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Continuity in change

Path dependence and transformation in two Swedish multinationals

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Abstract:

Stability and change are central concepts in strategy research. However, while they are often depicted as a dichotomy in the literature. Empirical evidence shows that the two occur as a duality rather than two mutually exclusive opposites. This means that stability and change, though being seemingly contradictory are actually interwoven. We therefore propose using the concept of continuity to investigate how stability and change can be combined in strategy processes. Strategic continuity implies that even while changes in strategy occur, the outcome of change has enough similarity with history to be recognized as its continuous follower. As a consequence, path dependencies are less deterministic for a company's strategic options than commonly assumed. We propose that in particular institutionalized paths that are strongly infused with value are difficult to change. Moreover, re-interpretations of organizational history may conceal actual deviations from established paths and conjure up a sense of continuity even when change occurs... Two cases from multinational Swedish firms show how strategists can manage the interplay between stability and change in order to create changes that are perceived as continuous.

CONTINUITY IN CHANGE

Stability and change are central concepts to the field of strategic management. Hence, Melin (1998) describes the strategy process as a struggle between what exists and the possibilities for the future. Often, strategy literature puts special emphasis on change, depicting it as a necessity for success that needs to be promoted by managers (Barr, Stimpert and Huff, 1992; Grinyer, 1988). Stability on the other hand, is often seen as problems that need to be overcome (Reger et al., 1994). The rationale behind this picture is relatively simple: at least since Burns and Stalker (1961), we know that organizations, being open systems, need to realign themselves with turbulent environments. Hence, if organizations fail to change, this will eventually result in strategic drift (Johnson, 1987), meaning that they lag behind a changing environment and run into serious problems.

However, in practice, change is often easier said than done. Hannan and Freeman (1977) note that organizations often suffer from structural inertia. It implies that organizations often have a tendency to resist changes as they reproduce established structures and strategies. Despite pressures they fail to align themselves with their environment and sometimes rather die than change. This is partly related to internal normative agreements, but can also be attributed to external stabilizing forces, such as institutional pressures (DiMaggio & Powell, 1983). One major reason for inertia is cognitive, meaning that organizations and their members get stuck into established systems of meaning, like organizational identity (Reger et al. 1994) or organizational culture (Johnson, 1987). As a result, cognitive inertia develops on the level of individual actors as well as for whole organizations (Hodgkinson, 1997). For instance, Gagliardi (1986) claims that organizations pursue a strategy of maintaining their cultural identity. This is fine as long as the environment remains stable. However, as soon as radically new challenges confront the organization, it gets stuck in a vicious circle of trying to preserve a dysfunctional culture. The firm will ultimately fail unless it manages to alter its culture in a revolutionary change effort. Johnson’s (1987) view on the inertial power of culture is similar. He maintains that organizations establish relatively static paradigms or world-views. The paradigm not only makes the organization reluctant to adopt changes that are not in line with its basic assumptions. It may even prevent the organization from realizing the need for change.

While the literature on organizational culture emphasizes cognitive reasons to inertia, the resource-based view of the firm (RBV, e.g. Wernerfelt, 1984, Barney, 1991) and the dynamic capabilities view (DCV, e.g. Teece et al., 1997) emphasize reasons that are linked to the resource endowments and routines in a firm. The RBV basically regards firms as bundles of resources (Wernerfelt, 1984). These resources have been created under firm-specific historical conditions, meaning that they can neither be easily replicated by competitors nor easily changed by the firm itself (Barney, 1991). Hence, while the resources may be sources of competitive advantage over long periods they also lead to path-dependencies that may prevent the firm from aligning itself with a changing environment (Anderson & Tushman, 1990). Proponents of the DCV have emphasized how firms can adapt, integrate, and reconfigure there existing resources in order to sustain their competitive advantage over time (Teece et al., 1997). However, also dynamic capabilities in themselves are path dependent as managers build them based on the specific situation and resource configuration of their firm (Eisenhardt & Martin, 2000). Firms can normally only learn and change in relation to their previous activities. Hence, even change occurs along historical paths and is seldom frame-breaking (Teece et al., 1997). In this reasoning the RBV/DCV approach to path dependence resembles the cognitive perspective on inertia. Not only that cognitive systems as organizational culture in themselves can be seen as resources (Barney, 1986; Barney & Stewart, 2000), they also influence how a firm interprets, uses and reconfigures its resources.

