Unlocking and Path Dependence

Abstract

The urge to add to path dependence thinking has been very strong during the last two decades. Empirically as well as theoretically, the efforts seem to have been for expanding the realm with the purpose of finding more applications in a wide variety of theoretical areas, covering mathematics, economics, history and organization theory (to mention a few examples in the literature). Furthermore, evidence for path dependence, causes and effects dominate the expansion of interest. Many researchers in the field in fact seem to demonstrate some kind of dependence on path dependence. Not only does it seem like the main idea has been to confirm the general usefulness of the thinking as a meta-theoretical construction ("ein mädchen für alles"), but the questions on how path deviations come about has not been attracting the same level of attention. Thus, we focus divergence from paths and unlocking in this essay and we do so in an area close to our previous endeavors: organizations and individual activities. The purpose is to raise issues and give examples rather than provide full coverage of unlocking aspects of path dependence.

Introduction

The upsurge of path dependence contributions resembles in many ways what is perceived as a fad in the social sciences. (Starbuck, 2009). If you Google Scholar for the exact phrase "path dependence theory" before 1990 you get only four hits but if you do the same thing for the years 1990 – 2000 you get 47 hits and since 2000 and to the date of writing this 385 hits. Further, if you google the exact phrase "path dependence" up till now you get more than 35 000 hits. Thus, the notions of path dependence is well spread and attention to path dependence theory has increased, especially during the last decade. The upsurge started already during the 90's though and it appears that the interest in the field has not yet reached a peak.

   Judging from the titles it also appears that the path dependence theory early on was spread to many different areas. Already in the period before 1990 the phrase "path dependence theory", two were in law, and economics and mathematics. During the decade to follow the references widened to include also history, organization theory, strategic change, innovation and sociology to mention a few. The realm of path dependence theory has widened further during the most recent decade as well.

   The data available, summarized and alluded to as something resembling a "fad" might reinforce a notion of a fad as something that is not desirable. Starbuck (2009, p. 110) points to one mechanism behind faddishness and that is the attempts to mass produce knowledge.

And he maintains that fads appear due to disappointment in research endeavors and that this disappointment is the cause of the faddishness behavior. In other words the underlying message is that fads in line with the traditional meaning of the word are to be regarded as something evil. However, we do not share that pessimistic view but adhere to the idea of how fads can be beneficial in scientific endeavors (Lundin, 2009) through giving impetus to reanalyze empirical data with novel theoretical ideas. The questions we want to raise are not primarily related to the faddishness issue. Our critical stance has a different background! Why has the path dependence fad come to concentrate on the issue of how paths are formed and getting started but not on how they develop and lead over to new and alternative paths or possibly end?

Why is not the interpretative human being included in this development? Considering the situation for the habituation area, diversions from habits and endings are more interesting! Considering a human being's belongingness to history and the fact that a human being can enter into a dialogue with the past, bringing the past and present together (Gadamer, [1960] 1989), a path that is created by the interpreting human being is more interesting and at least well worth considering!

Next we will describe the essence of path dependence with illustrations from the literature available. Thereafter we will allude to the grounds for taking a critical stance when it comes to path dependence theory, trying to go beyond the seemingly inherent nature of vagueness and ambiguities involved (Sydow and Schreyögg, 2009). We will conclude with a discussion of various avenues for breaking paths, proposing a move toward a path *in*dependence view.

The essence of path dependence theory

The description is made using some of the most frequently cited work in this field and the variants of path dependence described. The selection is made from contributions close to our own field centering organizations, strategic change and economy matters. There is one seminal article related to economics and economic dependences where a distinction is made between different degrees of dependence. "Sensitive dependence" on initial conditions can be illustrated through a decision to use a particular system for powering the machinery in a plant, which according to Liebowitz and Margolis (1995) could be a decision that puts the users of the plant on a path that cannot be left without costs. If this path happens to be optimal with no inefficiencies implied, it is called first-degree path dependence. Second-degree path dependence refers to a situation where an efficient decision appears to be inefficient in retrospect. Here sensitive dependence on initial conditions leads to a path that

the decision-maker, due to limited knowledge, could not foresee. As Liebowitz and Margolis add, third-degree path dependence on initial conditions leads to an inefficient outcome and this despite the existence of an alternative, more efficient choice and a possibility to move onto a better path. "Lock-in" is a key concept and the degrees are related to how lock-ins come about and how they develop over time. As van Driel and Dolfsma (2009) maintain, one must identify both a starting point in the history of a phenomenon and the distinct mechanisms that have kept the phenomenon on track. They do as well dwell upon sensitive dependence on initial conditions, but concentrate on how the distinct mechanisms keep the phenomenon on track and lead to path dependence. How it develops and produces lock-in.

