Chapter 7

The Processors

The three case studies in this research project differ in a number of respects. The case study in the preceding chapter is the most extensive of the three. The reason for this is rather trivial: we interviewed the largest number of managers in this company (three) and employed all three cognitive mapping techniques (content analysis, the repertory grid technique, and cognitive mapping using Decision Explorer). The case study to be discussed in the present chapter only involves two managers. Moreover, we did not employ the repertory grid technique, as the company did not have a portfolio of distinct products or businesses that could be compared in a meaningful way. In the case study in the next chapter, which concerns a small company with one owner-manager, we again employed all three techniques.

Other differences between the three case studies concern the stage of diversification the companies were in at the time we conducted the interviews and the degree of success of their attempt. One could say that Colifox had already finished its diversification attempt as its management had decided not to invest in it anymore. Opposite Colifox’s results stands the overwhelming success of Agripride’s diversification project, which we will discuss in the next chapter. During our second round of interviews the owner-manager of Agripride was in the middle of enlarging the new business activity. The company, Beltics, that we will discuss in the present chapter is at yet another stage of diversification. At the time we conducted our interviews Beltics’ management was (still) considering if it should extend its business activities in the first place. Although this would only bring the company further downstream the industry chain of operations, it was clear to them that this would bring the company into an entirely different business area.

This chapter follows the same format as the preceding one. We start by describing the diversifying company, Beltics, at some length to highlight its short but turbulent history and introduce its diversification project. We then go on to build up and analyse the managers’ personal images of the unfolding project with the purpose of assessing managerial and organisational learning in each of the five learning areas. The chapter ends with a discussion of its main insights.
A processor considering diversification

*Beltics* buys and sells a particular category of used bulk product in hundreds of variants from and to all over the world. Purchases add to the impressive stocks, which in total represents a value of millions of guilders. Sales are largely done by phone although many customers regularly visit the company themselves to select and inspect the (batches of) products they are looking for. Which products are asked for at any moment is to a large extent unpredictable according to both managers we interviewed. As a result some products are already in stock for several years while others are sold the moment *Beltics* buys them. The director who was responsible for purchasing stated that he was regularly pleasantly surprised as several customers suddenly eagerly asked for particular batches of products, which had been in stock for some time, simultaneously. As will become clear when we construe the managers’ images, the general manager is quite anxious to link purchasing and sales more closely.

*Beltics* was established two years before we started our first round of interviews out of a merger of two companies, which we will call *Triwork* and *Procom*. The activities of *Triwork* and *Procom* were fully complementary as each of them specialised in one of the two main sectors of the market (in the following we will refer to these as the *Tri-products* and the *Pro-products* respectively). At the time of the merger both companies were among the top three companies in their respective market sectors in terms of turnover. As a result of the merger *Beltics* became the third largest player in the entire Dutch market and one of the largest traders in Europe. *Beltics* is currently headed by the former director of *Triwork*, Phil Hackett, and the former vice-director and main purchaser of *Procom*, Burt Peterson. The former director of *Procom* left the company approximately a year after the merger as a result of serious financial malversation. As we will see in the following, this unpleasant incident strongly influenced managerial thinking and organisational life in the newly founded firm during its first years (in fact, Table 7.2 shows that a large part of the Decision Explorer map of the general manager dealt with the company’s short but turbulent history). At the time of our research *Beltics* employed somewhat more than twenty employees and had a turnover of roughly fifteen million Dutch guilders.

The motives for both management teams to engage in the merger differed to some extent. Talks about a possible merger were initiated by *Procom*’s management who wanted to strengthen the company’s market position and cover the entire market. Since its establishment in the sixties *Procom* had firmly stuck to one of the two main market sectors but its customers were increasingly asking for the other main category of products sold in the market. They also noticed that the dominant and most successful players in the market traded in both categories of products in line with their customers’ requests. *Procom*’s management was fully aware that building up a strong market position themselves in the category of products *Triwork* sold was difficult if not impossible as it required a completely different way of working.
Procom purchased its products from a network of small(er) traders all over the world, although most traders were located in Western Europe. Its purchasers regularly travelled to these traders to appraise the quality of the products they offered and to negotiate about the price. Triwork, on the other hand, mainly collected its products from a network of companies all over the Netherlands. A main reason for this is that the products Procom traded in can largely be used again, with or without some necessary repair work (largely depending on the products’ quality and future use). As a consequence, these products are far more valuable than the products Triwork was involved in. Roughly half the products Triwork collected were destroyed; the rest was sold to specialised companies for reparation or exported to Third World countries to begin a second life. Only recently did companies start to pay for the collection of these products. Both approaches of buying and collecting are still adhered to in Beltics for obtaining the two categories of products.

Next to the possibility of covering the entire market, Triwork’s owner-manager, Phil Hackett, had a more important motive for merging with Procom. Riding on the waves of a grown environmentalist awareness, Triwork’s growth in turnover had been spectacular since Phil took over the company in the midst of the eighties, especially in the few years preceding the merger. Observing this growth of Triwork, Phil foresaw severe problems with the banks in the near future to continue the company’s rapid growth rate:

‘After all, we grew fast at that time, to such an extent that we would encounter problems financing our own growth, that is clear. Whether a bank keeps up with that kind of growth depends on the confidence they have in it; they may well do that or they may not. We struggled with that dilemma. Excellent prospects, a solid basis and so on, but we foresaw problems with financing our growth although we already had gone a long way in that process. We even had obtained the necessary building permit. Nevertheless, we thought that we could sail round that problem by stepping into a larger company. We would win ten years, basically.’

Phil thus considered the merger as a necessary step in securing the future growth of Triwork’s business. In addition, he praised Procom’s good market reputation, the many international contacts they had and the increased flexibility that would result from the (larger) size of the new company. As an indication of the former, when he hired new personnel for Triwork Phil always took them for a visit to Procom. He therefore considered it an honour to be asked by Procom’s management to work together.

Phil’s statement above touches on yet another problem of a more pragmatic nature, that the owner-managers of both companies shared and which may well have accelerated the merger. At the time of the merger talks, both companies were for various reasons considering new locations for their companies. To furnish the company’s rapid and future growth, Phil Hackett was seriously considering building new accommodation. Due to infrastructure changes in the area around their business accommodation Procom had to leave their current
location and set up new accommodation elsewhere. As the local government was far from supporting the company in searching for another location (Burt spoke of a ‘policy of discouragement’), management started to think about moving the company to another municipality. During the merger talks it was agreed upon to build new accommodation in the middle of the Netherlands.

Due to the financial malversation mentioned above, Beltics’ first years were rather hectic. Approximately a year after the merger it became clear to Phil Hackett that the former director of Procom, Bill Larding, was mainly interested in lining his own purse. The adverse consequences of his financial malversation were fully revealed when an accountant carefully investigated the company’s financial position and product stocks. Discussions among the three directors were disrupted by several unpleasant incidents. In particular Burt Peterson found himself in an awkward predicament as he had been working with Bill Larding for several years; Bill had hired him as a youngster and eventually appointed him as vice-director of Procom. The situation ended when Bill Larding was forced by both Phil and Burt to leave the company without any financial compensation whatsoever. Unfortunately, his malversation brought the company to the verge of bankruptcy that could only be prevented by an effective turn-around. During this turn-around Phil and Burt called upon the services of Dennis Laver, a former neighbour of Phil, who had extensive experience in dealing with this kind of situation. Although the company was saved, the financial situation remained troublesome during the years to follow, partly also because the industry went through some rough times. As we will see in the following pages, both managers were aware that many things had to change within the company’s way of working in order to prosper in the future.

**Beltics’ management team**

At the time of our research in the company, the management team of Beltics consisted of two directors, Phil Hackett and Burt Peterson, who are both in their late thirties. Phil Hackett is acting general manager. He is in charge of the daily management of the company and takes care of finance and sales. After finishing his high school he and his brother took over Triwork where Phil used to work part-time as a student; after a while his brother left the company and emigrated to Norway. What is noteworthy is that, since becoming director of Beltics, Phil is increasingly interested in management literature and states that ‘he has some catching up to do’.

Burt Peterson is formally the commercial director but he devotes most of his time to travelling around the Netherlands and Western-Europe purchasing used products from small(er) traders. He is a prototype trader who very much enjoys what he is doing. He joined Procom as an ‘ordinary’ purchaser becoming vice-director after several years. It was only when Beltics was established he became the (joint) owner of a company for the first time in his life. Halfway through our
research he indicated that he would rather be the main purchaser than be bothered too much by the obligations and responsibilities that came with his position as director of Beltics.

The diversification project

Although both managers were strongly focused on building up the company following the turn-around, Phil Hackett in particular was looking further ahead. He foresaw that, due to changes in the waste legislation, the products Triwork used to trade in (the Tri-products) would become subordinate to the general process of reducing waste. He concluded from this that for Beltics to survive as a company they had to deal with the entire flow of waste, not only part of it as they did now, and chip Tri-products for further re-use. Phil also noticed that a (larger) competitor of Beltics already processed the products that it could not sell profitably itself; a few years ago they acquired a specialised company for this purpose.

At the end of our research Beltics' management had not yet taken the decision to go ahead with the project. Although Phil was quite convinced that Beltics should pursue this path, we will see that budgetary problems and current organisational problems prevented him from pursuing it with full speed. The main investments concern a processing machine that could chip the used products in small parts together with accommodation to house the machine. Next to saving on the fee they currently have to pay to the companies that take care of processing the products, it was estimated that this would considerably lower transportation costs. In addition, it would open up possibilities to sell the waste directly to power stations in Germany that are allowed to burn (some of) it in their ovens. In between the two rounds of interviews, a university student was hired to calculate potential savings to analyse the market for chipped products and to make an extensive study of the alternatives, including their costs and technical possibilities and limitations.

Characterising Beltics' diversification project

Figure 7-1 shows the flows of both categories of products Beltics trades in. As previously indicated, Beltics mainly buys its Pro-products from a network of small(er) traders all over the world while the Tri-products are collected via an extensive and growing network of Dutch companies. The thickness of the arrows flowing out of Beltics' stocks give a rough indication of the importance of the outlets. Pro-products are largely used a second time, sometimes directly but mostly after renewal of the product; only the really bad products are destroyed. On the other hand, roughly half of the collected Tri-products are destroyed; the other half is either sold to the repair industry or sold for second use directly. Beltics does not carry out the destruction of unusable products itself
but leaves this to specialised companies for which it has to pay a fee. The extension of Beltics’ business activities the management team is currently considering (indicated by the encircled diamond in Figure 7-1) concerns this flow of products.