Managers hence face a difficult task. They need to constantly adapt their organization to a changing environment while at the same time struggling with counteracting forces that stabilize the firm. These forces may be both internal and external. Sometimes they even include the managers' own mindsets that seek to preserve existing structures and strategies. The issue of how to cope with the pressures for and against change becomes one of the major managerial challenges and involves a number of critical questions: Do organizations either have to go for change or for stability? Can the two be combined and if so, how can this be done?

Typically, stability and change are depicted as a dichotomy in management literature. This is not only true for scholars emphasizing radical changes (Miller & Friesen, 1982; Tushman & Romanelli, 1985), but also for those that are interested in more incremental changes (Mintzberg, 1978). Although researchers differ on the question how big changes usually are and how they happen, strategies are assumed to either change or to be stable. Phases of stability alternate with phases with more or less change. We will argue in this paper, that such a view is problematic insofar that little room is left for stability and change occurring simultaneously in the same organization. Strategies are complex, comprising a variety of different elements. It is not evident that all different aspects of strategy should either change or be stable at the same time. This implies that change and stability may actually be complementary, going hand in hand rather than excluding each other. The question of stability and change is further complicated by the fact that the labeling of a certain course of action as change is always a matter of interpretation. It is of course possible to measure change along pre-specified dimensions from the perspective of an external observer. Still, to the people involved in a strategy process, the perception of a development as stability or as change as well as of the magnitude of perceived change is the outcome of an interpretive process. It is critical for the strategy dynamics in an organization if and if so, how strategic developments are perceived as changes.

The aim of this paper is therefore to investigate how change and stability are combined in strategy processes. We are going to put particular emphasis on how managers and organizational members perceive change in those processes. The very idea of strategic change is only meaningful when the temporal dimension of strategy is taken into account. Strategic action does not imply change *per se*, it can only mean change in comparison to earlier strategic action. Hence, only in a processual analysis over time, change becomes visible. The empirical material for this paper comes from extensive case studies on strategy processes in two large Swedish firms, the world's most profitable truck maker Scania and the bank Handelsbanken, being among the top five banks in Scandinavia (cf. Brunninge, 2005 for more comprehensive case descriptions). Data was collected primarily through 79 interviews with strategic actors at both companies. Interview data was complemented with extensive archival studies and close participant observation at events where strategic issues were presented and discussed. Before going into the details of the cases, we will have a look at different views on stability and change that can be found in the strategy literature.

Views on the interplay of stability and change in strategy research

As indicated previously, the literature on strategy has put special emphasis on change while seeing stability as the potentially problematic absence of change in the organization. While stability thus seems to be easy to define, change can occur in different manners. Hence, there have been various attempts to categories types of changes and to theories on how periods of change relate to periods of stability. The most common categorizations refer to the magnitude of change. For instance, Johnson (1987) talks of evolutionary and revolutionary changes. Watzlawick, Weakland and Frish (1974) talk of first-order and second-order changes, where the former implies that change happens within the framework of the prevailing orientation, while the latter assumes a change in the strategic orientation as such. Argyris and Schön (1978) make a similar point when distinguishing between singel-loop and double-loop learning, where double-loop learning refers to a meta-level, i.e. learning how to learn. Tushman and Anderson (1996) even further subdivide radical changes, referring to changes in technology that can either be competence enhancing, when drawing upon the existing set of competences the organization has or competence destroying when the established competences are rendered obsolete. When it comes to the sequence of evolutionary and revolutionary changes, some scholars stress the virtues of small, incremental changes (Quinn, 1978). Companies managing to align themselves with the environment continuously in small, incremental steps may succeed in avoiding more painful revolutionary changes. Tushman and Romanelli (1985) on the other hand propose a punctuated equilibrium model of change, claiming that organizations are characterized by long periods of relative stability that are disrupted by revolutionary changes. Reger et al. (1994) taking a normative stance, argue for middle-ground or “tectonic” change avoiding the drawbacks of its evolutionary and revolutionary counterparts. Gebert (2000) criticizes the punctuated equilibrium model from a more fundamental point of departure. He notes that transformational and incremental change are not necessary opposed to each other as claimed by Tushman and Romanelli (1985). Rather, transformational change can also be the result of long-term, incremental changes that add up to a major transformation over time. In addition, even periods of incremental change are characterized by dynamism as seemingly stable situations often conceal tensions between different forces for and against change (Gebert, 2000). Also Melin and Hellgren (1994) are critical of the stability/change dichotomy as it is depicted by Tushman and Romanelli (1985). They believe that a focus on magnitude is insufficient to characterize different types of change. Hence, in addition to examining the adaptation/revolution dimension, Melin and Hellgren also address whether change is of a proactive or a reactive nature, adding a second dimension to the study of strategic changes.

