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MNE dynamic capabilities in (un)related diversification

Gulsun Altintas, Véronique Ambrosini, Siegfried Gudergan

Abstract

While we know that dynamic capabilities (DCs) are important for multinational enterprises (MNEs), little is known about the multiple DCs they may exercise and how they configure the DCs to support their related or unrelated diversification activities. Our qualitative empirical case study findings illuminate how an MNE does so. We confirm that DCs rest on the ostensive microfoundations that encompass the three principal DC processes of sensing opportunities, seizing opportunities and transforming resources. Furthermore, we explicate their performative microfoundations. We reveal that for all the DCs, performative microfoundations of sensing include information gathering and strategic analysis. The performative microfoundations of seizing include a capacity to experiment, then formulating a course of actions. Finally, the microfoundations of transforming include resource structuring, then capability renewal (for unrelated diversification) or capability improvement (for related diversification), and capability implementation. While the process flow of ostensive microfoundations is uniform across DCs, the transforming process flow of performative microfoundations differs for related and unrelated diversification activities. Alongside evidencing the different exploitative/explorative learning and involvement of lower/top-level management associated with the DCs supporting related/unrelated diversification activities respectively, we foreground DCs' configurational nature and extend the IB DC literature on MNE diversification and DCs' microfoundations.

Keywords: dynamic capabilities; internationalization; ostensive/performative microfoundations; related/unrelated diversification; qualitative study

1. Introduction

Multinational enterprises (MNEs) engage in domestic and geographical product and market diversification (Rugman and Verbeke, 2004), usually to improve their performance (Bobillo et al., 2010; Zúñiga-Vicente et al., 2019). As MNEs gain experience and overcome the liability of foreignness (Johanson and Vahlne, 1977), they diversify more, allowing them to improve their performance by exploiting their resources and capabilities through combining (Rugman et al., 2011) firm- (Hymer, 1960) and country-specific (Vernon, 1966) advantages. Besides, more recent work has singled out dynamic capabilities (DCs) as a critical feature explaining MNEs' performance differentials: "dynamic capabilities undergird the "future" of any MNE, because...they undergird competitive advantage" (Teece, 2014, p. 23). Still, despite their recognized significance in international business (IB) (Ayden et al., 2020; Lessard et al., 2016; Li et al., 2019; Teece, 2014), little is known about how MNEs exercise DCs to enable their diversification (Ng, 2007; Døving and Gooderham, 2008).

MNEs exercise DCs (e.g., Arikan et al., 2019; Døving and Gooderham, 2008; Luo, 2000) to create value and reduce the risk linked to operating in a single country. They do so when engaging notably in related (e.g., Teece, 1980) and unrelated diversification (e.g., Maksimovic and Phillips, 2002). Furthermore, Bingham et al. (2015) highlight that using several DCs generates greater shareholder value than relying on only one. Prange et al. (2018) also suggest that firms with multiple DCs can depend on another to maintain or improve performance when one DC erodes over time. This implies the value of exercising multiple DCs when MNEs engage in different diversification activities. Hence, because MNEs benefit from diversification (Gaur and Kumar, 2009), and evidence suggests that MNEs that diversify are using multiple DCs, understanding how MNEs exercise multiple DCs to enable diversification activities is a salient issue for MNEs.

Extant literature, however, falls short in providing such understanding. We know that DCs are embedded within firms and are also contingent on a firm's unique historical trajectory (Barreto, 2010; Schilke et al. 2018), but they need to be tailored to the specific activity in which they are exercised (Eisenhardt and Martin, 2000; Winter, 2003). For instance, scholars have explored DCs concerning subsidiary development (Uhlenbruck, 2004), product development (Parente et al. 2011), international joint venture development (Zhan and Chen, 2013), international new venture development (Khan and Lew, 2018), and international entry mode (Tang and Gudergan, 2018). Then, other authors have started exploring activity-specific microfoundations of DCs (for example, those pertaining to cross-border M&As (Haapanen et al., 2019)). Microfoundations encapsulate individually and organizationally driven processes that undergird DCs and embody DCs' embeddedness (Eisenhardt et al., 2010; Teece, 2007). They shape how MNEs deal with the challenges that characterize their internationalization activities (Jones and Coviello, 2005). Moreover, Prashantham and Floyd (2012) suggest that a firm varies in the practices through which it engages in different internationalization activities. This implies that an MNE may tailor its DCs in specific ways to enable different diversification activities (Teece, 2014). However, an important question remains: What underlying microfoundations make up the multiple DCs undergirding an MNE's diversification activities? This echoes Foss and Pedersen's (2019) call for further research on microfoundations in international management.