Following Ansoff’s classification of corporate strategies (see Chapter 1), the extension can be characterised as one of vertical integration, which Ansoff considers as a special type of diversification. By moving downstream the industry chain Beltics becomes its own customer while getting involved in technology that is fully unrelated. The latter can even be qualified as a sheer understatement if we take into mind that the extension means that Beltics will have to deal with a mechanised process (one alternative is even based on a chemical process) whereas it has until now only dealt with trading and transporting products. Beltics’ case illustrates Galbraith’s (1983) statement that different stages of an industry require different resources and have different success factors. It may well be a lot easier for Beltics in terms of familiarity and required capabilities to extend its business activities to the same stage in a related industry instead of the project it is currently considering.

Interpreting Beltics’ business extension is not so clear-cut if we consider the classification schemes of several other authors. Mintzberg, for example, does not share his ‘chain integration strategies’ under the heading of diversification although he acknowledges that the distinction between the two is not always

**Figure 7-1**

*The flow of Pro-products and Tri-products*
obvious; *Beltics* case may well be a life example of this. Following Rumelt’s (1974) classification of diversified firms, *Beltics*’ business extension implies a movement from an essentially single business to a dominant-vertical business. Rumelt describes such companies as ‘firms that have diversified to some extent but still obtain the preponderance of their revenues from a single business’. In conclusion, similar to our attempt to characterise *Colifox*’s diversification project in the preceding chapter, the exact labelling of *Beltics*’ diversification project is also far from straightforward if we look at it from the viewpoints of various classification schemes.

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

We interviewed both owner-directors of *Beltics*, the general manager Phil Hackett and the commercial manager Burt Peterson, twice with an interval of a year and a half. As indicated in the introduction to this chapter, we only employed two of the three cognitive mapping techniques: content analysis and cognitive mapping using *Decision Explorer*. Although *Beltics* traded in hundreds of different product variants, it did not have a portfolio of business activities that could meaningfully be compared by both managers and subsequently analysed. We therefore skipped the repertory grid technique in this case study. Each round of interviews thus resulted in two series of cognitive maps for each manager. We analysed these to compose ‘their’ images of the company’s development and the diversification project in question. We complemented our interviews with the observations that we gathered on the several occasions we met Phil Hackett to speak, on his invitation, about the company’s situation in general.

Comparison of the cognitive maps construed on the basis of the first round of interviews reveals that there are some important differences between the two managers. Table 7.1 shows that they differ greatly in their conceptualisations of the portfolio and the new business. Moreover, Phil Hackett is more deeply involved with the organisational development of the company, including the diversification project (see the outlined areas). Burt, on the other hand, is chiefly occupied with purchasing and selling Pro-products, both physically and mentally. The difference in attention both managers pay to the diversification project seems to reflect the (still) strongly prevailing distinction between the two companies that merged into *Beltics*. Both managers agree, however, that the diversification project will increase the turnover and profitability of Tri-products in the first place.
Both Phil and Burt were aware that things would radically change within the industry in the coming years. However, both the scope of their view and the nature of the changes to come differed greatly. Together with clear differences between them with respect to the best way of working in this industry (to which we will come when discussing the company’s dominant logic), this leads to fundamentally different conceptualisations of Beltics’ business by both managers. Phil Hackett argues that Beltics’ business will become part of a larger flow of waste in the near future. Burt Peterson, on the other hand, conceptualises the company’s business predominantly as a trading company, which is in line

1 Given that Beltics lacks a true portfolio of businesses, (re)conceptualisation of the existing business (or, alternatively, its two businesses) would be a better designation of this section.

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### Table 7-1
Managers’ images of their diversification project during first round of interviews

<table>
<thead>
<tr>
<th>Knowledge area</th>
<th>General manager</th>
<th>Commercial manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Re)conceptualisation of the portfolio</td>
<td>Beltics’ business is part of a larger flow of waste and should reorient its activities accordingly</td>
<td>Beltics is basically a trading company and should secure its continuity by pursuing growth in trading volumes</td>
</tr>
<tr>
<td>Conceptualisation of the new business</td>
<td>‘Waste-processing business’ that will turn Beltics into a company managing flows of waste</td>
<td>Outlet for unsaleable products that may strengthen Beltics trading position and increase profitability in the future</td>
</tr>
<tr>
<td>(Development of) dominant logic</td>
<td>Management of sales-oriented company (versus ordinary ‘trading’ company)</td>
<td>Trading with emphasis on earning money</td>
</tr>
<tr>
<td>Design value chain</td>
<td>Only some rough ideas based on exploratory meetings with suppliers and producer</td>
<td>--------</td>
</tr>
<tr>
<td>Development of business skills</td>
<td>--------</td>
<td>--------</td>
</tr>
</tbody>
</table>
The Processors

Phil is greatly concerned about the current image of the industry, which he describes as ‘somewhat louche to most people’. To him Beltics has to distinguish itself from the many small traders in the industry that opportunistically buy any small batch of products they can get hold of, paying it with the cash they have at hand and transporting it on their ‘old small trucks to their messy premises’. As shown in Figure 7-2 which depicts his goal structure from the Decision Explorer map, he wants to ‘grow out of the atmosphere of taboo’. His children should not see him as somebody ‘who pulls at products in an old barn’ but instead as a manager that runs a well-organised company. Phil characterises the current way of working in the industry as ‘old fashioned’ and ‘set in habits’ (which he illustrates with many lively anecdotes) and states that the trading business is still in its infancy. He expects the number of small traders to decline dramatically in the coming years. To guarantee continuity he argues that Beltics should develop into a ‘professionally managed organisation’ (which emerged as one of the clusters in his Decision Explorer map; see Table 7-2). To him this is crucial given the structural changes in the industry that he foresees:

‘If you look at the recent developments in environmental legislation, if you closely examine these, then you will notice that the product, I am only talking about [Tri-products] now, will become subordinate to a larger flow of waste.'
There is a flow of waste, of which a part is pretty good, and can be used again and which we thus can sell. But as of the rest that is the true problem, if you can’t get rid of that at minimal costs, you will face a loss altogether.

His observation is strongly rooted in his experience with Tri-products as waste is a much larger problem for Tri-products than it is for Pro-products. Half of Tri-products can not be used again and has to be destroyed, compared with only a small part of the Pro-products. The latter are much more expensive and largely selected and bought on the basis of quality. Due to new, cheap Tri-products entering the market from the Far East, he only expects the problem of waste to grow in the future. Moreover, producers of both Tri-products and Pro-products will have a legal obligation in the near future to ensure the proper destruction of unusable products. Beltics should therefore develop into a full, specialised partner of the large(r) producers of Tri- en Pro-products and comply with the rules and legislation formulated by regional and national governments. During our empirical research Phil spent most of his time improving the internal organisation of the company, particularly focusing on the sales and financial administration and logistics, to prepare Beltics for this.

Although the commercial manager Burt Peterson subscribes to Phil’s viewpoint on the growing importance of waste, he does not share the full implications of it. To him, Beltics can only survive (and secure the employment of both its employees and its owners) by increasing its trading volume and, by doing so, its profitability (see his goal structure in Figure 7-3). Beltics should at least attempt to pass the ‘magical threshold of 25 employees’ which he associates rather

![Figure 7-3](image)

*Commercial manager’s goal structure from cognitive map construed with Decision Explorer (collapsed map) - Round I*
intuitively with several economies of scale. Burt’s position contrasts with Phil who argues for ‘sensible growth’ as otherwise ‘haste may trip over its own heels’. Note that Burt’s strong focus on trading is also apparent from his frequent use of this word (see Table 7-3). He builds his argument for the growth of trading volumes on three structural changes that he notices in the industry. Although his observations are fully rooted in his extensive experience with Pro-products they correspond partially to those of Phil. [Figure 7-4] depicts the relevant part of his cognitive map we construed using Decision Explorer.

Firstly, like Phil, Burt expects the number of traders in the industry to decrease dramatically in the near future: of the 45 traders he predicts that only six or seven will survive. Producers of Pro-products will not close contracts with these small traders to take care of the flow of used products, which they will be legally obliged to do. Moreover, most trading companies are one-man businesses having owners well on in age that do not have any successors to take
over the business. Secondly, due to growing competition users of Pro-products face from Eastern-European companies, the flow of used products will decrease strongly as Western-European companies will renew their products less frequently. Thirdly, a growing supply of cheap products from the Far East will decrease trading volumes even more. These products make used, repaired products less attractive to users while their lesser quality will decrease the portion of used products suitable for repair and second-use (thus adding to the flow of waste).

Given these changes, Burt argues that Beltics should strengthen its purchasing by enlarging the number of people that visit small traders to inspect the products they offer; Burt is now the only one to do so. During our research, Beltics set up an internal training programme and hired three new employees for this purpose. Increasing the frequency of visits helps Beltics in building up a stronger relationship with small traders which will enlarge their chances for taking over the traders’ businesses the moment they stop their business. A closer inspection of the products offered will also decrease the percentage of unsaleable products. Finally, Burt pleads for keeping ample stocks in order to be able to meet customers (unpredictable) demands at all times. As we will see when discussing the area of dominant logic, this contrasts sharply with the general manager’s viewpoint.

Conceptualisation of the new business

The distinct conceptualisations of Beltics’ business by Phil and Burt extend to their conceptualisations of the new business. While to Burt the new business will strengthen Beltics’ position as a main trader and increase its profitability, Phil conceptualises it as a ‘waste-processing business’ that will turn Beltics into an important company for managing flows of wasted Tri- and Pro-products. Phil argues that both viewpoints are ‘precisely opposite’:

‘Instead of selling used [Tri-products] and taking care of the unusable ones, when the product becomes subordinate to the flows of waste, you’ve basically got a flow of wasted Tri-product that may contain some good ones that you pull out of the flow as you can sell them. The entire flow of waste will strongly grow in importance, it is such a pure flow of waste that you need to control the entire flow of it. You may be able to sell a Tri-product as a Tri-product, but priorities have shifted fundamentally.’