In other articles, referring to strategic change and organization, path dependence is, in the main, treated as a variable and a package of narrative events (Van de Ven, 1992; Booth, 2003; Ooi, 2001). In particular, the dynamic capability perspective on strategic change with its emphasis on integrating, building and reconfiguration of internal and external routines and resources (Teece, Pisano and Shuen, 1997; Eisenhardt and Martin, 2000), inspired by evolutionary economics (Nelson and Winter, 1982), brings to the fore the notion of path dependence, and in relation to path, time and the irreversibility characteristic of time (Ghemawat, 1991).

Path dependence suggests that an organization's future strategic choices are shaped by the path the organization metaphorically travels over time. There is a belief that a complete description of the role of history can be delivered if a whole sequence of relevant historical events is taken into account (Bassanini and Dosi, 2001). Even if path dependence processes are said to be probabilistic and stochastic, heavy emphasis is on their effects, which tend to reinforce the deterministic features of these processes (Booth, 2003). An understanding that echoes determinism and is based exclusively on path dependence limits the strategist's ability to maneuver into the future (Garud and Karnøe, 2001).

The illustrations above suffice to demonstrate the most common concerns in path dependence theory. Lock-in is in the centre of the attention. However, the notion of unlocking path dependence can be found in connection with prescriptions for development. Hassink (2005) alludes to unlocking of paths in regions, presumably underdeveloped, but there are also other normatively oriented articles on unlocking path dependence in climate policy for instance. But the few there are, are the exceptions that prove the rule when it comes to path dependence theory.

Grounds for taking a critical stance

There are at least four different but interrelated grounds for sustaining a critical stance when it comes to the present versions of path dependence theory. To begin with, the need is to make a much more clear explication of what the focus of analysis/interpretation is. What is it that is path dependent in other words? That issue has been touched upon in the literature but the reasoning has never been carried through in any depth. Secondly, there is a tendency to describe path dependency in a fatalistic way. The message is at times not only that something is locked in but rather stuck beyond any relief. Thirdly, the temptation seems to be that history can be handled as something factual. The inherent belief seems to be that history is something that occurred and that it cannot change or be changed. A counterargument against that belief is that re-creation or re-writing of history is a common phenomenon in most organizations for instance. Another argument suggests a move beyond the organization context, directing the focus on individuals' activities (performed in the name of an organization) and taking into account individuals' belongingness to a historical past. Finally, the underlying nature of the path is in need of finer grading. It appears self-evident that a technological lock-in has different background and effect as compared to mind-set lock-in. Hard fact (or machinery lock-in) is considered to be a much stronger form of lock-in as compared to the soft forms of lock-in via mind-set. What is hard and soft is not self-evident when it comes to changing. This is related to how knowledge is embedded in organizations, be it machinery, organizational routines of in people's minds as illustrated by Ekstedt et al. (1999, pp 128-142). To summarize the four grounds

   a) Focus of analysis.
   b) The deterministic character of PDT.
   c) History as fact.
   d) The essence of the path

Our critical stance when it comes to the deterministic character of path dependence thinking is further sustained in our illustrations below of three alternative ways of treating the past. The examples:

   A) Unlocking via disinvestment.
   B) Lock-in as myth and unlock as "ghost myth".
   C) History as continuously re-presented and re-constructed,

These examples introduce unlocking in path dependence thinking, proposing a move toward path *in*dependence thinking.

Unlocking path dependence – some examples

Via disinvestment

A company which has invested heavily is in many ways stuck when it comes to future developments. The need to capitalize on all those investments is very strong. Investment decisions usually cannot be reversed once the property has been delivered. This third-degree path dependence (Liebowitz and Margolis, 1995) is in many ways regarded as a path from which deviations hardly can be made at all. Such an assumption rests on the idea that there is no market making disinvestment possible. If technology and/or market has changed significantly during the meantime, the restrictions are heavy. But if disinvestment is possible, then the path can be broken immediately and the entire venture can be restarted anew. The only restrictions left rest with the imagination of the actors involved. The flavor of this type of unlocking is very much economical and normative – how can mistakes in the past be corrected? If disinvestment is in line with the current economic realities, the lock-in might be non-existent!

Lock-in as myth and unlock as "ghost myth".