Second, although Regnér (2008) already pointed out that configurations characterize the use of DCs, only recently have related empirical studies emerged (e.g., Fainshmidt et al., 2019; Gelhard et al., 2016; Rice et al., 2015). The sparse research that examines DC configurations in terms of their microfoundation in an international management (IM) context appears limited to Haapanen et al. (2020), who studied different microfoundation configurations of DCs in terms of team- and organization-level processes. Given that DCs are

activity-specific (Schilke et al., 2018), generate more or less strategic change (Lessard et al., 2016) and are characterized by different microfoundations (Eisenhardt et al., 2010), we argue that the DCs that an MNE exercises are likely to differ according to whether they support related or unrelated diversification. Thus, DCs would be configured correspondingly. This exposes a further unanswered research question: How are an MNE's DCs' underlying microfoundations configured to suit (un)related diversification?

Our study draws on the empirical context of the MNE *Voyageurs du Monde* (VdM, literally World Travellers). With business interests across the globe, VdM is a particularly well-suited case to examine microfoundations of DCs because it has repeatedly modified its resource-base across different (un)related diversification activities to achieve advantages over time. As its broader operating environment in the tourism and travel sectors is dynamic and has changed due to economic, technological and market forces (Aldebert et al., 2011; Martin et al., 2015), the MNE presents an ideal context to study DCs (Li et al., 2019; Luo, 2000).

Our study builds on and extends Teece's (2007) DC framework, which is increasingly applied in IB literature (Lessard et al., 2016) but lacks detailed understanding in IB (Ayden et al., 2020). This framework specifies three processes as microfoundations of DCs: sensing an opportunity, seizing an opportunity, and transforming the resource-base. They describe the generalized dimensions of a DC, i.e. they represent the DCs' ostensive microfoundations (Biesenthal et al., 2019; Feldman and Pentland, 2003; Prashantham and Floyd, 2012). These ostensive microfoundations provide a theoretical rationale for disaggregating DCs. They have empirical support and have been considered in related studies (e.g., Haapanen et al., 2020). Considering the importance of DCs for MNEs in their internationalization, yet scarcity of research on the microfoundations of DCs in such highly relevant contexts (Li et al., 2019), our study makes three significant contributions to the DC and IB literatures.

As our first contribution, we clarify the microfoundations of the DCs underpinning an MNE's (un)related diversification. Examining each DC of the MNE's multiple DCs allow us to understand the DCs' microfoundations. This enables us to explicate how they happen in practice. As such, we reveal in greater depth and detail some of the DCs' performative microfoundations. In so doing, we embrace the call for developing the microfoundation research agenda in MNEs (Foss and Pedersen, 2019; Niittymies and Pajunen, 2020) and for further work on Teece's (2007) three DC processes. "Moving forward, it would be fruitful to add greater richness to our understanding of these organizational processes, such as by providing in-depth accounts of how they work on the ground" (Schilke et al., 2018, p. 416). We empirically bring to the fore that the IB microfoundations literature should not be restricted to individuals (Niittymies and Pajunen, 2020). We show that MNEs need to draw on both organizational and individual elements. We show that the sensing performative microfoundations include information gathering and strategic analysis; seizing, a capacity to experiment, and formulating, a course of actions. We also uncover that transforming resources includes capability structuring, then capability renewal or capability improvement, and capability implementation. Therefore, beyond confirming the role of sensing, seizing and transforming as ostensive microfoundations of DCs to support an MNE's (un)related diversification, this study reveals concrete and practical elements that represent the MNE's DCs' performative microfoundations.

