Chapter 9

Learning from Experience

The foregoing part presented our research of diversification projects in three small and medium-sized enterprises with the purpose of contributing to a theory of diversification. Given our critique on the mainstream of diversification research, whose results we labelled as ‘disappointing’ and ‘unsatisfactory’, we think such a theory will meet both an academic and a managerial need. The present research is based on the contention that research into diversification can make considerable progress by exchanging the currently dominant coarse-grained research approaches for more fine-grained methodologies. The cognitive research methodology employed in this research to study (organisational) learning processes during the process of diversification meets this requirement. In developing this methodology we have brought together four impressive streams of research, which we explored and analysed in the first part of this research project.

The first two chapters discussed the conceptual and empirical research on diversification as published over the past forty years by hundreds of authors. Chapter 1 presented an overview of the various conceptualisations of diversification that have been developed over the years. We noticed that scholars have shown a growing interest in managers’ conceptualisations of diversification as well as in the learning processes these managers and their organisations go through during processes of diversification. By taking a cognitive perspective to study processes of (organisational) learning the present research clearly departed from this point of view. Chapter 2 reviewed the extensive body of empirical research into corporate diversification and diversity. Our analysis of the mainstream of diversification research, the promising results of a handful of studies that examined the process of diversification, and main theoretical views on diversity confirmed the value of a cognitive perspective on diversification and offered several additional clues (most notably individual cases studies as the preferred research strategy).

Because of the little attention paid by researchers to diversification by SMEs on the one hand and the favourable opportunities SMEs offer to employ a cognitive research perspective on the other hand, we chose to study the diversification projects within three such companies. Chapter 3 reviewed the research on diversification among SMEs and, given the small size of such
research, additionally reviewed the related and extensive research into the growth of SMEs. These reviews showed that diversification by SMEs (on average diversified to a considerable degree) may differ significantly from diversification by their larger counterparts given the deviating characteristics of SMEs, such as the omnipresence of their owner-manager(s) and the scarce availability of knowledge and financial funds. For one thing, SMEs often diversify for fundamentally different reasons compared with their larger counterparts (in particular personal reasons, see Lynn and Reinsch, 1990).

Chapter 4 reviewed two streams of research that have in recent years attracted a growing and substantial attention from management researchers world-wide: organisational learning and managerial and organisational cognition. This review served to position our research approach in the current literature and to develop the conceptual foundation of a research methodology to chart processes of organisational learning. The methodology conceptualises organisational learning in terms of cognitive change, an interpretation which enabled us to use existing cognitive mapping techniques; Chapter 5 developed and presented the research methodology in detail. We marked our approach as learning-by-individuals 'plus' while acknowledging that organisational learning is above all a social process that involves more than individual cognitive change. We regard the (owner-)managers we interviewed in the three companies as ‘key witnesses’ of organisational sense-making and learning processes who can inform us on what their organisation, as a group of socially interacting individuals, has learned in the context of the diversification projects. Moreover, given the central position of the owner-manager in SMEs, his individual learning comes close(r) to the learning by his organisation (compared with large companies).

The goal of this final chapter is to assess the contribution of the present research to a theory of diversification, mindful of the main purpose of this research as described in the Chapter 1:

The identification of organisational and contextual factors that in interaction shape the course of diversification projects and determine their ultimate success or failure within small and medium-sized enterprises, and the examination of the process in which these factors interact.

For this purpose this chapter brings together the insights from the three case studies and links these to the four streams of research by assessing the implications of these insights for existing theories in each of these streams. The chapter sets off with a cross-study comparison of the three case studies. Recall that each of the preceding chapters discussed and interpreted the learning by the interviewed (owner-)managers and their organisations in their own context and included the insights we inferred from their learning experiences. In comparing the three case studies we are especially interested in factors that have not (yet) entered diversification research at large. However, we will also assess which of
the moderating variables, as identified by mainstream diversification research and presented in Chapter 2, were visible in the three case studies. Next, the findings of the present research are related to the literature on diversification and growth by small and medium-sized enterprises as presented in Chapter 3. The chapter then goes on to take stock of factors and variables that are thought to influence the process and outcome of a diversification attempt, both suggested by earlier research and the present research. We will consider these factors and variables as ‘building blocks’ of a theory of diversification for SMEs in particular and, based on this listing, mark the (rough) contours of such a theory. Subsequently, the chapter shortly evaluates the research methodology employed in this research by highlighting some its strengths, dilemmas we faced before and during this research, and the flaws that came with these. The chapter ends with some concluding remarks.

Cross-study comparison

In this section we subsequently analyse and discuss the three case studies in conjunction by comparing the learning experiences of (the interviewed managers in) the three companies and the insights we deduced on the basis of our empirical investigations. In doing so, the voluminous and rich amount of case data is brought back to (what we consider as) its essence. It is important to note that in comparing findings across cases we considered the three case studies as equal incidences of diversification, which is in accordance with the conceptualisation (and corresponding working definition) of diversification we argued for in Chapter 1. Relevant to this conceptualisation is that the (owner-)managers we interviewed in the three case studies all considered the new business activities they were involved in as fundamentally different from any of their company’s existing business activities. Recall that this interpretation of diversification corresponds to a management-perspective and differs from an investigator’s perspective, which is the dominant perspective in the mainstream of diversification research. Moreover, in comparing learning experiences and insights we were interested primarily in equivalent, and non-equivalent, patterns across the three incidences of diversification. This analytical strategy is comparable with Yin’s (1989) ‘pattern-matching strategy’ with the crucial difference that, given the exploratory nature of this research project, our main interest was in empirical patterns. We were therefore at the outset less interested in comparing identified (empirical) patterns with those predicted by any theory, the kind of comparison which Yin stresses. In addition, given equivalent (or non-equivalent) patterns identified across the three case studies, our interest was in building explanations for the occurrence (or lack) of such patterns, a research strategy that closely corresponds to Yin’s (1989) ‘explanation-building’ strategy.

We have grouped the main insights (eleven) that emerged out of the cross-study comparison around (five) major themes. Like the insights we formulated
### Table 9-1

*Learning during the diversification attempt compared for the three cases*

<table>
<thead>
<tr>
<th>Knowledge area</th>
<th>The Wholesalers 'Colifox'</th>
<th>The Processors 'Beltics'</th>
<th>The Composter 'Agripride'</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Re)conceptualisation of the portfolio</td>
<td><em>European market offers excellent possibilities for growth and spread of risk</em></td>
<td>New business activity is necessary to offer full range of products and services which enable long-term contracts producers and others</td>
<td>Equipment leading: availability both necessitates and enables the start-up of new business activities (i.e. functions as a springboard)</td>
</tr>
<tr>
<td>Conceptualisation of the new business</td>
<td>Latin American market not worthwhile to invest in especially given type of customers</td>
<td>New business prerequisite for good future performance company</td>
<td>Perfectly fitting in with conceptualisation of portfolio of activities</td>
</tr>
<tr>
<td>(Development of) dominant logic</td>
<td>New business activity does not fit in with prevailing dominant logic</td>
<td><strong>Imperative to move from current ‘trading logic’ to ‘professional, sales-oriented organisation’</strong></td>
<td>New activity has reinforced existing dominant logic (and in doing so the logic became more explicit)</td>
</tr>
<tr>
<td>Design value chain</td>
<td>Latin American customers should be treated similar to other ‘foreign’ countries (and with considerable reserve)</td>
<td>Some paper-and-pencil ideas about linkage between existing and new activities</td>
<td><strong>Focus on maximal usage of available equipment (and people) increases company’s performance</strong></td>
</tr>
<tr>
<td>Development of business skills</td>
<td>Learning was largely lost when sales manager left the company</td>
<td>None yet</td>
<td>Several new skills developed and discovered that essential knowledge is lacking</td>
</tr>
</tbody>
</table>
on the basis of the individual cases, these insights can be grouped into two
categories. For one part the insights are conclusions across the three case studies,
for another they are inferences from the present research and should be
considered as hypotheses. It should not come as a surprise that all themes and
insights are related to the process of diversification and/or cognitive in nature.
Successively, we pay attention to the concept of mental coherence that emerged
from the present research, the significant role personal feelings and preferences
played in the three case studies, the process of diversification, and shortly
discuss the nature of learning and the definition of success and failure of
diversification projects.

As recalled in the introduction to this chapter, we regarded the (owner-)
managers we interviewed as ‘key witnesses’ of the learning and sense-making
processes their companies went through during the diversification projects.
Deduced from the cognitive maps, which we construed on the basis of
interviews with these managers, Table 9-1 summarises the learning processes
we observed in the three companies. In line with our analysis of each case in the
preceding three chapters, we have organised their learning experiences
according to the five (arbitrary) learning areas of the theoretical framework as
presented in Chapter 5 (see Figure 5-2). Table 9-2 shows common insights we
gained from all three case studies and, additionally, main insights that we
formulated on the basis of one case study but which we think are relevant for
the other studies too. We will discuss these insights within the context of the
learning experiences of these companies and the themes that we identified
across the three case studies.