Some researchers actually discuss situation where change and stability occur simultaneously. Gioia, Schultz and Corley (2000) as well as Chreim (2005) note that there can be a difference between the change in different aspects of the organization and in the labels denoting these aspects. While labels tend to remain relatively stable over time, the meaning behind them sometimes changes. Strategic actors in an organization may use the stability in labels to conceal the changes they undertake. As neither organizational members nor other stakeholders recognize the magnitude of change, it becomes less likely that they will resist it. Otherwise, resistance by organizational members is a major obstacle for change. Selznick, already in 1957 remarked that there are limits to change that call for maintenance of certain stability. Introducing the concept of *institutional integrity,* he noted that over time organizations are infused with value for their own sake – they become institutionalized. Institutional integrity is only maintained as long as the organization's basic character remains intact. This does not rule out change *per se.* However, it implies that organizations do not tolerate change that is disruptive in relation to their basic character. There are examples where stability in some aspects of the organization has made it easier to change others (Hatum, 2002). Chreim (2005) makes the important point that change and stability, or continuity as she calls it, as a duality rather than two mutually exclusive opposites. This means that stability and change, though being seemingly contradictory are actually interwoven. One interesting, yet underexploited concept in the context of change that may be helpful in dealing with the stability/change duality is that of continuity. In everyday language as well as in academic literature (e.g. Chreim, 2005) it is often used synonymously with stability. This use is misleading though. Continuity can denote change, however a particular sort of change that occurs in non-disruptive manner. 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, 1998). 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 recognized as its continuous follower. Whether organizational members see a change process as continuous or not is of course a question of their subjective judgement. In this sense, 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.

The empirical study

Scania and Handelsbanken are two highly successful, internationally operating Swedish firms. Both companies were founded in the late 19th century and are today among the most profitable firms in their respective industries. Scania is a truck maker that originates from two Swedish vehicle producers, Scania and VABIS that merged in 1911. Although these companies had originally made a variety of vehicles, including railway wagons, bicycles and cars, Scania soon came to concentrate on trucks and buses. While buses stood for the major part of Scanias turnover during some periods before World War II, trucks replaced them as the major product shortly after the war. Buses as well as engines that were sold separately, more and more got the role of by products of the truck business. The truck production became more and more successful. Due to the small domestic market, Scania internationalized and gained strong footholds in Europe and Latin America. One important factor behind Scania’s success, was the company’s product development philosophy, the so-called *modular system*. The system implies that the components in a Scania truck have standardized interfaces, allowing to combine them in an almost indefinite number of different ways. Hence, the company can produce a wide variety of trucks with ‘box of bricks’ comprising a limited number of components. Thanks to modularization, Scania is able to realize significant economies of scale although it produces fewer units than some of its competitors. Although the modular system is one key to Scania’s success, modularization also imposes restrictions to Scania’s strategic options, making it difficult to move into certain markets and segments. In North America for instance, trucks are typically assembled from components produced by different firms. As Scania’s modularization builds on the idea that all major components are made by Scania, the company has refrained from entering the North American market. Apart from this exception, Scania is today selling trucks in all parts of the world. The company has an annual turnover of 6.6 billion USD and is one of the few remaining independent truck makers in the market.

