



# Constructing family firm identity over generations: The case of the Swedish pulp and paper firm MoDo 1872-1990

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JIBS Working Papers No. 2011-10

Paper presented at the conference  
*History by Generations*  
at the German Historical Institute,  
Washington, DC  
9-11 December, 2010

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**The case of the Swedish pulp and paper firm MoDo 1872-1990**

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## **I Introduction**

Family businesses stand for a major part of the economy in many countries all across the globe. Yet, management literature has so far paid relatively little attention to this type of firms. Research in business administration typically focuses on large widely-held firms that are quoted on the stock-exchange as these firms receive a lot of attention in the media and public data is easily available. We thus need more knowledge on family firms, including the questions what makes a family firm a family firm and how it is distinguished from non-family businesses. In the present paper we want to explore how the distinctive character of family businesses is shaped and maintained over generations. Empirically, this will be done by studying the development of the Swedish pulp and paper firm MoDo over a period of more than one hundred years, from 1872 to 1990. During this time, MoDo was owned and controlled by members of the Kempe-Carlgren family that in addition to their majority ownership held central positions in management and on the board of directors during the entire period.

Two concepts that are going to be in the focus of this paper are “familiness” and “family business identity”. While the former relates to the unique aspects of a family business, the latter refers to the family business aspect being something that the members and owners of a firm find to be important about their business. The familiness concept has become increasingly popular in recent family business literature. It refers to the idea that family businesses have unique characteristics thanks to being family businesses. These characteristics can be used in order to obtain competitive advantages, not least in relation to non-family firms. Family business identity on the other hand, is not yet a commonly used concept. It is closely related to the concept of organizational identity (Albert & Whetten, 1985), that refers to what members believe to be the most important characteristics of their organization. As strategy scholars have found, organizational identity plays an important role in providing firms with a sense of direction (Albert & Whetten, 1985; Ashforth & Mael, 1996, Brunninge, 2005). Family business identity thus refers to organizational members’ belief that their firm is a family business and that being a family business has an impact on how the firm is organized and develops its business. Besides these two key concepts, a third aspect is central to our paper, namely that of generations. By, definition family businesses relate both to previous and to coming generations of the owner family or owner families. Family firms are characterized by processes of succession when ownership and/or management is passed on from one generation to another. While successions within the family always create challenges for the firm they also highlight a connection to history that non-family firms lack. Despite new managers and owners assuming control of the firm, the family is still the same, meaning that corporate history always is family history at the same time. This specific historical dimension inherent to family firms has consequences for familiness and family business identity that we are going to further explore in this paper.

## **2 Frame of Reference**

### **2.1 Familiness**

Traditionally, literature in business administration has often emphasized the potential negative consequences of being a family business, such as conservatism and a low willingness to take risks (Nordqvist, Habbershon and Melin, 2008). However, more recent research has stressed that companies can actually build a competitive advantage on the fact of being a family firm. Familiness is a concept that has become increasingly popular in the family business literature during the last decade. It was first introduced by Habbershon and Williams in 1999 and the definition by Habbershon, Williams and MacMillan’s from 2003 has become widely accepted. It denotes familiness as “the idiosyncratic bundle of resources resulting from the interaction of the family and the business systems” (p. 451). To understand familiness, it is necessary to have a look at the wider concept of the resource based view of the firm (RBV) that denotes one of the most influential perspectives on competitive advantage in contemporary

management literature. The RBV builds on the work of Wernerfelt (1984) and Barney (1991). It essentially sees the firm as a bundle of resources. Firms can build a competitive advantage in the marketplace based on the resource configuration they represent. In order for this to be successful in the long run, it is not sufficient that the resources are valuable for the operations of the firm. They also need to be rare and impossible for competitors to imitate. Finally, there should not be any substitutes competitors can acquire to achieve the same competitive position. It is thus central for the RBV that firms should strive to build up idiosyncratic resource configurations in order to be sustainably successful. In practice, this may be easier said than done. In a free market economy it will be difficult to keep supplies or even know-how for oneself in the long run. Solutions to this problem might be socially complex resources (Barney, 1992) that are difficult to imitate or acquire as they have resulted from social processes in and around a specific firm. Examples of such resources are for instance culture (Barney, 1992) or organizational identity (Barney and Stewart, 2000).

Family businesses are particularly likely to develop idiosyncratic resources as the interaction between family and business may result in a family heritage or a specific culture that cannot be reproduced by other companies. As Habbershon and Williams (1999) report, family companies' resources are often intuitive-based and causally ambiguous. Hence, familiness relates to the family firm's capability of developing family-related, idiosyncratic resources that create a potential for achieving competitive advantage. There is a wide variety of candidates for resources that may constitute familiness. Applying a social capital perspective, Pearson, Carr and Shaw (2008) try to open the black box of familiness. They describe familiness in terms of the three dimensions of social capital (Nahapiet and Ghoshal, 1998), including a structural, a cognitive and a relational dimension. Structurally, internal network ties and the possibility to transfer family organization to a business setting can be important resources. In the cognitive domain, shared vision, language and culture can be sources of competitive advantage. In family firms, these resources are often embedded in family history and provide the firm with meaning (Lansberg, 1999). Finally, in the relational dimension trust, norms, obligations and identification contribute to familiness. Sirmon and Hitt (2003) include social capital in their discussion of familiness. However, they also stress a number of other resources, including human capital, patient financial capital and survivability capital. The latter two refer to the long-term investment horizon family business owners typically apply. Habbershon and associates (Habbershon & Williams, 1999; Habbershon, Williams and MacMillan, 2003; Habbershon and Pistrui, 2002) emphasize familiness as a source of competitive advantage, rather than elaborating much on specific resources. However, they mention *"value-based organizational culture, a particular geographic location or historical asset or a firm's location"* as examples (Habbershon and Williams, 1999 p. 12).