Mental coherence

During the discussion of insights from the three case studies we introduced the
concept of ‘mental coherence’. We described this concept as the gestalt-like
interconnectedness in the managers’ thinking across the five learning areas
enclosing a host of individual and organisational (mental) images and routines.
In all three instances we noticed a growth in the mental coherence for the
managers we interviewed over the two interview rounds. Table 9-1 shows the
resulting coherence in the thinking of the interviewed managers across the five
learning areas for each company. During our research, thinking and learning in
each of the five learning areas induced changes in other learning areas. These
changes reinforced and complemented each other and, as a result of that
interaction, thinking across the five learning areas increasingly fitted together.
Note that the particular categorisation of learning areas we employed is arbitrary
but that these areas, taken together, span the broad variety of management
aspects managers have to deal with during a diversification process. Besides the
close mental interconnectedness of the learning areas, the similarities and
differences between the three cases are noteworthy.
### Table 9-2

*Insights formulated from each of the three case studies*

<table>
<thead>
<tr>
<th>Insight</th>
<th>The Wholesalers 'Colifox'</th>
<th>The Processors 'Beltics'</th>
<th>The Composter 'Agripride'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental coherence across learning areas</td>
<td>Chances of success lower if management rejects any change of the existing mental coherence</td>
<td>A new business can upset the existing mental coherence</td>
<td>Chances of success considerably higher when diversification attempt fits into prevailing mental coherence</td>
</tr>
<tr>
<td>Dominant way of thinking</td>
<td>Prevailing dominant logic may influence course and outcome of a diversification attempt</td>
<td>Differences between the old and a new way of thinking may contribute to a new way of working</td>
<td>Learning may be limited when a new business reinforces the prevailing way of thinking and working</td>
</tr>
<tr>
<td>Personal feelings and preferences</td>
<td>Decisive in pursuing a diversification attempt</td>
<td>Direct thinking and action with respect to a new business</td>
<td>Decisive in starting up a new business</td>
</tr>
<tr>
<td>Individual learning ≠ organisational learning</td>
<td>Clear example: 'management-at-home' versus 'sales-manager-out-there'</td>
<td>Clear example: learning by general manager isolated in company</td>
<td>------</td>
</tr>
<tr>
<td>Individual insights from each case study</td>
<td>Division of tasks can lead to isolated learning processes which in turn lead to different mental constructions of a new business; active involvement in all learning areas may prevent such fragmentation of learning</td>
<td>Environmental changes and a new business may contribute to the re-thinking of existing conceptualisations and ways of working and precede the start-up of a new business</td>
<td>The true challenge of diversification attempts may only reveal itself after some time and one diversification attempt may lead to another if it brings in new resources</td>
</tr>
</tbody>
</table>
With respect to the similarities, all three cases suggest that the managers mentally do not sharply distinguish between different aspects of the (set of) business activities of their company. The verbal accounts of the managers we interviewed indicate that their thinking with respect to the diversification project was (is) an integral part of their thinking about their company as a whole and cannot be isolated from that. In other words, there seems to be a strong mental interconnectedness between different aspects of their thinking in the sense that when they think about one aspect of the (set of) businesses, they simultaneously consider this in conjunction with other aspects. By way of illustration, the group manager and the director of Colifox did not think about the company’s corporate strategy without taking the company’s appreciated way of working and the current organisational set-up into consideration. Also, the managing director of Beltics did not consider a new way of working apart from his recent painful experiences and the financial constraints his company was facing. To formulate it differently, the thinking of the (owner-)managers we interviewed can best be characterised as taking place in a ‘mental space’, in which different aspects of businesses are attended in conjunction, rather than that they attach these to strict and clear categories. It may only be that when managers start to talk about their company’s businesses, that they (verbally) separate certain elements, most likely those that relate to ‘commonly accepted’ categories like ‘strategy’ and ‘value chain’ (which confirms the value of unstructured interviews in which no categories are imposed on interviewees). The concept of mental coherence thus blurs the distinction between organisational and strategic levels, which are commonplace in management literature.

Whereas the three cases share a growth in mental coherence over time, they differ in at least two respects. Firstly, contrary to the dominant directions between the five learning areas we loosely suggested in Chapter 5, in each of the three cases the mental growth processes originated in, and focused on, different learning areas (see outlined areas in Table 9-1). In the Colifox case the emphasis in the diversification process was on the (re)conceptualisation of the portfolio, in the Beltics case the development of a new dominant logic (a new way of working) was leading, and the owner-manager of Agripride predominantly stressed the design of the value chain. Secondly, the growth process happened in three fundamentally different ways in the three cases. In the Colifox case, we noted that the prevailing mental coherence was strengthened considerably as both the group manager and the director became more aware of what the company had to pursue definitely, i.e. European growth. Moreover, the prevailing mental coherence resolutely excluded the new Latin American business and, in doing so, enclosed the decision to cut back the company’s efforts in Latin America. In the Agripride case the owner-managers’ thinking about the new composting business also strengthened the prevailing mental coherence across the five learning areas. The decisive difference is that in this case it definitely included the new business. Finally, in the Beltics case thinking about the potential waste-processing business contributed to forceful efforts by
the managing director to change the prevailing mental coherence and develop a
new one instead.

If we summarise the preceding observations we can now formulate the first
insight on the basis of the present research:

**Insight 1** The prevailing or changed mental coherence across the five
learning areas grew during the diversification process but these
growth processes differed across the three case studies

This insight gives rise to two additional observations, one related to the
importance of considering the mental coherence a company’s management
construes, the other to their willingness or reluctance to change the prevailing
mental coherence.

Firstly, the foregoing insight validates our earlier inference, formulated on the
basis of earlier research on the process of diversification (see Chapter 2; notably,
Normann, 1977; Miles, 1982; Burgelman, 1983; Kazanjian and Drazin, 1987;
Ginsberg, 1990), that learning during diversification takes prominently (not
solely) place on a cognitive level. It also confirms the importance of taking the
management’s conceptualisation of a new business and their learning over time
into account (see Chapter 1; notably Mintzberg, 1988; Ginsberg, 1989; Prahalad
and Bettis, 1986). In fact, we regard the concept of mental coherence as a more
comprehensive interpretation of managers’ conceptualisation of a (set of)
business(es) as it encloses various aspects of management (such as covered by
the five learning areas in our framework).

Only part of the linkages a management team discerns and construes between
business activities will have consequences that are easily visible to outsiders,
that is only the (constellation of) tangible linkages. If we compare the character
of the diversification projects in the three case studies according to existing
classification schemes on the one hand with the relatedness the managers
involved in these projects identify on the other, an interesting conclusion
emerges. Recall that we characterised Colifox’s diversification attempt in terms
of the classification schemes of Ansoff (1965) and Rumelt (1974) as
considerably more related than the diversification attempt of Agripride and,
albeit to a lesser extent, Beltics. It is remarkable that the relatedness the (owner-
)managers involved in these diversification attempts discerned between the new
and the existing business activities is fully at odds with these characterisations.
Agripride’s owner-manager stressed the close relatedness between the new
composting activity and the other business activities of his company while the
group manager and the director of Colifox pointed to the many dissimilarities
between the Latin American endeavour and the existing activities of the
company in Europe. Moreover, as we have seen, the diversification attempt (sec)
by Colifox was definitely less successful than Agripride’s attempt. It is clear that
this outcome does not match with any prediction based on the employment of
the classification schemes of Ansoff and Rumelt. This strongly suggests that the
outcome of a diversification project depends more on relatedness the management of a diversifying company discerns between new and existing business activities than on the relatedness outsiders (e.g. researchers) assume.

Hence, insight into a management team’s specific mental coherence (being one alternative out of a wide range of possible mental representations of sets of businesses) throws light on the specific, idiosyncratic constellation of linkages a management team establishes and pursues at the expense of others. Note the resemblance with Thomas and Thomas’ (1928: 572) aphorism: ‘if men define situations as real, they are real in their consequences’. Only the deeper lying mental coherence gives meaning to the (visible) tangible linkages a company’s management pursues. This observation matches with our remark in Chapter 1 that the intangible linkages among (sets of) businesses directly result from managerial sense making. Behind the visible, tangible aspects of a (set of) business(es) a mental world is hidden that makes the visible meaningful. We expect that a company’s official vision or mission will in general be far from adequate to get acquainted with a management’s mental world.

The foregoing discussion leads to the formulation of the second insight:

**Insight 2** The tangible linkages among a company’s businesses cannot be interpreted meaningfully without considering its management’s mental coherence

A second observation related to our first insight is that the mental growth processes we discerned differed considerably across the three cases. Of the three diversification projects we studied, *Agripride*’s diversification attempt was by far the most successful at the end of our empirical research while *Colifox*’s attempt to enter the Latin American market was (in itself) the least successful. We also noted that *Agripride*’s composting business fully fitted into the company’s prevailing mental coherence whereas *Colifox*’s Latin American business did not. In other words, the mental fit was much higher in the former case than in the latter. In addition, two of the *Colifox* managers we interviewed did not intend nor like to change the prevailing mental coherence to adjust it to the new business, i.e. their mental willingness was minimal. The waste processing business *Beltics*’ managing director pursued did not fit in well with the prevailing mental coherence but he was fully willing to change it and develop a new mental coherence that did.

If we combine the two underlying dimensions and look at the three diversification attempts from the perspective of mental coherence, the matrix in [Figure 9-1] emerges. This matrix combines the degree of fit between a new business and the prevailing mental coherence across learning areas on the one hand with the mental willingness to change the latter if necessary on the other hand. Diversification projects that score low on both dimensions – like *Colifox*’s Latin American endeavour – are estimated to have low chances of success or be, at a minimum, rather problematic. The *Colifox* case suggests that in such instances the new business is mentally excluded which increases chances of
liquidation or sale. In general, the more modifications are required to the prevailing mental coherence, the more problematic any unwillingness to question and change the coherence in thinking across different aspects of the company’s (set of) businesses will be and vice versa.

Exactly opposite projects such as Colifox’s Latin American business are diversification projects like the composting business of Agripride that thrive within the prevailing mental coherence. When the company’s management additionally has a high willingness to change the mental coherence (or parts of it) whenever necessary, chances of success peak (of course given that they notice the necessity and have the required resources and capabilities). Note that while a new business may fit in with the prevailing mental coherence, the Agripride case suggests at the same time that the learning in such projects may be limited as the company’s management can stick to what they are used to. It does not induce any learning processes nor, by its functioning as a mental mirror, question the current way of working. In Weick and Westley’s (1996) words, such projects do not ‘disorganize and increase variety’, which is the essence of any learning process. However, the Agripride case also shows that the mental fit may decrease over time as the new business develops.