Handelsbanken was founded in 1871 as Stockholms Handelsbank. While operations were focused on the Swedish capital from the beginning, the bank subsequently acquired competitors all over the country and changed its name to Svenska Handelsbanken, or just Handelsbanken in 1921. Already at that time, Handelsbanken had established itself as one of the major banks in the Swedish market. Expansion abroad was however limited to serving the foreign business of Swedish companies as well as foreign firms doing business in Sweden. A highly regulated market provided a stable environment for Swedish banks. Their strategic options were limited as neither full-fledged internationalization nor diversification beyond traditional banking were allowed. Despite the generally stable situation, Handelsbanken ran into trouble in the late 1960s when profits went down and the bank was accused of violating Sweden’s strict currency regulations. As a consequence, Managing Director Rune Höglund was dismissed and replaced by Jan Wallander, an economist who had successfully run a medium-sized regional bank for some years. Wallander initiated a radical decentralization program at Handelsbanken. Budgets were abolished and replaced with a benchmarking system. Central functions, including the central marketing department, were closed down. Decision making authority was largely transferred to the local branches, which were supposed to be most important organizational units in the decentralized organization. Wallander’s turnaround strategy was successful and Handelsbanken quickly regained profitability. Decentralization was continued during Wallander’s tenure and also his successors have further developed the successful concept of branch-based banking. As the European financial sector was deregulated during the 1980s and 1990s, Handelsbanken could start serving local customers in foreign markets, starting with the neighboring Nordic countries. The idea of having decentralized operations with strong local branches was transferred to the new markets. Today, Handelsbanken has more than 600 branches in Sweden, Norway, Finland, Denmark, and Great Britain, employing a total of more than 10.500 employees. The bank has been among the most profitable Scandinavian banks ever since the early 1970s and is today reaching out for new markets, particularly in Central and Eastern Europe.

Scania as well as Handelsbanken can look back on a history of more than 100 years. Both companies are conservative in the sense that some of their characteristics remain relatively stable over long periods of time. At the same time, the companies have undergone significant changes after World War II. Interestingly, these changes have implied that each of the companies has developed a distinctive philosophy that is central to operations, the modular system in Scania's case and the concept of decentralized banking at Handelsbanken. The two philosophies have been developed over several decades and have become key features of the companies' organizational identities. The strategy processes in both companies are characterized by the need to relate any strategic action to the respective management philosophy. While doing this, sometimes tensions arise as the need for external alignment may seem to contradict the desire to continue pursuing the cherished management philosophy. The way the companies deal with the dilemma of facing a changing environment and preserving their established ways of doing business will be illustrated in two case episodes. As strategic episodes provide an effective locus for strategy practice (Hendry & Seidl, 2003), they are a suitable means for studying strategy dynamics.

Case episode 1: Handelsbanken's introduction of Internet banking

Like other financial services companies, Handelsbanken was confronted with a major technology change when the first banks started working on internet banking solutions in the 1990s. While most banks saw internet banking as a promising opportunity to rationalize their costly branch operations, many people at Handelsbanken conceived the new technology as a threat against the bank's well-established philosophy of decentralization. Since the turnaround in the early 1970s, Handelsbanken had been a decentralized bank, claiming that the local branches were the core of its operations. High autonomy over local business was given to the branch managers and being a branch manager was said to be the finest job in the bank. While the bank's Swedish competitors were trying to scale down their branch networks, Handelsbanken had successfully kept a high geographical coverage and only closed down a few branches. The decentralization philosophy was exported to new markets when the bank started to establish branch networks outside Sweden around 1990. The appearance of internet banking suddenly questioned the *raison d'être* of an extensive branch network and the viability of the bank's decentralization strategy. While Handelsbanken had emphasized geographical proximity to its customers the new technology seemed to make geography negligible. It was common wisdom in the banking industry that internet banking would reduce the need for local branches dramatically. People in Handelsbanken were concerned that the internet would not only lead to the closing down of many branches, but also reduce the autonomy of the remaining branches. With centralized website distributing financial services, the local branches' possibilities of managing their own marketing efforts would be seriously reduced. As a result of these worries, Handelsbanken was unsure about how to tackle internet banking. As the other large Swedish banks introduced their internet banks, Handelsbanken was lagging behind. A technology that was directly counter to the banks historical identity was not legitimate in the organization.

