In Chapter 5 we presented the theoretical framework and used it to develop a cognitive research methodology to study diversification projects. The framework depicts five areas in which managers may learn in the course of their diversification project. As each of these areas embrace different kinds of knowledge, and (families of) cognitive mapping techniques reveal different kinds of knowledge, we decided to use a combination of three cognitive mapping techniques: content analysis, the repertory grid technique, and cognitive mapping using Decision Explorer. Next to a basis for selecting the mapping techniques, we used the theoretical framework to organise the personal images of the individual managers about the evolving diversification project in which they were involved. As such, the framework functions as a loose integrating device that links the diverse output of different cognitive mapping techniques in a coherent way, both in time and across the three case studies. The elicited images throw light on how the managers intellectually framed the diversification project at two moments in its development. We expect this will give us a thorough insight into the content of learning processes and, if more managers were involved, some idea about the dispersion of learning throughout the organisation. As remarked in the preceding chapter, it is critical to note that we did not present the framework to any of the managers we interviewed nor did it (consciously) guide the content or structure of our (intentionally unstructured) interviews.

The case study presentations in the current and the next two chapters are formatted in the same way. Each presentation begins with a concise description of the diversifying company and an introduction of the (owner-)manager(s) we interviewed. The case studies are anonymous and we will therefore not mention places where the companies are located nor give exact names of the products they sell (except for the names of the business activities in the third case study). Next, the diversification project studied is described, including the project’s background and history, and a brief characterisation in terms of several classification schemes of strategies as discussed in Chapter 1. We then build up the managers’ personal images of the unfolding diversification by analysing the three kinds of cognitive maps and infer from these analyses what they tell us.
about the content of each of the five learning areas of the theoretical framework. Given the large amount of data generated with (each of) the mapping techniques, we (had to) focus on the most salient and striking elements that emerged in the three kinds of maps. We were in particular interested in interpretations that found confirmation in maps construed with one of the other two cognitive mapping techniques. In advance of our evaluation of the research methodology in Chapter 9, it should be mentioned here that we found ourselves often using the cognitive maps construed with Decision Explorer to help us interpret the results of our RGT and MDS analyses, and albeit to a lesser extent, the results of the content analysis.

Rather than building up the personal images of each manager separately, we present them simultaneously following the five learning areas in our theoretical framework. This facilitates direct comparison of (parts of) the images across managers which is essential as similarities and differences between managers’ images gives meaning to the content, i.e. their thinking. For each manager we composed two images of the diversification project based on the two occasions – with a time interval of approximately one and a half to two years – we mapped their articulated thinking. Subsequently, we review the learning that has taken place during the course of the diversification project following our definition of learning as cognitive change. Finally, we discuss several noticeable insights from the case study in question.

Before we turn to our first case study, we would like to note that given the extensive amount of data gathered during the case studies, we can only present a selective synopsis of the cognitive maps reflecting our interpretation of the research data. However, we believe that the format laid out above allows the reader to follow our interpretive process (Yin’s (1989) ‘chain of evidence’) while we present our analyses of the three kinds of cognitive maps and the construed personal images of the managers. To further ease interpretation of our data by others we have, given our selections of the data, deliberately chosen to present quite extensive, rich descriptions of the diversification projects and the cognitive maps we construed on the basis of the interviews.

A diversifying wholesaler

The first case study concerns Colifox, a specialised, medium-sized wholesaler that buys and sells a related range of products all over the world. Colifox was set up in the beginning of the 1920s by Larry Springfield, the grandfather of two of its current directors. In the early years the company specialised in the main product in the market which was for the larger part sold in the agricultural sector. For many years the cleaning and repairing of used pieces of this product also constituted a significant part of the company’s activities. With the introduction of stronger and cheaper materials this labour-intensive activity has disappeared almost completely and sales of this particular product now constitute only a small part of the company’s turnover. Until the middle of the
1960s, when two of Larry’s sons, Jack and Chuck Springfield, took over the company’s management, new products were primarily added to the company’s product range for sale in the agricultural sector.

Jack and Chuck actively pursued sales growth by increasing the breadth of the product portfolio, expanding geographically and looking for opportunities to sell products to industrial companies. In the beginning of the 1970s the company took over a plant from which it had been buying products for a number of years. In the years to follow offices were set up in Great Britain and in the U.S.; the latter was turned into a joint venture with an American company a few years later. As a result of these expansion activities, turnover increased tenfold between the 1960s and the beginning of the 1990s. Then the company’s management took an important strategic decision: it decided to strongly pursue growth in wholesaling exclusively and to disinvest all production facilities (most notably the plant it had bought in the 1970s), to free up capital for this aim. As a result turnover fell sharply by nearly 30% but rose again when a handful of companies were taken over in the Netherlands and Germany using the money earned with the sale of the plant. Colifox also took over a small Dutch company, Matalvid, which sold a limited range of products to a few countries in Latin America; the development of this business is the focus of the present case study.

Shortly after the take-over of Matalvid, Steven and Paul took over the company’s management from their father, Jack; their uncle Chuck had already retired some years before. For reasons indicated below, they were headed by an experienced Austrian manager. The new management team wrote a strategic marketing plan in which an ambitious objective was formulated, implying a growth in turnover of more than 10% each year until the year 2000, coupled with a list of potential European candidates for take-over; what is worth noting is that at the time of the second round of interviews the company seemed to reach this objective. Under their management, several other companies were taken over in Germany (one of these companies also sold to the Czech and Polish markets), Italy and Estonia and a sales office was set up in France. Most of these acquisitions took place at the time of our empirical research.

To date, the company still sells most of its products in the agricultural sector but sales growth is also actively pursued in the industrial sector, notably in the Netherlands. The products, classified by the company into eight product groups, are for the larger part purchased centrally by the company’s head office in the Netherlands. Products are bought from all over the world, particularly from specialised producers in the Mid and Far East. The company’s main product group accounts for approximately 60-70% of the turnover and the company’s management estimates it has the largest market share in its market (niche) in Europe. In total, the company employs nearly 80 people. The local branches, referred to as trading companies, operate as profit centres. Every year the head office sets up detailed sales budgets for each profit centre as well as for each product group. Over the year actual sales are closely monitored and compared to the budgets. The budgetary process is but one example of how well Colifox is organised administratively, especially when compared to most of its smaller
competitors. A few years ago a major consultancy firm was hired to (further) computerise the company’s logistic and cost administration up to the latest standards. As will become evident when we present the manager’s images of the company, the managers we interviewed highly value a ‘professional’ organisation and image.

Colifox’s management team

At the time of the research, the management team of Colifox consisted of three directors: two brothers, both in their thirties, who succeeded their father after his retirement in the early 1990s and an older, experienced Austrian manager. The eldest of the two brothers, Steven, is responsible for the purchasing of most of the products Colifox sells and he travels extensively abroad to visit suppliers. Steven had set up the U.S.-activities and returned to the Netherlands when these activities merged into a joint venture. Although formally referred to as the financial director, his brother Paul is also largely responsible for the marketing activities of the company. Paul was one of the three managers we interviewed as part of our research. His qualifications were at the polytechnic level in Marketing and, to a lesser extent, Finance. At the start of the research he had been with the company for five years. Before that he had worked with a larger multinational company in the same industry as a product manager; Colifox operated in another part of the market and hardly ever met Paul’s former employer in the marketplace.

When their father retired both brothers expressed the preference to be supported by a more experienced manager in the first years after the succession. After careful consideration, Herman Schrempf was asked to head the company as a general director for the coming five or six years. Herman had won his spurs within the industry and worked for a Swiss company before heading Colifox. He has a strong background in management accounting and ample experience in using budgeting as a management tool to increase efficiency.

The diversification project

The year before he left the company to his sons, Jack Springfield decided to take over a small company named Matalvid that sold a limited range of products to a few countries in Latin America. He saw the development of Matalvid’s activities as an excellent opportunity to reduce the company’s large dependence on the European agricultural sector. Except for some occasional orders, Colifox did not export to countries in Latin America at the time of the acquisition. The Latin America market was in various respects attractive to Colifox. Various Latin American countries showed high economic growth rates most European countries could only dream of. Also, the huge agricultural sector was expected to develop rapidly up to European and American standards and sizes in the
coming decade. Not insignificant was the fact that one of Colifox’s competitors was highly successful after entering Chile a few years ago. Next to entering another geographic market, the acquisition of Matalvid added a product to Colifox’s range of products the company only sold incidentally before.

When he considered taking over Matalvid, Jack Springfield asked Mitchell Wyman for the job of sales manager for the Latin American activities. At that time Mitchell had just completed his studies at an agricultural college, which included practical training at Colifox. During the first year he combined his job with a UK-based MBA-course in Marketing paid for by the company. From the moment of acquisition onwards until he left Colifox to take on a job in another company (shortly after the start of our inquiries), he carried out most of the activities related to the new business. When we interviewed him he was very optimistic about Colifox’s possibilities for growth in Latin America.

After (re)organising the administration of Matalvid, a relatively small job as it was the only ‘asset’ taken over, Mitchell travelled twice to Latin America with the former director of Matalvid. In the first four years he mainly developed the business by setting up a small network of agents in several countries in South and Middle America. Contrary to the smaller average European customer of Colifox, the majority of customers in Latin America are wholesalers and large industrial and agricultural companies. Mitchell visits the agents and his main customers a few times a year. During these visits he tries to acquire new large customers in co-operation with his agents who will be in frequent contact with them concerning orders and deliveries; the agents have no connection with payments, these are arranged with Mitchell (who, if thought necessary, consults his supervisor Pete Fairchild).

The new business is organisationally positioned within the profit centre located at the company’s head office. Mitchell is counselled by and reports to Pete Fairchild, who is responsible for sales at this profit centre. Starting as a sales employee Pete has been working with the company for almost 25 years. Next to selling in the geographical area around the head office, this profit centre sells to countries, regions and customers not covered by any of the trading companies, i.e. the Middle and Far East, Africa and, thus, Latin America. In addition, as a group manager, Pete is responsible for the central purchase of several products, including the product Colifox started with in the 1920s. In his capacity of profit centre manager, he settles and approves (payment) conditions offered to customers in Latin America and approves spending by Mitchell. Pete travelled once with Mitchell to two Latin American countries two years ago but this experience seems to have influenced his image of Colifox’s customers in the region only marginally.

In addition to the sales and group manager, we interviewed Paul Springfield, the finance and marketing director. Although Paul did not actively participate in the new business activity at an operational level, he was strongly committed to starting up new activities and introducing new products into the market. In fact, Paul was the first manager of Colifox we had contact with and we met him several times before the start of the research project to speak about it.
Characterising Colifox’s diversification project

With the acquisition of Matalvid, Colifox entered a market in which it until then had only sold products occasionally and started to sell a product it did not sell at a large scale at that time, although the product is related to some of the other products Colifox sells. Following Ansoff’s (1965) growth vectors in diversification (see Chapter 1), the new product group can be regarded as a diversification as both the geographical area and, although to a lesser extent, the product traded, is relatively new to the company. In terms of Ansoff’s terminology, it qualifies as concentric diversification. Also, while the new product group is strongly related to the products Colifox is selling – more in particular in terms of the technology used (i.e. trading) – the type of customer is at best similar, but for the larger part, as became gradually clear to the company’s management, different from its European counterparts in many ways. In addition, Ansoff (1965) would probably qualify the move to Latin American as a movement along the ‘geographical growth vector’, which may (also) contribute to the attainment of a higher degree of strategic flexibility.

While following Ansoff’s growth vectors Colifox’s expansion to Latin America qualifies as an act of diversification, this is not so obvious if we interpret it in terms of Rumelt’s (1974) categorisation scheme. As discussed in Chapter 1, Rumelt does not consider individual diversification moves but determines the extent of diversity of a company’s portfolio per se. In general, to Rumelt a firm is more diversified the more discrete product-market activities it has (cf. specialisation ratio) and the less related these activities are (cf. related ratio). As Colifox sells a range of products in various markets (and in a range of countries) Colifox’s diversification strategy can be qualified as ‘related-constrained’: ‘firms that have diversified chiefly by relating new businesses to a specific central skill or resource and in which, therefore, each business activity is related to almost all of the other business activities’ (Rumelt, 1974: 32); Colifox’s central skill is related to purchasing and logistics. Although Colifox’s Latin American expansion will not change its Rumeltian diversification strategy as such, it unquestionably strengthens it.