As Agripride’s composting business grew in size, its degree of fit with the prevailing mental coherence gradually decreased. Agripride’s owner-manager became increasingly aware that the composting business made different demands on required skills, capabilities and resources than the company’s other

**Figure 9-1**

*Estimation of success from the perspective of mental coherence*
businesses (notably demands on the quality and variety of end products and the marketing of those products). The Agripride case suggests that the true challenge of diversification attempts may only reveal itself after some time. If the company’s management is willing to change the prevailing mental coherence (as the owner-manager indicated in this case), this need not pose a problem (again, given required resources and capabilities). If Agripride actually moves to the upper-left quadrant, it will join our third case company Beltics. As we indicated above, the waste-processing business it aims at does not fit in with the prevailing mental coherence but the managing director feels a strong urge and is highly motivated to change it. In fact the differences between the prevailing ‘old’ way of working and the ‘new’ way of working he aspires to, contribute to the new way of working and thinking by highlighting important characteristics.

This all leads to the formulation of the following insight:

**Insight 3** The degree of fit between the new business and the prevailing mental coherence and the (un)willingness to question and change the latter in case there is a misfit, influences the process and outcome of diversification attempts

We can further sharpen insight 3 by considering the conditions and factors that influence the willingness to question and change the prevailing mental coherence. Drawing upon the three case studies, it seems that such willingness is inversely related to its strength (or ‘stubbornness’) and experienced feelings of comfort with it. They suggest that the longer management has worked within the prevailing mental coherence and incorporated it within its thinking and the lower the (felt) need or urge to change it, the lower incentives will be to actually change it. With respect to the latter we postulated in Chapter 6 that, while referring to the work of Vygotsky (1986), chances of success of a diversification projects (sec) are higher when it is positioned within the current ‘zone of proximal development’ of a manager or company. This zone lies just outside the present ‘zone of familiarity’ and, in a business context, encloses knowledge and business areas about which someone feels such a discomfort that he wants to explore and learn of it. The three case studies suggest several factors that may contribute to a management’s ‘feeling of discomfort’ about the current mental coherence and way of working and thinking. Such feelings may arise from a personal urge to achieve and build something valuable, for example, in order to leave a profitable company to your successors (Agripride) or to win admiration from peers or family (Beltics). In general, in particular for SMEs such urges are probably inherent to the personality characteristics of owner-managers (see Chapter 3). Feelings of discomfort may also spring from painful financial problems in the past (Agripride), the present or as foreseen in the (near) future (Beltics). Moreover, major environmental changes, whether seen as an opportunity (Agripride) or a potential threat (Beltics), may contribute to such feelings. As a final example, a strong aversion against the present way of working may evoke strong feelings of discomfort (Beltics). It is clear from this
enumeration that in both the Agripride and the Beltics case, several factors added to the feelings of discomfort of their managing directors. Contrary to the Colifox managers, these owner-managers were willing to question the prevailing way of working and change it if deemed necessary. Hence:

**Insight 3a** The (un)willingness to question and change the prevailing mental coherence depends upon feelings of discomfort it arouses, which in turn hinges on the (mental) distance to the current ‘zone of familiarity’, i.e. in the ‘zone of proximal development’

The concepts of mental coherence and feelings of (dis)comfort are closely related to the next theme that emerged from the three case studies.

**Personal feelings and preferences**

In one of the sparse contributions on the role of emotions in the literature on organisations and management, Fineman (1997: 16) notes that:

‘Insights are indivisible from certain emotions. [...] Thoughts are imbued with emotions and emotions with thoughts. We have feelings about what we think and thoughts about what we feel. [...] . . . emotion [i]s an inevitable feature of learning.’ [italics added]

Note that this quote is in line with Weick’s (1995: 45) observation that ‘people are seldom indifferent to what passes them by’ as they infuse things with feelings and emotions. The present research fully supports this point of view. As we indicated in Chapter 5, the mental images people hold are much richer than merely the words and verbal argumentation they utter but also include personal feelings, emotions, preferences, norms and values. In each of the case studies we pointed to the important and often decisive role of personal feelings and preferences. Strong feelings of discomfort with Latin American customers and their business habits were decisive in stopping Colifox’s diversification attempt. A similar (and seemingly even more intense) feeling with respect to the recent past and the current way of working strongly influenced the thinking and action by Beltics’ managing director. Finally, the strong positive feelings the owner-manager of Agripride had about the rightness of a composting business were decisive in starting it up and extending it.

All three cases illustrate that decisions and actions in companies can not be detached in a Descartian way from the people and their emotions who take those decisions and act upon them (cf. Lakoff and Johnson, 1999). It was evident in each of them that the words we mapped during the interviews did not live a life of their own but were interwoven with the emotions they had about their diversification project. People cannot be split in halves, a rational and an emotional side; the literature on SMEs acknowledges this to some extent as it pays ample attention to the personalities and personal characteristics of entrepreneurs. As Fineman’s (1997: 16) quote above argues, conscious
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deliberations and thoughts are fully embedded in and spring from emotions and preferences people have. So:

Insight 4  Personal feelings and preferences, which were strongly intertwined with managers’ thoughts and actions, strongly influenced the course and outcome of the diversification projects

Given the ‘wholeness’ of the personalities involved in the three case studies, any (single) explanation of the success or failure of these (or other) diversification attempts which implies a separation of the managers into a ‘rational’ and an ‘emotional’ side, will appear ridiculous to us. To argue, for example, that Colifox’s diversification attempt only failed because the Latin American business did (and will) not fit in with any or many of the company’s characteristics, passes over the beliefs and personal preferences of the people involved far too easily. We are therefore not willing to accept the large extent of predestination of diversification performance the mainstream of diversification research essentially presumes by focusing on (a limited set of) internal and external factors. Managers with an entrepreneurial attitude, full of ‘animal spirit’ who are filled with enthusiasm (as ‘champions’ mostly are; see e.g. Burgelman and Sayles, 1986) about a project, can push it beyond (unavoidable) severe hindrances. This spirit comes close to the personality characteristics of the successful owner-managers of SMEs enumerated in Chapter 3: e.g. an internal locus of control, a high need for achievement and an action-oriented mode of learning.

Particularly in the Beltics and Agripride cases, personal emotions were closely tied to (recent) experiences of managers with their companies. The owner-manager of Agripride explicitly linked his motivation to start up new businesses to the severe financial problems he had experienced in the beginning of the 1980s and which had nearly ended in a bankruptcy. Beltics’ managing director emphatically pointed to the financial malversation he had been confronted with shortly after Beltics was established. This malversation by a former partner (including the emotions that came with it!) had made an indelible impression on him and strongly contributed to his conviction that changing the prevailing way of working was absolutely inevitable. Both managers carried these experiences with them when working on their respective diversification projects. Therefore:

Insight 5  Former (organisational) experiences comprise a mental legacy that influences thinking and acting related to diversification projects (amongst other things)

We close this subsection by remarking that the role of emotions in organisations (including strategy formation) is currently grossly undervalued in management and organisation literature but holds many promises (notable contributions include Fineman (1993, 1997) and Kets de Vries (1999)).
Process of diversification

The growth of mental coherence across different aspects of a (set of) business(es) and the role of managers’ emotions pre-eminently confirm the impact of the diversification process on the ultimate outcome of diversification attempts. The central role of mental coherence in each of the three case studies supports and further illustrates the notion that a significant part of the learning during a diversification attempt is cognitive in nature. However, contrary to Kazanjian and Drazin’s (1987) proposition that cognitive learning precedes behavioural learning, the present research indicates that both kinds of learning largely occur parallel and are closely intertwined. To put it differently, thinking does not so much precede action (or vice versa) but there is thinking in action and action in thinking. By way of illustration, the director and group manager’s thinking in the Colifox case only started to change fundamentally (i.e. they learned) when the sales manager actually worked in Latin America. In a similar vein, the thinking about the potential waste processing business of Beltics’ managing director clearly changed when he spoke with suppliers and when the student he had hired started to work out some important aspects of this business. As a final example, Agripride’s owner-manager only started to think about product development and marketing when he was confronted with problems in these areas and started to work on these. This leads to a slight but important modification of the (fourth) insight we formulated in Chapter 2 on the basis of earlier process studies:

**Insight 6** Learning during a diversification project takes place prominently on a cognitive level but the latter is inextricably linked to, and largely takes place in the context of, action

In addition to the role of mental coherence and emotions, the three case studies offer further insight into the process of diversification and in doing so add to earlier process studies. The first insight we discuss is closely linked to the foregoing insight and concerns essential differences between the three cases in direction and pace of the process. These differences become evident when the diversification process of the most and the least successful case (i.e. Agripride and Colifox respectively) are compared. Whereas in the Agripride case the diversification process increasingly gained momentum as turnover and profits rose (and even enclosed several subsequent diversification attempts), Colifox’s new business on the other hand progressively lost momentum as things got tougher and the director and group manager started to doubt its success. Although we can only speculate what would have happened if things would have been the other way around, the momentum in the process affected the course and outcome of both attempts by reinforcing the direction the mental coherence and emotions took in both cases. The process momentum in the Agripride case (and to a lesser degree the Beltics case) can best be characterised as a ‘stimulating momentum’, and the process momentum in the Colifox case as
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a ‘restraining momentum’. Although these names are similar to those Jemison and Sitkin (1986) identified in the context of the process of acquisition, the direction of these momenta is exactly opposite. If we summarise what we have just written:

**Insight 7** The momentum in the process of diversification (either stimulating or restraining) affects its course and outcome by reinforcing the direction mental coherence and emotions take

The division of tasks we observed in the Colifox case among the three managers involved in the Latin American diversification project is related to the ‘restraining momentum’ in this case. Recall that on the basis of the images we elicited using the various cognitive mapping exercises, we found a clear spread in the learning efforts of the three managers we interviewed (during the first round). Each manager highlighted one or two different learning areas, intentionally leaving the rest to others. As managerial specialisation is closely linked to organisational roles and levels, this does not come as a surprise in itself. However, the activity segmentation that it comprises seems to have had a profound influence on the learning processes that occurred in the context of Colifox’s diversification project. More particularly, the Colifox case suggests that the activity segmentation within a diversification project induces a mental segmentation (i.e. different mental constructions of a (new) business or set of businesses, of customers, of market potential, etc.). This, in turn, seems to have severely hampered organisational learning within Colifox. Figure 9-2 depicts the underlying and reinforcing systemicity. It shows that a lack of active involvement both reinforces the prevailing activity segmentation and induces a mental segmentation over and above that. Note that the notion of activity segmentation as used here is similar to Jemison and Sitkin’s (1986) interpretation in the context of acquisitions.