> *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*

As there was hardly an option to refrain from adopting internet banking, the challenge for Handelsbanken was to find a concept for internet banking that was in line with the bank's decentralized heritage. Finally, Handelsbanken adopted a solution that was unique to the industry. Each of the more than 500 branches got its own website. Customers who wanted to enter Handelsbanken via the Internet had to choose their local branch when entering the bank's home page for the first time. The system then automatically stored a cookie on the customer's computer, directing him or her to the right branch when using the internet again. While all local websites shared the same layout and some transaction functions, branches had the possibility to individualize their site with information on local activities. Apart from standard products that were common to the whole bank, branch managers could decide whether to promote certain services or not. They were even able to offer customized products that did not exist in other branches to their local market. With this internet solution, Handelsbanken's management could claim that internet banking in Handelsbanken was exactly what the bank had used to be: a decentralized, branch-centered organization. The new technology was thus just a copy of the historically-established success recipe. Still, this did not mean that banking at Handelsbanken remained like before. Much of the traditional transaction processing and cash handling disappeared from the branches. Handelsbanken employees have more and more turned from transaction processors to salespeople, but the local branch network has retained its role as the nexus of the organization.

Case episode 2: Scania's strategy as a producer of heavy trucks

During the last decades, Scania has pursued a very focused strategy of making heavy vehicles only. Heavy vehicles, by Scania defined as trucks and buses over 16 metric tons, constitute the most profitable segment of the market. The concentration on this segment has contributed to Scania being the most profitable truck maker in the world for many years. The focus on heavy trucks and buses is closely linked to the company's modular design philosophy. Offering trucks and buses over 16 tons, as well as industrial and marine engines that are derived from engines for those vehicles, implies that the set of components used by Scania is limited to this product range. The parts for Scania's truck cabs for instance are designed in a way that enables the company to produce a wide variety of cabs for different applications. By combining the parts in different ways, Scania can offer low cabs for distribution trucks where the driver needs to enter and leave the truck frequently or trucks with the cab mounted higher on the chassis, which is preferred for long haulage applications. Customers can choose between cabs of different length and height, some of them accommodating kitchen equipment and one or two beds. The system works in an analogous way for other components like engines, gear boxes, axles or frames. Although the 'box of bricks' allows great variation, the possibilities are not unlimited. If Scania went for smaller trucks, the cabs would for example at some point become disproportional compared to the rest of the vehicle. Similarly, the current engine components would not necessarily be suitable for smaller engines. Hence, Scania's modular system restricts the strategic options of the company. Abandoning the strategy of focusing on heavy trucks would at some point mean that Scania would have to either make a significantly larger number of components or to buy components, e.g. smaller engines, from external suppliers. This would again make it difficult to capitalize on the advantages of modularization.

Over the years, Scania has faced pressure from the market to move into the medium-sized segment several times. Generally, the company's distributors and retailers would favor if Scania could offer a wider range of trucks. Most larger haulage firms have heavy as well as small and medium-sized trucks in their fleets. They would appreciate buying trucks of different sizes from the same truck dealer, a demand that Scania dealers cannot satisfy with Scania trucks today. During the last decades, Scania has made several serious investigations whether to produce a medium-sized truck. Once during the 1960s a medium-sized truck for the Swedish military was even produced for a shorter period. The reason to finally dismiss the projects was always the modular system. Most recently, the issue was on the agenda at the end of the 1990s. At that time some Western European countries thought of banning heavy traffic in city centers. This would have drastically limited the possibilities of using Scania's existing truck range for distribution purposes. Scania once again decided to launch an investigation on a medium-sized truck. This time the idea was to use as many parts from the existing box of bricks and just make some components smaller. The engine was supposed to be bought from an external supplier. Although the project went very far, it was finally discontinued as the restrictions in city centers were never introduced. Since the expected pressure from legislation did not materialize, Scania was happy to continue relying on the existing modular system. The question remains how Scania would have rationalized producing a medium-sized truck in case the company had been forced to do so. After all Scania had for long time emphasized the benefits of its strategy to concentrate on the heavy truck segment. 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 can 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*

Scania was thus willing to make compromises regarding its modular philosophy and the concentration on the heavy segment if the firm was forced to do so by the market. However, the company wanted to avoid declaring openly that this would actually be a significant change in strategy. By redefining heavy trucks rather than admitting that the company would produce medium-sized trucks, the company wanted to maintain the image that the successful, historically-established strategy was still in place. Such a move would also have change the company's view on its previous projects of making a medium-sized truck. Previously these projects had been examples of how meaningless it was to abandon the focus on heavy vehicles. Now the projects might be seen as pioneering, albeit not yet successful, forerunners to a new "heavy" 12 ton Scania.