This quotation also vividly illustrates that Phil’s conceptualisation of Beltics’ business as a whole extends into his conceptualisation of Beltics’ new business which he is currently considering. To him it is clear that for Beltics to survive in the long term, they have to find a good way of dealing effectively with the flow of waste that automatically comes from trading in Tri-products and, albeit to a lesser extent, Pro-products. He argues that given the one or two (‘poor’) outlets available at the moment, Beltics has to seriously consider carrying out the processing of unsaleable products itself. Moreover, given the capacity of the
average chipping machine, he thinks that the Dutch market only offers room for two or three such machines. He wants Beltics to have one of these as it will give the company a huge advantage in closing contracts with producers of the products for ‘managing the flow of waste’. He is convinced that if Beltics succeeds in starting up a ‘waste-processing business’ it will turn Beltics into an important player in the industry of management of flows of waste.

As we already mentioned, Burt is much less involved in setting up the new business. The differences between their conceptualisations of Beltics’ business suggests that differences in attention and involvement go deeper than merely a ‘matter of division of tasks’ as Burt at one occasion states. As said, waste is more of a problem for Tri-products than it is for Pro-products in which Burt alone trades. To Burt ‘a solution to the problem of waste products will come in time as a matter of course’ when the problem grows. He construes the problem mainly as a financial one denoting unsaleable products as ‘products with a negative selling value’. As he puts it uncomplicatedly:

‘At some point it is over with a [Pro-product]. The repair industry has lost any interest in it; they cannot do anything with it anymore in any way. Then we’ve got a problem, well a problem . . . the problem is only a financial one: we have to get rid of it and that costs money. No trader, nobody in the industry will pay you for it. The big problem is the costs that are involved with it. The same applies for us too; unusable products don’t yield any money. It mainly comes down to the costs of processing the waste that comes with it, you’ve just got to put up with it.’

He has mixed views on the possibilities he sees for the new business. On the one hand, he sees several good possibilities for selling chipped products in the longer term ‘given the introduction of new technologies’. He also points to the financial benefits a main competitor of Beltics realises by chipping unsaleable products themselves:

‘Consider Frupak, they’ve got an outlet for processing the products they can’t sell. We always have to search for outlets and pay for it, which increase the prices of products we can sell. Frupak lets people pay for getting rid of unusable products. That is a nice perspective they’ve got.’

On the other hand, however, he points to the ‘mountains of chipped products’ at the sites of processing companies ‘awaiting further processing’ as ‘there is only so much you can do with it now’. For him, the new business’ potential mainly lies somewhere in the future, not in the present as it does for Phil.

Dominant logic

Recall from Chapter 5 that according to Prahalad and Bettis (1986) a general dominant management logic encloses the way managers make critical allocation decisions across the business activities in their portfolio. It largely represents
process knowledge on how a diverse set of businesses is managed. Beltics’ only trades two distinct product categories and as such the allocation of decisions across business activities is limited. In this case the company’s ‘dominant logic’ corresponds closely to the company’s ‘way of working’ (to which the general manager regularly referred). Keeping this in mind, the company’s dominant logic played a central role in the present case.

In part, the financial malversation by Phil and Burt’s former partner Bill Larding is a vivid example of the way of working that has been dominating the industry for years and is still largely prevailing today, especially among smaller traders. The large payments made in cash to small traders and the looseness of oral contracts based on personal contacts create ideal circumstances for someone who wants to perpetrate fraud. It is clear that Bill Larding’s financial malversation has made an indelible impression on Phil Hackett and has strongly influenced his thinking. This is, for example, evident from the clusters that emerged in the Decision Explorer maps (see Table 7-2 which also shows the links to constructs ratios for the two maps): one of the emergent clusters (‘mismanagement’) exclusively deals with the incident, while several others are directly linked to it (‘history’, ‘merger’, and ‘professional management’). Also, the domain and centrality scores indicate that many of the most ‘busy’ constructs are closely connected to it (see Table 7-3).

The financial malversation has contributed to the strong emphasis Beltics’ general manager now puts on ‘professional management’. The ‘new way of working’ he has in mind and is working on contrasts sharply with the opportunistic way of trading – well characterised by the adage ‘you can’t sell

<table>
<thead>
<tr>
<th>General manager</th>
<th>Commercial manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>History</td>
<td>Developments trade</td>
</tr>
<tr>
<td>Collecting Tri-products</td>
<td>Decrease trade</td>
</tr>
<tr>
<td>Mismanagement</td>
<td>Old way of working</td>
</tr>
<tr>
<td>Merger</td>
<td>Background merger</td>
</tr>
<tr>
<td>Extension</td>
<td>Turn-around and company policy</td>
</tr>
<tr>
<td>Professional management</td>
<td>Trade</td>
</tr>
</tbody>
</table>

\[
\text{L/C} = \frac{174}{134} = 1.30 \\
\text{L/C} = \frac{260}{200} = 1.30
\]

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

Table 7-2
Emergent clusters in Decision Explorer maps - Round I
what you haven’t got’ – most traders adhere to. Phil refers to the way most traders run their business as ‘the old way of management’ immediately adding to it ‘although it is very doubtful whether these people know what the word ‘management’ means’. He argues that Burt’s viewpoints still largely reflect the old way of working. Burt, on the other hand, is also aware that things have to change – in fact, one of the emergent clusters in his Decision Explorer maps deals with it (see Table 7-2) – but he does not want to go as far in his conclusions as Phil:

<table>
<thead>
<tr>
<th>General manager</th>
<th>Commercial manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>• guaranteeing continuity (11)</td>
<td>• securing continuity of company (17)</td>
</tr>
<tr>
<td>• turn-around (9)</td>
<td>• increase profitability (14)</td>
</tr>
<tr>
<td>• good management . . . don’t come along with growth (9)</td>
<td>• increase sales (10)</td>
</tr>
<tr>
<td>• sensible growth . . . ‘haste trips over its own heels’ (9)</td>
<td>• managing . . . trade (8)</td>
</tr>
<tr>
<td>• mismanagement (by former partner)(8)</td>
<td>• decrease of usable products (8)</td>
</tr>
<tr>
<td>• frequent management meetings . . . everybody works separately (5)</td>
<td>• sell products to repair industry (7)</td>
</tr>
<tr>
<td>• looking ahead . . . don’t consider the future (6)</td>
<td>• purchase from small(er) traders . . . purchase directly from users (6)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Domain scores*</th>
<th>Centrality scores**</th>
</tr>
</thead>
<tbody>
<tr>
<td>• guaranteeing continuity (33/65)</td>
<td>• increase profitability (45/91)</td>
</tr>
<tr>
<td>• sensible growth . . . haste trips over its own heels (30/64)</td>
<td>• securing continuity of company (43/86)</td>
</tr>
<tr>
<td>• turn-around (26/54)</td>
<td>• increase sales (37/78)</td>
</tr>
<tr>
<td>• mismanagement (by former partner)(24/48)</td>
<td>• decrease of trade Beltics (37/87)</td>
</tr>
<tr>
<td>• good management . . . don’t come along with growth (21/40)</td>
<td>• investing (34/80)</td>
</tr>
<tr>
<td>• choosing other way of working . . . ‘street trading’ (19/42)</td>
<td>• strengthen purchasing . . . only think about sales (31/77)</td>
</tr>
<tr>
<td>• troublesome integration process (19/42)</td>
<td>• looking ahead . . . don’t consider the future (28/63)</td>
</tr>
<tr>
<td>• supply from stocks (27/62)</td>
<td></td>
</tr>
</tbody>
</table>

* number indicates total number of constructs to which the concept is directly linked
** numbers indicate centrality score resp. total number of constructs traversed; the more indirect the link the lower its weight (1, 0.5, 0.33, etc. up to 7 levels)

Table 7-3
Domain and centrality scores of Decision Explorer maps – Round I
Ok, I have grown up in this line of business of course, just trading. I had Bill as an example while Phil has always done it differently, not that much, but still somewhat different. He traded and managed; we have always merely traded. [...] So, for me the reversal towards managing is going much slower than Phil probably would like. I simply enjoy certain things too much, things that do not correspond with the new style of management. Well, you can count me out for that, and he knows it.

The differences in Phil and Burt’s viewpoints are clearly revealed by their use of language. Figure 7-5 shows the (most) salient nouns whose frequency of usage differs most remarkably between the two managers. Burt is mostly talking about the products Beltics trades in (mainly Pro-products), the trading itself, and how to earn money with it. Phil’s most notable words, on the other hand, include references to management, competition, organisation, and the bank. Their use of language reveals that Burt is mainly speaking about doing business whereas Phil is mainly talking about organising it properly. Behind these viewpoints are hidden two distinct dominant logics. Before going into these, note that Burt frequently uses an alternative name for Beltics’ products, which Phil never uses at all. To our impression, this reflects differences in use of language between the two main market sectors rather than purely personal preferences. According to Burt the alternative name for the product is more appropriate when the products are traded and not used for what they are designed.
Both Figure 7-5 and our results of the KWIC-analyses of the commercial manager’s most salient words reveal that in talking about products and trade, he is strongly oriented towards earning money with it. He refers nearly four times as often to money or money-related words (e.g., prices, costs, profit) as Phil does: .73% versus .19% (of total word usage). By way of illustration, the latter only speaks about ‘prices’ and ‘profit’ in one instance. A closer look at the contexts in which Burt uses ‘trade’ also indicate his strong financial orientation. As shown in Figure 7-6, in nearly a third of the instances he talks explicitly about the money that can be earned with it. Used in other contexts, he strongly links it to Beltics’ profitability or the company’s potential for increasing it by enlarging its share in traded volumes (notably ‘trade’/‘trading’ as a business activity, the withdrawal of small traders, and the traders’ market power). The KWIC-analyses of other salient terms lead to the same conclusion. For example, when talking about ‘unsaleable products’ he mainly points to the cost advantages that would result from processing these products themselves. Burt argues that this would enable them to buy products from small traders at more favourable prices. This reflects his nearly exclusive financial orientation towards the diversification project that we noted in the preceding subsection.

While Burt is quite happy with Beltics’ present way of doing business, Phil is extremely anxious to change it. Time and time again he keeps hammering away at the need for Beltics to exchange ‘trading’ for ‘management’. To Phil both are diametrically opposed to each other. As shown in Figure 7-7, ‘management’ largely derives its meaning from being the opposite of Bill Larding’s ‘mismanagement’ and the current emphasis within the industry on ‘trading’. Consider for example the following quote:

‘Good management is essential, to a trader too of course, but I think that it is crucial in developing policies. A trader does not develop any policies; a trader is
just trying to sell what he has collected today. He may even be thinking about tomorrow, but that’s where it stops.’