The exact labelling of Colifox’s diversification strategy depends to a great extent on the precise definition of business boundaries. If we had used a more strict definition for similar good reasons, we would have characterised Colifox’s strategy as ‘dominant-constrained’. Business boundaries are fuzzy and precisely for this reason we argued in Chapter 1, based on the work of Abell (1980) and Mintzberg (1988), that the definition of a business, and thus of diversification, fundamentally exists in the mind of the beholder. Thus, if the management of a diversifying company considers an activity as new and different from its existing activities it should be regarded as an act of diversification. This is clearly the case for the managers of Colifox we interviewed. Although none of them ever used the word ‘adventure’, it was hanging in the air when either one of the managers spoke about Colifox’s Latin American activities.
Composing the managers’ images – Round I

As indicated above, three managers were involved with Colifox’s activities in Latin America: the sales manager Mitchell Wyman, the group manager Pete Fairchild to whom Mitchell reported, and the financial / marketing director Paul Springfield. Except for the sales manager, we passed each of the others through the cognitive mapping process explicated in the preceding chapter twice with an intermediate time interval of approximately one and half years. Shortly after the first round of interviews the sales manager accepted a (better-paid) job at another company. Each round of interviews resulted in three series of cognitive maps for each manager. We analysed these cognitive maps in order to compose ‘their’ image of the diversification project. In this and the following section, we discuss the cognitive maps and the composed images for each of the two rounds separately. Then we compare the maps and images in time, in order to identify any learning that has taken place following our definition of learning as cognitive change.

Comparison of the cognitive maps construed on the basis of the first round of interviews shows several major differences between the three managers, indicating some fundamental differences in their interpretations of the Latin American diversification endeavour. To a certain extent, they differ in the attention they pay to each of the five knowledge areas separately, as well as in the knowledge they possess and develop within these areas. Taken together, the differences are not equally large between all three of them. It seems justified to draw a dividing-line between the ‘management-at-home’ (director and group manager) on the one hand and the ‘sales-manager-out-there’ on the other. Table 6-1 summarises the content of the five knowledge areas for each manager. As we will elucidate after discussing the learning areas, the parts outlined indicate the area(s) to which the manager in question gives most emphasis. Please note that the complexity of the cognitive maps as construed with the three mapping techniques cannot be fully reflected in table format nor fully reproduced verbally. Important differences are therefore described throughout the discussion of the results and illustrated with reference to the relevant maps whenever deemed necessary.

(Re)conceptualisation of the portfolio

With respect to the three managers’ conceptualisation of the company’s portfolio of product groups, we find close correspondence next to some minor points of difference. As can be seen in Table 6-2 the matching scores, RGT statistics, and the results of the MDS-analysis point to a modest to high degree of resemblance among the three managers. The results of the cluster analysis used to classify the products groups (performed on the basis of the ranking data) indicate that all three managers, individually, construe the various product groups
<table>
<thead>
<tr>
<th>Knowledge area</th>
<th>Sales manager</th>
<th>Group manager</th>
<th>Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Re)conceptualisation of the portfolio</td>
<td>Reduce dependence on steadily declining European agricultural markets towards high growth markets, for example, in Latin America</td>
<td>Supply variety of related products with high contribution margin to agricultural and industrial sector (preferably in Europe)</td>
<td>Supply a complete range of products in various (European) countries so as to reduce agricultural dependence, increase turnover and exploit economies of scale in purchasing</td>
</tr>
<tr>
<td>Conceptualisation of the new business</td>
<td>Product from a 'technological point of view' not a big difference but great opportunity to open up really new markets</td>
<td>Perhaps a way to reduce agricultural dependence but produce 'nothing new, nothing fancy'</td>
<td>'Just another business' and one way to reduce agricultural dependence</td>
</tr>
<tr>
<td>(Development of) dominant logic</td>
<td>Dominance of marketing over budgeting, emphasis on organisational flexibility and top-management commitment</td>
<td>Emphasis on budgets and realising (high) contribution margins</td>
<td>Decentralised, professional organisation managed on the basis of budgets complemented by long-term plans</td>
</tr>
<tr>
<td>Design value chain</td>
<td>Establishing a network of agents</td>
<td>Monitoring the contribution margins which the sales manager realises</td>
<td>Appointing and monitoring sales manager (from a distance)</td>
</tr>
<tr>
<td>Development of business skills</td>
<td>Opening up and developing new markets, getting to know the markets, its customers and their local culture</td>
<td>Mentally dealing with new models of payment</td>
<td>-----</td>
</tr>
</tbody>
</table>

N.B. outlined areas indicate focus of attention

Table 6-1
Managers’ images of their diversification project during first round of interviews
in a similar manner. Matching scores are well above 50% for all three managers, which indicates that they, individually, see all product groups as more or less similar. The oldest and largest product groups are seen as most similar with matching scores of 70% and upwards. While each of them thus regards the product groups as quite similar, frame uniformity scores are fairly low (.37 and downwards), indicating that none of them sees the product groups as highly related.

Moreover, judging from the high cognitive differentiation indices and the rather low cognitive integration indices, all three managers construe their portfolio in a highly complex way as each of them uses the constructs, to a considerable extent, in a different way. Cognitive differentiation scores are high (.781 and up), which indicates that each construct discriminates among the product groups in another way. The cognitive integration indices, which yield scores between .270 to .437, show that similarity is somewhat lower in terms of correlations among constructs. However, whereas the managers share a high degree of complexity, the construct centrality scores in Table 6-3 indicate that they strongly differ with regard to the importance they attach to each of the constructs. Multiple correlations between managers’ scores are .23 and below; there is even a negative correlation between the scores of the group and the sales manager: -.48 (not in Table 6-3).

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Sales manager</th>
<th>Group manager</th>
<th>Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frame uniformity</td>
<td>.366</td>
<td>.256</td>
<td>.351</td>
</tr>
<tr>
<td>Cognitive differentiation</td>
<td>.781</td>
<td>.860</td>
<td>.917</td>
</tr>
<tr>
<td>Cognitive integration</td>
<td>.270</td>
<td>.384</td>
<td>.437</td>
</tr>
<tr>
<td>Highest matching score</td>
<td>81%</td>
<td>71%</td>
<td>81%</td>
</tr>
<tr>
<td>Lowest matching score</td>
<td>66%</td>
<td>57%</td>
<td>66%</td>
</tr>
<tr>
<td>Weirldness index</td>
<td>.177</td>
<td>.170</td>
<td>.261</td>
</tr>
<tr>
<td>Weight dimension 1</td>
<td>.393</td>
<td>.444</td>
<td>.703</td>
</tr>
<tr>
<td>Weight dimension 2</td>
<td>.364</td>
<td>.433</td>
<td>.271</td>
</tr>
<tr>
<td>Weight dimension 3</td>
<td>.249</td>
<td>.301</td>
<td>.502</td>
</tr>
</tbody>
</table>

* 3-dimensional solution, Kruskal’s stress .165

Table 6-2

Statistical figures of the Repertory Grid Technique and Multi Dimensional Scaling - Round I
Product group centrality scores as well as the results of the MDS-analysis suggest that correspondence among managers is not confined to the size of the foregoing indices. The product group centrality scores shown in Table 6-4 indicate close correspondence in terms of the relative importance attached to product groups: multiple correlation between managers’ scores is .703 and up (not in Table 6-4). Not very surprisingly, the oldest and largest product groups receive the highest product centrality scores (average .41). Note the low centrality scores of the Latin American product group (average .21). In particular the sales manager Mitchell Wyman, who is responsible for this product group, seems to be aware that ‘his’ product group does not belong to the core of Colifox’s activities at the moment. The low scores are in line with the opinions the managers expressed during the interviews. In different wording, they all stated that the Latin American business ‘has to prove itself first’.

In addition, the fairly low weirdness indices of the three-dimensional weighted MDS-solution of .26 and below (Kruskal’s stress = .165) indicate that the managers’ conceptualisations of the entire portfolio closely resemble one another. The sales manager emerges as a most typical respondent, which is surprising because he arose as a-typical in many other respects as we will see in the following pages. The subject weights on the three dimensions (see Table 6-3) show that the sales and group manager uses these dimensions in a more or less similar way. The director uses the first and, albeit to a lesser extent, the third

<table>
<thead>
<tr>
<th>Construct</th>
<th>Sales manager</th>
<th>Group manager</th>
<th>Director</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural application</td>
<td>.54</td>
<td>.24</td>
<td>.48</td>
<td>.42</td>
</tr>
<tr>
<td>Industrial customers</td>
<td>.20</td>
<td>.32</td>
<td>.20</td>
<td>.24</td>
</tr>
<tr>
<td>Importance service</td>
<td>.25</td>
<td>.25</td>
<td>.39</td>
<td>.30</td>
</tr>
<tr>
<td>Seasonal influence</td>
<td>.54</td>
<td>.29</td>
<td>.47</td>
<td>.43</td>
</tr>
<tr>
<td>Profit contribution</td>
<td>.36</td>
<td>.24</td>
<td>.38</td>
<td>.33</td>
</tr>
<tr>
<td>Importance company image</td>
<td>.54</td>
<td>.37</td>
<td>.25</td>
<td>.39</td>
</tr>
<tr>
<td>Future potential</td>
<td>.32</td>
<td>.16</td>
<td>.49</td>
<td>.33</td>
</tr>
<tr>
<td>General employability</td>
<td>.20</td>
<td>.30</td>
<td>.58</td>
<td>.36</td>
</tr>
<tr>
<td>Market competition</td>
<td>.35</td>
<td>.20</td>
<td>.58</td>
<td>.38</td>
</tr>
<tr>
<td>Competitive position company</td>
<td>.54</td>
<td>.31</td>
<td>.55</td>
<td>.46</td>
</tr>
</tbody>
</table>

Table 6-3
Average coefficients of determination between pairs of constructs indicating construct centrality – Round I

Product group centrality scores as well as the results of the MDS-analysis suggest that correspondence among managers is not confined to the size of the foregoing indices. The product group centrality scores shown in Table 6-4 indicate close correspondence in terms of the relative importance attached to product groups: multiple correlation between managers’ scores is .703 and up (not in Table 6-4). Not very surprisingly, the oldest and largest product groups receive the highest product centrality scores (average .41). Note the low centrality scores of the Latin American product group (average .21). In particular the sales manager Mitchell Wyman, who is responsible for this product group, seems to be aware that ‘his’ product group does not belong to the core of Colifox’s activities at the moment. The low scores are in line with the opinions the managers expressed during the interviews. In different wording, they all stated that the Latin American business ‘has to prove itself first’.

In addition, the fairly low weirdness indices of the three-dimensional weighted MDS-solution of .26 and below (Kruskal’s stress = .165) indicate that the managers’ conceptualisations of the entire portfolio closely resemble one another. The sales manager emerges as a most typical respondent, which is surprising because he arose as a-typical in many other respects as we will see in the following pages. The subject weights on the three dimensions (see Table 6-3) show that the sales and group manager uses these dimensions in a more or less similar way. The director uses the first and, albeit to a lesser extent, the third
dimension, more heavily than the second dimension. Figure 6-1 depicts the three-dimensional WMDS-solution.

To ease interpretation of the dimensions we regressed the managers’ average ranking scores of the product groups on the constructs over the co-ordinates of the three-dimensional WMDS-solution. The results indicate that the second dimension is related to agricultural usage and seasonal influence while the third dimension is associated with industrial customers and high service levels. None of the constructs significantly correlates with the first dimension. Visual inspection of the WMDS-configuration combined with carefully examining the (tape-recorded) interviews, suggests that the first dimension reflects differences in the physical characteristics of the product groups.

The prevalence of the ‘agricultural usage’/‘seasonal influence’ and the ‘industrial customer’/‘service levels’ constructs fits in with the most important strategic issues that bothered Colifox’s management at the time of the first round of interviews. Well over ninety percent of their turnover came from the agricultural market, which is subject to strong seasonal fluctuations. As shown in Figure 6-1 both the oldest and the largest product group score unfavourably high on the constructs ‘agricultural dependence’ and ‘seasonal influence’. Table 6-5 which shows the goal structure that emerged from the cognitive maps construed with Decision Explorer, shows that all three managers consider continuation of the company as an important, if not the main goal to pursue. The importance attached to this goal is understandable in the light of Colifox’s recent history: a few years ago, after breaking off serious negotiations with a multinational company that wanted to take over Colifox, the (family-)owners

<table>
<thead>
<tr>
<th>Product group</th>
<th>Sales manager</th>
<th>Group manager</th>
<th>Director</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oldest product group O</td>
<td>.48</td>
<td>.33</td>
<td>.44</td>
<td>.41</td>
</tr>
<tr>
<td>Largest product group L</td>
<td>.47</td>
<td>.31</td>
<td>.45</td>
<td>.41</td>
</tr>
<tr>
<td>Latin American product group</td>
<td>.16</td>
<td>.24</td>
<td>.22</td>
<td>.21</td>
</tr>
<tr>
<td>Product group V</td>
<td>.35</td>
<td>.23</td>
<td>.24</td>
<td>.27</td>
</tr>
<tr>
<td>Product group W</td>
<td>.50</td>
<td>.24</td>
<td>.43</td>
<td>.39</td>
</tr>
<tr>
<td>Product group X</td>
<td>.44</td>
<td>.28</td>
<td>.42</td>
<td>.38</td>
</tr>
<tr>
<td>Product group Y</td>
<td>.18</td>
<td>.17</td>
<td>.28</td>
<td>.21</td>
</tr>
<tr>
<td>Product group Z</td>
<td>.35</td>
<td>.25</td>
<td>.34</td>
<td>.31</td>
</tr>
</tbody>
</table>

Table 6-4
Average coefficients of determination between pairs of businesses indicating product group centrality - Round I
formally declared that the company should keep its independence. Now, Colifox’s management wants to reduce the dependence of seasonal influences on sales and they have chosen two main ways to realise this.