Lock-in as beliefs or myths is different in the sense that it does not relate to normative reasoning but is descriptive. In a set of studies, originally done of city government but replicated also in other contexts it was found that the development over time of the entire organization could be described in terms of different types of eras. The sequence of eras made a wave-like pattern. In the original study of the city it was found that the different eras or waves were connected with a dominant belief system and an accompanying set actions in the city administration and in the political sphere. This wave encompasses beliefs and decisions but also activities which transformed the city and its contexts substantially. To give an example of a myth and its particular wave, the following historical example is provided. (Jönsson and Lundin, 1977). In the middle of the previous century, the city of Gothenburg found itself in a financially very difficult situation. The background for the financial situation was in fact very simple. The yearly budgeting process started with constructing a list of financial matters in need of attention, be it need to renew the streets, social benefits, recreation, etc. The political situation was such that all demands for financial resources to

fulfill all the wishes in the pipeline was well above the financial resources. The need orientation of the local political scene made it very difficult to agree. At the same time there was a "tea party"-like movement to decrease taxes. As a result, tax income was never sufficient to cover all expensive needs that had been decided on. The situation got out of hands financially and the city was facing several severe crises where the administrative people had to spend a lot of efforts in trying to persuade the banks to provide short term loans for the city to avoid bankruptcy.

At this difficult time a solution involving changing the budgeting system started to circulate (in particular among city administrators). Rather than collecting demands for resources in the start of the process, The first decision was on taxes: What percentage of the taxable income should be the tax for the year to come. It turned out to be quite easy to make a forecast of what the total income tax to be delivered to the city should be given, say a tax of 15%. Then the total demand was allocated as sums of money to the various departments of the city. And the politicians at the different departments were given the responsibility to allocate available resources.

This new system got a special name ("rambudgetering" in Swedish) and was implemented with enthusiasm in the city since it made new and less difficult roles in the budgeting game. The people who came up with the system and backed it initially became very powerful in the city (a small coalition of civil servants and some politicians in fact ruled the city for some time. And by raising taxes initially they were able to improve the finances a lot. Rather than having to borrow money, the city could now act as a banker.

In brief this became the era of the guardians (Wildavsky, 1975) and since the guardians were very successful, the city landscape was changed accordingly. Most of the official documents sent out at the time started with the phrase "Since we now have changed to this new budgeting system …" so the dominance showed in many ways. The "myth" as it was called in the theoretical literature had a strong grip.

In the early 60's the housing situation in Sweden was raised as a big, national issue. After many and lengthy discussions about the roots of the lack of appropriate housing for families, the government declared a national goal – in ten years, 1 million new apartments were to be built in the country. The situation in Gothenburg was possibly even worse that in the rest of the country and among politicians an alternative main message had been forming – a ghost myth centering on the lack of dwellings. In a coalition of all parties a movement concerning construction of new and cheap housing was created. Those efforts were backed by the national initiative, the new budgeting system had created financial means for a concentrated

effort and soon the public debate on how and where the new housing was to be erected tended to dominate news. A new type of politicians came to dominate the public room and became prominent with some kind of creating a new Gothenburg message. This marked a beginning of a new era which has labeled the housing shortage era. The need to alleviate the housing situation came to dominate over the previous powerhouse connected with the budgeting system. And in due time the budgeting coalition faded away to give room to the joint efforts to construct the new Gothenburg.

The case illustrates the fact that one myth (or path) gives in for another myth, a "ghost" myth becoming the dominating one. The notion of a ghost myth is that it is fostered in parallel with the old myth. But the old myth more or less fades away due to the attention that the new myth got. The budgeting system remained the same, but the new powerhouse came from the group occupied with the alleviate the housing situation. It is further interesting to note that there was never a real conflict between these consecutive myths, rather the new one was supported by the previous one.

History as re-presented and re-constructed

The insights among historians that we can know history through interpretation has directed the interest to both the use and non-use of history, as Brunninge (2009) points out. People construct linkages between past, present and future in various ways. Their historical consciousness make them refer to history such as their interpretations meets their specifics needs. This implies, as Brunninge clarifies, that to ensure continues development of an organization, the management refers to historical events, purposefully providing the strategic ideas for the future with an appropriate historical heritage. In the non-use of history, the management sees history unsuitable for the present and future strategy. The management accordingly refrains from referring to the history of its organization, actually establishing discontinuity.

In conjunction with "lived experience", historical consciousness, in the philosophical existential sense proposed by Gadamer ([1960] 1989), refers to the fact that the individual and the world are interrelated with the past attaining the role of a communicative partner. The past then becomes a living past. Subsequently, what has been done before cannot be derived from particular initial conditions and lock-in mechanisms that produce more or less deterministic effects. In terms of a communicative partner of present future-oriented activities, the past appeals to a living cultural tradition that actually belongs to the future.

