hypothetically meant and does not refer to Stefan Nilsson who had extensive experience of the insurance business.
number of staff at their branch. Before, they had only been allowed to decrease the number of employees. For an increase they needed authorisation from the regional bank.

If you are telling them [the branch] from the head office that you are nine, but we think you are seven, everybody says that’s impossible. We will work ourselves to death. In an organisation like ours the process of deciding dimension in the branches must start out at the branches. It’s in the coffee room that the manager must say, it’s not head office that has asked us to downsize. It’s my idea and I believe that we can improve our profitability, can’t we? By working a little bit differently and with fewer people.

Arne Mårtensson, Managing Director, interview 2000

Meanwhile, also employees’ individual wages are negotiated locally. Branch managers now take almost all decisions regarding their local business. All customers, even large multinational companies, are assigned to a local branch that has overall responsibility for them. When large companies negotiate with consortia of several banks, Handelsbanken is always represented by the manager of the responsible local branch, while the other banks send their managing director or another top executive in such cases. Channels bypassing the local branch in customer relations are not accepted. If the customer needs expertise from a central unit, the branch delegates responsibility for that specific business to the central experts. However, even in that case the branch remains responsible for the customer.

Decentralisation is also reflected in Handelsbanken’s executive leadership. A prerequisite for making a successful career in the bank is to have experience from working at a branch.

I didn’t get this job [as Head of Central Control and Accounting] because I’m best at book-keeping or accounting in the bank. I did not know very much about accounting systems when I took this job, but I have a different background that is not so typical of financial managers on a group level. However, I think it is very typical in our organisation and our culture that I have been out there myself and been a branch manager, an area manager and had some middle management jobs in different roles. So I can in fact tell a head of a regional bank or an area manager with a certain degree of trustworthiness who believes he has to use the economical control system to cause certain behaviours in a manipulative way that there are other ways to make the branches understand that insurances are important both in the long run and in the short run.

Lennart Francke, Head of Central Control and Accounting, interview 2003

Even though some top executives have started their employment at the head office in Stockholm, they have usually spent some years as managers or deputy managers at a local branch. A couple of years ago, the heads of the regional banks were often recruited among the area managers in the bank. Most recently it has become more common to appoint branch managers. This has even further stressed the importance of experience as a branch manager for making a
Organisational self-understanding and the strategy process

successful career. While the career path earlier resembled a ladder *branch manager - area manager - head of a regional bank*, the area manager position is now more explicitly a position one usually holds for a couple of years between two branch manager appointments. Newly appointed heads of a regional bank, today typically come from a large branch and have experience of management positions on a regional and often also on a central level. With few exceptions they also have experience from abroad.

Leaders on all levels in Handelsbanken are internally recruited with few exceptions. This has helped to preserve the culture of decentralisation and cost consciousness despite generation shifts in management. As Handelsbanken has become more proactive in buying other companies, an increasing number of employees, including managers, have entered the organisation through acquisitions. In order to prevent Handelsbanken’s culture being threatened by a takeover, the bank avoids deals that might be interpreted as mergers of equals. Although some of the more recent acquisitions have been very large in terms of balance sheets, Handelsbanken has always been substantially larger when it comes to the number of employees.

> We can make very big acquisitions in terms of balance sheet, but from a cultural point of view it has to be very clear who is the buyer. This is important because we are convinced that our profitability depends on our ability to do [business] in our way. [...] I can hardly imagine us making an acquisition where we merge two cultures taking the best of each.

Lars O Grönstedt, Managing Director, interview 2002

During its more recent acquisitions, Handelsbanken has offered the employees of the acquired companies continued employment. This has contributed to relieving anxiety in connection with the takeover. During my visits at Handelsbanken, I met various people who had come to the bank through an acquisition. While people coming from Slånska Banken or Stadshypotek seemed to be fully acclimatised, those who had been affected by the more recent acquisitions like Bergensbanken, Midtbank and SPP said that they needed more time to get used to Handelsbanken, although they claimed to be positive to its decentralised way of banking.

Obviously, there is also a process of self-selection during the years following an acquisition, where those people who do not feel comfortable with Handelsbanken leave for jobs in other organisations. While most employees of the acquired company usually stay, top executives often leave directly after the takeover. It seems to be more difficult to integrate experienced leaders into Handelsbanken’s organisation then lower level employees. Some top executives try out Handelsbanken for a while and then quit after some time as they feel uncomfortable with Handelsbanken’s way of doing business. In a few cases, Handelsbanken also asks people to leave, usually offering them outplacement and financial compensation.
There are people who draw the conclusion themselves that they will never succeed in this organisation. And they take the initiative and ask themselves if they can get help to find another job. That’s the majority. There are few you have to get rid of through a tougher kind of conversation.

Lars O Grönstedt, Managing Director, interview 2003

Also among top executives, there are however also exceptions who stay and make a successful career in Handelsbanken, like Lars Lindmark who was Head of Marketing in RKA and is now Head of Corporate Communication in Handelsbanken. While few top managers stay after a takeover, there is still a large number of other employees, Handelsbanken’s organisation has to absorb.

This [people entering Handelsbanken as the result of a merger] is a rather new issue. It’s much easier [when people come and get their first job at Handelsbanken]. You get your vaccination and then it’s done. When it comes to the big acquisitions like Stadshypotek and SPP we have done it differently. In the case of Stadshypotek we knew the business. […]. The first thing was to get the people out to the branches and to our management courses. After that each regional bank could make up its own programme.