![Figure 9-2](image-url)  
*Figure 9-2* Reinforcing systemicity induced by lack of active involvement
In Chapter 4 we remarked that organisational learning is above all a social process during which organisational members exchange, test and create knowledge (see e.g. Duncan and Weiss, 1979; Nonaka and Takeuchi, 1995). What is important to processes of organisational learning, are successive rounds of dialogues wherein individual members or groups of members are involved. However, as Nonaka (1994) points out, dialogues chiefly allow for the exchange of knowledge that can be articulated well (i.e. explicit knowledge). Crucial parts of knowledge cannot or hardly be put into words (i.e. tacit knowledge). The exchange and creation of such knowledge, with its roots in action, requires (shared) experiences. Any organisational learning springs from individual experiences, but if experiences are not shared with others (in the organisation or part of it) it remains individual:

‘The key to acquiring tacit knowledge is experience. Without some form of shared experience, it is extremely difficult for people to share each other’s thinking processes. The mere transfer of information will often make little sense if it is abstracted from embedded emotions and nuanced contexts that are associated with shared experiences.’ (Nonaka, 1994: 19)

In the Colifox case, the sales manager finds it extremely hard to communicate his Latin American experiences and feels misunderstood by the ‘management-at-home’. It became evident during the interviews that he ‘knows more than he can tell’ (cf. Polanyi, 1967). Moreover, as shared experiences induce organisational learning, and as learning changes (mental) perspectives (cf. Hedberg, 1981; Fiol and Lyles, 1984), shared experiences facilitate the creation of mutual understanding and (some degree of) commonality in perspectives (cf. Nonaka, 1994). The lack of involvement of the three managers in all learning areas explains (some of) the differences we found between the ‘management-at-home’ on the one hand and the ‘sales-manager-out-there’ on the other. It is illustrated in particular by the deviant images the two sides have of Latin American customers.

In the context of what we have said in Chapter 4 about the importance of shared learning processes, it is our impression that active involvement of each of the three managers in each of the five learning areas would have fostered shared learning experiences and, in doing so, could have resulted in a larger degree of commonality in the three managers’ images of the new business. If and which (accommodated) common view(s) might have resulted from the interaction among the (viewpoints of the) three managers is hard to say beforehand. Because the sales manager is actually meeting Latin American customers this does not imply that he has the ‘right’ view of, or opinion about, them. However, more active involvement of the director and group manager would have considerably reduced the need for the sales manager to explain his actions and justify his choices all the time. For the former, such involvement would have created a (more) tangible context for the exchange of the latter’s largely tacit knowledge about Latin American customers and markets. The Latin American customers might then have ‘explained’ themselves, in their own cultural and
organisational setting. This in turn might have resulted in a different attitude of the ‘management-at-home’ towards the Latin American business within Colifox. The sales manager, for example, contends that the other two managers would recognise the ‘gigantic’ growth potential of this market. It is, however, equally feasible that the sales manager would have changed his (now positive) opinion about Latin American customers by taking the views of the group manager and the director into his consideration.

As indicated in Chapter 6, the Colifox case suggest that (mutual) lack of involvement seems to be particularly problematic the more the diversification project lies (or gradually grows) outside the company management’s ‘current zone of proximal development’ (cf. Vygotsky, 1986). Exploring and learning the unfamiliar requires a gradual stretching of mental images during which the unfamiliar is linked to the familiar and (starts to) become familiar (or, in Piaget’s (1937) terminology, there is not accommodation without assimilation). The managers in the Colifox case found themselves (and increasingly) at a different place between the familiar and the unfamiliar and, due to this, had difficulties in understanding each other. This observation argues for the indispensability of passing through the learning process instead of merely taking notice of its (interim) conclusions. Theories of human learning nearly always couple the product of learning to the process of learning (cf. Vygotsky, 1986; see also Crain, 1992). Hence, delegating learning to a third party is problematic.

Although not as clearly discernible as in the Colifox case, the Beltics case supports the foregoing notions. Recall that the commercial manager, who did not participate in the thinking about the new waste processing business, indicated that he would ‘wait and see what comes out of it’. We doubt if he has learned much from the exercise undertaken by the managing director. Note also that differences in mental constructions were not an issue in the Agripride case. Apart from the fact that we only interviewed the owner-manager, he was both managing the company and fully involved in the new composting business. This suggests that the importance of involvement may grow with the size of a company.

The foregoing leads to the formulation of the following insight:

**Insight 8** Lack of active involvement in all learning areas of a diversification project, possibly resulting from a strong division of tasks, reduces the opportunities for shared experiences, which contributes to mental segmentation and as such can severely hamper processes of organisational learning

An implication of this insight is connected with the discussion of structural differentiation launched by Ansoff and Brandenburg (1971) and further developed by, amongst others, Burgelman (1984) and Kazanjian and Drazin (1987). According to the latter, and keeping in with ideas about exploiting potential synergies, diversifying companies should preferably keep separate what is different and integrate what is familiar (compare also Lawrence and
Lorsch, 1967). In this context, Burgelman (1984) further points to the strategic importance of a new business. The present research extends this discussion by suggesting that a certain minimum degree of integration may be required to make room for the sharing of experiences that is necessary for the organisation to learn. In relation to the five learning areas distinguished here, this implies that every participant should intentionally concentrate part of his attention on each of these five areas. A certain amount of active involvement contributes to the development of a common frame of reference with respect to the familiar businesses and the unfamiliar new business across participants. Such a common frame of reference, in turn, enables the exchange and creation of organisational knowledge and gives meaning to it. Note that in the Colifox case the sales manager’s arguments for top management commitment amounts to pulling down the walls of task segmentation (within reason) so as to erase the mental segmentation. On the other hand, as Fiol (1984) has pointed out, too much integration of mental images can also be disadvantageous, as collective learning may benefit from simultaneous agreement and disagreement between organisational members. The more a group of people starts to agree on different aspects, the more learning starts to cease and groupthink lies in wait (Janis, 1972).

The diverging images of the Colifox managers and, albeit to a lesser extent, the Beltics managers point to several other observations which add, in particular, to the still limited stock of knowledge on the development of ‘general dominant management logics’ (recall that Prahalad and Bettis (1986: 498) had to keep their discussion on the way these cognitive structures of organisations change, still ‘largely speculative’). Firstly, the recognition that their company needed another general dominant management logic came from the managers that were most intensively involved in the new business, i.e. the sales manager in Colifox and the managing director of Beltics. The impetus the diversification project gave to rethinking the present dominant logic (as well as existing conceptualisations) was most clearly visible in the latter case. Secondly, in both cases we noted that the managers operating on the middle management level – i.e. Colifox’s group manager and Beltics’ commercial manager – most fiercely held on to the company’s prevailing ‘general dominant management logic’. In fact, we noted that both managers were nearly the ‘living personification’ of their company’s dominant logic.

Both findings are surprising given that Prahalad and Bettis (1986) in particular had a company’s top management in mind when discussing the concept of dominant logic. Hence, and this comprises our third observation, whereas in the Beltics case the managing director himself recognised this need, in the Colifox case the recognition mainly came from below. It was not the top management who employed the prevailing dominant logic but the sales manager upon whom this logic was imposed who first experienced the shortcomings of the present dominant logic most fiercely (in order for the company to deal
effectively with its Latin American business). In terms of Figure 5-2, he is one ‘layer’ ahead of both other managers.

The above observations help in explaining why dominant logics may restrict the ability of an organisation to learn as Bettis and Prahalad (1995) observed. It also illustrates how the dominance of top and middle managers’ ideas can all too easily prevent unlearning (Nystrom and Starbuck, 1984). These managers may simply feel no urge to change the logic(s) they employ (yet), and indeed they may never feel such an urge at all. This last point potentially offers an explanation as to why diversification projects sometimes come to an early standstill. Lastly, it throws further light on the importance of political capabilities of both lower and higher level managers to the success of internal ventures that do not belong to the mainstream of corporate activities in diversifying and diversified firms. Such capabilities may well be crucial to successfully fight the dominant logic imposed by top management or held on to by middle managers. Note that this finding both agrees and (possibly) contrasts with Burgelman (1983) who, based on his research of innovation in large companies, also stressed the importance of political capabilities but in particular pointed to those of middle managers.

Summarising our last set of observations:

**Insight 9** The recognition that the prevailing general dominant management logic needs to change comes foremost from those who are most intensively involved in a diversification project whereas middle-level managers, which are often most intensively working with it, most fiercely contest any change.

*The nature of organisational learning*

Chapter 4 dilated upon the ongoing debate in the literature on organisational learning on who is learning, individual managers or organisations. By positioning (categories of) authors on a bipolar continuum we concluded that they, either implicitly or explicitly, have chosen different positions in this debate. Some authors make the assumption that only individuals, acting as agents of their organisations, can learn. Others, however, point to the importance of social and cultural processes and pose that learning in organisations is more (or sometimes less) than the aggregate of all individual learning experiences. The present research does not offer the final answers in this debate but does offer some contributions that may be valuable. These contributions come in particular from the Colifox and Beltics cases, both (large) medium-sized companies in which we interviewed several managers.