While the overview of the familiness literature so far may suggest that familiness is an undoubtedly positive feature that every family firm should strive to develop, there are also downsides and pitfalls related to familiness. Habbershon and Pistrui (2002) note that family business often get stuck in path-dependent developments and historical legacies, preventing them from renewing themselves and pursuing entrepreneurial strategies. There is thus an interesting tension between the historically grounded uniqueness of family firm resources and the danger that these resource configurations will be difficult to modify when changes in the firm's environment makes it necessary. As an example, Habbershon and Pistrui (2002) criticize families that identify themselves with a specific business too strongly and thus for instance continue investing in the business even when prospects are weak. They propose that enterprising families should assume a family-as-investor mind-set, meaning that they deploy the family's resources to those businesses that have the best potential for generating wealth at the time in question. On the other hand the conservatism sometimes prevailing in family firms does not necessarily have to be bad. Nordqvist, Melin and Habbershon (2008) found out that family companies may be characterized by a higher degree of autonomy and proactiveness than non-family firms. The authors explain this findings that due to their conservatism and the desire to take care of the wealth that has been accumulated over

generations, family firms are less inclined to follow fashions and trends. In other words, when being confronted with institutional pressures, a family business is more likely to go its own way and to differentiate itself from its competitors. Such non-institutional behavior may lay the ground for outperforming competitors as only differentiation will create an option to be more successful than the great crowd of institutional actors (Kondra and Hinings, 1988). Nordqvist, Melin and Habbershon (2008) therefore conclude that familiness, despite a certain degree of conservatism and risk-aversion that is associated with family firms, may promote the entrepreneurial orientation (cf. Miller, 1983; Covin & Slevin, 1989; Lumpkin & Dess, 1996) of a firm.

## 2.2 Family Firm Identity

The concept of family business identity, relates to the literature on organizational identity. Albert and Whetten's (1985) seminal article can be conceived as a starting point of organizational identity research, although the concept (e.g. Selznick, 1957) as well as the phenomenon (e.g. Bartunek, 1984) had occasionally been used prior to 1985. In their article, Albert and Whetten define organizational identity as the organizational features that members perceive as being central, distinctive and continuous over time. In simple words, a statement of organizational identity provides the answer to the question "Who are we as an organization?" The concept hence denotes a subjective view, held by organizational members. Rather than being a "real" feature of the organization in the essentialist sense, organizational identity is continuously constructed by organizational members in an interpretive process. This self-view or self-understanding (Brunninge, 2005) has important strategic consequences for a firm. In situations where strategic choices are hard to make, the firm's identity often serves as a court of last resort, i.e. decision makers ask themselves what decision they should make, given the essential character of the organization (or at least what they believe to be its essential character) (Albert and Whetten, 1985). Ashforth and Mael (1996) hence metaphorically describe organizational identity as a beacon for strategy, setting the general direction of the firm. What organizational features identity statements relate to can differ from case to case. The belonging to a particular industry ("We are a bank"), the country of origin ("IKEA is a Swedish firm") are typical identity referents. Bouchikhi and Kimberly (2001) mention the purpose of the organization, its core business and its operating principles, while Soenen and Moingeon (2002) address aspects like resources, physical characteristics, historical events, as well as cultural systems such as values and ideology. One type of identity referent that is sometimes touched upon, but little discussed in the organizational identity literature is that of ownership structures and governance systems. This would include distinctions between public and private organizations, but also and not least the distinction between family firms and non-family firms. The identity statement "We are a family firm" would thus imply that the company does not only involve members of a family in ownership and/or management, but that it also considers this family dimension to be important.

Zellweger, Eddleston and Kellermanns (2010) recently introduced the family firm identity concept to the scientific debate on familiness. They claim that the characterization of family businesses based on ownership, control and behaviors is not sufficient to understand why certain family-owned or family-controlled companies develop familiness that contributes to a competitive advantage in the marketplace. They convincingly argue that companies that may appear as family businesses on paper, due to ownership and financing by family members, not necessarily consider themselves as family businesses. In such cases it is probably less likely that the firm will develop advantages that are based on the family dimension.

While Zellweger et al. (2010) have made a contribution by introducing the concept of family firm identity, the very idea of including the self-reported identity as a family business in definitions is not new. When we look at family firm definitions used in family business research, such identity statements actually play an important role. Generally, family business research suffers from a lack of consensus what actually makes a firm a family business (Samuelsson, 1999). Already in 1997, Westhead and Cowling reviewed a

variety of family firm definitions. These include aspects relating to family ownership, family involvement in management, succession between generations and last but not least whether the respondent, i.e. the managing director, chief executive or chairperson, regarded their company as a family business. This self-ascribed identity as a family firm is important in so far that we can expect the family dimension to have a much stronger impact on the management of a firm when key stakeholders perceive their company to be a family business. As an interesting parallel to family businesses defining themselves as such, Westhead and Cowling (1998) point at the phenomenon of companies not controlled by families define themselves as family firms. Likewise, there are companies with or without family involvement that use the term family as a metaphor to portray themselves as a family of employees as Southwest Airlines do (Zellweger et al., 2010) or that include their employees in the family concept like IKEA. It is important to note that the way in which Zellweger et al. (2010) introduce the concept of family firm identity only represents one possible meaning of the term, namely the company's self-understanding of *being a family firm* as compared to being a non-family firm. We however believe that it may also be meaningful to talk about family firm identity in a narrower sense, namely the company's self-understanding as *being related to a specific family*, e.g. the company MoDo being related to the Kempe-Carlgrén family rather than for instance the Wallenberg family. In the remainder of this paper we will thus talk of both *general family firm identity* (identity of being a family firm) and *specific family firm identity* (identity of being a family firm and being related to a specific family with its heritage, values etc.).

The importance of the family dimension may change over the life cycle of the firm and the same is certainly the case for familiness as well as family firm identity. Despite family support, a company founded by a sole entrepreneur might not necessarily define itself as a family firm from the outset. Rather the family aspect of organizational identity may grow as family members other than the owner get more involved through for instance employment and when more than one generation of family members gets active in the business. Generational succession, as included in various family firm definitions (Westhead and Cowling (2007), would be a further potential trigger for the development or enhancement of family firm identity.