Anna Ramberg, Head of Human Resources, interview 2003

A particular challenge when it comes to integrating new employees is the takeover of banks abroad. When Handelsbanken bought Danish Midtbank in 2001, the acquired bank had more staff than Handelsbanken’s Danish operations had before the deal. All Midtbank managers had to go through the same leadership training as all newly appointed Handelsbanken managers. The training programme, called To be a manager128 is divided into two blocks of three days each and is led by Handelsbanken staff only. Several members of Handelsbanken’s management, including the managing director, participate and questions ranging from practical business issues to more general issues about Handelsbanken’s organisation and culture are discussed. When I made participant observation at one occasion during the programme, several managers from Midtbank and Bergensbanken in Norway took part. At least as far as their espoused attitude to Handelsbanken’s way of doing banking was concerned, they expressed sympathy for the ideas of decentralisation and strong branches. Several tried to point at similarities between Handelsbanken and their previous organisations. However, they also said they hoped that Handelsbanken would not approach integration too rapidly and give them time too adapt themselves. Except for the management training, all new Handelsbanken employees, including those from acquired organisation go through basic courses

128 In Swedish: Att vara chef. The programme is offered in Swedish as well as in English. Usually there are newly appointed Swedish managers taking part in the English programme and the Swedish programme is open to foreigners who have an adequate command of Swedish or can communicate with Swedes in Norwegian or Danish. It is an ambition to mix people with different organisational and national backgrounds at each occasion of the programme.
about Handelsbanken that are offered by the regional banks. In context with acquisitions, sometimes particular efforts are made to welcome the new Handelsbankers and to make them acquainted with their new employer. After the acquisition of Midtbank, an event with old and new staff was organised. Jan Wallander was invited to talk about Handelsbanken. Despite his age, Wallander is still very active, not at least when it comes to talking and writing about his management ideas.

At the end of the summer, I was involved [at an event] with representatives from all the Danish branches. Both those branches that we had had for a longer time and then all the new branches and we taught them the gospel. You get a discussion and you see that the decentralisation issue was a very big change in Denmark. Denmark is very authoritarian with a top-down business culture. It [decentralisation] was something the branch managers liked. It was very important that we had Danish branch managers who had been working in our organisation and they stood up and testified what it [decentralisation] is like and that’s of course much more effective than anything else.

Jan Wallander, former Managing Director and Chairman of the Board, interview 2003

Wallander’s use of religious metaphors like gospel for Handelsbanken’s approach to banking is not far-fetched considering how central Wallander’s ideas still are to the bank and with how much conviction employees talk about them. Since his resignation as Chairman of the Board in 1991, Jan Wallander has been Honorary Chairman of Handelsbanken. He still has an office at the Central Head Office in Stockholm where he works from time to time. Over the years he has published a number of books on his management ideas, often with an autobiographical strain. His most recent management book was published in 2002. A key thesis in the book is that the decentralised management approach used at Handelsbanken goes hand in hand with human nature and therefore is so successful. Since Wallander’s books are read by many Handelsbanken employees – some books have been translated into other languages and can be read by Handelsbankers abroad – they help further reinforcing his ideas in the organisation.

Although Handelsbanken today is different from the bank in 1978 when Wallander stepped back as Managing Director, his basic ideas of decentralisation, the importance of branches and management without budgets persist. The internal benchmarking system has been further refined and expenses as well as revenues are allocated to the branch offices according to a system of transfer-prices that aims at mirroring actual business activities in a fair way. In 2002 the branches generated more than 90% of Handelsbanken’s profits while only a minor residual remained for central units and daughter companies. One reason for this is that central units and daughter companies have to share profits on transactions with the branch that is responsible for the respective customer. Although this lowers their own profit, the non-branch units have accepted this procedure.
For me it’s natural. It’s my income statement and if I distribute 100% [of the profit] to the branches it does not matter if I give the money to the branches or to Lars [Grönstedt, i.e. the Central Head Office]. If you are a subsidiary you are a subsidiary. It’s even better to give it to the branches for if they see how much money they earn through us they will give us more business.

Stefan Nilsson, Managing Director of SPP, interview 2003

As a consequence of decentralisation, Handelsbanken’s self-understanding has come to be increasingly centred on the branch. The branches rather than the central development units are considered as the place where Handelsbanken’s services are produced.

It’s forbidden at our bank to talk about the branches as a distribution network. The branch is the bank. That’s not a distribution network for central products, but it’s the branch that does the job. […] We have said for decades that we need to have the brightest persons at the branches. The finest job you can get is that of a branch manager and we treat the branches like that.

Arne Mårtensson, Managing Director, interview 2000

Defending the decentralised approach

Although there is no open dispute about the decentralisation ideal as such, there are different opinions on what decentralisation implies in concrete situations. Some interviewees have described the work with the bank’s decentralised self-understanding as an ongoing struggle between proponents of more local autonomy and attempts from regional or central units to keep or regain control over activities on the branch level. At Handelsbanken the branch managers are depicted as the heroes of the decentralised organisation. This has been symbolically emphasized by printing the names of the more than 500 branch managers in the bank’s annual reports since 2002. However, the branch manager’s role is paradoxical in the sense that by becoming a branch manager s/he also becomes more exposed to influence and evaluation from more central levels, particularly the regional head office.

The one who decides that you should get the job as a branch manager is in principle the head of the regional bank. So you have to be smart and listen to what the regional management says. You should not push forward your own ideas too strongly if we might not like them. Then there could be questions about that person [the branch manager], is s/he the right one in that place at that moment?

Michael Green, Area Manager Regional Bank Western Sweden, interview 2003

In a way the branch manager is thus dependent on the regional management team if s/he wants to make a successful career in the bank. It is probably not always easy for the individual to judge what degree of freedom s/he should reclaim vis-à-vis the regional bank. While the regional banks generally subscribe
Organisational self-understanding and the strategy process

to the principle that the autonomy if the branches is one of Handelsbanken’s major strengths, they may also feel a desire to influence their branches in certain questions. At Handelsbanken this is supposed to happen through a dialogue and not by directives. However, branch managers may experience suggestions from their area manager or the head of their regional bank as a form of pressure. This might especially be the case if their branch performs below average.

From the regional head office, via the area managers we can convey what we think is good. What has been successful in a number of other places. We can at least inform about it. Then, if [a branch manager] says I don’t believe in it, that’s ok. […] People use their common sense so it’s not a problem. If you don’t meet the average [of the branches in the region] you get more questions from the regional head office of course. That’s our task. Why else should you have a regional head office?

Håkan Sandberg, Regional Bank Southern Norrland, interview 2003

While the regional head office clearly has a management role vis-à-vis the branches, it is a challenging task to keep the balance between the need to fulfil a management function and the outspoken ambition to leave decisions to the branches. It is at least a potential threat to Handelsbanken’s decentralisation that branch managers’ desire not to get into conflict with their regional bank. This could result in a culture of obedience where branches are autonomous on paper, while they are controlled from the regional head office in practice. The realisation or not of this scenario depends on the regional managers’ willingness to limit their interference in local business and the branches’ willingness to object to such interference. Lennart Francke, in his role as Head of Central Control and Accounting, therefore tries to encourage young branch managers to resist undue attempts of centralisation, like demands to report operational goals in absolute terms.