Both cases illustrate clearly that organisational learning is not equivalent to individual learning and *vice versa*. What an individual manager learns within the context of the organisation is not automatically learned by that organisation. For example, when the sales manager left Colifox the (largely tacit) business skills he had acquired about (how to deal with) Latin American customers and how to
sell products on this continent were chiefly lost to the company. Similarly, the learning of the managing director of Beltics with respect to the reconceptualisation of Beltics’ business activities and the dominant logic differed greatly from that of his partner who was not involved in thinking about the new waste processing business. There is a close link with several insights we formulated in the foregoing, most notably the eight insight.

Building upon the discussion above, active involvement (to a certain extent) in all aspects of a diversification project, is likely to increase chances that the learning of individual members is passed over to others in the organisation. As they pass through the process together, they share experiences and (‘nuanced’) contexts, including the embedded emotions that come with it (cf. Nonaka, 1994). The common (mental) framework that is developed in this process facilitates the transfer of individual learning experiences, particularly those that are tacit in nature and therefore difficult to articulate. The Colifox case shows that lack of active involvement reinforces both the prevailing activity segmentation and induces a process leading to mental segmentation. The more the latter is the case, the more individual and organisational learning differ. Learning collectively requires passing through the process together. Or, to put it differently, collective sense-making largely takes place in the context of collective action and reflection. Therefore, to phrase it concisely:

**Insight 10** Collective learning requires a shared learning process in which sense making occurs collectively in the context of collective action and reflection

**Definition of success and failure of diversification**

A final insight that emerges from this research connects to the question of success and failure, which we raised in Chapter 1. We criticised the mainstream of diversification research, amongst other things, for imposing their (etic) view of success and failure upon the diversification attempts they studied. In Chapter 2 we questioned if the wide range of (mainly financial; see Table 2-3) performance measures used are able to fully capture the diverse set of motives behind diversification moves and the range of possible effects. For one thing, we found that certain measures are more likely to identify certain relationships between diversity and performance than others (see Table 2-4). The present research causes another stir in this pond.

In the Colifox case we made a distinction between the failure of the Latin American diversification attempt sec and the contribution of this particular experience to the company’s overall process of strategy development. Whereas the diversification project itself can be characterised as a failure, the impact it had on the strategic thinking in the company puts this outcome in a different perspective. The diversification attempt made Colifox’s management more aware what they really valued and what they, therefore, had to pursue definitely, i.e. European growth. Hence, how should we characterise the performance of
this diversification attempt? Moreover, as Colifox did not visibly disinvest or liquidate the Latin American business, it is far from likely that ‘outside’ researchers, looking from a distance, would have noticed the change in its diversification strategy.

The Agripride case throws yet another light on the performance debate. There can be no discussion that its diversification into the composting of organic waste is a complete success. However, we also noted that during the second round the owner-manager started to enter really unfamiliar grounds, as he started to think about producing different kinds of soil and starting up marketing activities. We inferred from this that the true challenge of diversification attempts might only reveal itself after some time. Some early profits do not guarantee enduring success (especially not when new competitors with appropriate knowledge enter the market).

Given the above considerations we formulate our final insight on the basis of this research as follows:

**Insight 11** Success and failure of diversification attempts are relative notions and should be considered in the wider strategic context of the company as well as over the longer term

**Summary of the cross-study comparison**

The present section went into organisational, processual and contextual factors that emerged from the present research but which are currently fully (or largely) unfamiliar in the mainstream of diversification research (given their rough characterisations in the foregoing it might be better to refer to these factors as ‘concepts’). Figure 9-3 depicts the new factors that we consider most significant

![Figure 9-3](image-url)

*Most significant factors that emerged from the present research*
<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental coherence</td>
<td>Gestalt-like interconnectedness in a manager’s thinking across different aspects of a (set of) businesses (e.g. across the five managerial learning areas)</td>
</tr>
<tr>
<td>Mental willingness</td>
<td>Willingness to change prevailing mental coherence (including the present conceptualisation of the portfolio and the dominant logic); reflects the commitment to and enthusiasm for a new business</td>
</tr>
<tr>
<td>Mental fit</td>
<td>Degree to which a new business is thought to fit into the prevailing mental coherence; in general, the higher the mental fit, the higher chances of success</td>
</tr>
<tr>
<td>Zone of proximal development</td>
<td>Encloses yet unfamiliar knowledge and business areas in the immediate proximity of the zone of familiarity about which someone feels an urge to explore and learn about</td>
</tr>
<tr>
<td>Feeling of discomfort</td>
<td>Felt uneasiness about the prevailing mental coherence and current ways of working and thinking</td>
</tr>
<tr>
<td>Personal feelings and preferences (emotions)</td>
<td>Personal, emotional attitude towards a new business (e.g. in comparison with existing businesses’ activities)</td>
</tr>
<tr>
<td>Mental legacy</td>
<td>Former personal or organisational experiences in the context of the organisation (especially if they were indelible)</td>
</tr>
<tr>
<td>Process momentum</td>
<td>Reinforcing positive or negative directional force in the process of diversification, can either be stimulating or restraining^2</td>
</tr>
<tr>
<td>Active involvement</td>
<td>Degree of active engagement in all or different aspects of a new business during the process of diversification</td>
</tr>
<tr>
<td>Activity segmentation^3</td>
<td>Fragmentation of (managerial) activities and tasks</td>
</tr>
<tr>
<td>Mental segmentation</td>
<td>Divergent mental constructions of new (or set of) businesses across managers resulting from differences in focus of attention and learning across managers</td>
</tr>
<tr>
<td>Collective sense making</td>
<td>Jointly developing (shared) understandings and meaning during the process of diversification about the new business and the context in which it operates</td>
</tr>
</tbody>
</table>

^1 taken from Vygotsky (1986); note that description in this context differs
^2 same naming but different interpretation to Jemison and Sitkin (1986)
^3 similar naming and interpretation as Jemison and Sitkin (1986)

Table 9-3
Factors that emerged from the present research
and whose interaction we regard as significant for the ultimate outcome of
diversification attempts. Table 9-3 presents the full listing (and description) of
all (new) factors that were found important in the three processes of
diversification we studied. Note that this list also includes factors that we
borrowed from existing theories but which we found helpful in explaining the
course and outcome of these particular case studies. None (or few) of the factors
in Table 9-3 were studied in the mainstream of diversification research (yet). Also recall that, in addition to these factors, mainstream diversification research has hardly paid any attention to elements such as managers’ conceptualisations of the portfolio of businesses and the new business, and the learning processes these managers and their organisations go through during a process of diversification.

The role of ‘familiar’ moderating factors

Chapter 2 reviewed the more than twenty (categories of) moderating
organisational and environmental factors that were studied in mainstream
diversification research (see Table 2-6). Two comments we made in the context of these factors are particularly relevant in this place. Firstly, we commented that, given the demands coarse-grained research methodologies put on the measurability of factors, there are no guarantees that all factors that moderate the relationship between diversity and performance are currently known. The factors listed in Table 9-3, which emerged from this research and were taken from the eleven insights formulated in the foregoing pages, confirm that this is indeed the case. Secondly, we noted that diversity studies hardly ever have studied process variables as they mainly examined diversification after it had taken place. The present research, aimed at narrowing this gap, amply confirms our point of departure that such variables play a significant role in the process of diversification. However, although the present research, also by virtue of its cognitive and longitudinal research methodology, focused on cognitive and process factors, other factors did play a role too. Table 9-4 outlines which of the ‘familiar’ moderating factors (as enumerated in Table 2-6) were present in each of the three case studies. If Table 9-3 and Table 9-4 are compared, the difference in character between the factors in these tables is absolutely striking. No two sets of factors can better explain the essence of an economic-technical dimension on the one hand and a cognitive, processual dimension on the other hand.

Comparison of Table 2-6 and Table 9-4 reveals that not all moderating factors were present in the three case studies, either because we did not see them as significant in any of the case studies or because we did not identify any sign of the particular factor. Our research methodology, which is not particularly focused on these factors and linkages, has, without any doubt, contributed to this. In addition, many of the findings of mainstream diversity research can only be verified by similar research methodology, not by three case studies (consider
**Conclusions and Discussion**

The Composter 'Agripride'

Diversification is partially an escape

Influence industry structure unclear

Size important: number of machines

Stuck to familiar way

Of some influence in direction

Signs of moderating influence

-----

Present but unrelated diversification

Equipment and people

Unclear

Influence industry structure unclear

The Processors 'Beltics'

Performance suffers from poorly performing market

Industry structure possibly of influence

-----

Size important: finance, market power

Stuck to familiar way

Of some influence in direction

Signs of moderating influence

-----

The Wholesalers 'Colifox'

Changes in influence over time are likely

Weak signs that industry structure is more important in explaining firm performance than diversification per se

-----

Industry structure possibly of influence

-----

Presence but limited

Absent or only weak

Present but unrelated diversification

Size of importance, esp. purchasing power

Size important: finance, market power

Size important: number of machines

Little experience with start-ups

Size important: finance, market power

Stuck to familiar way

Not of influence

Of some influence in direction

Signs of moderating influence

Competencies

Competencies

Competencies

Competencies

Competencies

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Competencies

Competencies

Competencies

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Autonomy units

Autonomy units

Autonomy units

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Autonomy units

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Autonomy units

Autonomy units

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Synergies/economies of scope

Synergies/economies of scope

Synergies/economies of scope

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Motives

Motives

Motives

Motives

Motives

No excess capacity or market failure

Some signs of market failure

Partially induced by excess capacity

Table 9-4
Learning during the diversification attempt compared for the three cases
for example ‘related diversifiers have lower debt rates’ or ‘manager-controlled firms seem to diversify more’).