During the first round of interviews, Phil’s urge to change the ‘old way of working’ seems to be stronger than the elaborateness of his ideas on the ‘new way of working’. Next to the link with policies, he strongly associates management with ‘being structured’, ‘professional’, and ‘doing things in a thoughtful and controlled way’. The modification of the organisational structure he carries through and the introduction of a bi-weekly management meeting are but a few examples of this. To him the core of the new way of working is the movement from an organisation that is strongly focused on purchasing towards one that is more sales-oriented:

‘We are pretty busy with improving the marketing of our sales at the moment because we want to develop into a sales-oriented company. To date, up to today, it’s oriented towards purchasing . . . a purchase-oriented organisation. Purchasing is playing a dominant role here. Everybody tells me, ‘oh yes, we know how the market is functioning’, but nobody really knows. There has never been any research done into it.’

It is a true thorn in Phil’s flesh that Beltics’ stocks keep on growing, thereby attaching a large part of the company’s scarce financial resources, without knowing when the products bought will be sold again. In his eyes, purchasing should be closely linked to sales and only those products should be bought that are asked for by customers. To come to grips with the company’s growing stocks and improve the inventory system, Phil and Burt followed Dennis Laver’s advice and hired a logistics manager. They also engaged a graduate in business administration to thoroughly analyse the industry and work on the company’s marketing strategy. Meanwhile Phil focused on improving the sales and financial administration himself.

The circumstances were thus created to develop the company’s new dominant logic, the contours of which were sketched by Beltics’ general
manager. During the coming year Phil would spend most his time in developing it further while streamlining the (administrative) organisation. During our first round of interviews, the diversification project did not seem to play any role in these activities.

**Design value chain and development of new business skills**

As we have previously noted several times, Phil Hackett is the only one working on Beltics' diversification project at the moment. When we asked Burt about the project he replied frankly 'Phil can tell you more about it. He is working on that, I know something but not enough to say anything meaningful about it’ and then referred to the division of tasks within the company. When we discussed the conceptualisation of the new business, we argued that this might be but one reason for his minor engagement. Whatever the reason, Burt was not working on the project in any way. While he waits and ‘will see what comes out of it’, he trusts that Phil will inform him whenever necessary. His involvement would not change during the time of our empirical research.

We have just seen that Phil Hackett’s conceptualisations of the portfolio and the new business are well thought out. On the whole he knows what he wants to do and he knows why he has to do it. However, at this moment he does not know how he has to start-up the new business. Up till now he has not paid much attention to this question as building up the company’s internal organisation and financial position claimed nearly all his time and attention. The turn around that sprang from Bill Larding’s financial malversation and the losses that resulted from it has most certainly deteriorated the company’s financial situation. Of greater importance, however, it made him aware that he first had to build on the organisation before considering any extension at all.

As a result of this awareness, Phil’s knowledge about the content of the new business was limited at this stage. Apart from an exploratory meeting with two specialised suppliers of chemical chipping processes, one or two meetings with a major producer to discuss the implications of recent environmental legislation, and some thoughts about the practical implications of starting up the new business, he had not put much time and effort into the details. He knew there were a few alternative technologies available (two based on chemical processes, one on a mechanical process) in the market and he was roughly aware of the investments that were required. In addition, he had given the necessary accommodation some thoughts. All in all, the design of the value chain and the development of new business skills were in its early stages.

**Summary of the first round**

Overlooking our description of the cognitive maps construed on the basis of the first round of interviews with the two owner-managers of Beltics three
observations stand out. Table 7-1 with which we started our discussion, summarises several of the differences between both managers. Firstly, both managers hold a different conceptualisation of the company’s business. Burt Peterson, the commercial manager, sees the company basically as a trading company; his conceptualisation fits closely in with the way of thinking that has dominated his former company, Procom, as well as the industry for years. Phil Hackett is challenging this way of thinking and, on the basis of several structural changes he observes, construes it as a ‘waste-processing business’. Their different conceptualisations of Beltics’ business extend to differences in the conceptualisation of the (possible) new business and the preferred way of working, i.e. the dominant logic. It is interesting to note that, similar to the group manager in Colifox, Burt is standing in the middle of the company’s business and also nearly personifies Beltics current dominant logic.

Our second observation also appears to be related to differences in conceptualisations and preferred dominant logic: while Phil is most deeply involved with the project, Burt clearly plays last and awaits its results. As noted, this is probably also related to earlier experiences: processing usable products is currently more a problem for Tri-products, with which Phil has most experience, than for Pro-products which Burt has been solely trading in for the past years.

Finally, with the project being in its first stages, Phil has hardly put any effort and time into working out the new business’ value chain nor has he engaged himself in developing any required business skills. At the moment, he only has some very rough ideas about starting up the operational side of the business. Up till now he has mainly been working on what has to become Beltics’ new dominant logic (see outlined area in Table 7-1). In line with this, he has spent most of his attention in building up Beltics’ internal organisation, which required extra attention due to the financial malversation by their former partner Bill Larding. On the other hand, however, this incident seems to have strengthened Phil’s anxiousness to change Beltics current way of working.

Composing the managers’ images – Round II

The second round of interviews took place approximately a year and a half after ending the first round. In between both rounds we met with Phil Hackett on his invitation to talk about Beltics’ situation, in particular Beltics’ financial position and its administrative organisation. We also attended a second exploratory meeting Phil had with two specialised suppliers of chipping machines. These encounters gave us an extra opportunity to follow the progress of the diversification project. During the year it became clear to us that Phil was the only one working on the diversification project. Incidentally he was assisted by Dennis Laver, who had also helped him with the turn around but overall his role was small. Burt Peterson was fully engaged in buying and selling Pro-products and left the project fully to Phil. As it turned out, our interviews with the latter
focused on recent developments in the market for Pro-products, which had collapsed in the past year. Both Phil and Burt spoke about it in terms of a real market crisis. It also hit Beltics’ turnover and severely weakened its financial position (further). To resolve the harsh financial position and following Phil’s policy of linking purchasing and sales more closely, Phil and Burt decided to cut back the purchasing of Pro-products quite drastically.

Burt stated that he could only guess about the reasons for the current strong decline in the supply of Pro-products. He then summarised several explanations that ‘went right round the market’. Figure 7-8 shows the relevant part of his Decision Explorer map that dealt with these explanations. Note that during the first round of interviews, he had marked most of these explanations as factors...
changing the market for used Pro-products structurally (i.e. the contracts of producers with users of Pro-products, the competition these users increasingly face from Easter-European competitors, and cheap products of lesser quality from the Far East for sale on the market). For the future Burt expects things to change for the better as ‘the products bought during the last year have to enter the market once, replacement can’t be postponed forever’. He even sees some opportunities in the lower availability of used Pro-products with a higher quality as ‘we earn most money on products with lesser quality.’

Interestingly, Burt now also considers the ‘old way of working’ as contributing to the difficult position most traders face. He argued that most traders ‘buy whatever they can get hold of’, which keeps prices artificially high while repair companies, facing decreasing demand, only want to buy products at lower prices. As a consequence, the stocks of most traders have grown tremendously during the past year. Given these developments Beltics’ situation could have been a great deal worse if its financial position had not forced them to decrease purchased quantities. By intensifying their sales efforts they even managed to the lower stocks of Pro-products.

In this context of severe problems in the market for Pro-products and the weak financial position of the company the second round of interviews took place. In the following we summarise the results (of our analysis) of the cognitive maps we composed on the basis of the interviews held with Phil Hackett. As indicated above, Burt was not engaged in the diversification project at all; he fully focused on the problems in the market for Pro-products. Similar to the preceding chapter, we will highlight (important) differences from our findings in the first round.

The next section reviews the learning that has taken place during the course of the diversification project.

(Re)conceptualisation of the portfolio

The problems Beltics faced took most of the general manager’s time and attention in the past year and a half. To the question of describing what had happened since the first round of interviews, he started with these issues and only started to talk about the diversification project at the end of the first interview. The content analysis of his interviews showed that he much more frequently referred to market, sales, sales goals, current problems, purchasing, and price lists of Pro-products than in his interviews during the first round (see Figure 7-10). His strong focus on Beltics’ current problems can also be deduced from his Decision Explorer map. The most extensive clusters that emerged when construing and discussing his Decision Explorer map dealt with declining turnover, recent developments in the market for Pro-products and Beltics’ current problems of liquidity (see Table 7-4). Moreover, as can be seen in Table 7-5, the most central constructs in his Decision Explorer maps are directly related to Beltics’ current troublesome situation and ways of resolving it.
Raising turnover and improving performance in Pro-products turn out to be important goals for him in the short term. Several other central constructs are related with more structural ways to resolve Beltics’ situation in the longer term. Some notable examples include ‘teaching people how to handle the new purchasing and sales policy’ and ‘establishing long lasting relationships with traders, repair companies and producers’. These long-term resolutions are closely related to the new dominant logic Phil has been working on since the (first) turn around.

As can be concluded from Figure 7-9, which depicts Phil Hackett’s ‘extended goal structure’, the short-term goals Phil pursues are firmly embedded in what he considers as important long-term resolutions and considerations. This figure also shows that, despite the host of problems Phil had to cope with, he did not change his main lines of thinking about the future course of Beltics. On the contrary, especially the collapse of the market for Pro-products confirmed his view that Beltics had to radically reorient its activities and adapt to important structural changes in the industry. Before going into these, note that we ended up with a set of strongly interrelated goals instead of a small, concise goal structure as during the first round (see Figure 7-2). This can be considered as an indication of the deepening of the general manager’s thinking. On the basis of this we may conclude that Phil’s cognitive complexity has grown.

Figure 7-9 shows that Beltics’ general manager ultimately aims at establishing long-term relationships with producers, small(er) traders and repair companies. To reach this end, he basically finds three issues of the highest importance. Firstly, in particular for Pro-products, Beltics has to switch from ‘the old way of working’ towards a ‘professional’ purchasing policy that is closely linked to
sales. In his eyes, Beltics should attempt to purchase products which are currently (or in the near future) in great demand by its customers, i.e. repair companies and other traders all over the world. He argues for ‘buying selectively’ instead of ‘whatever you get hold on, as we did in the past’. By way of illustration, consider one of his arguments:

‘...the fact that we have such a large stock of unsaleable Pro-products, worth [x] million, well it is not truly unsaleable but it is at least less marketable, if it was not we would have already sold it. The fact that it is lying there means that we haven’t been buying the right products.’