At [a course for newly appointed Handelsbanken managers], I openly addressed a question by asking, ‘Are you confronted with demands to state in your operational plans how much the cost/income ratio of your branch is to improve? Then you should tell your area manager or the head of your regional bank that this is a bad way to control.’ I’m taking a risk, by being active in the [decentralisation] discussion on all levels of the bank. In doing this there is a chance that a head of the regional bank may come and ask me ‘Do you really have to tell my subordinates that I’m doing wrong?’ This is in fact a kind of openness and something that is permitted in our culture to have an open discussion about internal questions of this kind.

Lennart Francke, Head of Central Control and Accounting, interview 2003

The system of monthly notes is one possible channel for the branches to object to what they perceive as undue centralisation. For the central units at Handelsbanken the notes thus constitute an indicator for their legitimacy in the bank. For instance, Corporate Communication that is responsible for the few
remaining central marketing tasks, has to be aware that it is not perceived as a resurrected version of the marketing department Jan Wallander once abolished.

[We rarely get criticism from branches] and that’s because we are very careful not to overly promote specific products. [...] In the monthly notes from the branches we are rarely criticised. It’s rather the heads of the regional banks that have said ‘You have to be careful not to become a marketing department’, but that was when I assumed office. I haven’t heard it since then.

Lars Lindmark, Head of Corporate Communications, interview 2003

Generally, the ambition with the feedback system is that even a single branch should be able to make its voice heard in the organisation and have an impact with its suggestions. All notes that address a particular problem or make a specific suggestion, receive direct feedback from the unit concerned. However, this formalised approach is not the only way of taking initiatives. Branch managers, may discuss issues directly with the people concerned or discuss the matter on the phone with the head of their regional bank or their area manager and ask him or her to pursue the issue. Although branches are supposed to be able to act on their own, branch managers often prefer to join forces with colleagues at other branches to have more weight in the internal discussion.

The possibility of having influence is good. Absolutely. Of course if I in little Eksjö want to change something, perhaps there have to be others who want the same. I can’t change the world just with an idea I have, it all depends on the fact that there are others who believe the same. [...] There are some branches nearby like Vetlanda, Nässjö and Sävsjö and we can say things together and if there are several branches there is a greater possibility of having influence than if there is only one branch of course.

Jens Fransson, Branch Manager Eksjö, interview 2002

Another channel to raise issues or object to violations of the bank’s policy is the staff journal Remissan that is published with about 4-5 issues every year. Due to the internationalisation of the bank, Remissan is nowadays a bilingual journal. All articles are published in both Swedish and English. The journal informs about events and changes in the bank, presents new managers, products or technical tools. It also has a section with letters to the editor, where also questions to management can be raised. In 1999, Remissan received a letter from an employee who questioned an internal sales competition concerning insurance products at the regional bank where s/he worked. The most successful branches in the competition had been promised week-end trips that had to be paid by the least successful ones. The author of the letter called attention to the fact that sales competitions were a violation of the principle to focus on customer needs rather than on selling particular products.

Handelsbanken has a strong corporate culture. It is deeply ingrained in every one of us, and clearly defined in ‘Our Way’, where we read that: ‘We put the
customer in focus, not our own products. We do not have internal product campaigns where the branches are pushed into selling certain products.’ Our CEO has stated in public that this is one of the reasons why we have more satisfied customers than other banks.[…] We do not understand how this competition fits in with Handelsbanken’s policy – as it is clearly set out in ‘Our Way’. Perhaps we should just forget ‘Our Way’, because the attitude of our regional bank manager is just as clear: ‘this is not really Handelsbanken’s way of doing things, but reality forces us to act in this way’. So who and what should we believe?

Anonymous employee129, Remissan 1/99, p.28

The letter was answered by Arne Mårtensson in a long reply, where he agreed with the author and quoted an extensive passage from ‘Our Way’ that deals with customer orientation and sales competitions.

I agree that internal sales competitions do not fit with the bank’s policy. I have been very clear on this point in ‘Our Way’. The best reply I can make is to quote ‘Our Way’: […] ‘A customer of Handelsbanken must never risk being sold a certain product because we have an internal sales campaign. For this reason, there should be no internal competitions where we set up volume targets for certain products. In the 1960s, we had internal competitions of this type and the results were devastating both for customer satisfaction and for profitability.’

Arne Mårtensson, Managing Director, Remissan 1/99, p.29

Mårtensson was alluding to the internal competitions that were forbidden by Jan Wallander. The current competition was of course cancelled after this discussion.

While being a decentralised organisation and seeing the branch as the bank are two of Handelsbanken’s most important identity claims, the degree of decentralisation is not unlimited. Whereas most decisions should be made by the branches, this is done within an institutional framework that itself is centralised. Lars O Grönstedt describes it as consisting of three pillars that give stability to the organisation.

There are three strongly centralised cornerstones that were established a long time ago and that are not changed. One is the economic control system and that has basically been intact since Jan Wallander created it. […] Then there is the credit system. The whole credit system is not a subject of discussion and finally the strongest one lying in my area of responsibility is the cultural control system. This is unchanged in its basic principles and in its centralisation and way of working.

Lars O Grönstedt, Managing Director, interview 2002

129 The employee was using the signature ‘Mål eller Medel?’, i.e. ‘Means or Ends?’, an allusion to the Swedish title of the Our Way booklet.
The managing director, who also is the author of updated versions of 'Our Way', is thus the primary guardian of the organisation’s culture. The decentralised character of the organisation as such is not to be questioned and this is paradoxically centrally controlled albeit with assistance from staff who may object to what they see as violations of the Handelsbanken concept. While all managing directors since Jan Wallander have been very much engaged in communicating Handelsbanken’s culture, there have always been additional people who have taken a particular role in spreading and guarding the bank’s values. These guardians of culture have not been holding any specific position in the organisation. The function has rather been assumed by people who have felt a particular devotion to communicating the Handelsbanken concept. From the 70s and until the mid 90s Leif Lundberg assumed such a role. Paradoxically, he had been in charge of Central Marketing when Jan Wallander took over Handelsbanken. As Wallander opposed centralised marketing activities and closed down the department, Lundberg saw no future for himself at the bank and gave in his notice. A few years later however, Wallander asked him to return to work with internal information.

