

## What happens when a family's past shapes every business decision?

*A century-long case study of MoDo reveals how path dependence turns legacy into strategic rigidity*

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**H**istory is not neutral in family firms. It shapes what leaders believe is possible, what the organization is willing to try, and what the industry expects. The concept of path dependence—the idea that early decisions and established routines constrain future options—offers a framework for understanding how this happens. But most research on path dependence focuses on a single level: the firm, or the industry. This study traces it across three levels simultaneously, using one of the most detailed longitudinal cases in family business research.

The case is MoDo, a Swedish pulp and paper company led by the Kempe family from 1873 to 1990. Through archival records, biographies, industry publications, and interviews, the authors reconstruct how strategic choices at the individual, organizational, and field levels reinforced each other over more than a century—creating paths that were initially productive but ultimately became traps.

### WHAT WE STUDIED

The study applies a multi-level path dependence framework to MoDo's evolution across four eras of leadership. At the **individual level**, it tracks the beliefs and leadership styles of successive Kempe family leaders. At the **organizational level**, it examines MoDo's strategic direction, investment patterns, and cultural norms. At the **field level**, it follows the broader Swedish pulp and paper industry's structural evolution. The key analytical question is how paths at these three levels interacted—reinforcing, constraining, and occasionally conflicting with each other over generations.

### KEY INSIGHTS

#### ***Founder beliefs become organizational doctrine***

Frans Kempe, the first owner-manager, built MoDo around three convictions: economies of scale, scientific innovation, and paternalistic leadership. These principles worked brilliantly in the late 19th century. The problem is that successive generations did not merely inherit them—they reinforced them. Overlapping leadership transitions, where the outgoing leader remained influential well into the new generation's tenure, meant that fresh strategic thinking was systematically suppressed. What began as entrepreneurial instinct hardened into institutional doctrine.

#### ***Emotional attachment prolonged uncompetitive investments***

MoDo continued investing in sulphite pulp production long after it had become uncompetitive. The Domsjö mill, where the family's identity was most deeply rooted, received continued investment despite declining returns. For Matts Carlgren, the last family CEO, divesting from chemical operations was not just a strategic decision—it was a personal trauma. The portrait of his uncle Carl Kempe in his office served as a daily reminder of obligations that transcended financial logic. Emotional commitment to legacy produced escalation of commitment to failing strategies.

#### ***Industry norms reinforced internal rigidity***

The Swedish pulp and paper industry had its own path dependencies. Firms developed informal agreements about market segments, investment patterns, and competitive boundaries. MoDo broke some of these norms—investing in writing paper when the industry

expected it to stay in its lane—but remained locked into others, particularly the assumption that large-scale production and vertical integration were the only viable models. When the industry shifted toward chemical-based products and diversification in the mid-20th century, MoDo's commitment to its historical strengths left it increasingly isolated.

### ***Reinforcement mechanisms work across generations***

The most important finding is that path dependence at the individual, organizational, and field levels does not operate independently. Personal beliefs shaped organizational culture, which shaped investment patterns, which reinforced the industry position, which confirmed the beliefs. This self-reinforcing loop made the path increasingly difficult to exit with each passing generation. By the time the strategic costs of the path became undeniable, the organizational capacity to change had eroded.

## **TAKEAWAYS**

### ***Distinguish between values and strategies***

Family values—commitment, stewardship, long-term thinking—can endure across generations without dictating specific strategic choices. MoDo's mistake was fusing its family identity with a particular technology and market position. Separating enduring values from time-bound strategies creates room for adaptation without betraying legacy.

### ***Design leadership transitions for discontinuity, not continuity***

Overlapping leadership, where the predecessor remains influential during the successor's early years, reinforces existing paths. Transitions that create deliberate space for the new leader to question inherited assumptions—while still respecting family history—are more likely to produce strategic renewal.

### ***Build external challenge into governance***

When family beliefs, organizational routines, and industry norms all point in the same direction, internal dissent becomes almost impossible. Non-family board members, external advisors, and structured strategic reviews can provide the outside perspective needed to identify when a productive path has become a constraint.

## **IMPACT**

This study extends path dependence theory by demonstrating how it operates across three interconnected levels in a family firm context. The contribution is both conceptual—showing that multi-level path analysis reveals dynamics invisible at any single level—and practical. MoDo's story is a cautionary case for any family firm entering its third or fourth generation: the question is not whether your history shapes your strategy, but whether you are aware enough of that shaping to maintain the capacity for change.

## **RECOMMENDATIONS**

1. **Conduct strategic retrospectives.** Regularly examine which inherited assumptions still serve the firm and which have become constraints.
2. **Encourage cross-generational dialogue.** Create structured forums where younger family members can challenge established strategic logic without disrespecting legacy.
3. **Benchmark against industry shifts.** Monitor whether the firm's strategic positioning is drifting from industry realities, especially during periods of technological or market disruption.
4. **Invest in outside perspectives.** Non-family executives and independent board members can identify path dependencies that insiders have normalized.

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