As for organizational identity in general, also family firm identity involves opportunities and potential problems for the strategic development of a firm. Albert and Whetten (1985) point at the guidance organizational identity can provide in major decision making situations. Where ordinary rational decision making models are not sufficient, "questions of information will be abandoned and be replaced by questions of goals and values" (Albert and Whetten, 1985: 265), and the identity question "Who are we?" may contribute to making a decision. A clear identity potentially makes the organization more stable as it typically refers to aspects that are enduring (Whetten, 2006) or continuous over time about the organization (Albert and Whetten, 1985). This can be positive as the organization is protected against turbulence and it becomes easier to maintain a consistent strategy over time. Brunninge draws on Broszat and associates' concept of *resistenz* (Broszat and Fröhlich, 1987; Broszat, 2000) to conceptualize how companies with a strong identity are better protected against fads, fashions and institutional fashions in management than other firms. This is also a reason why family firms tend to be more conservative and strategically stable than widely-held listed firms that may be driven by a strong pressure to present strong financial results each quarter (Nordqvist, Habbershon and Melin, 2008). On the other hand, the inertia resulting from a strong identity (Reger, Gustafson, Demaire and Mullane, 1994) can also result in strategic drift (Johnson, 1987) preventing the family firm from the change that is necessary to keep aligned with a changing business environment. Recently, the view that identity is stable and thus a stabilizer of the company has increasingly become questioned. Postmodernists have deconstructed the concept of organizational identity, particularly criticizing the notion of a stable identity (Gioia et al. 1998). If organizational identity is continuously constructed by members in an interpretive process, there is of course always a certain degree of change even though the construction of identity does not occur *ex nihilo*,

but relates to previous identity constructions. Gioia, Schultz and Corley (2000) talk of identity as being characterized by adaptive instability rather than being a stable feature. They claim that while identity may superficially seem to be stable, it actually changes and adapts to environmental changes all the time. However, these changes are concealed by describing organizational identity in the same manner, by referring to history and pointing at things that have remained stable or by using concepts and labels that remain the same over time.

### **2.3 Generations Representing the Historical Dimension in Familiness and Family Firm Identity**

The concepts of familiness and family firm identity are both inherently historical and so is also the concept of family firm as such. One might consider a company as a family firm if various family members of the same generations are involved in one way or the other. However, there is usually at least a potential of succession between generations involved in the idea of family business. This means that the family firm relates to previous generations (if it is not a first generation family firm) as well as to future generations that may take over the business. Gersick, Davis, McCollom Hampton and Lansberg's (1997) classical three circle model of the family business depicts the family firm as being characterized by the overlap of three different spheres, the family, the business, and ownership. This overlap may or may not exist during the entire life cycle of a business, but in the family firm there is typically an idea that the overlap is maintained over several generations. Hence, some family business definitions (Samuelsson, 1999) even assume that a firm is not a true family firm until at least one succession between generations has occurred.

The notion of familiness assumes that the resource configuration of a family business is different from that of a non-family firm and that these resources can lay the ground for sustainable competitive advantage. Resource configurations are shaped over time and particularly resources relating to a specific family are likely to relate to the history of the family as well as the business. For instance, the shared vision, language and culture that characterize many family firms (Nahapiet and Ghoshal, 1998) are attributes that are shaped over extended periods of time, perhaps encompassing several generations. Habbershon and Pistrui (2002) refer to specific geographic locations and historical assets that contribute to familiness. However, they affirm that in the worst case, these may turn into liabilities if a family firm stays too much attached to businesses that have been historically important to the company. If a firm refrains from divesting such businesses due to sentimental reasons, e.g. the importance they have had for previous generations, the economic viability of the firm may be at stake. In deploying the family firms resources, owners and managers thus have to relate to resources, strategies and businesses shaped by previous generations.

History is also important to identity construction. Companies, striving to define the identity of their organization, relate identity to the past by searching for examples they can relate their strategy to (Brunninge, 2005). In doing so, history sometimes becomes "used" in a functional sense (Brunninge, 2009; Karlsson, 1999). Managers and owners may look for positive examples in the past that legitimize their strategies for the future, as well as for negative examples, representing mistakes that are not to be repeated in the future. History is hence not limited to looking back into the past, there is always also a forward-looking aspect of human memory that links past, present and future, or in the case of family firms past, present and future generations. Jensen (1997) claims that people develop a historical consciousness, meaning that they become aware of the processual linkages between past, present and future. Drawing upon Jeismann (1979) he defines historical consciousness as "all forms of consciousness that concern [...] the interplay between interpretation of the past ↔ understanding of the present ↔ expectations for the future" (Jensen, 1997, p. 59, original emphasis). It is this reflection about past, present and future that allows family firms and the people involved in them to construct their identity.

The identity question “Who are we as an organization?” is thus always connected to the questions “Who have we been?” and “Who are we going to be?/Who do we want to be?” Linking back such historical consciousness to the notion of familiness, family history as such can be a resource to deploy in the strategic development of the firm. Suddaby, Foster and Trank (2010) see history and in particular history talk as a source of competitive advantage. Similar to the familiness literature, the authors draw upon the resource based view of the firm and argue that “history is a social and rhetorical construction, that can be shaped and manipulated to motivate, persuade, and frame action” (p. 147). This may turn the history of a family business into a rare, inimitable resource and thus a foundation for building competitive advantage. In a similar vein, Blombäck and Brunninge (2009) argue, that purposeful references can be used as a means to communicate identity among various internal and external audiences. In talking about company history, managers and owners can positively affect corporate brand image, strengthen the uniqueness of their company, and create a sense of continuity in the firm’s strategic development. In the context of a family firm, reference to history and organizational identity will always also be a reference to family history and the specific family firm identity of an organization. Hence, historical reference can be a means of rhetorically connecting past, present and future generations.

### 3 The MoDo case

#### 3.1 A note on method

MoDo was founded in 1872 and the family control ceased in 1990. There is an extensive documentation of MoDo’s history. In the analysis we mainly make use of: Four biographies covering the family and the limited company; Research reports on MoDo’s labor organization 1898-1940; Several detailed industry studies; Archival data such as annual reports (1945-1991), speeches given by the CEO and chairman of the board (22), internal and external brochures, extracts from company newspapers (1946-2000) as well as trade magazines. Of specific interest is a biography authored by one of the top managers of MoDo (Croon, 1985). After a historic overview of the company, we include a contextual analyses of two critical strategic choices.