On the one side, given the unpredictability of the market for Pro-products, close relationships with customers are necessary to know their demand in detail and instantaneously. On the other side, close contacts with small(er) traders from whom Beltics buys products, enables the purchasing of the ‘right’ products.

Table 7-5

<table>
<thead>
<tr>
<th>General manager</th>
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<tbody>
<tr>
<td>• raise turnover . . . decreasing turnover (19)</td>
</tr>
<tr>
<td>• score better in the market for Pro-products . . . acknowledge that it does not work (10)</td>
</tr>
<tr>
<td>• structural decline in market for Pro-products (9)</td>
</tr>
<tr>
<td>• long-lasting relationships with traders and repair companies (7)</td>
</tr>
<tr>
<td>• liquidity problems: ‘stock is our liquidity’ (6)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Domain scores*</th>
</tr>
</thead>
<tbody>
<tr>
<td>• raise turnover . . . decreasing turnover (39/69)</td>
</tr>
<tr>
<td>• objectives in Pro-products not realised (30/65)</td>
</tr>
<tr>
<td>• structural decline in market for Pro-products (28/60)</td>
</tr>
<tr>
<td>• score better in the market for Pro-products . . . acknowledge that it does not work (28/53)</td>
</tr>
<tr>
<td>• co-operate closely with producers . . . focus on trader in ‘leftovers’ (26/59)</td>
</tr>
<tr>
<td>• teaching people how to handle purchasing and sales policy (23/51)</td>
</tr>
<tr>
<td>• ‘terrier mentality’ . . . salesman in sales too cautious (22/52)</td>
</tr>
<tr>
<td>• go round in same circles . . . handle sales creatively (22/48)</td>
</tr>
</tbody>
</table>

* number indicates total number of constructs to which the concept is directly linked
** numbers indicate centrality score resp. total number of constructs traversed; the more indirect the link the lower its weight (1, 0.5, 0.33, etc. up to 7 levels)
Note that one of the emergent clusters in his Decision Explorer maps deals with this issue (i.e. ‘contacts with traders and customers’). In addition, given the difficulties in the market Phil and Burt have recently decided to contact a group of large users for collecting Pro-products directly from them, thus going round the smaller traders.

Secondly, to come to the attention of large (professional) producers Phil argues that a professional way of working on an equivalent level does not suffice. He expects that producers only want to close contracts with the largest traders. For this purpose Beltics should increase its turnover. A balanced financial position, which Beltics currently lacks, is a prerequisite for this in the short term. An improved financial position will also enable them to buy the products they want at any time.

Finally, and this brings us to Beltics’ diversification project, Beltics should be able to process the products that are unsaleable and not attractive to their customers itself. This will (at least) save them on the fees they now have to pay to specialised processors and thus lower overall costs. On the one side, lower costs will enable them to pay higher prices to small(er) traders thus contributing to long-term relationships with small(er) traders and increasing chances to acquire the ‘right’ products. On the other side, lower costs enable them to sell their products at lower prices to repair companies and other customers.
II Empirical Research

(Re)conceptualisation of the new business

Mainly due to the time and effort required to keep business going and improve the poor financial situation, the progress of the diversification project has been small since we conducted the first round of interviews. As indicated above, Phil did continue his explorations of the possibilities by talking to specialised suppliers and monitoring new national and international legislation. All in all, however, the project was simmering. To take the project a step further he then decided in consultation with Dennis Laver to hire a student for investigating the possibilities of the project in detail. After his retirement Dennis was part-time supervising students at a university.

The student hired, Roger Bennis, took on the job enthusiastically as part of his doctoral thesis requirements and worked on the project for half a year. He investigated several alternatives and calculated their costs and potential savings. For this purpose he visited several specialised suppliers and current users of chipping machines. In addition he studied the market opportunities for chipped products. Two of the conclusions in his thesis are noteworthy. Firstly, he concluded that a mechanical process would be much more profitable than the chemical processes Phil had been considering up till then. The latter break down the products into smaller parts but are much more expensive than mechanical processes. Moreover, the smallest process available by far exceeded Beltics current flow of waste. The mechanical installation Dennis had examined was considerably cheaper than any of the chemical processes in the market and could be profitably operated from the start. It allowed for a small start as additional capacity could be easily added to it later. By chipping products Beltics could save on the costs for transporting unusable products to companies that would further process the chipped products. As an additional advantage, the specialised producer of the preferred mechanical installation was based in the Netherlands.

Secondly, he identified a new outlet for the chipped products. Several power stations in Germany considered chipped products as an excellent, energy-rich fuel to burn in their ovens. Law allowed them to burn a fair percentage of this kind of product. Use in power stations guaranteed a continuing demand opposite to several specialised companies who used the chipped products to produce new products. Referring to these products Burt remarked during the first round of interviews: ‘you can’t fill up the Netherlands with these products, at one point we will have enough of it while the huge flow of waste will still be there’. As the fee Beltics had to pay to the German power stations was considerably below the fee they were now paying to specialised companies, they started to deliver used (unchipped) products to these stations. Chipping the products would lower transportation costs substantially, as Roger had calculated, and would thus lower the costs of waste further.

The findings of Roger Bennis’ research project confirmed Phil Hackett’s view that he was on the right track with his ideas about the diversification project. As
indicated above when discussing his extended goal structure, he is convinced that chipping products itself, instead of leaving it to others, will strongly contribute to improving Beltics position vis-à-vis producers, repair companies and suppliers. Moreover, he expects the costs of waste to increase, as regulations would be increasingly tightened in the future. Consider, for example, the following part of his argumentation:

‘There is a strong tendency worldwide, in Europe too, that waste has to be processed inside national borders. Well that has already been put forward many years ago. At that time people were arguing for closing national borders before the year 2000. Well I have to admit that we have gone a long way towards that, especially for [fully unusable products]. You simply have to clean up your own mess. Well in that context, it is absolutely of the utmost importance that you can do something with the products yourself. If we can find an opportunity to chip the [product], to make it smaller, that would help us enormously, offer us a huge cost saving, because the costs will naturally only grow in the future.’

This quote also illustrates excellently that Phil now considers the diversification project as inevitable to Beltics’ future performance whereas he considered it more as a great opportunity to Beltics one and a half years ago. He is fully aware that the only way to increase the profitability of Tri-products is lowering the costs of waste. Moreover, he now even sees possibilities in the longer term for processing Pro-products if they succeed in collecting used products directly from large users. All in all, compared with the first round, Phil Hackett’s conceptualisation of the new business is now more deeply embedded in his thinking about (the future of) Beltics as a whole. His extended goal structure in Figure 7-9 illustrates this well. Starting up the diversification project has become a full element of the future strategy of Beltics he is working on. The new business enables the offering of a complete range of products while lowering costs. Roger Bennis’ main findings that the project is financially feasible and excellent outlets are available urged him to pursue it further.

**Dominant logic**

When discussing the general manager’s conceptualisation of Beltics’ business, we noted that the long-term resolutions he has in mind closely fit in with the new dominant logic that he sketched during the first round. The problems Beltics’ management faced in the past year has confirmed his opinion that Beltics should move away from the dominant way of thinking in the industry towards ‘a professionally managed and well organised, sales-oriented company’. During the year Beltics’ new dominant logic became increasingly clearer and more complex and detailed. The new dominant logic grew incrementally, partially because Phil only took small steps well aware that all employees were used to the ‘old way of working’:
‘If you are in the middle of a change process, like we are, you have to be extremely careful. You can’t push things too much when you are in the middle of things; you have to keep thinking, about the organisation, about the structure. You have to concentrate on steering the process, guiding, that is management, guiding.’

Curiously enough, he was immensely helped by the collapse of the market for Pro-products ‘which made it clear to everybody that things had to change’.

Interpreting Phil’s actions, they seem to have basically two goals. On the one hand, Phil aimed at changing the thinking and behaviour of Beltics’ employees towards a more sales-oriented way of working. ‘We have to do it with the people we’ve got’ he argued, ‘we can’t afford a sales manager costing two hundred thousand guilders to turn us upside down’. He stressed the discipline to hold on to agreed goals and pointed to the need for creativity and a more ‘assertive attitude’ towards customers ‘on occasion’ (more of a ‘terrier mentality’ as he called it while taking Burt as an example). On the other hand, many of his actions were aimed at getting instantaneously insight into stocks, purchased quantities, sales and Beltics’ liquidity position. He installed planning boards in Beltics’ office for recording purchased and sold products and introduced monthly sales goals and budgets. Both actions urged Burt and the sales employees ‘to look beyond next week’ and think about the money their purchases involved. Phil also started to compose monthly lists of products their customers currently asked for and which Beltics should try to purchase. Moreover, during the year the logistics manager succeeded in getting an overview of current stocks and developing a (computerised) system to keep it up to date. Meanwhile, Phil worked on improving Beltics’ administrative organisation to attain daily insight into Beltics’ financial position. Recently he started to think about organising Beltics into business units and making one person clearly responsible for its performance.

Phil’s strong focus on developing the new dominant logic is reflected in the centrality of several related constructs in his Decision Explorer map (see Table 7-5) and in his use of language. Figure 7-10 shows the most remarkable differences in his word usage between both rounds of interviews. What strikes one most is the higher frequency of the products Beltics’ trades in and the words ‘market’, ‘sales’, ‘goal’, ‘problem’, ‘purchasing’, ‘costs’ and ‘price lists’ in the second round of interviews. Apart from ‘market’, he hardly referred to these words during the first round of interviews. Moreover, whereas he used ‘market’ a year and a half ago in a rather general way (e.g., ‘getting products on the market’, ‘we have to find new markets’), he now largely refers to it in a more specific way as the place where trade in (Pro-)products takes place. Whereas Phil now uses several words much more frequently, others have nearly disappeared, notably words like ‘organisation’, ‘competition’ and ‘management’. Finally note that, as Burt already did during the first round, Phil now also uses the alternative name for Pro-products. As the alternative name is
common in the market for Pro-products, this may indicate that his greater involvement in Pro-products led to this adoption.