Of the four industry structure factors only one played a conclusive role. For all three companies industry profitability was one of the reasons to diversify, either because it tended to fluctuate (Colifox), already declined for several years (Agripride) or was foreseen to do so in the near future (Beltics). Besides the influence of industry profitability on the companies’ motivation to diversify, in all three cases industry structure seemed to be a more important determinant of firm performance than diversity per se.

Roughly half of the organisational factors were, to a greater or lesser degree, present in at least one of the case studies. Of these the influence of organisational size on firm performance was most apparent. For Colifox size is directly related to purchasing power towards its suppliers: due to its size the company fills up large parts of their capacity, which helps in wresting low prices from them. For Beltics size is directly related to financial and market power of which it currently lacks the former. To Agripride size is linked to the number and variety of machines it can operate simultaneously as it enables the company to take on a variety of (contract) jobs. As can be read from Table 9-4, we only found some weak evidence that signals the influence of other ‘familiar’ moderating organisational variables. For example, Colifox changed its organisational structure slightly but this was not related to its diversification attempt in Latin America.

In addition to size and structure, experience with the mode of entry was of influence in the Colifox and Agripride cases. In fact, of all familiar moderating factors, it seems to have had the most significant influence on the final outcome of their respective diversification projects. The familiarity with the mode of entry in the Agripride case and the lack of it in the Colifox case can be considered as an important part of the observed prevailing mental coherence in these cases. As we indicated in Chapter 6, the company’s experience with starting up a new business was limited while, even though it bought a small company that already operated in Latin America, the mode of entry into the Latin American market essentially was a start up. Both before and during our empirical research, the company (had) entered new countries and regions successfully by acquiring existing companies which it could consider as (semi-)autonomous business units from than on. Agripride stuck to the way for starting up new activities it was familiar with, which can be loosely characterised as ‘start and see where it ends’.

Furthermore, Colifox’s existing core competencies influenced its diversification strategy. Its management assumed that the company’s purchasing competencies would give them a competitive advantage over local producers and sellers. Core competencies also determined the good performance of Agripride’s composting business, particularly its competencies related to laying out the composting area. Finally, in both these cases, organisational culture and management style seemed to exert a moderating influence on the relation between diversity and performance.
The evidence for the moderating influence of synergies and economies of scope is present but mixed. In all three cases we identified some (possible) positive synergetic effects between new and existing businesses. In the Colifox case these are largely managerial and related to purchasing. However, it may be possible that the large distance between Europe and Latin America outbalances these positive effects and turns them into disadvantages. In the Beltics case synergies may be collusive resulting from its ability to manage the entire waste stream or, if these are not appreciated by customers, merely managerial in nature and connected to the increased organisational size. Even though we marked Agripride’s entrance into the composting business as basically unrelated and conglomerate, synergies were clearly present in this case and related in particular to the shared use of (fungible) equipment and people.

Finally, we found some evidence for the moderating influence of factors related to the mode and direction of diversification. As indicated above, the mode of entry played a role in the Colifox and Agripride cases. Likewise, in all three cases ‘escaping’ the present markets was one of the reasons for diversifying. The availability of excess capacity or market failure, to a greater or lesser degree, contributed to the last in the Beltics and Agripride cases.

In sum, we observed that several of the familiar moderating factors played a role in the three case studies. Of these we consider the role of experience with the mode of diversification, industry profitability and its influence on the decision to diversify in the first place, the linkage between size and company performance, and (potential) positive synergetic effects as the most important factors that influenced the final course and outcome of the three diversification projects we studied.

**Linking the findings to the literature on SMEs**

The foregoing sections have identified and discussed new and familiar factors that predominantly influenced the course and outcome of the diversification attempts we studied in three SMEs. We can now start answering the question what the present research and its findings learns us about diversifying and growing SMEs. For one part the insights we formulated confirm known characteristics of SMEs as discussed in Chapter 3, for another part they extend the current body of knowledge on SMEs. The core of our insights relate to (1) the central role of the person and the personal in SMEs and (2) processes of mental segmentation that may occur when SMEs grow and, due to this, managerial activities are more spread across managers. We will pay attention to both points successively.

Although the literature on SMEs highlights the importance of personality characteristics of owner-managers in general it pays little attention to the thinking of owner-managers in specific situations. In this sense, Stubbart’s
(1989) observation that managerial cognition represents a ‘vital missing link’ in strategic management can be straightforwardly extended to research on SMES. The present research shows that insight into owner-managers’ thinking about new and existing businesses, including their emotional attitude towards these, helps tremendously in understanding the course and outcome of individual diversification attempts. It throws light on important mental aspects – like mental willingness, mental legacy, feelings of discomfort and emotions – that surround diversification projects. This insight may be especially valuable to SMES as the person and personal issues are so central in such companies. By way of illustration, recall that 88% of the business owners in Lynn and Reinsch’s (1990) research indicated that they had personal reasons for all or some of their diversification attempts. Also note that particularly in the Beltics and Agripride cases, the reasons to diversify (or to consider it) were for a significant part related to the person of the owner-manager. Consider for example constructs like ‘change image towards children’ (Beltics) and ‘build company for sons’ (Agripride).

Moreover, whereas the literature on SMES recognises the central role of learning in successful companies, the present research suggests that this only covers half of the story. Recall that we referred in Chapter 3 to several authors that stressed the importance of learning by owner-managers of SMES (see e.g. Gibb and Davies, 1990; Hendry et al., 1995; Gibb, 1999). These authors argue that successful SMES have owner-managers with an action-oriented mode of learning. Their learning may be stimulated by (severe) problems they are confronted with (see e.g. Greiner, 1972; Churchill and Lewis, 1983; Scott and Bruce, 1987; Kazanjian and Drazin, 1990) or induced by the opportunities they notice and opportunistically act upon (see e.g. Rosa, 1999). Apparently, successful owner-managers continuously and effectively learn while they accumulate experiences when dealing with problems and exploiting opportunities. The present research indicates that a (strong and continued) willingness to learn is a necessary prerequisite for this to occur. If such willingness is present the result can be pleasantly advantageous (see Agripride). If, on the other hand, it is absent the diversification attempt may well end where it began (see Colifox). As any teacher will confirm, learning does not come by itself, not even when abilities are sufficient and opportunities are plentiful. It requires a personal impetus (including a favourable emotional attitude) to start with.

So, the person and the personal of owner-managers of SMES are central to the development of their company. In Chapter 3 we concluded on the basis of existing literature that it is not so much the general characteristics of SME owner-managers that are important to the success of business activities as their sustained intention, motivation and commitment to develop those activities (see e.g. Davidson, 1991; Smallbone et al., 1991; Gibb and Scott, 1985; Bird, 1988). The present research definitely confirms this conclusion. We do not question the general significance of personality characteristics – like high needs for achievement, independence and autonomy and a high tolerance for ambiguity –
to the growth of SMEs. However, such characteristics are only important insofar as they contribute to a sustained readiness and commitment to develop a specific (set of) business(es). The general may but does not automatically extend to the specific. For example, it may well be that successful owner-managers are more willing to learn and challenge existing practices (as part of the prevailing mental coherence) but this does not mean that they will do so in every specific situation and support every new business with the same degree of commitment and enthusiasm. The Colifox case may well function as an example of this. Hence, personality characteristics are more moderating the outcome of diversification attempts (e.g. through the willingness to change the prevailing mental coherence) than determining it directly. The fact that this is not recognised widely may well explain part of the contradictory evidence produced on the relation between the personality characteristics of owner-managers and the performance of their companies.

Whereas the former chiefly relates to the person of the owner-manager(s), the present research also generates some new insight into the growth of SMEs. We concluded in the foregoing pages that if managerial activities are spread across various managers, their active involvement in all learning areas will be lower. This in turn may result in a mental segmentation (i.e. differences in mental constructions of businesses and activities) across these managers that may seriously hamper a diversification attempt. We observed this most clearly in the largest company we studied (Colifox). To a lesser extent it is also visible in the second largest company (Beltics) while we did not notice it in the smallest company of the three we studied (Agripride). In terms of the stage models of small business growth (e.g. Churchill and Lewis, 1983; Gartner, 1985), one could say that each of these three companies is located in different stages of these models (considering its managing director’s focus of attention, Beltics may well be in the middle of moving to a next stage).

What happens when a small or medium-sized company grows? Drawing upon the research discussed in Chapter 3, as the role of its owner-manager changes, the number of managers working for the company increases as does delegation, decentralisation, specialisation and formalisation (for a concise overview see Chapter 3 or Snuif, 1995). As a consequence, managerial activities, once all taken care of by the founding owner-manager, are dispersed throughout the organisation across a large(r) number of managers (who sometimes are hired from outside the company, especially in successful companies). Churchill and Lewis (1983: 34), for example, note that during the success stage ‘organizationally, the company has grown large enough to, in many cases, require functional managers to take over certain duties performed by the owner [. . .] In addition, the first professional staff members come on board’. During the (successful) take-off stage, delegation of responsibilities from the owner to others increases further and ‘the organization is decentralized and, at least in part, divisionalized’ (ibid: 40). Using similar words Kazanjian and Drazin (1990: 141) remark that during the growth stage in
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their model ‘there is an increasing sense of hierarchy, the advent of functional specialization, and the move toward more professionally trained and experienced personnel’.