Firstly, as they argue that chances are pretty low that agricultural sales are sloppy in several countries at the same time, they plan to firmly expand sales.
outside the Netherlands. In pursuing this goal they focused their efforts on the European market: during the time of our research Colifox acquired a handful of companies in Germany, Italy and Estonia and sales activities were started up in France. Although all three managers consistently argued that the Latin American expansion also fits in with this goal, the three-dimensional WMDS-configuration (see Figure 6-1) shows that the Latin American business only yields an average score on both dimensions. This suggests that they agree that European expansion is the more effective route to pursue this goal. However, the frequencies of word-use of the three managers indicate that there are differences. [Figure 6-2] shows that the ‘management-at-home’ (director and group manager) refers more often to The Netherlands and Europe (or European countries), while the ‘sales-manager-out-there’ – not surprisingly – strongly focuses on Latin America (or Latin American countries). In line with this finding, as we will see in the next section, the managers also differ strongly in their framing of the Latin American activities.

The second way in which management planned to reduce agricultural dependence was by increasing sales to industrial customers chiefly by selling the product group Y. To great dissatisfaction of Colifox’s management, sales in this product group have been relatively low while they struggled with the question of how to organise industrial sales. Industrial customers differ in a number of ways from the typical agricultural customer and require another, more demanding approach than most of Colifox’s sales managers were used to. Eventually, Colifox’s management decided to separate sales to industrial customers from Colifox’s other activities and appointed two sales manager (one hired from outside) to increase industrial sales.
When it comes to the way the three managers conceptualise the new business, we find both agreement and disagreement. On the one hand, in terms of physical characteristics they all consider the new product to be an ordinary product. ‘Nothing new, nothing fancy’ as the group manager expressed it. As can be seen in Figure 6-1 (and is apparent from all three individual MDS-solutions as well), the newly added product group is positioned near the oldest product group O, particularly on the first (physical) dimension. In fact, they all consider the new product group as the modern variant of the product group Colifox started with. The cluster analyses and matching scores confirm the ordinary character of the new product group. The sales manager considers the new product group as most distinct from the other product groups but his matching scores between the new and the other product groups are all, except one, well above 50%.

On the other hand, however, the managers differ crucially in their conceptualisation of the new business in its entirety, which includes both the new product group and the new geographical area. The director and group manager on the one hand, and the sales manager on the other, clearly frame the new business differently. The former consider it as one of a number of possible ways of reducing the company’s dependence on a limited range of agricultural

![Figure 6-2](image-url)

*Figure 6-2*
*Frequencies with which each of the three managers mentioned a continent or a country on that continent - Round I*

*Conceptualisation of the new business*

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products, which are fairly sensitive to seasonal influences. Using almost the same words as the group manager, the director plainly expresses this view:

‘If you look at our portfolio in terms of products, [product L] occupies a very important place. [Product L] accounts for 70, maybe even 80 per cent, . . . of our turnover. Well, that’s a risk, only something has got to happen to [product L] and you lose 70 per cent of your turnover. That risk is simply too big. So, we are looking for new products. We try to find products that fit in with the package we have . . . [This new business] is just one possibility that turned up.’

Nevertheless, they seem to prefer different ways of reducing this dependency, notably by increasing industrial sales and enlarging the firm’s geographical scope in Europe. Both routes offer the possibility of supplying a familiar kind of customer who requires and appreciates high levels of services, and who, in exchange for this, pays promptly. In addition, these routes are considered to be easier ways of increasing turnover while exploiting economies of scale (director) and selling products with a higher contribution margin (group manager).

The sales manager’s conceptualisation of the new business deviates from that of both other managers. His different conceptualisation springs from, and also affects, the content of the other learning areas. Although the sales manager states that he does not have a full picture of every product group the company sells, he has a clear idea of what the company’s portfolio should look like. Basically, he considers the new business as not merely selling a new product, but primarily as a great opportunity for opening up entirely new geographical markets for selling the company’s entire range of products. In his view, the company should invest heavily now so as to receive the benefits in the future that, he argues, ‘are sure to come’. He stresses that investments are necessary in order to become acquainted with the fundamentally different way of doing business in Latin America. The following quotation vividly illustrates the differences relative to the other two managers:

‘[They say] if we want to grow, we can better grow in our existing markets, not recognising that this is extremely dangerous because it’s an agricultural market, one that drops, declines . . . Why do you want to grow in a market that is plummeting? Why do you want to grow there? You don’t want to, you want to grow somewhere else. And this is a growth market. Take any country in South America, . . . if you talk about Chile, Costa Rica or Panama, or even Guatemala, these are all countries with between 6 and 10 and sometimes even 15 per cent growth a year. That’s enormous.’

Dominant logic

The different conceptualisations of the new business extend to ideas about how the portfolio of businesses should be managed, i.e. the dominant logic. The group manager’s emphasis on contribution margins and budgets seems to reflect the core of the company’s only dominant logic. The importance he attaches to
the contribution margin is evident from his cognitive map as construed with *Decision Explorer*. The outcomes of the domain and centrality analyses of his cognitive map stress the importance of (high) contribution margins (see Table 6-6). Recall that concepts with high domain and centrality scores have a large number of linkages with other concepts in their domain (directly and/or indirectly) and are supposed to be most central in cognitive terms. As indicated above, margin-related concepts also constitute the heart of the company’s goal system as construed by the group manager. As he puts it uncomplicatedly:

‘There’s nothing clever about increasing turnover. I can drive off somewhere, to I don’t know where, and I’ll surely sell something, but if there’s no money in it – no! Margin is also important if we are talking about continuity, if you don’t make a few hundred thousand for instance, you can’t grow any more, can you?’

In line with this, budgets and contribution margins are by far the most important management instruments in the company. On the basis of detailed sales budgets (which together constitute an impressive document), the various trading companies are given a fair degree of freedom. The director advocates supplementing these with long-term plans with a planning horizon of three to five years. In addition, he stresses the importance of having a ‘professional organisation’, ‘offering a complete range of products’ and ‘being a good service partner’. These marketing-oriented constructs are closely linked to the traditional emphasis on contribution margins. The director expects these constructs to add value to the company’s offerings, enlarging contribution margins and distinguishing the company from the many small traders active in the industry.

The dominant management logic with its emphasis on contribution margins is supported by the central purchase of products, largely done by head office (some of the products *Colifox* sells are purchased by the trading companies if these happen to have more specific knowledge and experience). The central purchase of products is essentially what links the various trading companies of *Colifox*. The importance of this concept is visible from the group manager’s *Decision Explorer* map in which ‘purchasing’ emerges as one of the three main clusters of constructs (see Table 6-7; for the reader’s information Table 6-7 also shows the links-to-constructs ratio in each managers’ map, which Eden *et al.* (1992) considers as a rough indication of cognitive complexity). Also, in the director’s map ‘central purchasing’ the most ‘potent’ construct appears in all hierarchical sets (formed using the set of constructs with the highest domain scores; not shown in any table). All three managers argue that by purchasing products in large quantities, *Colifox* acquires considerable negotiating power towards its suppliers and is able to exact low prices, excellent quality and advantageous terms of delivery. Therefore, the larger purchased quantities, the better.
Facing the company’s single, general dominant management logic, the sales manager criticises three of its elements. Firstly, he argues for the dominance of marketing over budgeting. The domain and centrality analyses show the

### Table 6-6

**Domain and centrality scores of Decision Explorer maps - Round I**

Facing the company’s single, general dominant management logic, the sales manager criticises three of its elements. Firstly, he argues for the dominance of marketing over budgeting. The domain and centrality analyses show the
prevalence of market and marketing related constructs in his Decision Explorer cognitive maps (see Table 6-6). Although recognising the importance of budgets, he sees strong marketing skills as indispensable for entering and opening up new markets. The latter is a prerequisite in his eyes for continuity of Colifox in the longer term. Secondly, emerging as a central issue in the Decision Explorer maps, he makes a strong case for what he calls ‘organisational flexibility’. He considers flexibility as a prerequisite for meeting changes in market requirements. This point is related to the first as, in his view, ‘firms led by marketing oriented managers are by definition more flexible than those with a controller at the top’. His desire to see a flexible organisation stems from his observation of what he calls the ‘rigidity’ within the company.

Finally, it emerges from the Decision Explorer maps that the sales manager is (implicitly) criticising the decentralised organisation as he pleads for more top-management commitment. Amongst other things, on various occasions during the interviews, he stated that the group manager and one or two of the directors should have visited some Latin American countries with him more often than once. Recall that the group manager only once travelled with him to several Latin American countries. We will return to this point when we come to discuss the key findings of the present case study, as it seems to entail some important managerial lessons. The KWIC-analysis of the managers’ use of ‘people’ (or ‘men’), one of the most frequently used nouns (see Table 6-3), revealed a difference that seems related to this issue. When the sales manager talks about Colifox’s employees (38% of his use of the noun ‘people’; numbers not shown in a table or figure), he often indicates that motivating and supporting employees is of the utmost importance. The group manager (33%) and the

<table>
<thead>
<tr>
<th>Sales manager</th>
<th>Group manager</th>
<th>Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management competencies</td>
<td>Goals</td>
<td>Agricultural versus industrial</td>
</tr>
<tr>
<td>Market knowledge</td>
<td>Purchasing</td>
<td>Continuity</td>
</tr>
<tr>
<td>Marketeer</td>
<td>Latin American activities</td>
<td>Marketing</td>
</tr>
<tr>
<td>Organisation</td>
<td></td>
<td>Latin American activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Organisation</td>
</tr>
</tbody>
</table>

L/C* = 175/140 = 1.25
L/C* = 180/141 = 1.28
L/C* = 165/120 = 1.38

* L/C = number of links among constructs divided by number of constructs

Table 6-7
Emergent clusters in Decision Explorer maps - Round I
director (15%), on the other hand, mostly refer to deploying employees for certain tasks.

The three points of criticism seem to arise fairly directly from the sales manager’s own experiences in the context of the diversification project and they are related to the two learning areas we will discuss now.

Design value chain and relation with other activities

Both the group manager and the director indicated in the interviews that they consider the design of the new business’ value chain primarily a matter of the sales manager. He is hired for this job, no one else. Both the content analysis and our interpretation of the cognitive map construed with Decision Explorer confirm that the three managers differ in the attention they give to building up the operational side of the Latin American business (see e.g. Table 6-6). The view of the group manager and director perfectly fits in with the dominant management logic: the sales manager has to meet the sales targets and contribution margins in ‘his’ sales budget just like any other manager in Colifox has to. Also, just as is the case for the trading companies, the products sold in Latin America are centrally purchased by head office. Apart from ordering the right quantities at the right time, the sales manager does not have to worry about this. Note that purchasing is the only link between Colifox’s Latin American activities and its other business activities. The sales manager is not fully satisfied with this thin line. He argues that he could have learned more from Colifox’s other managers (as they could from each other):

‘The directors of the trading companies have to earn the money. These are all strong men. They have a tremendous amount of experience and they are excellent sales men. They know very well what it is all about. I could have learned a lot from them, but they are like captains on a ship, they are working on an island, they are fully focused on increasing sales in their own region.’

The organisation of the Latin American business that the three managers have in mind differ greatly from how Colifox has organised its European business, i.e. with trading companies. They want to set up a network of local agents in (several) Latin American countries. These agents will have to take care of the distribution of products to large customers and sales to smaller ones. The sales manager’s job is to find trustworthy agents and canvass large customers, which are subsequently offered annual contracts and are serviced by the local agents. The development of new business skills is related to this job.

Development of new business skills

Behind the company’s general dominant management logic lurks the image of a trustworthy customer who orders regularly and usually pays the price asked without much discussion. Moreover, the stereotypical customer has been with
the company for many years or is at least aware of the company’s (good) reputation. Both the ‘management-at-home’ and the ‘sales-manager-out-there’ acknowledge that the ‘average’ customer in Latin America differs fundamentally from their European counterparts. The sales manager puts it as follows:

‘[Look at] the customers, it’s a completely different market. Apart from some agricultural firms, a lot of companies operate on the periphery of the agricultural market . . . So, it’s not only geographically remote, it’s a completely different market, as far as the customers are concerned, a different type of company and so a different type of purchaser and so on.’

Whereas the director and, albeit to a lesser extent, the group manager seem to have some reservations about the average Latin American customer, the sales manager claims that getting to know the market and its customers requires all the attention it can get. As we indicated in the foregoing, market and marketing related issues are central in his Decision Explorer maps. The importance of market-related issues also emerges from a content analysis of the interviews with the sales manager. ‘Market’ emerged as the most salient noun. Figure 6-3 shows that he used it more than twice as often as the group manager and the director (expressed as a percentage of each manager’s total word use). Figure 6-4 shows the different contexts in which ‘market’ was used by the sales manager and throws some light on its meanings. The preponderance of preparatory activities – notably ‘entering the market’, ‘developing market(s)’ and ‘getting to know the market’ – suggests that he sees the creation of a strong base as his most important task at this stage in the diversification project. More particularly,
‘his’ *Decision Explorer* map shows that he considers extensive knowledge of the local culture and the development of a network of local agents, who will have to sell the company’s products in Latin America, as absolutely vital. The group manager and the director, on the other hand, use the word ‘market’ in well over half the cases to speak about competition in existing markets. Moreover, neither of them uses it in the meaning of ‘getting to know the market’.