Second, we extend the IB DC literature by revealing how the ostensive and performative microfoundations are configured in the DCs associated with (un)related diversification. Specifically, we elucidate the role of the diversification activity (Døving and Gooderham, 2008; Ng, 2007), and consequently, configuration of corresponding DC, in conditioning differences in the performative microfoundations of the transformation process. Transformation is the crux of DCs (Teece, 2014), which ultimately leads to the (un)related

diversification. We establish that DCs associated with unrelated diversification are of a renewing character. The process flow of the performative microfoundations of transforming involves resource building/acquisition, capability *renewal*, and capability implementation. These DCs predominantly rest on the involvement of top managers. However, DCs associated with related diversification are of an incremental nature. In practice, that process flow comprises resource building/acquisition, capability *improvement*, and capability implementation. Here the lower-level managers are the drivers.

Thirdly, bringing together all these insights equips us to extend Teece's (2007) framework and to bring support to Foss and Pedersen (2019, p. 1618)'s claim that "an explicit application of microfoundations arguments in IM will be a fruitful avenue for future research". We do so by specifying how an MNE configures DCs associated with (un)related diversification. This furthers the IB literature about how DCs are exercised in an international context (Parente et al., 2011) and the enabling role of DCs (Ayden et al., 2020). We add novel dimensions to the theoretical framework by suggesting that while all the DCs embed the same ostensive microfoundations, how these are configured in supporting their different diversification activity involves the enactment of 'fitting' organizationally and/or individually driven performative microfoundations. Moreover, the specifics of these performative microfoundations are conditional on the type of learning. When MNEs engage in related diversification, they leverage exploitative learning with incremental DCs. When they pursue unrelated diversification, they leverage explorative learning to renew the MNE's resource base (Randhawa et al., 2020; Zhan and Chen, 2013). These differences in the DCs' performative microfoundations further develop our understanding of the role of exploitative and explorative learning in the IB DC literature (Sheng and Hartmann, 2019) and IB ambidexterity literature (Christofi et al., 2021). Understanding how MNEs can configure their DCs' microfoundations offers them practical guidance on how to diversify.

The following section provides a review of relevant literature on diversification and DCs in MNEs. Then in section three, we introduce our methodology. Our empirical findings follow. We conclude by discussing the theoretical and practical implications and finish by identifying promising directions for future research in section five.

2. Theoretical background

2.1. Dynamic capability and international diversification in MNEs

Diversification represents one of the key growth strategies of MNEs (Chang and Wang, 2007). Drawing on early studies (Hymer, 1960; Vernon, 1966), several theoretical explanations and related empirical insights characterize much of the current IB literature on the drivers and performance implications of MNEs' diversification. MNEs with strong resources and capabilities in their home markets can leverage them by diversifying within their home markets and internationally (Bartlett and Ghoshal, 1989). Exploiting resources and capabilities in international markets can improve MNE performance (Rugman et al., 2011). This logic resonates with the resource- or knowledge-based views of the firm (Barney, 1991; Kogut and Zander, 1993), and internalization theory on FDI (Buckley and Casson, 1976).

However, according to transaction cost theory, greater diversification also comes with increases in governance cost of MNEs (Hitt et al., 1997). Institutional diversity and complexity associated with international diversification trigger MNEs' liability of foreignness (Zaheer, 1995) and can increase MNEs' operations costs. Hence, in support of transaction-cost and resource-based logics, studies show that MNEs' performance varies with the extent to which they diversify internationally. Initially, they reap the benefits of leveraging resources and capabilities through more diversification but eventually experience decreases in performance when governance costs of excessive diversification become disproportionate (Batsakis and Mohr, 2017; Kotabe et al., 2002; Tallman and Li, 1996).

Furthermore, managerial resource constraints (Pitelis and Verbeke, 2007) restrict

MNEs in their diversification, limiting their ability to exploit resources and capabilities in suitable markets and further increase the governance costs when diversifying. Yet, MNEs can leverage prior experience when diversifying (Hayward, 2002), implying that prior diversification experience can lower governance costs. Related, the Uppsala model (Johanson and Vahlne, 1977) suggests that MNEs first gain experience in domestic markets before diversifying into foreign markets. Hence, an MNE's liability of foreignness decreases as it gains greater experience enabling it to exploit its resources and capabilities by leveraging firm- and country-specific advantages (Rugman et al., 2011). These insights explain *why* MNEs that diversify to an extent have certain performance attainments; however, they lack precision in clarifying *how* MNEs go about determining certain strategic diversification activities and changes instead of managing their performance on a day-to-day basis.