#### 3.2 MoDo’s history in brief

The family Kempe originates from Pommern in Germany. In 1645 a part of the family moved to Stralsund at that time a part of Sweden. About 1809 JC Kempe and three of his brothers’ escaped Stralsund and the Napoleon wars. JC Kempe ended up in Stockholm, to be trained in business by his uncle. In 1819, as a result of a family conflict, JC decided to move up north in Sweden and join his friend and his friend’s fathers business. Johan Wikner was a successful business man operating ships, and active in ship-building, saw mills and several other businesses.

JC Kempe married the Wikner daughter that inherited half of the operations. One (minor) part of the heritage was the Mo sawmill. JC Kempe died in 1872 he was mourned by eleven children (eight died in young age). In a biography JC was characterized in the following way:

*"An unusual dynamism and vigor characterized his work - so stated unanimously by those who knew him. ... He was physically strong. He himself used to train young horses on his farms. More than once he saved people from drowning. His sense of justice and honesty as a businessman was above all doubt." (Abnlund, 1917)*

As JC Kempe died MoDo was incorporated in Örnköldsvik (Ö-vik), a small town in northern Sweden. Four of the oldest sons managed the business. One of the daughters, Lotty Kempe (married Bruzelius) founded a MoDo related foundation in 1936. The foundation grew as the dividend on the stocks was reinvested in MoDo. Consequently the foundation tightened the family ownership of MoDo. In 1973 the foundation owned about 20% of the company. Following the shaky beginning, characterized by a number

of diversified operations (ship yard, steel mill etc), the company in 1873 and onwards focused on its sawmill operations. The increasingly competitive saw mill market however made the manufacturing of wood pulp to an attractive growth opportunity. In 1902 it was decided to add a production of pulp to existing saw mills.

Frans Kempe (the third son of JC Kempe) was appointed CEO in 1884 and resigned in 1916. He was the architect behind the expansion in the pulp industry and resigned as a consequence of the criticism he received from the board on the decision to invest in the Husum mill. This mill was later to be regarded as the most profitable unit in the company's history.

In Gårdlund (1951) one can read that Frans Kempe had a talent for business. He started as a student, lending money on favorable terms to fellow students. Further Gårdlund briefly describes the governance of the company in the period 1884-1916. Frans Kempe used a "direct leadership", even if his half-brothers and his younger brother sometimes were allowed to advise him. There exist no protocols from board meetings for a period of over 30 years, indicating that he did not use this formal governance arena very much.

In Nordström (1993), MoDo's labour policy prior to 1940 is examined. Nordström argues that the paternalistic attitude was born in 1899 as a response to the rising trade unions. Frans Kempe is described as a strong personality believing in individual freedom and with a view of himself as a caring employer (ibid page 48). In Unger (1967) Frans Kempe is characterized in the following way: "If there is any manager that deserves the label "father of his workers" it is Frans Kempe....he made MoDo to a predecessor in social issues" (page 33). Later on Unger uses words as rule, reign and dictator (envåldshärskare) to describe Frans Kempe. Kempe himself used the term "despot" to characterize his leadership (speech reproduced in Unger 1967:45). Nordström (1993) admit that the labor policy was successful. Strikes were few and the factory based labor unions (inspired from Germany), survived longer in MoDo than in any other Swedish company.

When Frans handed over the leadership to his son from the second marriage Carl Kempe (born 1884) he still was in power until 1922, now as chairman of the board (died 1924). Soon after he resigned the importance of the board once again diminished. Carl Kempe stayed at the post until 1949 and continued as chairman of the board until 1965 (he died in 1967). In Unger (1967), the following quote describes Frans characterizing Carl when he was appointed CEO. "He is a born business man. He has got the nose for it and he is lucky. And he is good with the workers." (Frans Kempe quoted in Unger, 1967:62) Carl Kempe, with a total of 59 years in the company, is regarded as the architect behind MoDo's modern operations. His strategy was to build major pulp operations at the two main sawmills in Domsjö and Husum, combined with a chemical industry, based on by-products from the production of wood pulp. The slogan was that size mattered! In 1936 MoDo was quoted on the stock exchange. The company used the Swedish system of A and B-shares in which B-shares has a reduced voting power (generally 1:10). The reason was partly to enhance trade in the share and partly to become more publicly known, without losing family control of the firm (Gårdlund, 1951).

In 1946 MoDo published a 100 page long book marketing the company. The book reviewed the company's history, the Swedish context and future ambitions. In the section headed "Forest industry and the community" one can read the following statement;

*"The paternalistic attitude of the company towards its employees runs as a Adriadne thread through this story, and its finest aspects still survive although Swedish industry has now advanced beyond the patriarchal age."* (Sweden's Forest Bounty, 1946:93)

In the book a number of actions taken in the past serve as examples of this paternalistic attitude; company homes, promoting larger families by child allowances, company based pension and relief fund, encouraging sports<sup>1</sup> and leisure (in 1946 the company employed a director of music to the Kempe choir) and company aid for advanced studies. The great interest in the well-being of the employees underline the concept of “internal image” coined by the CEO Carl Kempe. In short, the idea was that if employees felt pride in their work and security in their life, the company would act like a family.

*“Internal goodwill is as vital for a firm, as it is vital for the health of the human body that the different organs co-operate and keep in good physical condition.”* (Kempe, 1943<sup>2</sup>)

Immediately after the Second World War the main issue in the industry was how to improve the supply of timber. MoDo to a large extent relied on purchased timber. As all general forecasts predicted a severe supply problem in the future, the steady supply of timber became a question of long time survival for the company. MoDo initiated several wood cartels, repeatedly proposed organized import of wood and always emphasized the issue in trade negotiations.

In 1949 Carl Kempe became chairman of the board and Erik Kempe (second generation from JC Kempe’s third marriage) succeeded him as CEO. Erik Kempe died suddenly in 1959 and Bengt Lyberg was appointed new CEO. This non-family CEO can be described as encapsulated by the family, Carl Kempe stayed as chairman of the board until 1965 when he was replaced by Matts Carlgren (son of a sister to Carl Kempe) and Carl’s son Stig Kempe was vice CEO in the entire period. At that time the vital issue of how to secure the supply of timber was still unresolved.