When looking at Figure 6-3 another difference between the sales manager on the one hand and both other managers on the other hand catches the eye: the former refers much less to the products *Colifox* sells than the latter. The sales manager is far more interested in doing business than that being interested in the products themselves. During the interviews, the group manager and director spoke with considerably more passion about these products and their applicability. An explanation for this difference may lie in the length of time the managers are linked up with the company. Contrary to the sales manager, the group manager and director have been connected with the company for many years (in fact, in the case of the director even his whole life). Without doubt this tells us something about the strength of the (emotional) relationship between the managers and the company.

The attention the other managers pay to this learning area contrasts rather sharply with the sales manager’s (rich) knowledge base. In line with the management’s dominant management logic, especially their ideas about decentralisation and the delegation of responsibilities, the director mainly restricts this area of attention to monitoring the sales manager’s activities. The director is not actively involved with any of the operational aspects of the new business. His main concerns are related to the development of the firm in the long term. Central to his *Decision Explorer* cognitive maps stand constructs like ‘growth in turnover’, ‘building a professional and good organisation’, ‘acquiring other wholesalers’ and ‘diversifying’. Figure 6-5 shows the director’s lines of argumentation that link these constructs.

![Figure 6-4](image_url)

*Figure 6-4: Contexts of ‘market’ as used by the sales manager - Round I*
As the group manager stands closer to the sales manager, his role seems to be a bit more extensive but has essentially the same character. It is important to note that the group manager shares few of the sales manager’s concerns and interests. For one thing, he does not seem to pay much attention to market-related issues. Moreover, analysis of the contexts in which he uses the word ‘market’ shows that in nearly 40 per cent of the instances he talks about it in a rather negative way, stressing that margins are more important than market share as such; in about as many cases he uses ‘market’ to refer to the market-place in general. The main skill the group manager has developed is that of mentally dealing with several new modes of payment by occasionally accepting what he calls ‘weird things’.

**Summary of the first round**

Table 6-1 summarises the similarities and differences between the three managers across the five learning areas. When we consider this table and overlook the foregoing discussion, three observations stand out. Firstly, all in all the three managers conceptualise *Colifox’s* portfolio in a highly similar way. The MDS-analysis indicates that ‘seasonal influence’/‘agricultural usage’, ‘industrial customers’/‘service levels’, and physical characteristics of the products are important dimensions along which they categorise *Colifox’s* product groups. Note that the first two dimensions are closely connected to the

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**Figure 6-5**

*Links between central constructs in director’s map – Round I*  
*(collapsed map, i.e. intermediate constructs (and arrows) are hidden)*

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strategic issues that bother Colifox’s management most at the time of the first round of interviews. In addition, the three managers agree on the special position of the Latin American product group, which ‘has to prove itself first’.

Secondly, notwithstanding the correspondence in the conceptualisation of Colifox’s portfolio, we noticed a difference between the director and the group manager ‘at home’ and the ‘sales-manager-out-there’. This is most clear from the differences in conceptualisations of the new business. The sales manager considers the new business primarily as the great opportunity to open up entirely new geographical markets and, in doing so, an excellent way to decrease the company’s dependence on the European agricultural market. The other two managers on the other hand see it as just another possibility. The differences between the ‘management-at-home’ and the ‘sales-manager-out-there’ closely follow the division of labour with regard to the operational side of the diversification project. This encloses our third observation.

The content of our interviews and the cognitive maps clearly indicate a strong segmentation of activities across the three managers. The operational activities and concerns related to the Latin American business clearly and nearly exclusively belong to the sales manager’s job. The group manager puts most emphasis on the existing dominant management logic, something that his position in the organisation goes some way to explain. He stands in the middle of the dominant logic: he monitors several budgets and is monitored by central management on the basis of a budget. Finally, the director’s main concern and interests are related to the process of conceptualisation of Colifox’s portfolio. This is, for instance, indicated by his goal system construed from the Decision Explorer maps, which is by far the most extensive and complex. Moreover, in half of the cases when the director uses the word ‘market’ he is talking about it in strategic terms, notably in connection with developing markets to enlarge the company’s turnover. As in the case of the group manager, this accords with his organisational position.

**Composing the managers’ images – Round II**

Almost one and a half years after the first round of interviews we met again with the marketing and financial director Paul Springfield and the group manager Pete Fairchild for the second round of interviews. Shortly after the first round Mitchell Wyman, the sales manager who was responsible for the Latin American activities, had left Colifox to take on a job in another company. When Mitchell left the company Colifox’s management team decided not to seek a replacement for him to pursue the Latin American business. Instead of enlarging their efforts in Latin America, they decided to cut them back rather drastically. In the past year Pete, the group manager, only travelled once to two countries in Latin America to meet several big customers. Pete stated that he intended to continue going there periodically but ‘with great reluctance’ and he would ‘stop doing so the moment profit margins fall’.

Both managers indicated that ‘Latin American’ had not yielded what they had expected of it. Doing business in Latin America had been more painful than they had thought beforehand. Moreover, they only expected things to deteriorate given current political and economic developments in several countries. Paul and Pete spoke with considerably more enthusiasm about their acquisitions and new ventures in Europe. A typical example of this is Paul’s answer to our question of what had happened at Colifox since the first round of interviews. He described at great length Colifox’s acquisitions and expansion operations in several European countries and only started to talk about Colifox’s Latin American activities after we asked him about it. This is also evident from his word-usage (see Figure 6-6). He referred substantially less to Latin America and Latin American countries than he did during the first round of interviews: d-score now .11% versus .24% then. It is interesting to note that the group manager referred more frequently to Latin America: d-score now .25% versus .17% during the first round of interviews. Recall that the group manager now travels to Latin America instead of the sales manager.

Paul and Pete’s statements about Latin America contrasted most sharply with the enthusiasm with which they spoke about Colifox’s new venture in Estonia, a country that on first sight bore considerable resemblance with several countries in Latin America. However, according to both Paul and Pete there are some
The Wholesalers

The crucial differences between Colifox's activities in both areas. As will be apparent in the following, these differences bring us to the heart of what Colifox’s management has learned from their experiences in Latin American.

In the present section we summarise the results (of our analyses) of the cognitive maps composed on the basis of the second round of interviews. In doing so, we will highlight (important) differences from the cognitive maps construed on the basis of the first round of interviews. In accordance with our definition of learning as ‘cognitive change’, these differences indicate the learning that has taken place. The next section reviews the learning that has taken place during the course of the diversification project followed by several noticeable observations from the present case study.

(Re)conceptualisation of the portfolio

We found several indications that the conceptualisation of the strategic portfolio of product groups changed considerably over the one and half years for both managers while their high degree of agreement remained the same. All in all, the high degree of correspondence between the cognitive maps of the director and the group manager is comparable with the match we found between the maps construed during the first round of interviews. \[ \text{Table 6-8} \] shows the indices and statistics obtained from analysing of the comparison and ranking data. We elicited a new set of constructs during the second round of interviews (see \[ \text{Table 6-9} \] and extended the set of elements with two product groups (P and Q; see \[ \text{Table 6-11} \] that were added to Colifox’s portfolio of products in the past year. The correlation between their construct centrality scores is somewhat higher now (.625 versus .484), while the correlation between product centrality scores is considerably lower (.065 versus .703). This suggests that agreement on the importance of constructs has increased while the managers’ views on the centrality of product groups now differ more substantially. As we will show in the following, the changes with respect to the importance of constructs seem to be of more significance than the changes in centrality of product groups as it reflects a significant shift in strategic thinking by both managers: from a focus on the wider spreading of risks towards a strong(er) emphasis on growth. This shift in mind is apparent from the RGT scores, the MDS analysis and the examination of the cognitive maps construed with Decision Explorer. We will consider each of these successively in the following.

The indices obtained from the comparison task (RGT scores) are almost similar to those calculated on the basis of the first round of interviews, except for the group manager’s frame uniformity score (.37 then versus .24 now) and his matching scores (lowest matching score now 77% versus 50% one and half year ago). The high matching scores indicate that both managers construe the various groups in a similar manner while the low frame uniformity scores suggest that
### Table 6-8
**Statistical figures of the Repertory Grid Technique and Multi Dimensional Scaling – Round II**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Group manager</th>
<th>Director</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>General employability*</td>
<td>.21</td>
<td>.21</td>
<td>.21</td>
</tr>
<tr>
<td>Turnover will decrease in future</td>
<td>.25</td>
<td>.30</td>
<td>.27</td>
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<tr>
<td>Contribution to turnover</td>
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<td>Profit contribution*</td>
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<tr>
<td>Market competition*</td>
<td>.21</td>
<td>.32</td>
<td>.26</td>
</tr>
<tr>
<td>Possibilities for growth</td>
<td>.31</td>
<td>.36</td>
<td>.34</td>
</tr>
<tr>
<td>Possibilities for growth in Germany</td>
<td>.33</td>
<td>.25</td>
<td>.29</td>
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<tr>
<td>Possibilities for growth in Estonia</td>
<td>.10</td>
<td>.19</td>
<td>.14</td>
</tr>
<tr>
<td>Industrial customers*</td>
<td>.19</td>
<td>.17</td>
<td>.18</td>
</tr>
<tr>
<td>Successful product for Colifox</td>
<td>.32</td>
<td>.41</td>
<td>.36</td>
</tr>
</tbody>
</table>

* present in set of constructs elicited during the first round of interviews

### Table 6-9
**Average coefficients of determination between pairs of constructs indicating construct centrality – Round II**
they do not see the product groups as highly related in terms of the constructs. Moreover, the high cognitive differentiation scores and the low cognitive integration scores indicate that both managers construe their portfolio in a highly complex way. The lower frame uniformity score of the group manager indicates that he now sees the product groups as somewhat less related than one and a half years ago while his higher matching scores suggests that he now sees all product groups as more similar. An explanation for these differences may lie in the different sets of constructs elicited during the first and second round.

The sets of constructs elicited during both rounds of interviews only share four constructs out of ten (see Table 6-9). However, not the overlap but the differences are interesting as these appear to highlight a shift in strategic thinking within Colifox. During the first round, ‘seasonal influence’ was both a central construct and a dominant concern for all three managers. This construct is now entirely missing in the second set of constructs. It seems that the emphasis on decreasing seasonal influences on sales has been replaced by a strong emphasis on pursuing growth. Several constructs are related to this endeavour. This surely applies to ‘contribution to turnover’ but also holds for ‘possibilities for growth in Germany/ in Estonia’ and ‘successful product for Colifox’ as these are means to the same end. Even ‘turnover will decrease in future’ can be meaningfully interpreted from this perspective as this construct discriminates between product groups that may, and constructs that may not (or to a lesser extent), contribute to the growth aspirations of Colifox’s management.

The observed shift in strategic thinking is also apparent from the weighted multidimensional scaling analysis. The low weirdness indices of the two-dimensional WMDS-solution (.097 and .122; see Table 6-8) reflect that both managers conceptualise Colifox’s strategic portfolio in a highly similar manner. Figure 6-7 shows the 2-dimensional WMDS-solution. Again, we regressed the managers’ average ranking scores of the product groups on the constructs over the co-ordinates of the two-dimensional WMDS-solution to ease interpretation of the dimensions. Because the ranking scores of the product groups of both managers differed more than during the first round, interpretation of the dimensions was more difficult. We therefore repeated the regression analysis for both managers individually. The results of the three analyses indicate that the first dimension is related to a product group’s current success and their expected future turnover simultaneously. Product groups right of the vertical axes in Figure 6-7 are currently seen as successful but of which both managers expect that turnover of these product groups will decrease in the future. Note that the oldest and the largest product groups are among these.

At first sight it may seem surprising that the ‘Latin American product group’ is also judged as successful. However, closer inspection of the interview data revealed that this label had changed considerably over the year and does not properly reflect managers’ thinking anymore. Remember that Colifox started to sell one particular product group in Latin America – i.e. the range of products sold by Matalvid, the company Colifox took over. Moreover, Colifox did not
As the sales manager Mitchell Wyman increased his sales efforts in Latin America he found himself more and more selling products from other product groups, in particular products from the oldest product group O and recycled products from product group Y. Meanwhile, Colifox started to sell more products from the ‘Latin American product group’ in Europe. As such this product group grew in importance, which is reflected by the high(er) product centrality scores (see Table 6-11).