The change in word use indicates that over the year Phil has become increasingly involved in the more practical side of Beltics' business, i.e. purchasing and selling. Recall that we concluded on the basis of the first round that Phil was more talking about organising the business, while Burt mainly spoke about doing business. When we also take the content of his Decision Explorer maps into account, it seems as if during the first round of interviews Phil was still figuring out how Beltics should work in general. He was at that time more strongly occupied with thinking about the conceptualisation of Beltics' business and the broad outlines of a new dominant logic. Now that both are more or less clear to him on the whole, he can focus on elaborating his ideas by implementing the new dominant logic in the organisation, i.e. doing it.

Since the first round Burt Peterson is also more aware of the necessity to change Beltics' way of working, in particular given the financial problems they currently face. He explicitly referred to the ‘old way of working’ several times to characterise how he had always worked and to explain why some of their
competitors had such large stocks at the moment. Nevertheless, to the question if he believed in it there were still some doubts in his answer:

‘No, I personally don’t. I believe in the principle, well yes I believe in it. Well, I am of course still used to purchasing whatever you can because in the end there is always a buyer for it. A few weeks ago we sold several batches of products that had been lying there for almost two or three years. We bought these for [x] guilders and now managed to sell them for [x] marks. We sold another batch for [x] guilders that we had bought for only [x] guilders. They may have been lying there for three years but calculate the interest costs and you will see we earned good money on it. It is a bit like reading tea-leaves what will be asked for, if we could predict it we would now start buying at cheap prices what will be asked for in two years time, then you will make a wonderful profit. But nobody is able to tell me, that is the problem.’

To Burt the unpredictability of the market forces traders to buy what they can get hold on as ‘a bit of speculation is part of the game’. In addition to the examples in the quote above, he gave many more examples to illustrate what they could earn in the future if they had the money to buy more freely.

*Design value chain and development of new business skills*

We concluded on the basis of the first round of interviews that Phil Hackett knew what he wants to do with regard to the diversification project and why he has to do it. As we have previously seen, the latter became even clearer to him; he now considered starting up the new chipping business as inevitable for *Beltics*’ future performance. At the time of the first round, he did not know yet how he had to start up the new business. Roger Bennis’ research largely filled in this gap. Roger’s findings indicated which chipping process would be most profitable to *Beltics* (i.e. a specific mechanical process constructed by a Dutch producer) and which outlets were available for disposal of the waste (i.e. German power stations).

During the year Phil had thought out the accommodation required for installing the chipping process. Adjacent to *Beltics*’ site a piece of land was up for sale by the municipality on which he had recently taken an option. Phil had an important argument for building the accommodation outside *Beltics*’ premises. He argues that *Beltics*’ troublesome financial situation forces him to look for external partners to start it up:

‘At this moment we can’t afford the investment, *Beltics* can’t. But it may be possible that we start it up separately [. . .], that we establish a separate company, with its own finance, you then have to finance for a hundred percent. That is, I think, the only way open for us to start up a chipping business.’

About half a year before the second round of interviews he had improved the inspection process of Tri-products. Recall that *Beltics* has to earn its money on the sale of the good products. As only roughly half of the products *Beltics*
collected can be sold again, careful selection is extremely important. As the numbers kept on growing strongly, Phil installed several conveyor belts so as to increase the numbers of Tri-products that could be inspected with the current number of employees. He placed these belts in such a way that the unsaleable products can easily be fed into a chipping machine.

All in all, the first design of the value chain of the new business and the link with the other activities was there, albeit it chiefly verbally. Phil had worked out the first practicalities of linking the chipping process to Beltics’ current (inspection) activities. He had organised the latter in such a way that it could easily be operationally linked to the new business. The most critical issue left at this moment was how to raise the funds for starting it up.

The development of new business skills to operate the new business effectively and efficiently had, however, yet to begin. Nobody at Beltics has, for example, any experience whatsoever with chipping products. Roger Bennis’ noted in his report that it is a troublesome process. Several current users he spoke to told him that their machines often stopped due to malfunctions. Neither has anybody experience with selling chipped products on the market, which in part has still to be developed. The few companies that currently chip unusable products largely use the chips as raw material for the products they produce themselves. Beltics only had ample experience with transporting unusable products to other countries. Transport of waste both in the Netherlands across regions and across national borders requires the necessary permits. This knowledge will probably be useful for transporting chipped products to German power stations.

Summary of the second round

Table 7-6 summarises the content of the knowledge areas for the general manager only; in the past year the commercial manager had been fully involved with the market for Tri-products leaving Beltics’ management and the diversification project to the general manager. Although the progress of Beltics’ diversification project was small, our analysis of the construed cognitive map indicates that several things had changed since the first round of interviews. In part this was due to the financial problems Beltics’ was confronted with, mainly as a result of the collapse of the market for Pro-products. For another part, recent developments in legislation strengthened his belief that in the near future disposal of waste would become the most critical issue. Finally, the research project by doctoral student Roger Bennis influenced the general manager’s thinking about Beltics’ diversification project. Overall, he strongly integrated solutions to the short-term problems Beltics faced with the long-term resolutions he had in mind.

Beltics’ general manager, Phil Hackett, was now even more convinced that Beltics should transform into a professionally managed sales-oriented company. This would enable them to close contracts with large producers and users and
build up close contacts with repair companies and small(er) traders. In turn, this would allow them to closely link purchasing of products to sales. In the past year and a half he focused his attention and efforts on elaborating and implementing a new dominant logic that fitted in with his image of a professionally managed company. The commercial manager is not fully convinced with how right this approach is, but the financial problems have persuaded him (at least) for the moment.

Phil now considers the new chipping business as inevitable for Beltics’ future performance. It allows them to close contracts with producers (and large users of Pro-products), cut costs and, in doing so, increase the profitability of Tri-products and offer better prices to suppliers and customers so as to get better products and increase sales. Roger Bennis’ findings have for a large part answered, be it on paper, the question on how to start up the business, which was still fully left open at the time of the first round. In broad outlines, he knows the practicalities on how to operationally link Beltics’ inspection activities to a chipping process. He is also aware that given Beltics’ troublesome financial

<table>
<thead>
<tr>
<th>Knowledge area</th>
<th>General manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Re)conceptualisation of the portfolio</td>
<td>Beltics offers complete range of products and services in a professional way which enables long-term contracts with producers, traders and repair companies</td>
</tr>
<tr>
<td>Conceptualisation of the new business</td>
<td>Waste-processing business integral part of Beltics’ trading business, prerequisite for good future performance</td>
</tr>
<tr>
<td>(Development of) dominant logic</td>
<td>Management of sales-oriented, well-organised company making extensive use of planning and budgeting tools</td>
</tr>
<tr>
<td>Design value chain</td>
<td>On paper, operational linkage between inspection activities Tri-products and new chipping machine to be installed</td>
</tr>
<tr>
<td>Development of business skills</td>
<td>--------</td>
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</tbody>
</table>

N.B. outlined area indicate main focus of attention

**Table 7-6**

*General manager’s image of Beltics’ diversification project during second round of interviews*
situation, Beltics cannot start it up on its own. As a final noteworthy observation, Phil’s thinking about the possibilities of the new business and Roger Bennis’ research on alternatives, costs and potential outlets has, however, not led to developing the required business skills in any way.

**Learning during a diversification attempt**

The Beltics case is an extraordinary one in that no (major) financial investments in the diversification project took place during the course of our research. Beltics’ management, in particular its general manager, was only considering if it should extend Beltics’ business activities to the processing of unusable, and therefore unsaleable, products. But precisely for this reason it is an extremely interesting case. Rarely have diversification projects been studied immediately after their ‘conception’ but before their (physical) ‘birth’. Such cases do not (yet) enter databases on corporate strategy and firm diversity, which only record actual diversification attempts (and mostly only the successful ones). A drawback of a case like Beltics’ diversification project may be that events and processes are not as clearly visible as in actual diversification attempts, especially if these either became a grand success or ended up as a gross failure. We think, however, that the cognitive mapping methodology we employed neutralised this disadvantage as it enabled us to follow the cognitive side of the process of diversification.

Similar to our discussion of Colifox’s diversification attempt in the preceding chapter, we have spread our discussion of Beltics’ new business over two sections. The present section reviews the learning by the two owner-managers of Beltics. In line with our definition of learning as ‘cognitive change’ we thereby focus on the most striking aspects of their learning. The next section then discusses the main insights we inferred from Beltics’ process of diversification thus far. As will become apparent when reading the main learning points, the general manager is the principal one who has been learning in the context of the diversification project. Recall that he was also the only one who was involved in it over the entire course of the process. The commercial manager devoted his full attention to purchasing and selling Pro-products, one of the two categories of products Beltics trades in, during the time of our empirical research. Only some of what the general manager is working on seems to ‘drip through’ to the commercial manager. In advance of our discussion of the main insights of the Beltics case in the next section, note that this suggests that active involvement and learning are inextricably linked.
The general manager learned that the diversification project was inevitable for Beltics to succeed in the future.

We could have phrased this learning point in several different ways. A good alternative would, for instance, be ‘the general manager learned how to link the (potential) new business to Beltics’ existing business(es)’. Over the two rounds we observed that his goal structure became considerably more complex. During the first round he merely saw the processing of unusable products, in particular Tri-products, as a great opportunity to Beltics. One and a half years later a complex, interrelated web of short and long term goals, issues and considerations emerged in which the (potential) new business was fully embedded (see Figure 7-9). He had by then also integrated his thoughts about short term solutions to the severe problems Beltics was facing at that time, with the long term aims he was convinced Beltics should pursue to strengthen its market position structurally. All in all, this reflects a considerable deepening of his thinking, which was built on two main pillars.

The first pillar concerns his conceptualisation of Beltics as a ‘waste-processing company’ of which the new business was now an inevitable part. This specific conceptualisation contrasted sharply with the prevailing conceptualisation of a ‘trading company’, which Beltics commercial director still adhered to and was common in the industry. The second pillar consists of the ‘sales-oriented, well-organised, ‘professional’ organisation’ that constituted the core of the company’s new dominant logic the general manager was actively working on.