In a company presentation from 1959 the chairman Carl Kempe discusses the spirit of the family company. He defines the spirit in the following words: tradition, belonging, comfort and pride of work, and continues; *“Only if we keep this spirit alive we can guard this distinctive character of family business in MoDo”* (Skogens Skördar, 1959:10)

Croon (1985) writes that Carlgren (board member from 1952 and chairman in 1965) was appointed the head of the family already in 1952, 35 years old. According to Croon (1985:89) Carl Kempe justified the decision in the following way: *“He (Cargren) got a nose for business”*. In Carl Kempe’s obituary from 1967 one can find the following description of his leadership and thus the management of MoDo.

*“A pervasive feature of MoDo under Carl Kempe’s leadership was fast decision-making. Based on his personal authority on the board it was possible for him to make important decisions by himself. The formal authorization could wait. This speed in decision-making has become an competitive advantage of the company.....Carl Kempe was a skilled card player. He had an astonishing memory and he knew the rules better than most. This combined with an utter will to win, made him almost unbeatable. With the same intensity and knowledge he developed the company. He encouraged his co-workers to be bold. Why limit an expansion to 50% of the present capacity when it could be a 100%?”* (Svensk Papperstidning 1967:15, page 485, authors’ translation)

and in Unger (1967) it is stated that: *“It is no secret that in spite of his non-democratic attitude he was one of our country’s most admired employer....he was far more than a name to his employees.”* (1967:97)

Matts Carlgren was the leader of the company until 1991, occupying the posts of CEO (1971-1985) and chairman of the board during the entire period (in total 39 years).

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<sup>1</sup> Still in 2010 a team in the elite hockey division in Sweden is named MoDo.

<sup>2</sup> The original was published in 1943. parts is republished in Sweden’s Forest Bounty 1946 and in a MoDo staff magazine in 1963. This sentence, with a clear reference to the original, appear in Sweden’s Forest Bounty (1946)

Carlgren decided to stick to the strategy of producing paper, the decision made already in 1964. What type of paper to produce was however still to be settled. The choice of writing paper was based on three factors. Some knowledge and experience retained in the company from earlier experiments. The pulp grade produced at the Husum pulp mill, was ideal for the production of writing paper (Gårdlund 1985:99). Finally, the writing paper market was growing fast (6,5% annually).

The commission of the writing paper machine in Husum coincided with an extreme growth in demand in 1972-1974. This made the investment extremely profitable. As described above the chemical operation was divested in 1973, when the company celebrated its centenary. The financial resources released were used to invest in a second writing paper machine. As a result of the decision to invest, the pulp capacity increased by 100,000 tons in Husum. It was an adventurous decision.

*“These units will be the largest of their kind in the trade. These investments, besides the necessary replacement investments, will incur considerable financial strain. Through a higher average rate of profitability in the future and a reasonable improvement in credit over the present low level, it should nevertheless be possible to make the planned investments.”* (Carlgren, MoDo Annual Report, 1974:1)

The second machine was to be started in 1976-77, when the recession was over and a new growth period was to appear. In addition to this scenario, the decision to expand the production was made when the shortage of wood was acute. A fact that MoDo was aware of, but to some degree neglected.

*“In my opinion, the far too negative conclusions drawn from the forecast shortage of wood in Sweden have not only meant that all expansion plans within the forest industry have been postponed, but also imply that within a few years the forest industry must be prepared for a considerable reduction in overall output capacity.”* (Carlgren, 1975:500)

Carlgren argued that measures, such as increased importation from Africa, South America and the Soviet Union - together with increased ditching, fertilization, chemical usage and a better utilisation of residues, were together expected to solve the problem. The new investments made MoDo an important player in the growing office paper sector. Moreover the renewal also included a second business area, hygiene products (mainly diapers). The growth of these operations included international and domestic acquisitions.

As mentioned above the chemical operations was divested in 1973 the same year as MoDo celebrated its 100 year anniversary. Croon (2005) declared that it was with great sorrow in the entire company that the deal was made. The insight was obvious for most, that the link between the pulp and the chemical operations had disappeared but the decision was delayed<sup>3</sup>. Croon blamed the slow divestment process on Matts Carlgren, arguing that the divestment was a personal trauma. The chemical operations was a big part of Carl Kempe's life work.

*“At this time you could often observe how Matts frequently glanced at the painting of Carl Kempe at the wall of his office. As if he excused himself.”* (Croon 2005:98, authors' translation)

A hundred years after the foundation MoDo was still controlled by the Kempe family. The majority was not strong. In 1973 Matts Carlgren owned roughly 22%, the Kempe foundations 20% and other Kempe heirs 7%. I.e., in total about 50% of the company. At this time the management begun to outline the future prospects of the firm. It soon was clear that survival included major mergers and acquisitions. Carlgrens suggested the construction of a “the third block”, a way to meet the competition from the two existing “big brothers” (SCA linked to the Handelsbanken sphere and STORA linked to the Wallenberg Sphere). The term “third block” reflected the idea of a diversified holding company covering a large part

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<sup>3</sup> Already in 1959 the CEO of MoDo (Bengt Lyberg) discussed the vulnerable link between the chemical operations and the production of pulp. This at a time in which the use of oil became more frequent in the chemical industry (Lyberg, 1959:XV)

of the pulp and paper product range (Carlgren, 1984. In Ericsson 1991:144). Croon (1985) active in the outlining of this strategy declared that his and several other managers argued that the merger and acquisition strategy should aim to construct an integrated company.

Whatever route followed, the strong belief in a future family control of the company offered tough restrictions on applicable growth methods (Croon, 1985). In 1980-83, Iggesund a successful one-mill company with a profitable niche product (cardboard of high quality), was acquired. The process was long as other actors interfered. Among other things this struggle over Iggesund mirrors the importance of the two industrial spheres in Sweden (Svenska Handelsbanken and SE-Banken/Wallenberg) (Ericsson, 1991).