The cognitive maps construed using Decision Explorer also confirm the prevalence of growth in managers’ thinking: for both managers realising ‘100 million turnover before 2000/in 1999’ is the most central construct (see Table 6-12 on page 179), although the group manager puts this objective into perspective when he speaks about it. Constructs referring to the wider spreading of risks, which were central constructs during the first round of interviews, have now disappeared almost entirely from both managers’ maps. Note that a wider spreading of risks was the main driver behind the Latin American endeavour. Instead, Colifox’s management is actively seeking growth opportunities in several European countries. The emergent clusters in the director’s Decision Explorer map illustrate this: as shown in Table 6-10 (also showing the links to constructs ratios), half the clusters deal with geographical expansion in general and expansion in several European countries in particular. Similar clusters emerged in the group manager’s map.
### Table 6-10
Emergent clusters in Decision Explorer maps - Round II

<table>
<thead>
<tr>
<th>Product group</th>
<th>Group manager</th>
<th>Director</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oldest product group O</td>
<td>.17</td>
<td>.30</td>
<td>.24</td>
</tr>
<tr>
<td>Largest product group L</td>
<td>.19</td>
<td>.31</td>
<td>.25</td>
</tr>
<tr>
<td>Latin American product group</td>
<td>.28</td>
<td>.26</td>
<td>.27</td>
</tr>
<tr>
<td>Product group V</td>
<td>.32</td>
<td>.23</td>
<td>.28</td>
</tr>
<tr>
<td>Product group W</td>
<td>.35</td>
<td>.20</td>
<td>.28</td>
</tr>
<tr>
<td>Product group X</td>
<td>.35</td>
<td>.32</td>
<td>.33</td>
</tr>
<tr>
<td>Product group Y</td>
<td>.16</td>
<td>.17</td>
<td>.16</td>
</tr>
<tr>
<td>Product group Z</td>
<td>.21</td>
<td>.38</td>
<td>.29</td>
</tr>
<tr>
<td>Product group P</td>
<td>.21</td>
<td>.15</td>
<td>.18</td>
</tr>
<tr>
<td>Product group Q</td>
<td>.21</td>
<td>.14</td>
<td>.17</td>
</tr>
</tbody>
</table>

* L/C = number of links among constructs divided by number of constructs

### Table 6-11
Average coefficients of determination between pairs of businesses indicating product group centrality - Round II

<table>
<thead>
<tr>
<th>Product group</th>
<th>Group manager</th>
<th>Director</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oldest product group O</td>
<td>.17</td>
<td>.30</td>
<td>.24</td>
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<td>Product group V</td>
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<tr>
<td>Product group Z</td>
<td>.21</td>
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<td>.29</td>
</tr>
<tr>
<td>Product group P</td>
<td>.21</td>
<td>.15</td>
<td>.18</td>
</tr>
<tr>
<td>Product group Q</td>
<td>.21</td>
<td>.14</td>
<td>.17</td>
</tr>
</tbody>
</table>

* L/C = number of links among constructs divided by number of constructs
Viewed apart, Colifix’s attempt to diversify into the Latin American market failed as the Latin American activities did not bring what Colifix’s management had hoped and expected of it. However, Colifix now sells substantially more products from the Latin American product group in Europe while they sell other products in Latin America. Even more important – and this is a most significant observation – the in itself unsuccessful diversification attempt strongly increased the managers’ decisiveness about what they wanted to pursue definitely: European growth in order to become an important European player instead of ‘merely’ reducing agricultural dependence. In fact, the wider spreading of risks is now fully embedded in their thinking about growth. Figure 6-8, which shows part of the director’s Decision Explorer map, reveals that the wider spreading of risks seems to have become more a (positive) ‘by-product’ of growth than an end in itself: it is now fully enclosed by a large set of growth-constructs (note that the construct ‘wider spreading risks’ does not have links with other constructs than those shown in Figure 6-8). The following comment made by the
director also illustrates the strategic shift of mind from risk reduction to growth of turnover:

‘The wider spreading of risks is a goal, but growth too, natural growth is an important goal. Because growth is important for the company’s continuity; a wider spreading of risks adds of course to your continuity, but growth too, that is simply twofold and continuity is an important term in that context.’

Their growing preference for pursuing the European market is strongly linked to their aversion to the Latin American business mentality. The group manager expresses it as follows:

‘In God’s name, what are we looking for in Latin America. For a handful of lousy products? If we had to, well ok, but we still have so many possibilities in the various countries we are currently in, countries in which we are building our business and in which we can expand by selling other productgroups. Well I think, we can grow much, much faster and with fewer problems and uncertainties in Europe.’

The managers’ strengthened belief in the strategic direction they prefer Colifox to develop in is also apparent from the size of the cognitive maps. Recall that during the first round of interviews the maps of the group manager and the director contained 141 and 120 constructs respectively (see Table 6-7). As shown in Table 6-10 the maps that were construed during the second round of interviews are substantially larger in size: 227 constructs for the group manager (equals an increase of 61%) and 189 (58%) for the director’s map, which may point to a higher level of cognitive complexity. The group manager’s maps are also more densely connected, which also indicates increased cognitive complexity.

(Re)conceptualisation of the new business

The foregoing subsection showed that for both managers the conceptualisation of the Latin American business is strongly related to the re-conceptualisation of the entire portfolio of product groups. Both managers indicated that their doubts about the company’s Latin American activities had grown considerably since the first round of interviews. Moreover, they underpinned their decision to decrease sales efforts in Latin America with the same arguments. The cognitive maps construed with Decision Explorer reveal the full length of their argumentation and show that it is not an isolated decision but fully embedded in the development of their strategic thinking. The increase in the number of constructs in the group manager’s map that are directly related to Latin America is striking: 88 constructs (39%) referred to the Latin American activities compared with only 32 (22%) during the first round. His direct involvement with the new business and his experiences in Latin America and with Latin American customers has deepened his thinking considerably. Figure 6-9 shows part of his map dealing with Latin America and indicates that the core of his thinking
concerns arguments why Colifox should withdraw from the Latin American market. For the director, the increase was much smaller: from 26 to 39 constructs.

Table 6-12 which shows the central constructs in the maps of the group manager and the director, throws some light on the core of their argumentation. Constructs that refer to the decision to cut back the Latin American activities are balanced by constructs that express the managers’ wish to grow into an important European company. This very much applies to the director: about half the number of constructs in his map (including half of the emergent clusters in his map; see Table 6-10) deal with European growth. All in all, both managers are content to have exchanged the Latin American market for the European market, both West and East.
One of the main arguments is related to what both managers refer to as the 'business mentality' of their Latin American customers. According to both managers this business mentality deviates substantially from the way Colifox's managers like to trade and always have traded in the past. To enforce their arguments they point to the way people are used to doing business in Latin America.
America, to the many hole-and-corner arrangements customers often ask for, and to the great difficulties they experience with payments. The director expresses his concerns about the Latin American business mentality as follows:

‘Commitment exists as long as you succeed in building up your business. The moment you notice that business declines and things start to get really tough . . . the business mentality is not there, our business mentality. What I really mean is that people ask for goods and trips, whatever . . . we are not doing such things, we are not like that [. . .] It is really difficult to work together in Latin America, simply because it is so far away, the distance, the mentality, it is really different.’

They also point to the ‘dubious attitude’ of the governments of several Latin American countries towards imports and foreign companies. The most detailed example they give concerns the heightening of import duties by well over a hundred percent by the government of a small Latin American country. Up till then Colifox had been quite successful in this country and its sales constituted a substantial part of its total sales in Latin America. Although GATT regulations condoned the duty increase, both managers considered it as a typical example of corruption. They pointed to the fact that the increase of duties on their products was proclaimed the moment that Colifox’s sales started to seriously affect the turnover of several of the country’s domestic factories. Even worse, these factories were owned by the country’s president and produced a ‘worse substitute’ of the product Colifox sold most in this country – i.e. product group O.

In addition to their problems with the Latin American business mentality and local governments, both managers mentioned several arguments related to the large distance between Western Europe and Asia, where Colifox bought its products, and Latin America. This distance leads to high transportation costs along with a lot of administrative work. In addition, high transportation costs made it attractive to Latin American companies to buy their own products in Asia or even start up their own factory. The group manager sees both happening more and more in the future as ‘these countries are developing [and] sons of our customers increasingly have studied abroad’. He argues that this significantly decreases the attractiveness of the Latin American market for Colifox in the near and distant future.

A final argument to decrease sales efforts in Latin America is related to the small network of agents through which Colifox sold most of its products. Most of the agents sold Colifox’s products in addition to other products, often fruits and vegetables. According to the director this hampered their commitment to Colifox’s products:

‘Because our products are not their main business, they just focus on what is most profitable. If you have an agent that focuses on your products exclusively, ah, then it is going much better.’

This is an important remark that is closely related to the development of the general dominant management logic. In advance of the next subsection: the way
Colifox set up its new business in Latin America differed radically from the way they had entered other countries in the past and continued doing so in Europe, i.e. through acquisitions. The latter enabled Colifox ‘to be as close as possible to the users of our products’ as the group manager expressed it. He then pointed to the many possibilities for growth still available in Europe, which is ‘much nearer than Latin America’.

Although each of the foregoing arguments can be marked as valid in itself, the more important observation is that both managers’ hearts were no longer in the business. They simply did not believe any longer that the Latin American market would offer them something substantial in the near or distant future. The contours of their pessimistic attitude towards the Latin American market were already vaguely visible in the maps of the director and the group manager during the first round but were only fully articulated during the second round. Although the group manager pointed to the high costs of setting up the new business, financial reasons seemed to be of lesser importance than the swelling feeling that it was not going to work out as they had hoped for. At the same time they noticed a number of opportunities in Western and Eastern Europe that they deemed to be much more profitable. Their reservations towards the Latin American business together with the opportunities they noticed in Europe led them to the decision to invest their money in the European market.

One of the opportunities concerned a large acquisition in Germany, which enabled them to fill in a ‘black spot in the German market’, another the establishment of a joint venture in Estonia (with a majority share). The latter is especially interesting as it highlights what Colifox’s management has learned from their experiences in Latin American. At first sight the Baltic countries bear considerable resemblance with several countries in Latin American. However, according to both managers there are some crucial differences between both areas as well as between Colifox’s activities in these areas. The two most important differences relate to the business mentality and the entry strategy.

First of all, they argue that the business mentality in the Baltic countries closely fits in with the way of doing business in Western Europe. The director phrases it as follows:

‘It is easier for us to do business in Estonia, just because, it is much nearer than Latin America and the business mentality suits us much more. We have learned from our experiences in Latin America: first look around you, to countries that are closer, try it there first, that is simply much easier, you can control it much better.’

The importance of matching business mentalities is also apparent from the RGT- and MDS-analyses we carried out on the basis of a ranking and comparison task of countries and accompanying (elicited) constructs. Table 6-13 shows that both managers regard the construct ‘business mentality fits in with business mentality of Colifox’ to be the most central construct for distinguishing between countries.
However, the MDS-configurations for the group manager and the director in Figure 6-10 show that both managers differ as to the relative positioning of Estonia. The group manager sees Estonia as highly similar to most Western European countries while the director positions Estonia closer to several Latin American countries. Seeing this, it is interesting to know that the group manager is in nearly daily contact with the Estonian joint venture and regularly travels to Estonia. Illustrative for his involvement with the Estonian business is the number of constructs in his Decision Explorer maps: some 45 constructs out of the total of 227 for the entire map relate to the Estonian business. Notice the similarity with the sales manager during the first round who also frequently travelled to Latin America and had build up a different image of the area (and its customers!) than the ‘management-at-home’.

The second important difference concerns the entry strategy. Colifox planned to build up market share in the Latin American by setting up a network of local agents. In a later stage, when business would have grown, they would very seriously consider establishing their own offices in Latin America. Compared to Latin America, the business in Estonia started differently. At the time of the first round of interviews, an Estonian engineer, who had just before started a small wholesale business, contacted Colifox with a request to sell their products in the Baltic market. Within a year his business flourished to such a degree that he began having difficulties controlling its rapid growth. Both parties then decided to set up a joint venture in which Colifox would have a majority share. Shortly after it was established, Colifox’s management asked the Estonian to prepare a

<table>
<thead>
<tr>
<th>Construct</th>
<th>Group manager</th>
<th>Director</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance to Colifox</td>
<td>.70</td>
<td>.58</td>
<td>.64</td>
</tr>
<tr>
<td>Contribution to turnover</td>
<td>.66</td>
<td>.57</td>
<td>.62</td>
</tr>
<tr>
<td>Contribution to profit</td>
<td>.57</td>
<td>.55</td>
<td>.56</td>
</tr>
<tr>
<td>Business mentality fits in</td>
<td>.72</td>
<td>.65</td>
<td>.68</td>
</tr>
<tr>
<td>Growth opportunities</td>
<td>.21</td>
<td>.24</td>
<td>.23</td>
</tr>
<tr>
<td>Range of products sold by Colifox</td>
<td>.66</td>
<td>.54</td>
<td>.60</td>
</tr>
<tr>
<td>Sales of used products</td>
<td>.32</td>
<td>.32</td>
<td>.32</td>
</tr>
<tr>
<td>Developed economy</td>
<td>.56</td>
<td>.49</td>
<td>.52</td>
</tr>
<tr>
<td>Political hindrances</td>
<td>.66</td>
<td>.51</td>
<td>.58</td>
</tr>
</tbody>
</table>

Table 6-13
Average coefficients of determination between pairs of constructs indicating construct centrality in comparing countries - Round II

However, the MDS-configurations for the group manager and the director in Figure 6-10 show that both managers differ as to the relative positioning of Estonia. The group manager sees Estonia as highly similar to most Western European countries while the director positions Estonia closer to several Latin American countries. Seeing this, it is interesting to know that the group manager is in nearly daily contact with the Estonian joint venture and regularly travels to Estonia. Illustrative for his involvement with the Estonian business is the number of constructs in his Decision Explorer maps: some 45 constructs out of the total of 227 for the entire map relate to the Estonian business. Notice the similarity with the sales manager during the first round who also frequently travelled to Latin America and had build up a different image of the area (and its customers!) than the ‘management-at-home’.