According to the general manager, both pillars will enable Beltics to be an attractive and fully-fledged partner of the (large) producers of Pro-products and Tri-products, who recently were legally obliged to secure the proper processing of unusable products, i.e. waste. In addition, he argues that both pillars will help Beltics to establish long-lasting relationships with traders, repair companies and large users as they will result in reduced costs of waste and stocks. Lower costs, in turn, will enable Beltics to offer their suppliers and customers more attractive prices (and thus, amongst other things, first choice of products). Close contacts with their main trading-partners may also help Beltics in obtaining detailed insights into market supply and demand. The latter is far from superfluous given the large fluctuations in the market that are considered as fundamentally unpredictable.

The general manager learned about the peculiarities of a ‘new way of working’ (which we equated with the company’s new dominant logic)

The dominant logic is probably the learning area in which the general manager has learned most extensively and intensively during the time of our empirical research. He certainly devoted, by far, most of his time and attention to figuring out a new way of working and carrying his ideas over to others. During the first
round his urge to change, what he referred to as, the ‘old way of working’ seemed to be more an intuitive and general feeling of discomfort with it than an elaborate set of ideas on a ‘new way of working’. His thoughts were basically a set of associations with constructs like ‘becoming a sales-oriented company’, ‘being structured’, ‘professional’, and ‘doing things in a thoughtful and mindful way’. In his drive to change Beltics’ current way of working, he was in particular motivated by his recent experiences of financial malversation by one of his former colleagues and his feelings about the negative image the industry had for many and which he largely attributed to the many shabby small traders working in the industry and their shoddy way of doing business.

At the time of our second round of interviews his ideas about the ‘new way of working’ had become more complex and detailed and he had connected it to Beltics’ daily operations. Whereas during the first round he was largely focused on how to organise Beltics’ business activities, he now seemed to have figured it out and could implement his ideas and carry them over to others. As a result he became more involved with the practical side of Beltics’ business activities. An indication of this can be found in his extensive use of words like ‘market’, ‘sales’, ‘purchasing’, ‘costs’ and ‘price lists’ which seem to replace more (general) references to ‘organisation’, ‘competition’, and ‘management’ during the first round (see [Figure 7-10]). For example, he now knew to a reasonable detail what a ‘sales-oriented company’ meant for Beltics and how he could obtain instantaneous and detailed insights into stocks, purchased and sold quantities, and Beltics’ financial position (in particular the company’s liquidity position). He had also refined his ideas on how to tie trading partners to Beltics (of which the new business was an ‘inevitable’ element).

In addition, he had found several ways to change the thinking and behaviour of Beltics’ employees in accordance with his ideas (in particular those involved in buying and selling products). The severe crisis in the market for Pro-products that contributed to the troublesome financial situation both endorsed his opinion that he was on the right track and gave him the arguments to convince his co-director and Beltics’ employees. Recall that the commercial manager rather wanted to stick to the old way of working but admitted that the present circumstances required another approach.

The general manager ‘learned’ about how to start up the (potential) new business

During the first round of interviews the general manager already sketched the broad outlines of the new business. We noticed that by then he knew why he should start it up and also, albeit roughly, what it implied. As we noted previously, he elaborated his thinking on these issues in the following year and a half when working on both processes of conceptualisation and on the company’s new dominant logic. It was, however, only after he had finished his thinking on these issues that he started to pay attention to the peculiarities of the new
business and the issue how the new business should be started up (which largely enclosed the design of the business’ value chain). The acute problems Beltics faced and his awareness of Beltics’ scarce financial resources largely had prevented him from starting with this any earlier. Until then he had only had a few exploratory meetings with two suppliers of a chemical pulverising process.

Most of the work on the details of the new business was done by a doctoral student. He studied several alternative chipping installations, calculated financial costs and benefits, and identified an important outlet for its output. His research indicated that Beltics could profitably operate a mechanical installation from the very start of the business. In fact, it confirmed what the general manager had assumed up till then and, while research was being conducted, had hoped for. Precisely for this reason, none of the outcomes of the student’s research project fundamentally changed his thinking; neither the financial analysis nor the conclusion that a mechanical process was to be preferred above a chemical one. He had already made up his mind and his learning had more the character of ‘taking notice of’ than one of a ‘cognitive change’ (which is the reason that we have put the word ‘learned’ in the formulation of this learning point between quotation marks). We can only guess what would have happened if the outcome of the research had not been as advantageous. Considering the profoundness of his conviction it may well have been that the general manager had sought after other routes to realise it anyway (for instance by trying to approach other companies).

What the research did yield though was that thinking about the diversification project, as apparent from our talks with Beltics’ general manager, became more ‘concrete’. A mental pictorial image of the set up of the chipping installation started to take shape and was enforced by the recent installation of the conveyor belts to inspect Tri-products. It, for example, emerged in discussions about the necessary new accommodation and the required changes to Beltics’ existing facilities.

Finally, we noted that during our research the general manager did not develop any specific new business skills in the context of the diversification project. It was evident that the market-side of the new business had yet to be fully developed, while the mechanical chipping process was not without technical difficulties. The latter would only become an issue once the installation was in operation. The former may well enclose the real challenge of the diversification move to Beltics, as it had no experience with it whatsoever. Without giving it much attention (contrary to Dennis Laver who considered it as one of the new business’ most crucial elements), the general manager merely thought of it as something fundamentally different from the kind of trading Beltics was involved in.
The commercial manager (basically) did not learn in the context of the diversification project

During the course of our research Beltics’ second owner-manager, the commercial manager, increasingly left the management of Beltics to the general manager. Right from the start of our research it was evident that he considered the diversification project as something belonging to the general manager. We noticed that there were basically two reasons for this. The commercial manager fully focused on trading in Pro-products and this was even enforced by the recent market crisis. Moreover, like the general manager, the commercial manager expected that the processing of unusable products would mainly benefit Tri-products, especially in the short term, and he considered this category of products to belong to the jurisdiction of the general manager. Recall that the latter was the former director of Triwork that only ever traded in Tri-products while the former had only traded in Pro-products.

During our interviews it became clear that the commercial manager basically did not pay any attention to the (potential) new business. In his own words, he would ‘wait and see what comes out of it’ while stating that Beltics might benefit from it. As such the project did not enter or influence his thinking. He only considered the ‘new way of working’ the general manager proposed and the actions that resulted from it. But did he learn from this in the sense that it changed his own thinking (i.e. enclose a cognitive change)? Difficult to conclude. During the second round he started to speak, following the general manager, of the ‘old way of working’. He, for example, attributed the difficult position the majority of small traders faced, due to the market crisis, to it. But when asked after his true position towards it he still strongly argued in favour of it and stated that the troublesome market circumstances left them no other choice at the moment. In fact, similar to Colifox’s group manager, Beltics’ commercial manager nearly personifies the company’s prevailing dominant logic and strongly adheres to it.

Insights from the present case study

In the introduction of the preceding section we argued that the Beltics case is an interesting one as it studies the process of diversification right after the conception and before any financial investments in it took place. For this reason and because the stage of the diversification project differs from both other cases, the present case yields a number of intriguing insights related to the process of diversification. Some of these insights correspond with our insights emanating from the Colifox and Agripride cases. Again note that Chapter 9 will consider the insights in all three case studies and relate them to existing theory.
The Beltics case suggests a (different) linkage between the stage of diversification and the content of learning

The general manager of Beltics first worked on the reconceptualisation of Beltics’ business activities, embedded those of the new business in it and worked on a new dominant logic that matched with it. As such the process of diversification was mainly a mental process during the time of our research. Although the company’s difficult financial situation may have forced him to confine to this, our analysis of the cognitive maps also suggests that he deemed his attention to these learning areas as necessary before proceeding any further. If Beltics’ financial position had been more advantageous, the start up of the new business would probably only have succeeded these learning processes sooner, not replaced them.

In this respect the Beltics case contrasts with Mintzberg (1988) who states that companies that went through periods of extensive expansions (may need to) do some ‘mental housekeeping’ from time to time: its management overlooks what they recently have acquired and reconceives the company’s portfolio of businesses to mentally incorporate the new diversity. The Colifox case in the preceding chapter more or less confirmed his statement although in that case no re-conception of the portfolio of businesses took place. The Beltics case, however, shows that a period of expansion may well start with the latter instead of following it. Not only had the organisation to be properly organised, the general manager’s mental image of Beltics’ existing and new businesses had to be too.

Mintzberg (1988) speaks about the process of reconceiving the portfolio of businesses while having essentially large, multinational companies in mind. In contrast to the top management of these companies, most owners of SMEs are on top of the company’s daily practice and chances are therefore probably lower that they are confronted with an unnoticed (series of) expansion(s) of its scope of activities as Mintzberg suggests. Moreover, the fact that most of these companies are (fully or partially) owned by its directors may also make a difference. For these reasons it is understandable that processes of (re)conceptualisation may well precede the expansion of business activities instead of following it. Note that this does not say anything about the duration of these activities; a ‘fast’ entrepreneur may well only need some days for it, while others are more considerate especially if (comparatively) large sums of money are involved.

The differences between the old and the new way of thinking may well culminate in the concrete, i.e. the prevailing and new way of working

In this case we equated Beltics’ (old and new) way of working largely with the general dominant management logic thereby deviating slightly from Prahalad and Bettis’s (1986) interpretation of the concept. Given this interpretation of the
dominant logic, we conclude that it played a crucial role in the process of diversification. The differences between the old dominant way of thinking in the industry and the new way proposed by the general manager are most clearly visible in the learning area related to the dominant logic. In several ways the changes that took place in this area can be considered as turning points in the general manager’s overall process of re-thinking (of which the diversification project was a part). Seen from this perspective, four observations with respect to Beltics’ dominant logic are particularly relevant.

Firstly, Beltics’ general manager was strongly convinced that the company’s way of working had to be changed radically to improve the company’s performance and before he could start with any expansion activities, such as the new business he was considering. Secondly, like the sales manager in the Colifox case, he was working on, or over the edges, of the company’s ‘zone of proximal development’. The new business functioned as a kind of exemplary case forcing him to think about the present way of doing things (see one of the following insights). Thirdly, and this contrasts with the sales manager in the Colifox case, Beltics’ general manager is in the position, and thus has the power to change the company’s current dominant logic (whereby the troublesome market situation also seemed to help him in pursuing his ideas within the organisation). Fourthly, similar to the group manager in the Colifox case, the commercial manager strongly personifies the prevailing dominant logic. Although he formally did not belong to the company’s middle management (if the company had any at all), in practice he occupied such a position. The commercial manager holds a strong personal preference towards the prevailing way of working. To him it is the way of doing business in order to be successful in the end.