The initial ambition in the take-over was likely to follow the outlined concept of a “third block”. That is, Iggesund was to be majority owned by MoDo, but still listed on the stock exchange. This strategy was still in operation in 1983, when MoDo decided to sell some shares in order to remain in minority (Ericsson, 1991).

In 1983 MoDo operated in three business areas: office paper, hygiene products/paper and cardboard. Following the outlined strategy MoDo continued to expand. In 1985/86 they bought shares in Holmen a newspaper/hygiene company. In the following years a struggle took place between the Kempe family (MoDo) that the large owners of Holmen (the Bonniers and Söderberg families). The active part in this struggle was MoDo who eventually gained total control of Holmen. The “holding group idea” came to disappear in the process and in 1988 it was declared that the third block now was an integrated group, all parts completely owned by MoDo (Ericsson, 1991)<sup>4</sup>.

The acquisitions made in the 1980s however strained the company’s capital base. The urge to keep the majority ownership within the Kempe family also exposed Matts Carlgren personally. The extremely high interest rates in Sweden in the early 1990ies (caused by the recession) made him unable to pay interest on the loans needed to safe-guard the majority in MoDo.

As a consequence of the interest rates and a conflict between Carlgren and relatives in control of the Kempe foundation<sup>5</sup>, Carlgren was forced to sell his shares in MoDo. His choice was to sell to SCA, one of MoDo’s two “big brothers” in the Swedish pulp and paper industry. His perhaps more obvious choice, was to sell to Lundbergs, an investment/construction company that due to MoDo’s earlier acquisitions was a large minority owner in MoDo. Croon (1985) describe why he made the choice to sell to SCA in the following way.

*“He (Carlgren) sensed that even if he himself failed, he could contribute to the formation of a strong Swedish player by the sale to SCA. A player urgently needed as international battles approached. Matts Carlgren played in the Swedish team.”* (Croon, 1985: 110)

In December 1990 Matts Carlgren was forced to resign as chairman of the MoDo board. In 1991 SCA owned about one third of MoDo, the founding family (Kempe) owned approximately one third, and Lundbergs owned about one third. At the shareholders general meeting in 1991 the CEO (Bernt Löf) described Matts Carlgren’s time in MoDo with the following words.

*“He is a man of visions. A stubborn visionary with tremendous overview in time and space. His courage have been of immense support to me in the last years as slanderers of the “third block” has been numerous in the Swedish pulp and paper industry.”* (MoDo Insikt, 1991:4, authors translation)

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<sup>4</sup> MoDo’s hygiene operations was divested in 1989 as it was considered to capital intensive. The result of the deals was that MoDo operated in writing paper, cardboard (former Iggesund) and newsprint (former Holmen).

<sup>5</sup> Several sources hint that Carlgren was not as self-evident as the head of the family as his predecessors were.

In a published interview Matts Carlgren himself comment on the development. He did not regret what happened and instead argued that the actions taken was in line with the family tradition. *“You have to be bold. Many has failed in this industry due to cautiousness. To be cautious could sometimes be mixed up with cowardness.”* He then explained that MoDo had made investments that were necessary even though temporary cash flow figures said otherwise. *“you know that after rain comes the sunshine. You just has to estimate how much sun there will be....”* (DN, 1991)

Matts Carlgren died destituted in 1999.

## 4 MoDo and family business identity

In the following we will use two specific events to further our discussion on the family business identity in MoDo. The first is the integration between the production of pulp and paper (1960's and 1970's) and the second is the attempt to construct a third block (1970's and 1980's). In order to contextualize this analyses we use industry studies such as (Rydberg, 1990; Andersson, 1993; Melander, 1997; Eklund, 1997)

### 4.1 The integration of pulp and paper

Following the extraordinary conditions in the second world war pulp manufacturers in the north of Sweden developed a substantial range of spin-off products. In fact the use of pulp to manufacture paper was almost dimmed by all new uses arising as a consequence of the war experiments.

Even though, the route for the future was under review<sup>6</sup> and study trips to the US in order to identify the most promising development lines was regular. When it came to the largest pulp producer in Sweden, SCA, the decision to centralize the production of pulp to a few large factories and to integrate with a production of newsprint and cardboard paper was made in the end of the 1950's and so did the other large actor in the industry, STORA. One of SCA's closest neighbor MoDo also embraced the idea of large production units.

As described in the case, MoDo made a different choice of products when they after the war, decided to continue to invest in organic chemical products. In 1951 a paper mill (Hörnefors) was acquired in an attempt to also follow the paper route, but the mill was sold to a forest owner's association in 1961. MoDo was squeezed as the Forest owner's association controlled the supply of wood and threatened to build a competing paper mill. This was a difficult decision to make.

*“I have never found it more difficult to address you, our employees. I have to announce a decision that is right, but has been extremely though for an old man to make. A man who's heart is anchored in our old family company in this part of the country.”* (Carl Kempe, chairman of the board. MoDo Insikt 1961:8)

In 1964 Bengt Lyberg (CEO 1959-1971) announced that the company intended to integrate the production of pulp with a production of paper. The decision to develop a second leg (complementary to the chemical products) was late compared to the major competitors. Convincing arguments for the decision to focus on writing paper was presented. However reviewing the industrial context the decision of paper grade was not at all obvious.

Writing paper was a minor product in Sweden. The export of newsprint was more than seven times higher than the export of writing paper: i.e., there was limited export know how. Moreover, the production of writing paper was traditionally came from small production units. In 1967, the average age

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<sup>6</sup> At this time there existed one pulp industry association and one paper association. First in 1967 the two industry associations merged into a pulp and paper association (Melander, 1997).

of a writing paper machine in Sweden was 37 years, 10 of the 29 machines was built prior to 1920. Their average production was 10,500 tons.

This machine stock was partly a consequence of the regional localization of the paper industry. Writing paper was mainly produced in the south and often customer specialized. A further reason for the reluctance was the “live and let live“ policy pursued in international trade negotiations. According to this policy, Swedish producers would mainly focus on bulk products (cf. cardboard, newsprint). Writing paper, classified as a customer specialized product and suffering from integration disadvantages (Landberg, 1957:438)<sup>7</sup>, was excluded from the Swedish product range.