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detailed sales budget just like any of Colifox’s other profit centres did. So, within a year the Estonian branch was in a similar position to the other trading companies and fully working in line with the company’s dominant logic. Before turning to the dominant logic, recall that this was not the case with the network of local agents who did not necessarily consider the sales of Colifox’s products as their main business.
Dominant logic

The decisions to cut back Colifox’s Latin American activities and to focus on Europe, including the start-up of the Estonian joint venture, reflect the victory of the existing general dominant management logic. Instead of the development of a new dominant logic, the present dominant logic was strengthened and (further) elaborated. As indicated in the foregoing, the unsuccessful diversification attempt in Latin America strongly contributed to this. It increased the managers’ decisiveness of what they wanted to pursue definitely, i.e. European expansion, and helped them in articulating the arguments for this strategy. The large contrasts they experienced between Europe and Latin America, in particular the differences in ‘business mentality’, accelerated this process considerably. Above all, these experiences clarified to them what they definitely did not want to pursue: not being close to your customers, both mentally and geographically. During the first round of interviews the managers were ambiguous how to spread risks, reduce agricultural dependence and reach the company’s sales target of 100 million before the year 2000. In line with this they kept several options open. The second round of interviews fully revealed that they know what they are heading for, in part by knowing what they did not like. All in all, Colifox’s strategy seems to follow the prevailing general dominant management logic. Both the director and the group manager now know the circumstances in which they can fully exploit the present dominant logic (without explicitly referring to the concept as such).

Recall that the central elements of the present dominant logic, which we elicited during the first round of interviews, were the importance of (high) contribution margins, detailed sales budgets, trading companies that work fairly independently, and the emphasis on being a professional organisation. Now that Colifox’s managers know what they are heading for, it appears as if they are in a process of ‘rolling it out’. Organisational changes that contributed to increasing efficiency and cut down costs followed each other swiftly. The changes let themselves best be described by the word ‘streamlining’ as for both managers ‘many things fell into place’. In the past one and a half years, the trading companies were ‘transformed’ into profit centres and customers were purposefully assigned to a particular profit centre. According to the group manager this has increased efficiency (‘an awful lot, you can’t calculate that’) and created clarity (‘if only that!’). Moreover, the administrative system was further developed to enable immediate and close monitoring of the sales and financial performance of profit centres and product groups. Fully in line with these changes the role of Colifox’s central management team was clarified.

Looking at it from a distance, the group manager, who is now responsible for one profit centre, expresses their role as follows:

‘... everybody works fairly independently and runs their own store [. . .]. We now have the organisation as good as fixed up. [The three directors] are in charge
The Wholesalers

of managerial control and they thus monitor the profit centres, as we call them; we will see if there is only one profit centre in each country or several, time will tell. They travel from one profit centre to the other, this week they were in France for two days, next week they are with two of them in Italy for two days, and they frequently jump to Germany.'

Again, like during the first round of interviews, the group manager is almost the personification of the company’s dominant logic, feeling fully at ease with it. That he is standing amidst the dominant logic is, for example, evident from the content analysis of the interviews. Figure 6-11 shows that ‘people’ emerges as the most salient noun in the group manager’s interviews. In half of the instances he uses this noun, he refers to employees working for Colifox. Figure 6-12 resulting from the KWIC-analysis, throws some light on the contexts in which he uses ‘people’ (and from then on its meanings). A closer look reveals that in by far the majority of cases his usage of the word is related to efficiently deploying employees to increase the company’s performance (cut costs, increase sales, motivate, etc.). Notice also that the director refers far more often to the actors and the factors inside and outside the company, most notably companies (suppliers, customers, competitors), markets and products. In line with his role, this indicates that he takes a more distant, strategic view of the company. This corresponds to what we observed on the basis of our first round of interviews.
The clear preference of both managers for entering foreign markets by acquiring existing companies is also linked to Colifox’s existing dominant logic. The preceding section described how the Estonian joint venture occupied a similar position just as any other profit centre. Again, read the group manager’s words:

‘Well, we simply do not like to throw ourselves in at the deep end, therefore we have asked him [the Estonian partner] to prepare a budget for the next year. Also, if we are halfway the next year he will at least have to prepare a budget for the coming two years, because we certainly would like to know where we are heading for with him. That has to do with financial resources and with guaranties, with certainties and that kind of thing, and with manning of course.’

As the director remarked, acquisitions have the advantage that they ‘provide for a much more gradual process as they do not disturb the market as much as starting up your own business’. However, the real advantage appears to lie in the possibility to go back to ‘normal business’ in line with the company’s dominant logic as soon as possible. The first thing management teams of newly acquired companies have to take care of is preparing a budget for the next and coming years. This enables Colifox’s management team to closely monitor and compare performance across profit centres and product groups.

Design value chain and relation with other activities

Although Colifox sells the larger part of its products via the profit centres, part of its sales is sold directly to customers all over the world, ranging from countries in Africa and the Middle East in which Colifox does not have a profit centre. The group manager we interviewed takes care of the larger part of these sales; incidentally other profit centres sell to customers abroad based on their personal contacts. These sales are not actively aimed for apart from keeping current contacts warmed up. Orders often lead to sudden increases in turnover, as it is not unusual that they come out of the blue and enclose fairly large quantities.
The decision to reduce *Colifox’s* efforts in Latin America virtually places the customers and agents in this region back in this category of customers. Recall that the group manager only travels to Latin America 'with great reluctance' and will only continue doing so if it pays off:

‘The only thing I do from [my office] is to keep the business hanging on, I would almost say for the sole purpose of selling used products Y. If ever that would become new products, I would appreciate that [. . .] but the used products Y we are selling there now is a lucrative business, that is for sure.’

However, his interests do not seem to lie so much in the sales to Latin American customers as such, as in the potential possibilities for employment at home based on the sales of recycled products Y (which again closely fits in with the company’s dominant logic):

‘We already sell used products Y for six or seven years now, because we have a small facility [near our head office] in which products [from product group O] are stamped but only for a half year. After that these people have to paint, maintain the machines, clean up and that kind of thing. I always found that a waste of time. Now we sort a colossal amount of used products Y. Now I have the people fully occupied and I can spread my costs among two product groups.’

Overall, learning in this area within the context of the diversification project has been rather limited, partially due to the departure of the sales manager who was responsible for the project. Instead, the group manager focuses on the value chain of, and the relations between, the European profit centres. For example, he notices many opportunities that are awaiting their exploitation. But one of these is selling all of *Colifox’s* product groups in every country:

‘Profit centres that now are only doing one or two product groups, may also start to sell the other product groups, but you have to do that step-by-step, you have to take them by the hand, go to the plants that produce these products and show them. But the possibilities are there, it is only a matter of, how should I say that . . . the things that we are currently engaged in, if we have completed them next year, then we first have to consolidate I think. After that we have to make new plans again to decide who is going to start selling which product groups in which countries. We have to make some time for that otherwise it will not get off the ground and that would be a pity.’

**Development of new business skills**

Overlooking the foregoing pages we can be brief about the development of new business skills with respect to the diversification attempt. Since the sales manager has left the company and the group manager took over his responsibilities in a rather slimmed-down way, this development stopped. The group manager’s viewpoint on how he intends to keep doing business in (some) Latin American countries speaks for itself:
'I have been to [two countries in Latin America] this spring, which took me nearly two weeks. If I go again next year, I will only go for one week at most; I don't have to see all those people again because I’ve already known what happens there for a long time. I will be in [the capital] for two days and will call everybody and whoever wants to come comes. I will be sitting there on a chair, those who want to buy buy, and then I go on to the next country and then go home again. That doesn’t pay off anymore, we can’t keep on doing that any longer . . .'

So, the development of business skills seems to have been reduced to the group manager’s travels to some Latin American countries to meet those who want to meet him and to sell to those who want to buy. In doing so, he seems to try to minimise his efforts in Latin America. Like during the first round, the director is not involved at all with this knowledge area, which he now leaves fully to the group manager.

**Summary of the second round**

During the first round of interviews we noticed a clear division between the ‘management-at-home’ – i.e. the director and group manager – and the ‘sales-manager-out-there’. The inherent variety in perspectives that came with this distinction disappeared completely when the sales manager left the company. The group manager, who is now responsible for the Latin American sales, and the director share a solid and growing amount of aversion to the Latin American market in general and its customers in particular. As can be seen in Table 6-14 which summarises our observations on the basis of the second round of interviews, the division of labour between both managers identified during the first round is still fully present during the second round (again, the outlined parts indicate the areas which each manager emphasises most). Again it is clear that the group manager stands in the middle of the company’s dominant logic and nearly personifies it, while the director focuses most of his attention on the processes of conceptualisation of the business, both individually and as a whole. As we indicated in the foregoing pages, the differences in key words as used by both managers highlights this distinct focus of attention (see Figure 6-11). Learning related to the design of the value chain and the development of new business skills, which are more operational in nature and used to belong to the jurisdiction of the sales manager, ceased almost completely. The director leaves these activities to the group manager, who, in line with the central management team’s decision to reduce Colfox’s efforts in the Latin American market, acts rather reticently.

Our most important observation, however, does not concern the diversification project itself but the decisiveness of what both managers wanted to pursue definitely, i.e. growth in the European market. Their experiences in the Latin American market seem to have contributed substantially to this. They now especially appreciate the business mentality of their European customers over
those in Latin America. In pursuing European growth, they prefer acquisition of companies with an established market position instead of starting up a business themselves. The former enables them to apply the company’s dominant logic fully and instantaneously.

**Learning during a diversification attempt**

We have spread our discussion of Colifox’s diversification attempt in Latin America over two sections. In the present section we first review the learning by the three managers that were involved in Colifox’s diversification attempt over the course of the diversification project. We thereby focus on the most striking aspects of their learning mindful of our definition of learning as ‘cognitive change’. Subsequently, the next section discusses the main insights into the process of diversification (including the learning by its participants) that emanated from the present case study.

<table>
<thead>
<tr>
<th>Knowledge area</th>
<th>Group manager</th>
<th>Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Re)conceptualisation of the portfolio</td>
<td>Huge potential to grow in European countries and improve performance</td>
<td>Fiercely pursue European growth to become important European player</td>
</tr>
<tr>
<td>Conceptualisation of the new business</td>
<td>Poor future prospects because of questionable business mentality of Latin American customers and governments</td>
<td></td>
</tr>
<tr>
<td>(Development of) dominant logic</td>
<td>Close monitoring of sales budgets and contribution margins of profit centres and product groups</td>
<td>Professional organisation with profit centres; entering new markets through acquisition</td>
</tr>
<tr>
<td>Design value chain</td>
<td>Latin American customers treated like other foreign customers</td>
<td>Monitoring performance group manager’s profit centre</td>
</tr>
<tr>
<td>Development of business skills</td>
<td>Travel and meet/sell those who want to meet and buy</td>
<td>-------</td>
</tr>
</tbody>
</table>

N.B. outlined areas indicate focus of attention

*Table 6-14*

*Managers’ images of their diversification project during second round of interviews*
What did the three managers learn over the course of this attempt? Given our observation that each of the three managers focused on distinct areas of learning, the cognitive maps revealed clearly that the three managers learned different things. The varying degree to which each of them was involved in the process of diversification greatly contributed to this. We especially observed differences between the ‘management-at-home’, represented by the group manager and the director, and the ‘sales-manager-out-there’. The connection between the content of learning and the extent and nature of their involvement is evident from the following observations on learning (and unlearning) during Colifox’s diversification attempt.

The sales manager learned various new business skills and learned how to organise the Latin American activities

The sales manager, who was held responsible for Colifox’s Latin American activities and on that account deeply involved with the attempt, learned most with respect to designing the activities’ value chain and developing new business skills. In these learning areas the sales manager basically learned three things. First of all, he learned how to deal with Latin American customers who, as became evident soon after acquiring Matalvid, had to be approached in a different way from most of Colifox’s existing customers. Their way of doing business – consistently referred to by the group manager and director as their ‘business mentality’ – differed fundamentally from that which Colifox was used to in Europe. By visiting them frequently and approaching them in conformity with their business habits, the sales manager acquired customers in several Latin American countries. His efforts mainly focused on getting acquainted with the Latin American market in order to develop it for Colifox. His Decision Explorer map and his specific use of the word ‘market’ illustrate his elaborated view on this (see Figure 6-4). Secondly, in developing the Latin American business the sales manager learned how to set up and maintain a network of agents that distributed and sold Colifox’s products to its Latin American customers. Such a network of intermediate agents was a new constellation to Colifox who up till then mainly sold and distributed products directly to its users. Thirdly, in trading with these customers the sales manager learned about some new sorts of financial transactions they proposed (some of which were honoured by the group manager).