Discussion and conclusions

Both Scania and Handelsbanken are companies characterized by management philosophies that are historically established in the organizations and which have become key features of their organizational identities (cf. Albert & Whetten, 1985). The two companies have also been highly successful since the management philosophies were introduced. This is particularly striking in Handelsbanken's case where the introduction of decentralization coincides with the economic turnaround of the bank and the start of a success story that has meanwhile lasted for 35 years. The historical embeddedness of decentralization at Handelsbanken and modularization at Scania together with the success associated with these approaches, have contributed to institutionalizing the philosophies. To employees as well as many external observers Scania would be more or less unthinkable without modularization like Handelsbanken would be unthinkable without decentralization. The two philosophies have thus become infused with value. They are cherished not only for their functional value, i.e. their contribution to economic success, but also as ends in themselves, providing the organizations with a distinctive identity. Selznick (1957) addresses such institutionalization processes when discussing institutional integrity. Once characteristics of the organization have become institutionalized, they become constitutive of the organization's identity. According to Selznick, it becomes a key managerial task to preserve these features in order to keep organizational identity intact and to maintain institutional integrity.

As stipulated by the proponents of the resource-based view of the firm (e.g. Barney, 1991), history matters to both Scania and Handelsbanken. The companies have achieved their competitive advantages thanks to unique and almost inimitable resources that are historically embedded in the organizations. The historical paths along which these resources have been developed, however also lead to path dependencies for future strategic action. In both cases these path-dependencies relate to the institutionalization of the central philosophies and the emotional attachment members feel to them. In the case of Scania also the technical path dependencies should not be underestimated as the range of components is optimized for a specific range of products.

Our case episodes show that managers at Handelsbanken and Scania undertake significant efforts in order to protect decentralization and modularization, at least on the surface. Abandoning the philosophies would threaten institutional integrity, probably meet resistance among employees and other stakeholders and put the trustworthiness of management into question. Potentially they thus become inertial forces that close the road to certain strategic changes. At the same time, both companies are facing strong pressures from the environment to actually undertake such changes. In Handelsbanken's case it was a technological shift in the banking industry that seemed to inevitably render the established way of distributing financial services obsolete. In Scania's case legislative pressures threatened to take away a significant part of the company's market if it decided to maintain its established strategy. For both companies there were at the same time strong internal forces pushing for stability and external forces pushing for change. The solutions the companies found to these dilemmas shows that they were not resistant to change *per se*. Both firms felt that it was (or in Scania's case was likely to become) necessary to change. However the most obvious roads to change seemed locked as they appeared being threats to institutional integrity.

Handelsbanken solved the tricky situation by using the historically established strategy with the decentralized approach as a template for its internet banking strategy. The approach to internet banking had to be chosen from the perspective of the branch-based bank, meaning that that the branches needed to retain control of their customer relationships and the business associated with each customer. To customers it needed to be clear that the internet was just an additional access point to their local branch. It was their branch they visited on the web – not a separate internet branch or a central unit of the bank. Hence, the aspect of strategy that was crucial to Handelsbanken's identity remained stable. The aspects that changed were not critical from an identity point of view although the introduction of a new technology represented a significant change in practice. By using the old strategy as a template, Handelsbanken made the new strategy appear as the continuous follower of the old one. There was no rupture between the branch-based internet approach and the historically grown concept of branch-based banking. Scania, thought of creating a sense of continuity by redefining the meaning of heavy trucks. On the surface, the company would still have been a producer of heavy vehicles only. However, between the stable label "heavy truck", a new meaning was hidden. Instead of sticking to the established definition of more than 16 tons, Scania was willing to reduce the threshold to 14 or even 12 tons. This would also have meant revising the view of Scania's history. Whereas historical attempts to produce medium-sized trucks had traditionally been used as a terrible warning not to abandon concentration on heavy vehicles, they had now almost become historical forerunners to the new "heavy" Scania.