That the choice of writing paper was difficult is confirmed by a short article in Svensk Papperstidning, (November, 1967). In this article, the MoDo plan for investment in a newsprint machine is described (at the Husum mill). This plan was still under consideration in 1968 even though the timing was wrong.

*“MoDo's plans for a newsprint mill have been postponed for the time being. Profitability forecasts are not yet satisfactory.”* (Carlgren 1968, August 13)

Just a year later this decision was changed in a dramatic way.

*“We have now determined our way ahead and come to a decision about a new 70,000 ton writing paper mill integrated with our pulp mill.”* (Lyberg, 1970:1). In a second speech the decision was described as of “*decisive importance*” (Lyberg, 1973)

The decision to choose writing paper could in itself be seen as entrepreneurial but when combined with the extraordinary size of the investment it clearly deviated from the normal. However the size of the investment is not surprising when related to the values guiding the Kempe family. As quoted earlier. *Why limit an expansion to 50% of the present capacity when it could be a 100%?”* (Ibid Svensk Papperstidning 1967)

## 4.2 The construction of the third block

An underlying theme in the after-war period was the strive to catch up. The two “big brothers”, SCA and STORA were in 1960 more than twice as big as MoDo<sup>8</sup> and following the often expressed belief in reaching economy of scale by large production units there was a continuous need to find innovative solution of how to close the gap<sup>9</sup>.

In 1973 MoDo founded a separate company (MoDoInter) in order to review options for the future. It was soon clear that the route forward included an active merger and acquisition strategy (Croon, 1985). However the large investments in writing paper machines in the 1970's combined with the severe recession in 1974-1979/80 halted the implementation of such a strategy.

Following the death of a dynamic owner of the very profitable Iggesund cardboard mill in 1979, there was an opportunity to acquire a substantial part of the company on the stock market. Struggling over how to use MoDo's limited resources in best possible way, the strategy was to gain control, not complete ownership (ie., third block). As described in a thorough analysis of the process (Ericsson, 1991) it initially went as planned. The acquisition of 32% of the shares was however followed by an unexpected bid on Iggesund from one of the “big brothers”, STORA.

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<sup>7</sup> This argument brings up a technical obstacle constraining integrative efforts. In interviews, this argument has been described as a myth - when the integrative process once was really tried out the technical obstacles were easy to overcome. The degree of technical constraints and the "mythical" nature of these constraints have not been further researched.

<sup>8</sup> Measured as numbers of employees.

<sup>9</sup> An interesting fact was that Carl Kempe in 1930 founded Nordsvenska Bruk. A cooperative company coordinating purchases, transport and sales for several family owned companies in the north of Sweden (Ruist and Svehnilson, 1946). According to Glete (1994) this initiative, that failed some years later, was a an attempt to form an alliance of family owned companies that was to stand up against the newly founded SCA.

The battle over Iggesund could be seen as a struggle between the Wallenberg sphere and MoDo, to some extent supported by the Handelsbanken sphere. In the meantime, MoDo (as all export oriented business) suffered from the large devaluation in Sweden 1982 (16%), and this at the same time as the company had initiated large and costly investments in the writing paper operations. Consequently financing became a bottle neck and MoDo soon sold parts of their hydroelectric power resources. In 1983, MoDo continued on the same route and made a sell and lease back deal on the remaining hydropower. This solution was new to the pulp and paper industry but it was soon to be copied. In 1984, MoDo announced that a consortium of financial actors was to finance their investments in writing paper operations. Twenty international investors took part in the consortium lending 1.9 billion SEK (190 Million Euro). This strategy of how to increase the financial leverage of pulp and paper companies were in the 1990's also applied on the companies vast forest resources.

The acquisition of Iggesund, finalized in 1988<sup>10</sup>, was not the first major merger in the Swedish pulp and paper industry. It did, however, represent a new strategic idea. Before this deal most acquisitions/mergers was driven by the need to secure either supplies (timber) or access to markets (merchants or converting operations mainly outside Sweden). Now the fundamental idea was to build financial strength in order to minimize the risks involved in machine investments. Due to the strive for economies of scale the cost for a single paper machine had increased dramatically. In the merger between STORA and Billerud in 1984 the CEO of STORA used the phrase "*ease each other's burdens*" (Melander, 1997:244) in order to explain this new idea.

The wave of domestic acquisitions that took place in the forest industry in the middle of the 1980's thus confirmed MoDo strategy of building a "third block" by acquisitions. The decision to continue the construction of the block was thereby obvious when a new opening appeared in 1985. The situation was similar as in 1979, a prosperous niche company (Holmen, newsprint) was without a strong owner.

As the integrated group was formed in 1988 MoDo had almost caught up with the two big brothers. However, soon a second acquisition wave begun, this time it was international acquisitions. This wave peaked in 1990 when STORA acquired Feldmühle and SCA bought Redpack, for a total cost of 27 billion SEK (3 billion Euro), considerably more than MoDo paid for Iggesund and Holmen together.

## 5 Analysis and conclusions

In this final section of our paper we are going to use the case of MoDo and in particular the two strategic choices to analyze family business identity. First we are going to look at what identity is constructed and how this is done. Then we are going to connect family business identity to familiness and see how it enables and constrains change and to what extent it can contribute to competitive advantage.

MoDo was a family-controlled company from 1872-1990. The long period of family control made it necessary to organize successions from generation to generation several times. It was not always easy to find a family member, who was suitable for managing the company each time. During the entire period it was taken for granted that male family members would take over the firm, although women like Lotty Kempe-Bruzelius played an important role for the company in other respects. When no son to the previous leader was seen as the right person to take over, cousins like Erik Kempe or Matts Carlgren stepped in. Previous generations often retained some degree of control by chairing the board of MoDo. Only one time, an external CEO was appointed with Bengt Lyberg. Also in that case, the family retained control through the board and by holding other key management positions. During long periods, the

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<sup>10</sup> According to Ericsson (1991) MoDo's strategy (the third block) to launch the merger as an alliance preserving the unique cultures (spirits) in the companies was an important reason why management and employees favored this alternative.

board of the company was only used in cases where the older generation wanted to retain control or when non-family executives needed to be supervised. While family involvement in MoDo was obvious, there are relatively few examples where the company was explicitly referred to as a family business. Yet, the family firm identity becomes very obvious in an implicit manner when the retention of control through the board and top management is so important.