First I met another guy at the bank who offered me a job […] but he didn’t convince me that this was something to go for. Then he said that Jan Wallander was there and that I could meet him if I liked. I had actually already said ‘no’, but I thought it would be interesting to meet that guy anyway. After all he had played a role in my life. So I met him and he convinced me that [the Handelsbanken concept] was really good. It was as simple as that.

Leif Lundberg, former Head of Corporate Communications, interview 2003

Leif Lundberg came to work in various positions like Head of Market Policy, Head of Central Secretariat and Head of Corporate Communication. Regardless of the position he held, the preservation of Handelsbanken’s culture was one of his main tasks. With a twinkle in the eye some colleagues nicknamed him Suslov in allusion to Mikhail Suslov, the former ideologist in the Kremlin. Remissan presented him as the bank’s “chief ideologist” (Remissan 2/86) to whom the branches could turn to when they wondered if any particular way of doing business was in line with Handelsbanken’s policy. Under Lundberg’s successor Lars Lindmark, Corporate Communication has kept a lower profile in questions relating to corporate culture.

I believe [the ideological role] is important and as important as before, but I don’t think it is upheld in the same rigid way. One reason is that Leif and I are different personalities of course and secondly the bank is much bigger now. […] We have the right to tell people that they cannot behave in a certain way, but I think one should be very careful when using it.

Lars Lindmark, Head of Corporate Communications, interview 2003
With the passing of time and changes in world politics, metaphors and nicknames for people who are particularly dedicated to communicating and preserving Handelsbanken’s culture also have changed. Today, such people are sometimes referred to as the *Taliban* although the use of this metaphor is said to have declined after the terrorist attacks on September 11. The role of being a guardian of Handelsbanken’s culture, does not necessarily follow a specific function in the organisation. Rather, it is associated with individuals that have a particular interest in working with cultural issues in a more general sense. More recently, Anna Ramberg who is Head of Human Resources and Lennart Francke, Head of Central Control and Accounting, have been in charge of items relating to Handelsbanken’s culture at internal conferences and other events.

All of us are working with [Handelsbanken’s culture]. You get a feeling that you are part of it and you are developing the culture. I believe there is no one position dedicated to stating or maintaining function today. We say in ‘Our Way’ that every manager is responsible for conveying and developing the culture and that is how it works.

Anna Ramberg, Head of Human Resources, interview 2003

**Outlook: Handelsbanken envisions further growth**

As the first years of the new millennium have passed, Handelsbanken has successfully defended its position as the most profitable of the listed Scandinavian banks. It has advanced its positions in the neighbouring Nordic countries and also gone beyond Scandinavia by establishing universal banking operations outside Scandinavia. The most recent milestones in this process have been the acquisition of Danish Midtbank in 2001 and the establishment of Great Britain Regional Bank in 2002. New units in Central Europe and the Far East create a potential for further growth. Although Handelsbanken managers frequently stress that profitability is more important than volume, growth is on the agenda. In recent years, Handelsbanken has repurchased part of its own shares in order to have a financial buffer for future acquisitions. When he took over after Arne Mårtensson, Lars O Grönstedt announced that he saw what he called the “3 i”, namely internationalisation, insurance and investment banking as areas where Handelsbanken has a specific need and potential for further development (Hjalmarsson 2001). This may partly be achieved through organic growth, but it is also likely to imply acquisitions.

[The bank] is complete now, but it is possible to add building blocks all the time. We could grow on the life side in the other Nordic countries. Maybe in England sooner or later. […] I see in front of me that everything we have can expand, but not with giant deals. For instance mortgage banks where we have a reasonable
branch network. If a life insurance company is for sale where we have a reasonable branch network we are of course also interested, but we have to assess every deal by itself.

Magnus Ugglä, Head of Regional Bank Stockholm City, interview 2003

All Handelsbanken staff I met, expressed confidence that the success story of Handelsbanken would continue. Members on all organisational level expressed their belief in Handelsbanken’s way of doing banking and the decentralised organisation. Continued success seems to have increased the legitimacy of the Handelsbanken method. While some of my interviewees talked enthusiastically about Handelsbanken’s culture, others expressed their support in a more dispassionate fashion. There was however a consensus that the decentralised approach to banking, building on the strength of local branches is the right one and that it would be a key to the bank’s future success. Open opposition is extremely rare. However, the meaning of being a decentralised organisation is being interpreted in different ways. In different regional banks there may for instance be different practices as to what degree of influencing of the branches is considered legitimate by the regional management. Jan Wallander as well as other dedicated proponents of decentralisation have described decentralisation as a constant struggle against subtle, maybe even unconscious attempts to re-centralise the bank.

I like using the picture of the rubber band. There are always centralist tendencies. And it's important for those out there who get the decentralised power not to lose a grip on it. […] If you look at the central departments. Product development takes place at the central head office. It may be insurance or mutual funds or whatever and then you think of course that [the branches] have to sell these because they are my products.

Jan Wallander, former Managing Director and Chairman of the Board, interview 2003

The decentralisation ideals thus have to be defended in daily work. It may be tempting for certain groups to bend the rules in a specific area to promote the own unit. This does however not mean that Handelsbanken’s character as a decentralised bank with strong branches is questioned as such. Overall, decentralisation is perceived as central by organisational members. Not least, decentralisation has continuously distinguished Handelsbanken from its competitors. Being different from others has meanwhile more or less become an end in itself. As it is Handelsbanken’s goal to outperform its competitors, the bank needs to be different. Otherwise it would only achieve average results.

When I’m mean I usually say that nine out of ten banks are organised by McKinsey […]. Then you get the average bank with the average numbers.

Arne Mårtensson, Managing Director, interview 2000
Organisational self-understanding and the strategy process

Being different also implies that Handelsbanken considers it as a virtue not always to follow the general trends and fashions in the industry. In the 1998 edition of ‘Our Way’, Arne Mårtensson encourages the banks employees to go against the general stream.

Why not do the complete opposite? The most common mistake in management is nervously copying the competitors all the time. This is also true in the banking industry. […] Business and not at least banking are often directed by fashionable ideas, theories and models that come and go. When all the sheep are running in the same direction, we like being the solitary sheep that calmly stays where it is and thoroughly reflects on if the grass is really greener somewhere far away or if it isn’t better to do it one’s own way.