The case episodes from Handelsbanken and Scania show how managers struggle for avoiding changes in their companies that could threaten the institutional integrity of their organization. However, rather than avoiding change as such, they strive for reconciling the forces for and against change, by initiating changes that are perceived as continuous. Establishing continuity, means that the institutional integrity (Selznick, 1957) of the firm is maintained and that changes that nevertheless occur are more likely to be accepted by organizational members. Where continuity is established, hence also the old identity of the firm is reinforced (cf. Albert & Whetten, 1985). This means that paradoxically even strategic changes in an organization can have stabilizing effect on the strategy process.

There are several strategies for managers to establish continuity. These strategies are not mutually exclusive and can be combined in various ways:

- Using past strategies as a template for new strategies. The new strategies are formed in a way that is in line with the core elements of old strategies, as when Handelsbanken based its approach to using the internet on its concept of branch-based banking.
- Adapting views of the past in order to fit to new strategies. The shared view of the organization's history is revised in order to legitimize strategic changes and to create a sense of continuity in strategic development, like when Scania thought of revising its view on former medium-sized trucks from examples of failures to examples of pioneering projects.
- Maintaining stable labels that are given changing meanings. The stability in labels conceals changes in strategy that actually occur (cf. Lindell et al. 1988, Gioia et al., 2000, Chreim, 2005), as when Scania thought of changing its definition of heavy trucks in order to claim maintaining its focus on heavy vehicles.
- Some elements of strategy are changed while those elements of strategy that are crucial to maintain the organization's identity remain stable, as Handelsbanken's decentralization philosophy that remained untouched while a significant technological change occurred through the introduction of the internet.

The continuity established by such strategies lies in the eye of the beholder. It is a challenging task for managers to decide what changes can be undertaken and how these changes can be rationalized without threatening the institutional integrity of the organization. In this sense, managers become creators of continuity. If strategic developments are not continuous or discontinuous *per se,* continuity needs to be constructed by creating a shared picture of how new strategies relate to the organization's history.

With regard to path dependence this implies that the determinism lying in historically established paths creates less restrictions for future strategies than one might think at first sight. History does matter, but at the same time history is subject to interpretation and re-interpretation. When conceptions of history can be re-interpreted in order to better fit to future strategic plans – or when historical labels are re-used with new meanings, organizations can in a sense escape from path dependencies. While apparently following an established path they actually take a new direction. Change occurs, but it is perceived as continuous by organizational members. Similarly, even change that follows established paths can imply major transformations for a firm. Companies usually possess various resources that create different path dependencies. In the case of Handelsbanken, one such path dependency relates to the decentralized organization and the willingness to remain decentralized, while another relates to the traditionally trained bank staff and the resulting focus on transaction processing. While the decentralized organization is strongly infused with value, this is not true for the traditional training of staff to the same extent. Consequently, change is regarded as continuous as long as the institutionalized path of decentralized banking is followed. Deviations from the path of traditional transaction-based banking are much less significant for members' experiencing of continuity.

In this paper we have advocated to complement the concepts of stability and change with the concept of continuity, defined as a specific form of change. Our case episodes reveal that the stability/change dichotomy that it often depicted in the strategy literature is overly simplistic. In strategy processes, change and stability usually occur simultaneously. Even in situations of overall change, various elements of strategy may remain stable enough to make new strategies appear as the continuous followers as the old ones. Seeing continuity as a socially constructed phenomenon rather than an "objective" feature of a change process, implies that path dependencies relating to cognitive inertia (e.g. Reger et al. 1994) may sometimes be easier to overcome than it appears at first sight. Managers have various means at their disposal to make significant changes appear as being continuous in relation to past strategies. This does not mean that organizations will accept any kind of change. However, there may often be ways to design major strategic changes in a way that does not threaten the institutional integrity of an organization.

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