Teece (2014) argues that understanding MNEs, in general, and their strategizing, in particular, requires a multi-theoretical lens. He further suggests that it is critical to invoke a capability perspective and especially a DC perspective. It offers an understanding of how MNEs can change their resources and capabilities over time, as (un)related diversification activities demand, to sustain or enhance competitive advantage (Li-Ying et al., 2016; Luo, 2002; Teece, 2014). This is why DCs are so central to the strategic management and IB literatures (Arikan et al., 2020; Drnevich and Kriauciunas, 2011; Fainshmidt et al., 2016). Moreover, Matysiak et al. (2018) reiterate that DCs enable MNEs to sustain their performance over time. Importantly, they explain that extant IB theories that elucidate the performance implications of an MNE's firm- and country-specific advantages represent decision logics that ought to characterize the underlying reasoning in exercising DCs.

2.2. The role of dynamic capabilities in MNE diversification

The deployment of DCs by MNEs (Døving and Gooderham, 2008; Liu and Hsu, 2011) can enable producing economies of scope in related diversification activities (e.g., using

strengths they already have and/or adding to an existing line of products/markets) (Teece, 1980). It can also enable leveraging managerial capabilities in unrelated diversification activities (e.g., entering a new market without leveraging the firm's existing resource-base) (Maksimovic and Phillips, 2002). Accordingly, DCs enable an MNE's effective decision-making about whether to engage in certain (un)related diversification activities, designing their specifics, and implementing these activities.

2.3. The nature of MNE dynamic capabilities

DC research has taken essentially one of two approaches in clarifying how DCs support strategic change: an organizational and a managerial approach. However, Teece (2012) explains that they are not dichotomous; they complement each other. The organizational approach focuses on learning, codified in organizational routines (Zollo and Singh, 2004) that support (un)related diversification. Explorative and exploitative learning are particularly relevant to DCs in MNEs (Luo, 2000; Vahlne and Jonsson, 2017). Exploration comprises researching and experimenting with new alternatives (e.g. markets, practices) through risk-taking and innovation. It is akin to radical change. This yields new knowledge and skills. Exploitation consists of improving existing products by building on existing knowledge and skills. It is related to incremental change. March (1991) argues that a firm's prosperity requires maintaining an appropriate balance between the two. Hence, MNEs need to keep exploring, create new knowledge and resources, and regenerate to preserve their competitiveness within a changing environment. However, they still have to engage in exploitation activities and continuously improve their resource-base to keep earning a living in the present (Hsu et al., 2013). The DCs based on exploitative learning refer to incremental DCs: they change the resource-base through continuous improvement or by regularly introducing incremental adjustments to products or operations. The DCs based on explorative learning are renewing DCs. They refresh and renew the nature of the resource-base

(Ambrosini et al., 2009). This suggests that MNEs need both renewing and incremental DCs when engaging in (un)related diversification activities.

The managerial approach focuses on how managers affect the functioning of DCs (Helfat and Peteraf, 2015), drawing on their social capital, human capital and cognition (Adner and Helfat, 2003; Tasheva and Nielsen, 2020). For instance, studies foreground analytical skills (Helfat and Peteraf, 2015), intuition (Hodgkinson and Healey, 2011) and emotion (Huy and Zott, 2019). Hence, MNEs that engage in (un)related diversification “–domestically via foreign competition or internationally via foreign market presence –” benefit from management “with a suitable combination of international human and social capital as well as internationally diverse cognitions in the pursuit of sustained competitive advantage” (Tasheva and Nielsen, p. 1, 2020).