Mål och Medel (1998), my translation

Strategic action, in the past as well as in the foreseeable future, has to relate to identity claims such as ‘the branch is the bank’. In the three Handelsbanken cases, we are going to look at three strategic episodes from Handelsbanken’s recent history more in depth, namely the Stadshypotek acquisition, the introduction of Internet banking and the bank’s internationalisation. These cases will provide us with a more detailed perspective on the interplay of strategy and organisational self-understanding in Handelsbanken and will help us to understand this interplay better.
Appendix C – Interviews

Interviews related to Scania

<table>
<thead>
<tr>
<th>Date</th>
<th>Place</th>
<th>Interviewee</th>
<th>Interviewee’s function/background</th>
<th>Themes in focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 Aug 2002</td>
<td>Scania HO Sodertälje</td>
<td>Kaj Lindgren</td>
<td>Group Vice President, Chief of Staff</td>
<td>Planning of the thesis project, Scania’s overall strategy, strategic alliances</td>
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<td>15 Aug 2002</td>
<td>JIBS Jönköping</td>
<td>Sven Berg</td>
<td>Former Purchasing Manager</td>
<td>Purchasing, Scania’s overall strategy.</td>
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<td>22 Aug 2002</td>
<td>Scania HO Sodertälje</td>
<td>Cecilia Edström</td>
<td>Vice President Strategy Business &amp; Brand Development</td>
<td>Scania’s overall strategy, strategic alliances, brand issues.</td>
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<td>Scania HO Sodertälje</td>
<td>Magnus Hahn</td>
<td>Senior Vice President Business Communications</td>
<td>Scania’s overall strategy, Volvo attack, business communications.</td>
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<td>Investor relations, Volvo attack, modularisation.</td>
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<td>Kaj Lindgren</td>
<td>As above</td>
<td>Scania’s overall strategy, historical development, brand issues, organisation of sales and services.</td>
</tr>
<tr>
<td>12 Feb 2003</td>
<td>Scania HO Sodertälje</td>
<td>Leif Östling</td>
<td>President and CEO</td>
<td>Scania’s overall strategy, historical development, Volvo attack, strategic alliances, international activities.</td>
</tr>
<tr>
<td>19 Feb 2003</td>
<td>Scania HO Sodertälje</td>
<td>Anders Bröms</td>
<td>Consultant</td>
<td>Modularisation, production system.</td>
</tr>
<tr>
<td>21 Feb 2003</td>
<td>Scania HO Sodertälje</td>
<td>Bengt Palmér</td>
<td>Former Technical Director</td>
<td>Scania’s historical development, Modularisation, production system, international activities.</td>
</tr>
</tbody>
</table>

130 The information refers to the time of the interview. Earlier functions are indicated in those cases where they were relevant for the interview.
131 HO = Head Office
### Organisational self-understanding and the strategy process

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Name</th>
<th>Position/Role</th>
<th>Topic</th>
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<tr>
<td>21 Feb 2003</td>
<td>Södertälje</td>
<td>Hasse Johansson</td>
<td>Group Vice President, Head of Research and Development</td>
<td>Modularisation, cabs.</td>
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<td>21 Feb 2003</td>
<td>Södertälje</td>
<td>Jan Gurander</td>
<td>Group Vice President, Chief Financial Officer</td>
<td>IPO, Volvo attack, organisation of sales and services.</td>
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<tr>
<td>25 Feb 2003</td>
<td>Södertälje</td>
<td>Matti Sundberg</td>
<td>Chairman of Nordic Council</td>
<td>Organisation of sales and services.</td>
</tr>
<tr>
<td>24 Mar 2003</td>
<td>Södertälje</td>
<td>Stig Ericsson</td>
<td>Former Technical Director</td>
<td>Scania’s historical development, overall strategy, modularisation.</td>
</tr>
<tr>
<td>25 Mar 2003</td>
<td>Södertälje</td>
<td>Lars Orehall</td>
<td>Senior Vice President, Truck, Cab and Bus Chassis Development</td>
<td>Scania’s overall strategy, cabs, modularisation, Volvo attack.</td>
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<td>27 Mar 2003</td>
<td>Södertälje</td>
<td>Carl Riben</td>
<td>Senior Vice President, General Counsel</td>
<td>IPO, Volvo attack, organisation of sales and services.</td>
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<td>4 Apr 2003</td>
<td>Södertälje</td>
<td>Sverker Sjöström</td>
<td>Former Technical Director</td>
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<td>7 Apr 2003</td>
<td>Södertälje</td>
<td>Kristofer Hansén</td>
<td>Head of Styling</td>
<td>Cab design.</td>
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<tr>
<td>22 Apr 2003</td>
<td>Södertälje</td>
<td>Gunnar Rustad</td>
<td>Group Vice President, Head of Sales &amp; Services</td>
<td>Scania’s overall strategy, organisation of sales and services.</td>
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<tr>
<td>22 Apr 2003</td>
<td>Södertälje</td>
<td>Jan Andark</td>
<td>Head of Business Development and Control</td>
<td>IPO; Volvo attack, organisation of sales and services.</td>
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<td>8 May 2003</td>
<td>Stockholm</td>
<td>Anders Scharp</td>
<td>Former Chairman of the Board</td>
<td>Scania’s overall strategy, Volvo attack.</td>
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<tr>
<td>8 May 2003</td>
<td>Södertälje</td>
<td>Urban Erdtman</td>
<td>Former Head of Sales &amp; Services</td>
<td>Scania’s overall strategy, organisation of sales and services, international production.</td>
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<td>Date</td>
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<td>Name</td>
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<td>20 May 2003</td>
<td>Scania Great Britain Milton Keynes</td>
<td>Dan Hoij</td>
<td>Managing Director Scania Great Britain</td>
<td>Organisation of sales and services, modularisation, cabs.</td>
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<td></td>
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<td>Tony Ballinger</td>
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<td>20 May 2003</td>
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<td>James Armstrong</td>
<td>Managing Director Derek Jones Commercials (Independent Scania Retailer)</td>
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<tr>
<td>16 Jun 2003</td>
<td>Scania HO Sodertalje</td>
<td>Johan Haeggman</td>
<td>Senior Vice President Corporate Relations</td>
<td>Scania’s overall strategy, organisation of sales and services.</td>
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<tr>
<td>16 Jun 2003</td>
<td>Scania HO Sodertalje</td>
<td>Martin Stahlberg</td>
<td>Managing Director Scania Sverige</td>
<td>Organisation of sales and services, modularisation, cabs.</td>
</tr>
<tr>
<td>17 Jun 2003</td>
<td>Scania HO Sodertalje</td>
<td>Ola Pihlgren</td>
<td>Industrial Designer</td>
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<tr>
<td>17 Jun 2003</td>
<td>Scania HO Sodertalje</td>
<td>P O Svedlund</td>
<td>Senior Vice President Purchasing and IS/IT</td>
<td>Scania’s overall strategy, purchasing, production system, modularisation.</td>
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<tr>
<td>18 Jun 2003</td>
<td>Scania HO Sodertalje</td>
<td>Per Hallberg</td>
<td>Group Vice President, Head of Production and Procurement</td>
<td>Scania’s overall strategy, production system, Volvo attack.</td>
</tr>
<tr>
<td>18 Jun 2003</td>
<td>Scania HO Sodertalje</td>
<td>Tomas Karlsson</td>
<td>Senior Vice President Powertrain Production</td>
<td>Scania’s overall strategy, production system.</td>
</tr>
<tr>
<td>13 Aug 2003</td>
<td>Scania HO Sodertalje</td>
<td>Kaj Lindgren</td>
<td>As above</td>
<td>Scania’s overall strategy, organisation of sales and services, brand issues.</td>
</tr>
<tr>
<td>14 Aug 2003</td>
<td>Scania HO Sodertalje</td>
<td>Kjell Svensson</td>
<td>Former Head of Human Resources</td>
<td>Scania’s overall strategy, production system.</td>
</tr>
<tr>
<td>14 Aug 2003</td>
<td>Scania HO Sodertalje</td>
<td>Robert Sobocki</td>
<td>Senior Vice President Sales Buses and Coaches</td>
<td>Scania’s overall strategy, buses, modularisation.</td>
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<tr>
<td>14 Aug 2003</td>
<td>Scania HO Sodertalje</td>
<td>Lars Wrebo</td>
<td>Senior Vice President Chassis and cab Production</td>
<td>Scania’s overall strategy, production system.</td>
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## Interviews related to Handelsbanken