In addition to describing the stages successful SMEs are assumed to pass through, the literature on stage models lists the key management factors which are prominent in determining ultimate success or failure. Greiner (1972) stresses that growth through delegation has to be followed by growth through co-ordination; fitting in with the managerial spirit of the seventies he argues for the introduction of formal planning procedures, profit centres and staff departments. Churchill and Lewis (1983) point, amongst other factors, to company resources and the willingness of the owner to delegate as his company grows. Based on an empirical research, Kazanjian and Drazin (1990: 147) conclude that ‘the fit of structure to stage of growth does appear to influence growth’. Other contributions in the area of stage models contain similar recommendations (see e.g. Kimberly and Miles, 1980; Scott and Bruce, 1987; Smith et al., 1985).

The present research suggests that next to such organisational aspects, growth also encompasses a mental dimension. The organisational growth of an SME and the dispersion of managerial activities across a larger number of managers imply an activity segmentation that may well result in a lack of active involvement across various managerial learning areas. Due to this, chances of mental segmentation across managers grow significantly. As these managers accumulate divergent experiences in different contexts and, in doing so, engage in distinct learning processes, the images they construe of the company’s business activities may well grow apart. As a result, the occurrence of misunderstanding (both noticed and unnoticed) and conflict between them may and often will increase. Therefore, next to the necessity of co-ordinating managerial activities growing SMEs are well advised to pay ample attention to ‘co-ordinating’ their managers’ mental images in the metaphorical sense of the word (i.e. facilitating such co-ordination). Our analysis in the foregoing pages indicates that this can be done by increasing their active involvement in other learning areas which enables the sharing of experiences, images and assumptions (see Figure 9.2). To paraphrase Lawrence and Lorsch (1967), the cognitive differentiation (i.e. mental segmentation) resulting from activity segmentation should be compensated sufficiently by a minimal degree of cognitive integration. Many managers will consider such a recommendation (in particular the time it takes) as exactly contrary to the demands and tensions placed upon them by their rapidly growing organisations.

In sum, the contribution of the present research to the literature on (growing) SMEs is twofold. On the one hand, it emphatically stresses the importance of taking the person and the personal of SME owner-managers into consideration as a moderating factor when studying (growing) SMEs. On the other hand, the findings of the present research throw some new light on the problems SMEs
Towards a theory of diversification for SMEs

In the theoretical part of this research (Part I) we have comprehensively reviewed familiar factors (including processes) that (may) influence the course and outcome of diversification attempts. Based on the three case studies presented in the preceding three chapters and the cross-study comparison in the present chapter we have identified several new factors in addition. We regard to each of these factors and concepts, familiar and new, as building blocks of a theory of diversification for SMEs in particular. Figure 9-4 shows these building blocks, which are taken from Table 2-6 and Table 9-3. As can be seen from this figure, there are still some holes in what might be called the ‘wall of diversification’. We think the present research has filled up part of the holes in this wall but additional exploratory research is still very much in place.

Although it is very tempting to categorise the factors in Figure 9-4 into a set of neat categories, it is hard if not impossible to do so. Many of these cannot be put into one category exclusively but seem to belong to several categories simultaneously. Consider for example the following (to us rather obvious) categorisation: the new business, the process of diversification, the organisation or company, the environment(s) in which it operates, its history and the experience of its (owner-)managers, and mental and emotional aspects concerning the company and its new business. Following this categorisation, factors like ‘mental willingness’ and ‘conceptualisation of the new business’ are linked both to the new business and to mental and emotional aspects while ‘mental legacy’ encloses both mental/emotional aspects and history/experience. Other factors even connect three or four categories, like ‘intangible linkages’ (the new business, mental/emotional aspects, and the organisation/company) and ‘learning’ (the process of diversification, the new business, mental/emotional aspects, and history/experience).

We do not think that categorisation problems like these are connected to a particular categorisation (which would imply that we do not know an appropriate set of categories yet), but instead point to several fundamental issues. The core of these issues reveals itself when considering Weick’s (1979: 86) reminder to ‘think in circles’. Behaviours, phenomena and events are interdependently related, ‘designating one [as] cause and [another as] effect is an arbitrary designation’ (Weick, 1979: 77). Weick (1979: 79) goes on to argue that, as ‘patterns are more crucial than substances . . . the only place you can make a significant change is between variables’. Insight into the interactions (i.e. patterns) between ‘variables’ reveals more of the essence of what social structures like ‘organisations’ are than knowledge of variables (i.e. substances) themselves. Hence, trying to understand organisations by considering them as sets of variables that are unilaterally connected is a gross oversimplification of
organisational life. This conclusion leads us back to our discussion in Chapter 4 when we assessed the paradigmatic implications of a cognitive perspective. Following Giddens’ (1976, 1979, 1984) theory of structuration, we then concluded that organisational life takes shape as managers simultaneously (re)construe and interpret the social structures that surround them. Their actions arise out of the interplay of their interpretation of pre-existing and social construction of new/modified social structures and these actions will change both in the (near or far) future (notice the circularity).

The foregoing notions throw a different light on the problems we experienced with categorising the factors in Figure 9-4. If we think in circles, the essence of these factors does not lie inside the individual boxes but in the
relations between the boxes. Moreover, several of the factors, particularly those that were hard to put into one category, seem to describe ‘patterns’ themselves rather than ‘substances’. A host of specific examples from the three case studies can serve to illustrate the (double) interplay between interpretation and (re-)construction. Consider, for example, the mental construction of Colifox’s Latin American customers by its director and group manager, the managing-director’s construction of Beltics as a waste processing company, and the reconstruction of Agripride’s value chain by its owner-manager which reinforced his conceptualisation of Agripride’s portfolio of business activities. We refer to the respective case studies for the specificities of these and other examples.

Figure 9-2 (see page [301]), which sketches the consequences of low levels of involvement in all learning areas by managers in a diversification attempt, illustrates the notions of circularity and interdependence on a more general level. Similar circularities can be identified on the basis of the present research in Figure 9-5. Figure 9-5 shows some notable examples of (sets of) factors/concepts that in interaction mutually reinforce each other. Circle (A) shows that personal feelings and preferences affect motivation, commitment and intention of the company’s management and involved managers and jointly reinforce the (un)willingness to learn and invest in a diversification attempt, which gradually changes the dominant way of thinking as involved managers learn during the process of diversification; this, in turn, may change personal feelings and preferences, and so on.

Circle (B) indicates that the history of the organisation and former experiences of managers influence motives and direction of diversification and the choice of its mode. Together direction and mode affect the process of diversification and what the company and its managers learn and contribute to their (shared) experiences. In turn, these will undoubtedly affect choices with respect to future diversification attempts.

Circle (C) suggests that a specific dominant way of thinking stimulates certain learning processes that reinforce existing organisational routines and produce more shared experiences of the same kind. This will disperse specific tacit knowledge more widely within an organisation, making human capital more idiosyncratic and reinforcing the present dominant conceptualisation of the portfolio and the current general dominant management logic. In turn, this will reinforce the present dominant way of thinking in the organisation.

As a last example circle (D) partly describes some of the dynamics that manifested themselves clearly in the Beltics case: strong personal preferences motivated the managing director to change the current dominant way of thinking, to develop a new dominant logic and to challenge current organisational routines. After a while, this process may result in the development of new competencies, which add to the company’s idiosyncratic human and physical capital and, particularly if this improves its overall performance, reinforces personal feelings towards the old way of thinking.
The examples in Figure 9-5 are but a few of the many circularities that can occur during diversification attempts. Based on the foregoing analysis, we argue that the combined and ultimate effect of the set of circularities in a particular diversification project can go in two, fundamentally different directions: either they basically confirm the prevailing mental coherence across all learning areas or they challenge it and a new mental coherence emerges. If the former happens, chances that a diversification attempt that does not fit in with the existing mental coherence will succeed within the company boundaries are low; at best a company’s management tolerates the new business. In the latter case, chances for a new business to succeed and become a full and integral part of the company’s portfolio are much higher. The stronger management’s conviction (including their emotional attitude) that a new mental coherence is required, the
Conclusions and Discussion

In general, the building blocks of a theory of diversification in Figure 9-4 can either contribute to, or counteract the process momentum and, in doing so, increase or lower chances of a good outcome of a diversification attempt (sec). Part of these building blocks (also) influences the mental coherence across learning areas, another part determines the favourability of the context or social structures in which a diversification attempt takes place. Moreover, given the foregoing discussion, it goes without saying that the direction each factor takes, results from the circular interaction with other factors. Figure 9-6 depicts notable examples of such counteracting or contributing forces for several of the building blocks in Figure 9-4. Forces that counteract a diversification attempt lower its chances of success while contributing forces increase its chances. For example, if the management’s attitude vis-à-vis the new business is unfavourable, or develops in that direction during the process of diversification, this force will counteract its success while a favourable attitude will contribute to it. The ultimate outcome of a specific diversification attempt depends on the combined effect of these interacting (contributing and counteracting) forces. In Hampden-Turner’s (1990) terminology, an organisation and its diversification project may either enter a vicious circle if counteracting forces dominate or alternatively a virtuous circle when contributing factors prevail.

Note that several of the extremes in Figure 9-6 are often subject to debate when they are considered in isolation. Consider for example ‘performance of other activities’. Based on previous research we might estimate that the performance of existing activities correlate negatively with the chances of the success of a diversification project. Its relation with the ultimate outcome is, however, much more likely to depend on the particular circular (reinforcing or weakening) interactions with, and in the context of, other factors.