2.4. The microfoundations of dynamic capabilities

Teece (2007) detailed the microfoundations underpinning DCs. He explained that DCs are composed of three principal processes: Sensing opportunities and threats, seizing opportunities, and transforming the resource-base. Sensing relies on sourcing current and new information to sense an opportunity (Matysiak et al., 2018). MNEs survey new technologies and local and international markets to sense opportunities for technological change and customers’ latent demands. While the search for information can also rely on IT systems (Mikalef et al., 2020), sensing opportunities can also originate from individuals’ cognitive and creative capacities (Teece, 2007).

Once an opportunity is identified, the MNE assesses whether to seize it. This is about deciding whether to invest in taking advantage of the opportunity and formulating a response to make use of the opportunity and deliver value to customers (Matysiak et al., 2018; Teece, 2007; Van de Wetering, 2019). Those determinations require strategic choices on investments in (un)related diversification activities and adjusting the MNE’s business model(s).

The third process concerns transforming the MNE's resource-base. It is about reconfiguration and redeployment of resources (Van de Wetering, 2019). It involves structuring resources, building capabilities, and leveraging capabilities (Sirmon et al., 2007). Resource structuring is characterized by the acquisition, accumulation (internal development) or divestment of resources. Capability building and implementation ensue, then once the capability has been implemented, performance monitoring occurs.

Teece's (2007) three processes are the microfoundations of DCs as they disintegrate DCs (Felin et al., 2015). They represent the DCs' ostensive aspects of the microfoundations, as he states they are abstracts from reality. Indeed, Feldman and Pentland (2003) argue that capabilities are composed of two mutually constitutive elements: the ostensive one and the performative one. The former refers to the generalized idea/pattern, i.e. the abstract understanding of the capability in principle. The latter refers to the actual practice, it is the performance of the capability. Put differently, the ostensive element represents the structural part and the performative one the agential part (Dionysiou and Tsoukas, 2013). Leaning on Feldman and Pentland (2003), the ostensive DC element guides strategic decision making and implementation, encompassing the rules and procedures, but how strategic change happens in practice, the performative DC element, may differ across activities when it happens.

Rejoining the argument that there are two perspectives on DC, for some authors, microfoundations essentially refer to managerial microfoundations such as the characteristics, aptitudes, knowledge, cognition or behaviors of individuals (Barney and Felin, 2013; Bendig et al., 2018; Foss and Pederson, 2019). For some, they also encompass organizational microfoundations such as organizational processes and structures (Felin et al., 2012). In line, the microfoundations that undergird DCs encapsulate individually and organizationally driven processes (Eisenhardt et al., 2010; Teece, 2007). Because microfoundations determine the way an MNE deals with strategic challenges (Jones and Coviello, 2005) and MNEs may draw

on different microfoundations for different internationalization activities (Prashantham and Floyd, 2012), an MNE may tailor its DCs and embed microfoundations in specific ways to enable different diversification activities (Teece, 2014).

Regnér (2008) pointed out that configurations characterize the use of DCs, and there is a limited set of empirical studies that reveal DC configurations (e.g., Fainshmidt et al., 2019; Gelhard et al., 2016; Rice et al., 2015). Some of these treat DCs in a generic fashion (e.g., Fainshmidt et al., 2019; Gelhard et al., 2016), and others address an activity-specific DC (e.g., Wilden et al., 2019). Differently, Wilkens and Sprafke (2019) reveal that DCs are characterized by firm-specific microfoundation configurations, and Strauss et al. (2017) that a firm's microfoundations of DCs are specific to the context that they are deployed for and differ accordingly. However, research that seeks to clarify DC configurations in terms of their microfoundation in an international management context appears limited to Haapanen et al. (2020), who studied different microfoundation configurations of DCs in terms of team- and organization-level processes. Because different DCs generate more or less substantial strategic change (Lessard et al., 2016) and vary in terms of their microfoundations (Eisenhardt et al., 2010; Teece, 2007), DCs that an MNE exercises are likely to differ according to whether they support (un)related diversification.

So, to recap our argument. An MNE's DCs that support (un)related diversification likely encompass their three ostensive microfoundations (i.e., sensing, seizing and transforming) with fitting individual and organizational microfoundations that match the (un)related diversification activities. In this study, we first seek to improve understanding of the underlying individual and organizational microfoundations that make up an MNE's multiple DCs as they are practiced to engage in diversification activities. Second, we aim to clarify how specifically an MNE configures its DCs with its underlying microfoundations to match (un)related diversification activities.