<table>
<thead>
<tr>
<th>Date</th>
<th>Place</th>
<th>Interviewee</th>
<th>Interviewee’s function/background</th>
<th>Themes in focus</th>
</tr>
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<tbody>
<tr>
<td>7 Sep 2000</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Arne Mårtensson</td>
<td>Managing Director</td>
<td>Handelsbanken’s overall strategy, Internet banking.</td>
</tr>
<tr>
<td>25 Sep 2002</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Curt Källströmer</td>
<td>Former Head of Regional Bank Central Sweden</td>
<td>Handelsbanken’s overall strategy.</td>
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<tr>
<td>8 Nov 2002</td>
<td>Handelsbanken RHO Eastern Sweden</td>
<td>Hans-Olof Harrison</td>
<td>Executive Vice President, Head of Regional Bank Eastern Sweden</td>
<td>Handelsbanken’s overall strategy, historical development after Jan Wallander, decentralisation, Stadshypotek deal.</td>
</tr>
<tr>
<td>8 Nov 2002</td>
<td>Handelsbanken Linköping City Branch</td>
<td>Gert Lundmark</td>
<td>Branch Manager Linköping City</td>
<td>Role of the local branch, Internet banking, Stadshypotek deal, insurance business.</td>
</tr>
<tr>
<td>15 Nov 2002</td>
<td>Handelsbanken RHO Southern Sweden</td>
<td>Thommy Mossinger</td>
<td>Executive Vice President, Head of Regional Bank Southern Sweden</td>
<td>Handelsbanken’s overall strategy, Internet banking, Stadshypotek deal.</td>
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<tr>
<td>15 Nov 2002</td>
<td>Handelsbanken Malmö City Branch</td>
<td>Anders Ohlner</td>
<td>Branch Manager Malmö City</td>
<td>Role of the local branch, Internet banking, Stadshypotek deal, insurance business.</td>
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<tr>
<td>28 Nov 2002</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Lars O Grönstedt</td>
<td>Managing Director</td>
<td>Handelsbanken’s overall strategy, internationalisation, Stadshypotek deal, Internet banking.</td>
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<tr>
<td>5 Dec 2002</td>
<td>Handelsbanken Eksjö Branch</td>
<td>Jens Fransson</td>
<td>Branch Manager Eksjö</td>
<td>Role of the local branch, Internet banking, Stadshypotek deal, insurance business.</td>
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<tr>
<td>5 Dec 2002</td>
<td>Handelsbanken Jönköping Branch</td>
<td>Claes Ericson</td>
<td>Branch Manager Jönköping</td>
<td>Role of the local branch, Internet banking, Stadshypotek deal, insurance business.</td>
</tr>
<tr>
<td>9 Dec 2002</td>
<td>Handelsbanken Näsjö Branch</td>
<td>Mats Andersson</td>
<td>Branch Manager Näsjö</td>
<td>Role of the local branch, Internet banking, Stadshypotek deal, insurance business.</td>
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132 CHO = Central Head Office
133 RHO = Regional Head Office
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<tr>
<th>Date</th>
<th>Location</th>
<th>Name</th>
<th>Role Description</th>
<th>Notes</th>
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<tbody>
<tr>
<td>10 Dec 2002</td>
<td>Handelsbanken Värnamo Branch</td>
<td>Jens Claesson</td>
<td>Branch Manager Värnamo</td>
<td>Role of the local branch, Internet banking, Stadshypotek deal, insurance business.</td>
</tr>
<tr>
<td>10 Dec 2002</td>
<td>Handelsbanken Vaggeryd Branch</td>
<td>Robert Pettersson</td>
<td>Branch Manager Vaggeryd</td>
<td>Role of the local branch, Internet banking, Stadshypotek deal, insurance business.</td>
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<tr>
<td>12 Dec 2002</td>
<td>Handelsbanken RHO Central Sweden</td>
<td>Michael Zell</td>
<td>Executive Vice President, Regional Bank Head of Central Sweden, former Managing Director of Stadshypotek, before that Head of Regional Bank Western Sweden</td>
<td>Stadshypotek deal.</td>
</tr>
<tr>
<td>17 Jan 2003</td>
<td>Stockholm</td>
<td>Leif Lundberg</td>
<td>Former Head of Corporate Communications, marketing manager before Jan Wallander became Managing Director</td>
<td>Decentralisation, marketing issues, Internet banking.</td>
</tr>
<tr>
<td>22 Jan 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Sverker Arvidsson</td>
<td>Senior Vice President Central Development, has worked with IS/IT development for several decades</td>
<td>Internet banking.</td>
</tr>
<tr>
<td>31 Jan 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Lotta Martin-Löf</td>
<td>Former Head of Administration at Stadshypotek, before that Head of Administration at Svenska Finans/Handelsbanken Finans</td>
<td>Stadshypotek deal.</td>
</tr>
<tr>
<td>3 Feb 2003</td>
<td>Handelsbanken RHO Central Sweden</td>
<td>Magnus Sjösteen</td>
<td>Human Resource Manager Regional Bank Central Sweden, before the takeover of Stadshypotek by Handelsbanken regional manager at Stadshypotek</td>
<td>Stadshypotek deal.</td>
</tr>
<tr>
<td>3 Feb 2003</td>
<td>Handelsbanken Regional Head Office Stockholm City</td>
<td>Eric Callans</td>
<td>Area manager Regional Bank Stockholm City, before the takeover of Stadshypotek by Handelsbanken regional manager at Stadshypotek</td>
<td>Stadshypotek deal.</td>
</tr>
<tr>
<td>12 Feb 2003</td>
<td>Handelsbanken Birger Jarlsgatan Branch</td>
<td>Jörgen Nielsen</td>
<td>Branch Manager Birger Jarlsgatan, earlier project manager Internet banking</td>
<td>Internet banking.</td>
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</table>
### Organisational self-understanding and the strategy process