This research project examined diversification within the context of SMEs and we regard its findings, including the foregoing sketch of the contours of a theory of diversification, especially relevant for such companies. Taking Penrose’s (1959) remark in mind that small and large firms are as different as ‘a caterpillar from a fly’, we can only loosely hypothesise about the relevance of
<table>
<thead>
<tr>
<th>Counteracting forces</th>
<th>Contributing forces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excludes new business</td>
<td>Mental coherence across learning areas</td>
</tr>
<tr>
<td>Unfavourable</td>
<td>Attitude vis-à-vis new business</td>
</tr>
<tr>
<td>Conflicts with new business and unwillingness to change</td>
<td>Prevailing way of thinking and dominant logic</td>
</tr>
<tr>
<td>Low or declining during diversification process</td>
<td>Motivation and commitment</td>
</tr>
<tr>
<td>Low or absent</td>
<td>Willingness to learn and invest</td>
</tr>
<tr>
<td>Inappropriate and inflexible</td>
<td>Organisational routines</td>
</tr>
<tr>
<td>Inappropriate</td>
<td>Tacit and explicit knowledge, competencies, capabilities, skills</td>
</tr>
<tr>
<td>None or little</td>
<td>Idiosyncratic physical and human capital</td>
</tr>
<tr>
<td>Lacking</td>
<td>Resources</td>
</tr>
<tr>
<td>Minimal or absent</td>
<td>Potential synergies due to noticed tangible and intangible linkages</td>
</tr>
<tr>
<td>Blocking learning</td>
<td>Internal and external challenges</td>
</tr>
<tr>
<td>Limited number of managers</td>
<td>Active involvement</td>
</tr>
<tr>
<td>Absent or on low organisational level</td>
<td>Organisational champion</td>
</tr>
<tr>
<td>Favourable for existing businesses</td>
<td>Industry structure and profitability</td>
</tr>
<tr>
<td>Absent or few and negative</td>
<td>Former experiences with (mode of) diversification</td>
</tr>
<tr>
<td>Excellent</td>
<td>Performance of other activities</td>
</tr>
</tbody>
</table>

**Figure 9-6**
The 'seesaw' of diversification
our findings to larger firms. In general, based on comparable, process oriented studies in large(r) firms we discussed in Chapter 2 and our own experiences in large firms, we think that most of the factors identified and articulated in the present research will be relevant to large firms too but their precise manifestation may, and often will, differ. Future research into processes of diversification will have to throw more light on both the relevance and (interactional) manifestation of the factors we articulated in the foregoing. A host of hypotheses can be formulated on the basis of this research. By way of illustration, in many large firms mental coherence may be spread over a variety of top managers and, for that reason, modification of the existing mental coherence may be (even) more problematic. Also, the mental willingness to change the prevailing mental coherence can change suddenly as new top managers enter a firm and feel differently about decisions taken in the past (while taking their own experiences and mental legacy with them). Finally, active involvement across all learning areas of managers at various organisational levels may be lower as activities are often more strictly divided in larger firms; as a result of this, learning processes may be (even) more spread across managers and departments and hence more isolated from each, which in turn increases the chances of mental segmentation across managers.

On strengths, dilemmas and flaws

In every research project researchers take a number of choices related to what might be called the theoretical, the methodological and the empirical domain. The strengths of a research project follow directly from these choices, in particular from the consistency across the three domains. In addition, the quality of a research project depends to a large extent upon the adequacy with which researchers deal with the dilemmas that come with these choices. In this section we highlight what we consider as the main strengths of this research, the dilemmas we faced, and the flaws that resulted from dealing with these dilemmas.

To start with the research strengths, the present research is one of the firsts to explore the process of corporate diversification from the perspective of those that are responsible for, or involved in, a diversification project. To chart the processes of individual and organisational learning taking place during a diversification attempt, we developed a research methodology in which a triad of cognitive mapping techniques were employed in a longitudinal case study design. The choice for (only) three case studies enabled us to focus in depth on the dynamics (i.e. the interaction between content, context and processes of

1 On the other hand, small and large firms are not different in every respect; after all, although caterpillars surely differ from flies, both are labelled as insects.
change) of diversification within the real life context of SMEs over time and construe extensive, rich descriptions of individual diversification projects (which eases interpretation by others).

The use of three different cognitive mapping techniques enabled us to increase access to the knowledge and meanings of the managers we interviewed. By combining them in an elegant way we were able to minimise irritation and the laboriousness of the cognitive mapping sessions. In addition, it allowed us to use the cognitive maps construed with one technique to interpret those construed with another. For example, we often found ourselves using the maps construed with Decision Explorer to interpret the data generated on the basis of the repertory grid technique. If this data has to be considered on its own, without any knowledge of its (mental) context (as in large cross-company studies), a wide range of different interpretations seems plausible. Hence, contrary to Huff’s (1990b) assertion, we experienced that a technique like RGT requires a comparatively large amount of interpretive input from researchers (see Figure 5-1). On the other side, we found that a cognitive mapping technique as developed by Eden and his colleagues (see Chapter 5), which stays close to people’s discourse and utterances, requires considerably less interpretive input from researchers.

With the foregoing choices and strengths came a number of dilemmas that unfolded themselves fully during our research. As indicated above, the quality of a research project depends to a large extent on the adequacy with which researchers deal with the dilemmas they face. Blunt choices without any argumentation do not contribute to the quality of research and neither do plain compromises that imply feeble combinations of both sides of a dilemma. Instead, mindful of Hampden-Turner’s (1990) work, researchers should challenge themselves to reconcile the dilemmas they are confronted with (or, alternatively, look for existing reconciliations) and attempt to combine the best of both sides. Giddens’ (1976) structuration theory we discussed in Chapter 4 is an excellent example of such a reconciliation. It resolves the tension between knowledgability of pre-existing structures and the intentionality that is inherent to a social constructive perspective. In a more or less similar way we have in this research reconciliated the dilemma between minimising the irritation and laboriousness of our cognitive mapping sessions on the one hand and increasing the access to the knowledge and meanings of the managers we interviewed on the other by combining the three cognitive mapping techniques we employed in a refined way.

If reconciliation is not (yet) clearly visible, not fully elaborated or not applicable given time and resources, researchers have an obligation to articulate and underpin the choices they make with clear arguments. Yet, however solid such arguments may be, each choice comes with its own flaws and weaknesses. This may be the case with the main dilemma we faced in the present research, i.e. the dilemma between a cognitive research approach oriented at individuals (and effective for mapping individual learning) and the inherent social nature of
organisational learning. We have reconciled this dilemma by considering the managers we interviewed as ‘key witnesses’ of organisational sense-making processes. However, there is no guarantee that this indirect route fully captures collective sense-making processes (and we would be the last to argue that this is the case). We therefore consider it as the most important flaw in the present research. The underlying assumption that managers are (fully) able to articulate the state and outcome of such processes and researchers can infer collective sense-making from individual discourses is untested; given that they are in the middle of the intricate interaction of many factors and circular processes, it is even very unlikely. Although this makes a cognitive approach incomplete, it does not imply that the present research has been useless and its findings meaningless. Given time and resources, complementing the cognitive research methodology with, for example, ethnographic research methodologies (e.g. based on observation of managers’ activities) will strengthen any research of processes of diversification. We regard an action research approach in which researchers actively facilitate the process of diversification as an even better alternative as it puts them in the middle of processes of collective sense-making (see e.g. Eden and Huxham, 1996; Checkland, 1998). Also, managers are generally more eager and challenged to articulate their thoughts when their own work and projects are at stake.

Concluding remarks

We started this research project with the observation that the aggregate result of diversification research is quite disappointing. Little can be said unambiguously about the implications of diversification for the performance of firms. Moreover, an all-embracing theory of diversification that is helpful in understanding the success or failure of individual diversification projects is still missing. Such a theory could inform managers in bringing their attempts to diversify to the end they have in mind. This research is based on the presumption that detailed examination of individual diversification projects from the perspective of those involved in, and responsible for, these projects while charting individual and organisational learning processes is meaningful. In our view, this research has made several valuable contributions of which we would like to stress the following four.

Firstly, on the basis of the three cases studied the present research identified several new, within the context of diversification unfamiliar factors that in interaction (may) influence the course and outcome of diversification attempts (see Table 9-3). The nature of these factors differs fundamentally from (most of) the familiar factors that have been studied as part of mainstream diversification research. Whereas the latter are mostly related to structural characteristics of a diversifying company, its diversification project and the industry it is working in, the former are closely connected to the process of diversification as well as to the managers involved in it.
Secondly, this research shows that the relationship between diversification and moderating factors may not necessarily be a linear one in which these factors directly influence the outcome of diversification attempts. Instead, in the three diversification projects we studied the relation was a more indirect one: the three cases enclosed much intricate circularity that either reinforced the process momentum in these diversification attempts or weakened it. The moderating factors that contributed to, or counteracted, (the outcome of) these attempts influenced the direction these circularities took.

Thirdly, this project has developed a cognitive research methodology, including a paradigmatic foundation, to chart managers’ perspectives and learning processes with respect to the diversification projects they are involved in. The methodology conceptualises learning as cognitive change and employs a combination of cognitive mapping techniques to assess such changes. Seen from this perspective, the three case studies can be considered as extensive, detailed illustrations of its application.

Finally, the most important contributions of this research project may lie in the future as the present one gives rise to a number of challenging research questions and hypotheses. We have only sketched the broad contours of what eventually may become a theory of diversification. Future research is still very much required to fill in the (yet unknown) holes that are left in the ‘wall of diversification’ in order to be able to formulate such a theory at a sufficient level of detail. This research was exploratory in nature, aimed at identifying new factors and raising questions and hypotheses. The insights and results it has produced have to be tested and challenged by future studying to see if they hold in other situations, be it in small, medium or large companies. For one thing, the four circularities we discussed in this chapter (see Figure 9-5) merely illustrate and point to the existence of circular, interacting processes that occur during diversification attempts. These circularities may only be the top of an ‘iceberg’ of less visible circularities, which are even more important for the course and outcome of individual diversification projects. Also, the ‘seesaw of diversification’ that we outlined in Figure 9-6 may be a rude oversimplification of the intricate, subtle working of contributing and counteracting forces. Only methodologically and theoretically solid research will offer us the answers to these and many other questions around corporate diversification to increase our understanding of this intriguing phenomenon.
III Conclusions and Discussion