A severe environmental crisis may have value as it contributes to the re-thinking of existing conceptualisations and ways of working

During our research an unforeseen and severe crisis hit the market for Pro-products and further weakened the company’s financial position. It basically endorsed the general manager’s opinion that things had to change fundamentally in Beltics’ way of working. More specifically it made him more aware that purchasing and sales had to be (more) closely tied and that close, long-lasting relationships with the company’s main trading partners were essential. The market crisis even made the commercial manager doubt the correctness of the prevailing way of working, which seemed to be the only factor that made him do so. He, for instance, largely attributed the worse position many small traders were to it. Also, given the market crisis, he agreed with the general manager that Beltics had to change its way of working by purchasing more selectively and attempting to sell large parts of its current stocks. Nevertheless, he seemed to consider this largely as a temporary change, demanded by the present, disadvantageous market situation and Beltics’ troublesome financial position. It
may, however, well mark the start of a cognitive learning process that brings him closer to the general manager’s way of thinking.

The (potential) new business may act as an exemplary case in re-thinking the company’s existing business activities

In the Beltics case the (potential) new business seemed to have acted as kind of a booster in the general manager’s thinking about Beltics’ existing businesses and position in the market. It forced him to sharpen his thinking about the company’s future position, especially given the current troublesome circumstances. It strengthened his view that the current conceptualisation of Beltics as a ‘trading company’ and the prevailing dominant logic that came with it had to change. In order to mentally connect the new business to Beltics’ existing business activities he had to continuously work in line with the new conceptualisation of Beltics as a ‘waste-processing company’ and a way of working that matched with it. As such the new business functioned as a kind of mental evaluation device, a standard against which actions and ideas were measured off.

In essence, the new business increased the variety the general manager was confronted with and gradually stretched his thinking into the ‘zone of proximal development’. Recall that we described this zone in the preceding chapter as all knowledge and business areas about and in which someone feels considerable discomfort and, for that reason, wants to explore and learn about to include it in his present ‘zone of familiarity’. Overlooking the general manager’s cognitive maps and our encounters with him, it is evident that he has rather strong feelings of discomfort with respect to the new business. In fact, it seemed he would rather want it to be included in Beltics’ sphere of activities today rather than tomorrow. Note that his deep involvement with Tri-products, which will benefit most from the new business, contribute to this.

The foregoing pages throw another light on the extensive attention the general manager paid to both learning areas of conceptualisation during the first stages of the diversification project. His attention can well be considered as an effort to link the (proximal) unfamiliar to the familiar, i.e. the existing business activities. Whereas the top management of large (multinational) companies may well ‘just have a go with it for a while to see what comes out of it’, owner-managers of SMEs may feel a strong urge to mentally connect something new with what they have been doing for many years. That is, if it is not ‘just’ another business to them and something they are personally deeply involved in, in particular mentally but also financially.

\[ \text{Individual learning} \neq \text{organisational learning} \]

We noted that Beltics’ general manager was basically the only one who had been learning in the context of the diversification project. Moreover, only some
of what he has learned dripped through to the commercial manager; for the larger part it resides in the general manager’s thinking and steers his actions and decisions. Similar to the Colifox case this indicates that individual learning in an organisational context cannot automatically be equated with organisational learning. There is, however, an important difference with the Colifox case. Whereas in the preceding case it mainly concerned (tacit) knowledge related to new business skills (i.e. ‘how to deal with customers and agents’), in the present case it mainly concerns the reconceptualisation of Beltics’ business activities and its new dominant logic. In the Beltics case this largely encloses deep lying tacit, axiomatic knowledge, which Sackman (1991, 1992) describes as fundamental beliefs and final causes. In its essence it is ‘merely’ a perspective, a way of looking at Beltics’ current and new businesses and as such extremely difficult to articulate, in contrast to its implications.

The present case strongly suggests that passing through the learning process that led to the development of this perspective is crucial for embracing this knowledge. The commercial manager, for instance, does not adopt it truly and fully; he is, for example, only willing to work in line with several of its implications given Beltics’ current troublesome situation. Over time he may adopt it, for example, as he starts to think about it (thus going through a similar learning process as the general manager went through) especially if it proves its value to Beltics and results in a strong improvement of its financial situation. If that happens, and others join him, individual learning transforms into organisational learning following Huber’s (1991) definition of it (see Chapter 4). At the moment, this is not yet the case.

Personal feelings and preferences direct thinking and action in a new business

In several respects, the general manager’s feelings and personal preferences, in particular his disinclination towards Beltics’ current way of working, strongly directed his thinking and actions. Recall, for example, that the largest part of the cognitive map we construed on the basis of the first round of interviews dealt with the company’s recent but turbulent history. The financial malversation by a former partner made an indelible impression on him and contributed to his strong aversion against the prevailing way of doing business in the industry. In line with this he is concerned about the poor image the industry has to many outside it and to which he includes the producers of Pro-products and Tri-products. He wants to ‘grow out of the atmosphere of taboo’ so that his children do not see him as ‘... somebody who pulls at products in an old barn’ but instead leads a ‘professional, well-organised company’. As a combined result of these feelings, he is strongly motivated to develop a ‘new way of working’ and work on realising his conceptualisation of Beltics as a ‘waste-processing company’ having long-lasting relationships with its main (professional) partners.
Everything we said about the interconnectedness of rationality and emotionality, of arguments and feelings, is fully applicable to the present case. Meeting the group manager and ‘seeing’ his anger about his recent experiences transformed into an anxiousness to work on a better company and a promising future is likewise hard to write down on paper. If Phil Hackett had not been the director of *Beltics*, there would not have been the entrepreneurial spirit and drive to start up the diversification attempt we studied in the first place. This is not to say that the general manager’s feelings are the sole input to the mental image he has in mind. The other side of it is an analysis of the current and future situation *Beltics* is and will be in. He perceived the structural changes taking shape in the industry and concludes from this that things have to change to survive as a company. Nevertheless, his feelings are like fuel on which this analysis burns.

**A new business holds the potential to upset the prevailing mental coherence across learning areas**

Similar to our analysis of the *Colifox* case, we find that this insight brings a number of the foregoing ones together. The more the general manager appreciated the structural changes in the industry (including the recent crisis in the market for Pro-products), the development of environment legislation, and the professional way of working of producers, and the more books he read about managing and organising a company, the more he became uncomfortable about the prevailing conceptualisation of *Beltics* and its dominant way of working. After he started (mentally) to change the old conceptualisation of *Beltics* as a company, other learning areas followed. Recall that he was arguing for considering *Beltics* as essentially a ‘waste-processing company’ that works from a strong sales-orientation and has detailed insights into its stocks, flows of products and cash flows. He promptly noticed that this required various new business skills (consider for instance his plea for a ‘terrier mentality’) and, with the new business in operation, a newly designed value chain.

The commercial manager, on the other hand, was still pleading for the prevailing conceptualisation and way of working. He had been working in this way all of his (working) life, fully enjoyed it and superbly mastered the skills that it required. The existing way of thinking and working fully made sense to him. Although both managers thus pleaded for a different approach, they seemed to share a need for mental coherence across the five knowledge areas. Once the general manager had mentally changed one its elements fundamentally, the prevailing *gestalt* fell apart for him and he felt a strong urge to construe a new mental coherence.

The new mental coherence proposed by the general manager made, however, little sense to the commercial manager. According to his own choice, he was not as actively involved in thinking about the future course of the company as the general manager was, nor was he thinking about the (potential) new business. As a result he had not passed through the same learning process as the general
manager and was only confronted with its outcome and consequences. Basically, the general managers’ ideas did not get across to the commercial manager and lay far beyond his ‘zone of proximal development’. Whereas the general manager’s thinking was gradually stretched when his thinking developed, which reflects his a learning process, the commercial manager stayed in his current ‘zone of familiarity’. Similar to what we concluded in the Colifox case, this again suggests that (a fair degree of) active involvement is necessary in order to stretch one’s thinking and learn.

Conclusions

The cognitive perspective we employed greatly contributed to the study of Beltics’ diversification attempt, which was during the entire time of our empirical research in its preparatory stage and existed chiefly in the mind of Beltics’ general manager. Especially the latter observations confirm the value of a cognitive mapping methodology to us. As there was hardly anything to observe, other research methodologies would probably not have led to the same profoundness of insights we inferred from this case study.

First of all, the Beltics case overwhelmingly points to the importance of the mental side of a diversification attempt. Beltics’ general manager started with paying extensive attention to re-construing his mental image of the company’s existing business activities to incorporate his (also developing) mental image of the new processing business. The Beltics case illustrates that a new business may contribute to the reconceptualisation of existing businesses and a re-thinking of the prevailing way of working. As such it functions as an exemplary case that tests the existing way of thinking and working within a company and the industry and upset the prevailing mental coherence across learning areas. Together with a strong aversion towards the industry, which was enforced by several recent experiences both within the company and in the industry, Beltics’ new business induced a chain of mental changes (followed by several behavioural changes in the last part of our empirical research). The radical change of the prevailing dominant logic was probably the most important of these, which illustrates that new conceptualisations of the company’s portfolio and new ways of working may well go hand in hand. This, in turn, suggests that as one aspect of the existing mental coherence is changed, its intrinsic balance is disturbed a new mental coherence has to be construed altogether.

The Beltics case also points to the importance of active involvement in this mental process of reconstruing a new coherence across learning areas. Whereas the general manager was both willing to, and felt an urge to, change the prevailing mental coherence across learning areas, we observed that the commercial manager essentially held on to it. We largely attribute this to the fact that he was not actively involved in the (learning) process of re-thinking the general manager passed through and thus could not link up to the new mental
constellation the latter had construed. As such this (again) shows that organisational and individual learning processes cannot be equated without carefully examining these processes. We basically studied an individual learning process in the present case, not an organisational one. The latter seemed to have started when the general manager started to carry over his ideas to the commercial manager and other employees during the last part of our research. If, however, the latter merely carry out these ideas without considering the thoughts and considerations on which they are based, organisational learning will be more behavioural in nature and in this respect contrast with the essentially cognitive learning process the general manager went through himself.