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Name</th>
<th>Title/Position</th>
<th>Notes</th>
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<tbody>
<tr>
<td>17 Feb 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Jan Wallander</td>
<td>Former Managing Director and Chairman of the Board</td>
<td>Handelsbanken's overall history and strategy, decentralisation, internationalisation.</td>
</tr>
<tr>
<td>18 Feb 2003</td>
<td>Stockholm</td>
<td>Leif Mellqvist</td>
<td>Former Executive Vice President at Stadshypotek (before and after the takeover)</td>
<td>Stadshypotek deal.</td>
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<tr>
<td>6 Mar 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Kjell Ormegard</td>
<td>Head of Securities</td>
<td>Handelsbanken's overall strategy.</td>
</tr>
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<td>19 Mar 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Björn Borjesson</td>
<td>Head of Central Credit Department, former Head of Regional Bank Southern Sweden</td>
<td>Handelsbanken's overall strategy, Stadshypotek deal, Internet banking.</td>
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<tr>
<td>24 Mar 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Lennart Francke</td>
<td>Head of Central Control and Accounting</td>
<td>Handelsbanken's overall strategy, decentralisation.</td>
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<tr>
<td>1 Apr 2003</td>
<td>SPP HO Stockholm</td>
<td>Stefan Nilsson</td>
<td>Managing Director of SPP, former Head of Regional Bank Northern Norrland</td>
<td>Handelsbanken's overall strategy, insurance business, Stadshypotek deal.</td>
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<tr>
<td>3 Apr 2003</td>
<td>Handelsbanken RHO Western Sweden</td>
<td>Michael Green</td>
<td>Area Manager Regional Bank Western Sweden</td>
<td>Handelsbanken's overall strategy, Stadshypotek deal, Internet banking, role of the regional head office.</td>
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<tr>
<td>3 Apr 2003</td>
<td>Handelsbanken RHO Western Sweden</td>
<td>M Johan Widerberg</td>
<td>Executive Vice President, Head of Regional Bank Western Sweden</td>
<td>Handelsbanken's overall strategy, Stadshypotek deal, Internet banking, insurance business.</td>
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<tr>
<td>22 May 2003</td>
<td>Handelsbanken RHO Great Britain</td>
<td>Ulf Sylvan</td>
<td>Executive Vice President, Head of Regional Bank Great Britain</td>
<td>Handelsbanken's overall strategy, internationalisation.</td>
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<td>23 May 2003</td>
<td>Handelsbaken Leeds Branch</td>
<td>Andy Copsey</td>
<td>Branch Manager Leeds</td>
<td>Internationalisation, Internet banking.</td>
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<td>Comments</td>
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<td>23 May 2003</td>
<td>M 62 between Leeds and Manchester</td>
<td>Derek Burgess</td>
<td>Area Manager Regional Bank Great Britain</td>
<td>Internationalisation.</td>
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<td>23 May 2003</td>
<td>Handelsbanken Manchester Branch</td>
<td>Simon Raine</td>
<td>Branch Manager Manchester</td>
<td>Internationalisation, Internet banking.</td>
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<td>2 Jun 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Lars Lindmark</td>
<td>Head of Corporate Communications</td>
<td>Handelsbanken's overall strategy, marketing issues, Internet banking.</td>
</tr>
<tr>
<td>2 Jun 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Pär Boman</td>
<td>Head of Handelsbanken Markets, former Head of Regional Bank Denmark</td>
<td>Handelsbanken's overall strategy, internationalisation.</td>
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<tr>
<td>2 Jun 2003</td>
<td>Handelsbanken RHO Stockholm City</td>
<td>Magnus Uggla</td>
<td>Executive Vice President, Head of Stockholm City Regional Bank</td>
<td>Handelsbanken's overall strategy, internationalisation, Internet banking, Satdshypotek deal.</td>
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<tr>
<td>1 Jul 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Anna Ramberg</td>
<td>Head of Human Resources</td>
<td>Handelsbanken's overall strategy, human resource management, internationalisation.</td>
</tr>
<tr>
<td>4 Aug 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Mats Heidenberg</td>
<td>Corporate Communications, long experience of working with Internet banking</td>
<td>Internet banking.</td>
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<tr>
<td>18 Aug 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Håkan Sandberg</td>
<td>Executive Vice President, Head of Regional Bank Southern Norrland</td>
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<td>8 Sep 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Lars O Gronstedt</td>
<td>Managing Director</td>
<td>Handelsbanken's overall strategy, internationalisation, Internet banking, Satdshypotek deal.</td>
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<tr>
<td>10 Nov 2004</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Arne Mårtensson</td>
<td>Managing Director</td>
<td>Handelsbanken's overall strategy, internationalisation, Internet banking, Satdshypotek deal, feedback on the dissertation project</td>
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## Participant observation etc related to Scania