Finally, note that the sales manager did not succeed in linking the Latin American activities to Colifox’s other activities. With respect to the former he feels like he is working on one of Colifox’s ‘islands’, each of which is populated by a director of one of Colifox’s trading companies who fully focuses on his own regional market. He argues that for this reason Colifox is missing great learning opportunities.
The company unlearned when the sales manager left Colifox

All in all, the sales manager’s learning yielded a respectable output. Our discussion of the second round showed, however, quite clearly that what the sales manager had learned in the Latin American endeavour was lost to Colifox when he left the company. Moreover, the group manager and director did not make much effort to retain some of his experiences and knowledge. Most of this concerned tacit (directory and recipe) knowledge on ‘how to deal with customers and agents’. The sales manager’s efforts and experiences with establishing and maintaining a network of agents disappeared when Colifox decided to treat the Latin American region as any other region or country in which the company did not have a trading company. Similar to this knowledge on organising the new business’ value chain, the development of new business skills stopped nearly completely (except for the group manager’s limited efforts). Colifox’s knowledge in this area was on the whole back to the level before it took over Matalvid.

The group manager started to learn some new business skills after he took over the sales to Latin American customers from the sales manager

After the sales manager left the company Colifox’s management team decided to leave the responsibility for the sales to its Latin American customers and agents to the group manager. He took this job with severe reluctance, minimising his efforts to the one or two weeks he travelled to a few countries in Latin America. After one business trip to Latin America he acquired some new business skills to deal in an efficient and rather minimal way with Colifox’s customers in this region. He did not seem to be willing to further elaborate these skills, let alone develop any new ones. The group manager’s (more extensive) submap on Colifox’s Latin American activities during the second round basically reflected his argumentation why Colifox should withdraw from this region altogether. His trip to Latin America strongly endorsed his opinion (which can also be considered a kind of learning process, be it a more negative one). His reluctant attitude, concealing a host of negative feelings and emotions towards ‘the Latin American business mentality’, appeared to be firmly rooted in Colifox’s existing dominant logic.

The group manager learned that the Latin American activities did not fit in with Colifox’s prevailing dominant logic

With the departure of the sales manager, the pressure within the company to change the company’s current dominant logic faded away. Being the near personification of the company’s dominant logic, we observed that the group manager was not willing to change it or develop a new one besides it specifically for the company’s Latin American activities. In fact, his observation
that the Latin American endeavour does not fit in with the way Colifox is used to organising its business seems to represent his most important learning point. As we stated in the foregoing section, the decision to drastically cut back Colifox’s Latin American efforts can well be interpreted as the victory of the existing dominant logic over the development of a new one.

In our view the poor financial results of the Latin American endeavour only contributed to this victory and were not a main argument in the decision to decrease Colifox’s Latin American efforts. If results had been better the Latin American activities may well have given more respite (surely if the sales manager had kept working for the company). On the other hand, if the Latin American activities had fitted in with the company’s dominant logic, the poor financial results may well have led to a critical review of its organisation, i.e. its value chain. In this respect, the recent acquisitions in Germany and Italy but in particular the Estonian joint venture and the enthusiasm with which the group manager talked about it, shows the strength of the present dominant logic. From the moment these ventures were acquired, they fitted fully in with Colifox’s way of working. Especially the group manager seemed to be aware of this. We also like to recall in this context that, contrary to the director, the group manager placed Estonia near several Western European countries with which he is most acquainted (see Figure 6-10).

The group manager and the director learned from their Latin American experiences what they wanted to pursue definitely, i.e. European growth

As we already noted during our discussion of the second round, the failed Latin American endeavour was far from in vain to Colifox. The experiences of the group manager and the director (largely ‘at home’) with the Latin American activities strongly contributed to their growing conviction of what they really wanted to pursue: European growth in order to become a major European player in their market. Recall that at the time of the first round of interviews both stressed the need to spread risks and reduce seasonal and agricultural dependence. At the time of the second round of interviews these goals were embedded in their European ambitions and were merely considered as a positive side-effect of it instead of seen as a separate goal (see for example the director’s goal structure in Figure 6-8). Contrary to the first round, ‘seasonal influence’ was not elicited as a construct as part of the repertory grid technique nor was it a central construct anymore in the Decision Explorer maps of both managers.

The cognitive maps signal that a substantially stronger focus and more specific lines of thinking accompanied the observed shift in strategic thinking. The impression that arises from these maps is of two managers that now know what they want and, on the basis of that, go full speed ahead. In between both rounds of interviews, they acquired a handful of smaller companies in four different European countries. We also noted that they were swiftly ‘rolling out’ the company’s dominant logic, which led to a large number of major and minor
organisational adjustments. Most constructs elicited during the second round as part of the repertory grid technique deal with turnover and possibilities for growth. Also, European growth and turnover are central constructs in the Decision Explorer maps of both managers, the larger number of emergent clusters are more focused, and the goal structures inferred from these maps are considerably more specific. Their goals during the first round were quite general with goals like ‘continuity’, ‘spread risks’ and ‘growth of turnover’. During the second round, their goals are more often connected to regions or products reflecting that they now know how to realise such more general goals. Whereas during the first round both managers basically left all options open to realise ‘their’ goals – of which the Latin American venture was one –, during the second round they had made a clear choice. As a result, the conceptualisation of the new business changed considerably from being one of the options to not being an option at all.

The group manager and the director classified the product groups in a fundamentally different way over the two rounds of interviews (which reflects the outcome of a learning process).

To us, the shift in strategic thinking reflects a reconceptualisation of the portfolio of product groups. We observed this shift most strongly for the director who in line with his position largely focused on this particular learning area. The reconceptualisation was crystal-clear from the different naming of the dimensions of the MDS-solutions in both rounds (see Figure 6-1 and Figure 6-7). These changes in naming reflect a fundamentally different view on, and clustering of, Colifox’s product groups by both managers. Whereas during the first round the product groups were most strongly distinguished on the basis of agricultural usage and seasonal influence, during the second round they were mainly categorised on the basis of ‘current success’ – which, remarkably, both associated strongly with expected ‘decreasing turnover’ – and their future ‘growth opportunities’. These changes were also reflected in the product groups’ centrality scores obtained from the comparison task; what is especially noteworthy is the lower centrality of the largest and oldest product groups during the second round. The group manager and the director now seem to divide the product groups roughly into ones that are ‘old and (will) show decreasing success’ and ‘new with great future potential’.

**Insights from the present case study**

Over and above the learning we observed by the three managers we interviewed, the present case study yields several important insights into the process of diversification. Recall that these insights relate to the main purpose of this research: the identification of factors in the process of diversification that
influence its ultimate outcome, by taking a cognitive perspective, and by the examination of the process in which these factors interact. Like the preceding section, we will deal with the insights point by point. Please bear in mind that each of them should be considered as hypotheses suggested by the present, specific case. Moreover, whereas this and the two following chapters deal with the (inductive) insights of each case study separately, the final chapter of this research project will discuss our insights over all three case studies we examined and relate these to existing theory.

A strong division of tasks resulted in different and largely isolated learning processes

In particular during the first round of interviews we observed a strong division of tasks between the three managers that were involved in setting up Colifox’s Latin American business. Note that this was strongly reflected in differences in salient nouns as used by each of the three managers, which suggests that they developed deviating language over the course of the diversification project. Their division of tasks led straightforwardly to large differences in the attention they paid to each of the five learning areas, which reflected distinct learning processes that only incidentally overlapped. The sales manager exclusively focused on the design of the business’ value chain and the development of new business skills. The group manager focused his attention chiefly on defending the prevailing dominant logic in the context of his conceptualisation of the portfolio, which he largely shared with the director. The latter devoted almost his entire attention to this learning area and hardly paid any attention to the other learning areas.

The three managers hardly shared their experiences and the knowledge they developed in the learning areas over the course of the diversification attempt. On several occasions the sales manager asked the group manager and two of Colifox’s directors to join him on one of his journeys to Latin America to visit new customers and agents. Only the former accepted his invitation once but this did not seem to fundamentally change his rather sceptical image of the Latin American business mentality. There are several signs that he largely built this image on the many financial difficulties he experienced with payments by Latin American customers in connection with the importance he attached to the current dominant logic; note that fully in line with the company’s dominant logic he was mainly concerned with the financial side of the new business. The director, who had known the group manager for many years, seemed to fully rely on his opinion and in doing so essentially adopted the group manager’s image of the new business.

The strong division of tasks resulted in different and largely distinct learning processes that were only partially and occasionally linked. The director and the group manager relied upon their respective opinions developed in the learning areas they focused on (and which they regularly exchanged in the context of
other product groups and regions). The larger part of what the sales manager learned and which was predominantly tacit in nature, was not shared with any of the other managers; the group and sales manager only occasionally shared their experiences with respect to financial payments. The lack of exchange of insights and experiences, especially between the ‘management-at-home’ and the ‘sales-manager-out-there’, reflects that a shared learning process across the three managers is lacking. Besides the possible beneficiary potential that may have resulted from going through a shared learning process, we observed several consequences from the cognitive maps we analysed. Firstly, the near full loss to Colifox of the sales manager’s learning experiences and developed knowledge when he left the company was a logical consequence of this. Secondly, it resulted in distinct mental constructions of the Latin American business and in fundamentally different interpretations of its future potential. Before we elaborate on these differences in the following pages, we go into what we consider to be the main reason for the separate learning processes and mental constructions.

Active involvement (to some extent) of all those involved in, or responsible for, (parts of) the diversification project in all learning areas during the process of diversification is of importance to support a new business

On several occasions the sales manager pled for more commitment of Colifox’s top management (his request to the group manager and director to join him on one of his journeys should be considered in this light). Although top management commitment is nearly always listed in any top three of key success factors of any project in any organisation, we do not think it covers the essence of what we observed in Colifox. Top management commitment does not reckon with the importance of (passing through) shared learning processes. It is our impression that mere commitment of Colifox’s management would most probably have led to the same differences in mental images unless they had been more intensively involved in the Latin American endeavour. Active involvement of each of the three in each of the five learning areas may have resulted in a (more intensively) shared learning process and, as a result of that, in a larger degree of commonality in the three managers’ images of the new business.

The Colifox case suggests that (mutual) lack of involvement seems to be especially problematic the more the diversification project lies (or gradually grows) outside the management’s current ‘zone of proximal development’ (cf. Vygotsky, 1986). To Vygotsky this is ‘the place at which a child’s empirically rich but disorganized spontaneous concepts ‘meet’ the systematicity and logic of adult reasoning’ (Kozulin, 1997: xxxiv). He considers cognitive change as involving one’s movement through the zone of proximal development (cf. Flavell et al., 1993). Discussing it in the context of strategic conversations in groups, Van der Heijden (n.d.: 6) uses the concept to describe ‘the realm where an individual’s rich, but disorganized tacit mental constructs interact with the
logic of reasoning expressed in the language of the social group’. Translated to this context, the zone of proximal development encloses the (random, tacit) knowledge and business areas about which (or more precisely, in which) someone feels considerable discomfort and, for that reason, wants to explore and learn about to make it familiar and include it in one’s current ‘zone of familiarity’. The latter encloses meaningful and organised knowledge and schemes. To make the unfamiliar familiar requires a gradual stretching of assumptions, beliefs and mental images to link the unfamiliar to the familiar (cf. Vygotsky, 1986). This points to the indispensability of passing through such a learning process compared with merely taking notice of its (interim) conclusions (and thus surpassing parts of the process). An implication of this is that learning cannot be (fully) delegated to a third party (although, following Vygotsky, a third party can certainly help in this process). Note that this does not necessarily imply that everybody has to do everything in an organisation but that learning processes need to overlap to some extent.

What we observed in the Colifox case was that, on the one hand, the sales manager reported in between large intervals to the group manager and, less frequently, to the director. As a result neither could, to a growing extent, link up to the sales managers’ experiences and opinions as these, increasingly, were outside what they were used to. On the other hand, the sales manager showed little interest in the three learning areas besides the ones concerned with the value chain and business skills. As all three managers only took notice of some superficial shared interim conclusions they increasingly developed, and found themselves in, different ‘zones of familiarity’. Again the Estonian venture, in which both the group manager and the director were more closely involved, seems to support this hypothesis (probably next to the importance of a relation based on mutual trust). The distinction we observed between the ‘management-at-home’ and the ‘sales-manager-out-there’ grew out of this mutual lack of involvement. The problems the sales manager experienced with getting new sorts of payments accepted by the group manager was but one consequence of it.