The case shows that MoDo has constructed a two-fold family firm identity over several generations. On the one hand there is a *general family firm identity*, meaning that MoDo distinguishes itself from other firms by being a family business. It is interesting to note that the two major domestic competitors MoDo had in Sweden, namely SCA and Stora were non-family firms, belonging to large industrial groupings in Sweden. For a long time, Swedish industry has been characterized by the existence of a few dominant ownership spheres, particularly the Wallenberg sphere<sup>11</sup> (Stora) and the Handelsbanken sphere (SCA) (Collin, 1990). In such an industry, MoDo appeared as fundamentally different being a family firm. This difference made it easy for MoDo to assume the role as the smaller contender, challenging the large giants and employing new, entrepreneurial strategies. The integration of pulp and paper with an emphasis on writing paper, rather than bulk products, as well as the approach chosen for financing the third block were examples of entrepreneurial strategic approaches. Sometimes, MoDo made more explicit reference to its family firm identity. This was for instance the case when using the family concept as a metaphor for the company as a whole, depicting MoDo as a family of owners, managers and workers, taking care of employees in a paternalistic manner, and running a choir for employees (that was interestingly named after the family and not after the company!).

In addition to the general family-firm identity, MoDo has also constructed a *specific family firm identity* meaning the Kempe-Carlgrén family, its values and its influence as core elements of MoDo's organizational identity. It's in the specific family firm identity that the linkages from generation to generation become particularly obvious. MoDo relates values, such as the paternalistic relationship to workers, the caring for their well-being and the good relationship with company trade unions to examples from previous generations. Also in business decisions, previous generations remained present beyond their death. Compared to SCA and Stora, MoDo was late in integrating pulp and paper production. A major reason for this was that Carl Kempe had put a great effort in developing the company's chemical operations. Carl Kempe's lifework meant an emotional investment, both for himself and for following generations, beyond the financial investment in equipment and machinery. Matts Carlgrén, the next family CEO of MoDo, was reluctant to divest the unprofitable chemical operations as he did not want to spoil the work his uncle had put so much effort in. When he eventually made the decision to move into writing paper, Carlgrén however did this with determination and on a large-scale basis. In doing so, he could again draw upon the Kempe family tradition of believing in economies of scale and making large and bold investments. Over generations, economies of scale had become a relatively stable way-of-thinking (cf. Hellgrén and Melin, 1993). It was manifested in large scale investments like the Husum pulp mill in the early 19th century. Carlgrén was thus able to turn back to a decision making template from previous generations when deciding about the new production facilities. Also when it came to future generations, the family firm identity as being related to the Kempe-Carlgrén family played an important role. For Matts Carlgrén it was important to retain the family control of the company that had lasted for several generations. Against the background of the large investments needed for ensuring continued growth this was easier said than done. With innovative financing solutions, Matts Carlgrén managed to raise money for creating the third block in the Swedish pulp and paper industry. However, due to the financial crisis hitting Sweden, the financing strategy eventually failed. Ironically, Carlgrén's attempt to ensure family

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11 Although the Wallenberg sphere was centred around the Wallenberg family, the companies in the sphere, except for maybe the bank SEB and the holding company Investor never developed a family firm identity. They rather wanted to appear as ordinary listed companies.

control for future generations had resulted in loss of control for the Kempe-Carlgrén family after almost 120 years of ownership.

The MoDo case shows that actors at MoDo engage in constructing the family firm identity of the company. This identity construction is embedded in a temporal context, creating connections between past, present, and potential future generations of the Kempe-Carlgrén family. Past generations are an important point of reference for identity construction. In the past, templates for decision making, origins of family values, but also constraints for strategic choices can be found. The construction of family firm identity is thus to a certain extent retrospective. Family members need to take the heritage of past generations into account when deciding what family firm identity means for their present strategy making. Continuity with past generations is created by drawing upon their ideas and values, and by showing respect for their accomplishments (cf. Brunninge, 2009). In parallel, the construction of family firm identity is also prospective, taking future generations into account, for instance when planning financing and ownership strategies for the future. Constructing family firm identity thus needs to bridge past, present and future generations when making sense of what it means being a family firm and being the firm of a specific family.

The family firm identity in MoDo's case, paradoxically both enabled and constrained change. Habbershon and Pistrui's (2002) perspective of putting much emphasis on the inertial effects of familiness thus seems overly pessimistic. Of course, MoDo was constrained by family heritage when waiting with divesting the unprofitable chemicals business. On the other hand, family values supported the bold strategy of making big investments in the paper industry. Family business identity can thus be a resource in the sense of the familiness literature. It can be a basis for competitive advantage if deployed in a skillful way, but it can also be a cause of rigidities if too much conservatism related to previous generations inhibits strategic renewal. The grounding of family business identity in the heritage of previous generations is inherently conservative. On the other hand, we know from previous research (Karlsson, 1999; Brunninge, 2009) that our perceptions of history, including corporate history are social constructions created in hindsight. Schulze (1987) even depicts history as a quarry where actors metaphorically speaking pick the stones they find useful. Even if family firms cannot construct any family history and family firm identity they like, there is a certain room for choice what aspects of history to consider as a part of the family firm's identity.

In the present paper we have elaborated on family firm identity as an aspect of familiness. Relating to Zellweger et al's (2010) notion of family firm identity we have further elaborated on the concept, distinguishing between a general and a specific family firm identity. Especially the latter is historically grounded in the family firm's history. At the same time it also relates to future family members and thus forms a bridge between past, present and future generations. MoDo was an interesting case for this research, as the company allows studying family firm identity over a period of 120 years. For future research it would be interesting to study cases where family firm identity is addressed even more explicitly and even more consciously managed and used by actors in the company.

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