Exemplified with reference to practitioners' telling about business growth activities, the historical development of a business emerges in the light of the different voices speaking about a rich array of growth-related activities. Activities are associated with the past and projected into the future through a living tradition.

The empirical example presented below is an excerpt from a study of strategic activities concerned with business growth (Ericson, 2007). The study displays complex interwoven activities associated with the evolvement of a purely domestic business, founded in 1923, into a global corporation named Nefab with approximately 6,300 employees in 2009. It exposes the vision of Nefab to become the customer's global partner of complete packaging solutions (for being their global partner), transforming a wooden box producer into a solutions provider.

The human voices referred to henceforth belong to:

Bo Angelstrand, Director of Sales and Marketing
Elisabet Boström, Staff Manager
Stefan Ekqvist, President and Head of Nordic region
Daniel Gomez, President and Head of South Europe,
Brazil and Great Britain region
Susanne Holmgren, Project Leader
Ditar Isai, President and Head of Asia region
Ing-Marie Nordgren, principal owner
Jochum Pihl, principal owner
Anna Stålenbring, Chief Financial Officer
Rolf Ängfors, former Chairman of the Board of Directors

The titles in the list refer to the positions they held at the time of the empirical part of the study (2002-2006). The ownership structure changed in September 2007 with the investment company Nordic Capital acquiring Nefab. Since 1983, Ing-Marie Nordgren and her husband Jochum Pihl, representing the third generation owners of Nefab, have been majority owners with 56 per cent of the equity, amounting to 82.8 per cent of the votes. The agreement with Nordic Capital, make Nordgren and Pihl able to exert some influence for keeping in force the history of Nefab with which important values associate, expressed through the so-called Nefab spirit (Ing-Marie Nordgren).

The present vision of Nefab addresses a visionless past. In the 1980s, discussions concerned with internationalization activities and their focus led to the establishment of a new group management with Rolf Ängfors elected Chairman of the Board of Directors. Ängfors required Ing-Marie Nordgren and Jochum Pihl to formulate a vision and delineate a five-year plan, perseveringly pushing them in the direction set out by Nefab's overall goal.

"… Rolf Ängfors, required me and my husband to draw up a five-year plan for the development of the company… Rolf showed a great interest in Nefab, strongly aware of the specific situation of the family business. He provided us with access to a broad network constituted by contacts that were very useful with regard to the particular development phase in which the company was involved at that point in time. Rolf Ängfors was a visionary man …" (Ing-Marie Nordgren).

The "visionary present" connects with the "visionless past". Their relationality and difference suggest a movement in a future direction elicited by the "visionary man" and the "overall goal", further enhanced by the "pushing". The present-past relationality entails here disconnecting from a visionless past, connecting with a visionary present.

Present future-oriented movements do also connect with past box-producing activities in a way that prompts disconnecting from box-producing. According to the Presidents and Heads of the Nefab regions, becoming a solution provider entails "stop thinking of Nefab as a mere producer", "ensuring acceptance of the complete solutionproviding concept", "letting go of old defences and behaviours", "learning new ways of selling" and "pushing for the development of confidence in the ability to sell *solutions*". The solution-providing concept suggests a new mindset. "It is in our minds", emphasizes Bo Angelstrand, Director of Sales and Marketing.

To deviate from the box-producing path, efforts are made to acquire companies that can help in developing the knowledge that is needed for incorporating the strategic dimension of "solution" in the customer offer (Daniel Gomez, President and Head of South Europe, Brazil and Great Britain region). To further unlock activities associated with box-producing, suppliers for extensive product training are consulted and the sales team encouraged to utilize the Nefab Web Academy for knowledge building. The Web Academy is a tool for competence development, providing basic information about the Nefab vision, business concept, organization, policies, guidelines and standards, Stefan Ekqvist, President and Head of Nordic region, informs. As Ditar Isai, President and Head of Asia region, adds, the encouragement of knowledge development implies convincing potential and existing customers of the benefits of using a supplier of complete packaging solutions.

The challenges faced by the practitioners apparently construct out of activities focusing on *solution* as well as of activities associated with unlocking the focus on *box*.