Distinct learning processes and differences in involvement can easily lead to fundamentally different mental constructions of a new business

Out of the mutual lack of involvement and the absence of a shared learning process grew two fundamentally different images of the Latin American business, one shared by the group manager and the director (the ‘management-at-home’) another held by the ‘sales-manager-out-there’. The view and opinion on the Latin American customers played a central role in these images. We noted above that the group manager largely built his sceptical image upon his problematic experiences with the payments by Colifox’s new customers. He mainly looked at these customers from the perspective of the company’s dominant logic and compared the way of doing business in Latin America with the familiar European way of doing business. We also observed that the director
partly relied on the group manager’s image and in doing so largely shared this image.

The sales manager, who regularly travelled to Latin America and physically met these customers, construed a fundamentally different image of the Latin American customers. He acknowledged that Colifox’s Latin American customers differed from their European counterparts but fully disagreed that they were predominantly untrustworthy. He definitely considered them to be less of a ‘problem’ than the group manager and stated that they only needed to be approached in a different way. If done so they held a huge potential to Colifox, amongst other things, as they were on average larger in size than European customers. Based on this belief he interpreted the financial side of the new business in a fundamentally different way and considered payment issues not as a problem but subordinate to the development of the Latin American market.

As we noted in our discussion of the second round, the construed sceptical image of the Latin American customer and his business mentality by the ‘management-at-home’ eventually proved to be decisive in Colifox’s decision to essentially stop its efforts in Latin America. During the first round of interviews it became clear that there were lots of mutual misunderstandings and differences in opinions about the new business’ potential between the ‘management-at-home’ and the ‘sales-manager-out-there’. The sales manager complained that he was not supported enough and pointed to the, in his eyes, low commitment of Colifox’s management while they were arguing that, in line with the firm’s dominant logic, the sales manager had to do it himself.

The prevailing general dominant management logic holds the potential to strongly influence the course and outcome of a diversification attempt

In the foregoing parts we argued that the decision to cut back Colifox’s Latin American activities can be interpreted as the victory of the existing general dominant management logic. Four (related) aspects of the dominant logic in particular draw our attention in the Colifox case. Recall that we largely hold Colifox’s existing dominant logic responsible for the failure of the Latin American endeavour.

Firstly, the persistence of the prevailing dominant logic seriously hindered learning in the context of the Latin American endeavour. The group manager firmly held on to the existing dominant logic and this restrained him visibly in learning about the peculiarities of the Latin American market. He was not willing to put much effort into it himself, especially because he saw many better opportunities in Europe that matched with Colifox’s way of doing business. Both indicate that he assessed any new business’ potential in terms of the company’s dominant logic (including the kind of customers that fit into it). Albeit in another way, the sales manager’s learning was also restricted by the prevailing dominant logic. The prevailing dominant logic, aimed at monitoring trading companies
with established positions in existing markets, prove to be not suited for exploring a fully new market. Recall that the sales managers felt that it did not leave enough room for developing a new market like he had to do. For one thing, he felt he had to fight to get new sorts of payments accepted.

Secondly, the group manager is nearly the ‘living personification’ of Colifox’s prevailing dominant logic; of all three managers we interviewed he held on most fiercely to it. While Prahalad and Bettis (1986) mainly had a company’s top management in mind when discussing the dominant logic, the Colifox case clearly shows that its middle management is most intensely working with it. Central elements in the group manager’s argumentation reflect the core of Colifox’s dominant logic, i.e. budgets and contribution margins. From his arguments and attitude speaks contentment with the dominant logic that goes beyond mere words and verbal argumentation and includes positive feelings towards it (and for this reason against the Latin American market and its customers). To the director the dominant logic is merely a valuable administrative instrument that informs him in a concise way on how things are going. He only sees the outcome of it, while for the group manager it fills up a large part of his time.

Thirdly, the fiercest pressure to change the existing dominant logic come from the sales manager who was working on the edges of the company’s ‘zone of familiarity’ (or, given the course of events, already even over it). He was by far most vigorously confronted with the limitations of the current dominant logic. As noted above, the prevailing dominant logic withheld him from developing a market instead of offering him ample opportunities for it. So, whereas one of Colifox’s middle managers most fiercely defended the prevailing dominant logic, a manager exploring new business areas for the company most strongly attacked it.

Fourthly, the persistence of the dominant logic in the Colifox case shows the strength and importance of organisational routines. One might say that the Latin American endeavour was ‘sacrificed’ to preserve the company’s dominant logic. At first sight Colifox’s dominant logic is no more than an internal administrative instrument. However, a closer look reveals that, surely to the group manager, it conceals deep-down feelings and emotions. Both the failure of the Latin American endeavour as the success of the Estonian venture and several other recent acquisitions in Germany and Italy show the importance of conformity with the prevailing dominant logic. In a case as the former many routines can not be applied which necessitates extraordinary efforts to make it work. As a true champion, the sales manager was willing to put these into it but it stopped the moment he left the company. The latter turn out to fully fit into the prevailing dominant logic (recall that the Estonian venture was more or less working like a ‘normal’ Colifox trading company already shortly after its acquisition). Largely as a result of this, Colifox’s top and middle management was more actively involved in it. The appropriateness of Colifox’s organisational routines (i.e. the company’s dominant logic) strongly contributed to the success of most European acquisitions. Conversely we can also say that precisely
because many of Colifox’s core routines turned out to be not applicable in the Latin American business, they contributed to its failure.

**Individual learning ≠ organisational learning**

This insight connects to the discussion in the organisational learning literature on who learns, individuals or organisations. The present case offers a clear example of an organisation that loses valuable learning experiences when one of its managers leaves the company. After the sales manager left the company it soon became clear that what he had learned was largely lost to Colifox. Recall that most of what he learned was tacit in nature and concerned knowledge on ‘how to deal with Latin American customers and agents’. Until the sales manager left, the group manager only learned about the financial side of the business, which was to a large part explicit in nature. After he took over the Latin American sales he developed some business skills of a tacit nature and learned how to deal with customers (in a way that minimised his efforts).

One may even say that Colifox unlearned when the sales manager left. In several places during our discussion of the Colifox case we referred to the distinction between the ‘management-at-home’ and the ‘sales-manager-out-there’. The inherent variety in perspectives that came with this distinction disappeared completely when the sales manager left the company. As learning and variety are different sides of the same coin, a reduction of variety implies unlearning (cf. e.g. Huber, 1991).

In line with the foregoing sections, we would not dare to speak about ‘Colifox’s experiences’ in the Latin America market. Each of the managers has acquired his own experiences over the course of the diversification project. The sales manager has experienced it most intensively as he regularly travelled to this region. His experiences differ greatly from those of the ‘management-at-home’. The group manager mainly acquired experience with respect to the financial side of the new business. The director acquired his experience largely from his talks with the group manager and the sales manager. The financial information he obtained from the realisation of budgets seemed to have coloured his interpretation of what he heard from the sales manager.

**Personal feelings and preferences can be decisive in pursuing a diversification attempt as they may work against the requirements of a new business**

When we discussed the nature of cognitive maps in Chapter 5 we indicated that the mental images people hold are much richer than mere words and verbal argumentation and also include personal feelings, emotions, beliefs, preferences, norms and values. In conducting interviews, the researcher physically meets ‘the person behind the words’, which opens up opportunities to appreciate ‘the whole person’ including his arguments and feelings. Much can be ‘read’ from body language, intonations in voice, subtle movements of hands and eyes to, for
example, emphasis the cynical nature of a statement, and so on. It was fully evident in the Colifox case that the words we mapped (from the sales and group managers in particular) did not live a life of their own but were imbued with their emotions (the feelings and preferences they had towards Latin American customers especially). The process and outcome of Colifox’s Latin American endeavour was inextricably linked to the (un)willingness to pursue it by the managers involved.

The sales manager, assigned for this task, was fully willing and persistent to make the Latin American endeavour a success in the end. During his trips to Latin America he had built up relationships with customers and appreciated these. The group manager (and the director too), however, increasingly developed a strong aversion to the same customers. They also preferred other options over it (European expansion) and this was not (solely) based on an extensive (and rational) comparative analysis. Eventually, it turned out that they were not willing to proceed with the Latin American business with the same intensity with which they had started it. In this light, the ‘decision’ to cut back the Latin American efforts was more a punctuation in a swelling feeling of discomfort with the endeavour than the ‘logical’ outcome of a rational analysis. What would the outcome of Colifox’s Latin American diversification attempt have been if all three managers had (emotionally) preferred the Latin American route, were fully enthusiastic and increasingly convinced that it eventually could and would be a large success (and were, based on that fundamentally positive attitude towards it, willing to adjust the prevailing dominant logic)?

Chances of a successful diversification attempt may be lower if management rejects any change of the prevailing mental coherence (especially if the new business requires a fundamentally different approach)

This insight brings a number of insights together. We have observed that the Latin American business did not lead to an adjustment of the prevailing dominant logic. Both the group manager and the director were not willing to change it or develop a new dominant logic next to it which could deal adequately with the peculiarities of the Latin American business, in particular its customers and specific payment terms. Instead they decided to keep on to the prevailing way of working and, as a result of that, focussed their efforts on the European market, its customers and its way of doing business. We also concluded that the Latin American diversification attempt made them more decisive in taking this route, which led to a handful of European acquisitions and a host of major and minor organisational adjustments. Their conceptualisation of the portfolio and their mental images of the dominant logic, the linkage of business activities (including product groups and trading companies), and the required business skills were tied more closely and matched better. Moreover, it was clear that both managers felt extremely comfortable with it. All in all, their thinking across the five learning areas increasingly fitted together in their mind:
their mental coherence across different aspects of their company’s management (such as covered by the five learning areas in Figure 5-1) had grown strongly and became more or less gestalt-like, enclosing a host of individual and organisational (mental) images and routines. On the basis of this mental coherence, they could pursue their desired future image with full dedication and without much doubt.

In the foregoing pages we have introduced the concept of the ‘zone of proximal development’ as enclosing the knowledge that is currently outside one’s area of familiarity but close enough to it to arouse a fair degree of discomfort about the lack of knowledge about it. As a result of this discomfort, one feels an urge to explore and learn about it. The group manager and the director were clearly not feeling much discomfort about the Latin American business. They were, as a result, not willing to sacrifice the coherence across several managerial (learning) areas they had developed in their mind and were elaborating upon. Their position contradicts with that of the sales manager who argues for the necessity of some radical changes. He observes that the prevailing mental coherence of the group manager and director does not fit in with the requirements of the Latin American circumstances. The new business may well have had an excellent future if it had fitted into the (elaborated) prevailing mental coherence and if existing routines, including the prevailing dominant logic, had been fully applicable.

Taking our foregoing analysis of the three managers’ cognitive maps into account there seem to be (at least) three factors that influenced the degree of discomfort of the three managers involved in the present case. These factors are strongly interrelated and enforce each other. Firstly, the degree of active involvement in the new business seems to play a role. We have argued above that due to the sales manager’s active involvement in the new business – in particular its operational side and his business trips to the area – he has gradually included the unfamiliar Latin American circumstances in his mental ‘zone of familiarity’. Conversely, the lack of active involvement of both other managers has not even brought the new business and its specific circumstances into to their ‘zone of proximal development’. Secondly, the essential differences between both parties with respect to their fundamental attitude towards the new business, including their feelings and personal preferences, seem to be relevant. The sales manager was willing to pursue it to the end; the group manager and director clearly were not. Thirdly, contrary to the group manager and the director, the sales manager did not have a long history with the company. He had, for instance, not been working in line with the prevailing dominant logic in any of the company’s trading companies. As a result, he has not developed such a strong mental coherence in the European situation as both other managers have. In closing, we will explore the concept of mental coherence further in the final chapter, as it seems to play a role in all three cases we studied.
Conclusions

By taking a cognitive perspective, the Colifox case yields several important insights into the process of diversification. Above all, the case shows that the factors and the actors in the process of diversification contribute to its outcome. Colifox’s Latin American diversification attempt illustrates that a (strong) division of tasks may lead to distinct and unconnected learning processes and, as a consequence of that, result in fundamentally different mental constructions of a new business. Differences in involvement in the learning areas of a diversification project further contribute to this. The separation of learning processes and the distinctiveness in mental images may, in turn, result in mutual misunderstandings and differences in opinions between managers about the new business’ potentialities. Moreover, it holds the danger of (organisational) unlearning when one of the managers in question leaves the company. In addition, the Colifox case shows the crucial role of the prevailing general dominant management logic in shaping the course and outcome of the diversification attempt. In doing so, it points to the importance of organisational routines that may limit individual and organisational learning when exploring new business areas.

Furthermore, the Colifox case indicates that the role of personal emotions and feelings cannot be neglected in the study of corporate diversification. All in all, the new business did not lead to such discomfort for the group manager and the director that it upset the prevailing mental coherence across a broad range of managerial (learning) areas. In fact, their mental coherence was enforced due to their experiences with the Latin American circumstances. Finally, the present case shows that a diversification attempt can be a success despite its failure. The Latin American endeavour contributed to the decisiveness of Colifox’s management about what they wanted to pursue definitely (and which did not include the Latin American market). In this sense, Colifox’s managers certainly learned much from the failed diversification attempt.