<table>
<thead>
<tr>
<th>Date</th>
<th>Place</th>
<th>Occasion</th>
</tr>
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<tbody>
<tr>
<td>17 Jun 2002</td>
<td>Scania HO Södertälje</td>
<td>Presentation meeting with Kaj Lindgren, Chief of Staff</td>
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<tr>
<td>3 Sep 2002</td>
<td>Scania HO Södertälje</td>
<td>Archival studies. Reading of old Scania magazines and staff journals.</td>
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<tr>
<td>10-12 Sep 2002</td>
<td>Hannover</td>
<td>IAA Nutzfahrzeuge Truck Fair</td>
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<tr>
<td>31 Oct 2002</td>
<td>Scania HO Södertälje</td>
<td>Press conference quarterly report</td>
</tr>
<tr>
<td>25 Nov 2002</td>
<td>Scania HO Södertälje</td>
<td>Presentation of my study at Scania’s weekly management breakfast</td>
</tr>
<tr>
<td>3 Dec 2002</td>
<td>Falun</td>
<td>Scania company presentation for Handelsbanken customers in Falun with representatives from Scania and a stock market analyst from Handelsbanken.</td>
</tr>
<tr>
<td>11 Dec 2002</td>
<td>Scania HO Södertälje</td>
<td>Visit of production facilities and test driving of Scania trucks</td>
</tr>
<tr>
<td>31 Jan 2003</td>
<td>Scania HO Södertälje</td>
<td>Press conference year end report</td>
</tr>
<tr>
<td>25 Apr 2003</td>
<td>Folkets Hus Södertälje</td>
<td>Annual General Meeting</td>
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<tr>
<td>13 May 2003</td>
<td>Scania HO Södertälje</td>
<td>Capital Markets Day with focus on engine development. Visit to Södertälje R&amp;D facilities.</td>
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<tr>
<td>17 Sep 2003</td>
<td>Scania Sweden HO Södertälje</td>
<td>Nordic Council Meeting</td>
</tr>
<tr>
<td>13 Aug 2003</td>
<td>Scania HO Södertälje</td>
<td>Presentation of preliminary results from my study at Scania’s weekly management breakfast</td>
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**Participant observation etc related to Handelsbanken**

<table>
<thead>
<tr>
<th>Date</th>
<th>Place</th>
<th>Occasion</th>
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<tr>
<td>22 Feb 2002</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Presentation meeting with Lars O Grönstedt, Managing Director</td>
</tr>
<tr>
<td>23 Apr 2002</td>
<td>Grand Hotel Stockholm</td>
<td>Annual General Meeting</td>
</tr>
<tr>
<td>13 Aug 2002</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Preparation meeting for my study with Anna Ramberg, Head of Human Resources</td>
</tr>
<tr>
<td>20 Aug 2002</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Press conference quarterly report</td>
</tr>
<tr>
<td>3 Dec 2002</td>
<td>Falun</td>
<td>Scania company presentation for Handelsbanken customers in Falun with representatives from Scania and a stock market analyst from Handelsbanken.</td>
</tr>
<tr>
<td>22-24 Jan 2003</td>
<td>Södergarn, Lidingö</td>
<td>Training programme “Att vara chef” (To be a manager) for newly appointed managers. Handelsbanken managers from Sweden, Denmark, Norway, Finland and China involved.</td>
</tr>
<tr>
<td>4-5 Feb 2003</td>
<td>Handelsbanken RHO Linköping</td>
<td>Regional training programme “Affärsprocessen” (The business process) for newly employed staff in Eastern Sweden Regional Bank.</td>
</tr>
<tr>
<td>18 Feb 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Press conference year end report</td>
</tr>
<tr>
<td>18 Mar 2003</td>
<td>Handelsbanken RHO Linköping</td>
<td>Regional training programme “Affärsprocessen” (The business process continued)</td>
</tr>
<tr>
<td>29 Apr 2003</td>
<td>Grand Hotel Stockholm</td>
<td>Annual General Meeting</td>
</tr>
<tr>
<td>29 Apr 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Archival studies. Old staff journals.</td>
</tr>
<tr>
<td>14 May 2003</td>
<td>Handelsbanken CHO Stockholm</td>
<td>Archival studies. Old staff journals.</td>
</tr>
<tr>
<td>4-5 Nov 2003</td>
<td>Visby City and Amiralsgatan Branches</td>
<td>Managing Director’s visit to Eastern Sweden Regional Bank. Dinner with employees and visit to two branches in Visby.</td>
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</tbody>
</table>
Appendix D – Interview guide

Example of an interview guide

Interviewee: Lars Lindmark, Handelsbanken  Date 2003-06-02

• Your background in the company / before you came to the company

• Your former employer RKA
  o Your task at RKA
  o RKAs organisation compared to Handelsbanken
  o Handelsbanken’s acquisition of RKA

• Handelsbanken’s information department
  o Tasks/structure
  o Size
  o Investor relations function
  o Internal/external information tasks
  o Consequences of Handelsbanken’s internationalisation
    • Information needs of foreign regional banks
    • Language issues
  o Press contacts

• How Handelsbanken presents itself to external audiences
  o Marketing tasks
  o Advertising in print media etc
  o TV and radio advertising
  o Support for local campaigns
  o How much “marketing” is allowed at Handelsbanken?
  o Contacts qith journalists, analysts and investors

• Internal information
  o Ideological role of the departmet
    ▪ Leif Lundberg’s role when he was department head
  o What kind of information is conveyed internally?
  o Department’s role in mergers and acquisitions
  o Role vis-à-vis other central units
• Internet banking
  o History – What happened when internet banking was introduced?
  o What pages does the department produce?
  o How homogeneously does Handelsbanken want to appear on the web?
  o What is allowed/not allowed for the branches websites?
  o Who is eventually responsible for Handelsbanken’s webpages?

• Other strategic issues
  o Stadshypotek
  o SPP
  o Foreign regional banks
  o EMU
  o Current projects
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