In order to further enhance the living past we point to the Nefab spirit that keeps the history of Nefab in force, treating the past as a living tradition and in that sense as a communicative partner of present future-oriented activities. This spirit derives from the place called Runemo, situated in the Swedish province of Hälsingland where the Nefab

business started up in the 1920s. It is described by the Project Leader Susanne Holmgren, in the following way:

> "One is very keen on making contact easy in Nefab. The Nefab spirit is about simplicity. Much of it derives from the safe northern province of Hälsingland ... When I visited Hälsingland during a two-week introduction program I really felt the 'simplicity'. After visiting all companies of the Group, I feel that everyone expresses pride being part of a Swedish group. When I went to our French subsidiary, the first thing I noticed in the entrance hall was the big head of an elk, which symbolizes the connection to Sweden."

Runemo even serves as a place for training sessions and annual board meetings, according to the Staff Manager Elisabet Boström. By also inviting customers from all over the world to visit the plant in Hälsingland, the ties are strengthened with the place where the cradle of the global business once stood.

> "The location in Hälsingland means a lot; it has a symbolic value, which has to do with the fact that the owners are firmly rooted and truthful to Hälsingland. The owners actively take part in the business through the Board and they are involved in various kinds of development projects. Customers from all over the world visit the plant in Hälsingland so there is really a strong feeling for the province" (Elisabet Boström).

As indicated, a living tradition view on history eschews a reification of history as a path that constrains and determines present future-oriented activities. The present attains to history the role of a communicative partner of the present, thus re-presenting and re-constructing the past.

This history case is about a more or less deliberate re-presentation of the past to fit the visionary future, but it can also be thought of in terms of how the myth of the wooden box business idea gets transformed to the myth about Nefab as a solution provider. The concentration to solution provider is strengthened by the reference to the visionless past.

Concluding discussion

In our view path dependence theorizing is too restrictive. There is room for not to say need for additions covering unlocking. Initially we set out to give some illustrations/examples for how that can be handled and we have done so.

The first simple case about disinvestment is logical and obvious, possibly also in line with what is in the seminal papers in the field. Disinvestment is in a sense to walk backwards on the path in order to discover new alternatives. That alternative is purely economical and it builds on the degree to which you can undo what you have done in the past. However, if this

disinvestment is made for an organization, be it public or private, you might not be through with unlocking by simply selling the machinery or whatever caused the strengthening of the path. There are also other organizational matters not to talk about the expectations that employees might have.

The second example is more complicated since it covers individual belief systems in organizations. Essentially the case is based on the fact that in an organization, there is never full agreement on what the organization is about. When the guardians of the city finances were in power, there were simultaneously others in the organization favoring other views on what was important for the city of Gothenburg. Politicians backing housing efforts were already there and several civil servants were at their disposal and could be activated when the housing issue became a hot issue which lead to heavy investments in new dwellings. It might be interesting to mentioned what happened then? Eventually the effort to construct housing was successful. Quite unexpectedly the lack of housing was transformed into a picture of empty apartments and the housing issue was transformed into how to find tenants for all the empty apartments. Eventually some of the housing areas constructed at the time also became known as slum areas and the talk of the last two decades has been something like: "What can be done to the mistakes of the 60's?"

The third example concerns the relations between a factual approach to history and history as constructed. A deterministic path dependent version of history and a pure chronological arrangement of the past, the present and the future do not account for an awareness of history as a *living* tradition in the sense that history belongs to present future-oriented activities. Inspired by philosophical existential thinking, the historical past is not already "there". It emerges through practitioners' telling and activities, accounting for interplay between the present and the past. As purported by Gadamer ([1960] 1989), history refers to the cultural tradition in which we stand and belong to, not able to free ourselves from. By adding the notion of lived experience, we thus refer to an ongoing integrative process related to historical consciousness. This suggests a turn away from a focus on initial conditions and lock-in mechanisms. The view of history proposed here takes language, not merely as a means in a communication process but as a medium that actualizes historical consciousness (Shotter, 2003). In other words, we realize that history is communicated through language, mediating a human being's belongingness to history. As Gadamer ([1960] 1989) explains, belongingness makes tradition a partner with which a human being can enter into a dialogue, bringing the past and the present together.

We thus propose softening the causality and the deterministic character of path dependence through the enclosure of an existential dimension that trains the spotlight on the interpreting human being. Given the historicity of experience implied in the belongingness, a human being becomes part of the world, coexisting with the past. It is in the receptiveness to the otherness of the past and the way it takes shape in an individual's talk and activities path *in*dependence occurs. The past is not detached from the individual but continuously re-presented and re-constructed at present through the individual's lived experience.

The essence of this essay is simple. The theory of path dependence needs to be complemented with elements of thoughts on path diversions not to say path independence! Without going into details, we believe that a theoretical solution might be based on the hard/soft divide.

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