3. Methodology

Our research draws on the in-depth analysis of a single MNE to reconceptualize, build and extend theory (Bingham et al., 2015; Vigneau, 2020). We chose an abductive research design and an exploratory qualitative methodology because the literature on the microfoundations of DCs and the configuration of DCs within a single MNE is nascent and little discussed (Edmondson and McManus, 2007; Nayak et al., 2020). An abductive approach is apt when a phenomenon is underspecified theoretically (Arino et al., 2016). Likewise, a qualitative method is valuable to collect rich, detailed and complex data that can facilitate an in-depth understanding of a phenomenon (Creswell, 2007). Given we are interested in the microfoundations that underpin DCs and how the MNE exercises DCs in un(related) diversification, we adopted a process research design (Peteraf and Maritan, 2007) with an embedded case study (Yin, 1994). Our units of analysis are the MNE's different DCs.

3.1. The industry and the case study

Our context is the international tourism sector. We chose this sector as it is a complex, dynamic environment (Zhang et al., 2009), and “tourism is now one of the fastest-growing industries globally and stimulates economic growth” (Ma et al. 2015, p. 74). The sector is complex, with a range of heterogenous and interrelated activities such as transport, accommodation, leisure, customer services (Aldebert et al., 2011). It has grown rapidly and steadily over the years (OECD, 2018). The sector has displayed tremendous innovation-based changes in terms of products, processes and organization. Driven by technological, competitive and political (e.g., deregulation) forces (Aldebert et al., 2011; Hjalager, 2010), the dynamics in innovation have shifted from organizational applications of technology to end-customer-driven applications of technologies (see Alderbert et al., 2011 for an account).

We studied an MNE tour operator, VdM, that has business interests across the globe. It is headquartered in France with operations in, for instance, the UK, Brazil, and Canada.

VdM and its president have received much media attention. The firm was established in 1979 and acquired in 1996 by the current leadership, who previously worked in the finance sector. In 1996, VdM was a medium-sized firm with a turnover of €45 million. At that point, it had to compete with larger firms. Its challenge was to achieve sufficient scale to survive. Since the acquisition, the current top management team (TMT) has diversified and repeatedly modified the firm's resource-base: VdM is among the top fifteen French tour operators, with international operations and a turnover of €487.5 million in 2019.

VdM is a tour-operator specialized in customized travel. Being customer-driven, it can more easily implement targeted marketing strategies than mass-market tour operators can.

The MNE's president indicated that customers come to VdM to discover new destinations and that the firm competes by differentiating itself. The MNE has changed dramatically since 1996, involving (un)related diversification activities, by modifying its resource-base. It has grown and performed well over time. The changes and performance associated with the MNE's diversification efforts are the two criteria that assist in understanding its DCs.

3.2. Data collection and data analysis

Data were collected in two steps, and our analytical approach followed Gioia et al.'s (2012). The exploratory first step aimed to identify the DCs. The second step was to collect data on the content of the three principal processes of the DCs and their microfoundations. Interviews occurred in both steps. All were conducted face-to-face at the firm's head office in Paris. The different DCs associated with the diversification activities emerged from the raw data. Then we assessed similarities with Teece's (2007) framework regarding the three ostensive microfoundations and examined the role of individuals and organizational processes. Our research is abductive since it involves the triangulation between literature and our data (Ketokivi and Mantere, 2010) in explaining the configuration of DCs when an MNE diversifies. This approach enabled us to move back and forth between theory and data with

the aim to extend theory (Blaikie, 2009). Our analysis started with a data-driven approach, but given our abductive approach, we were cognizant of IB and DC theorizing at the outset of the research and concurrently collected data and synthesized literature (Dubois and Gadde, 2002), notably in regards to the microfoundations of DCs and our understanding of diversification.

3.2.1. Step 1: Identifying dynamic capabilities

To identify the DCs, we worked backwards from events to inferences about the three ostensive DC microfoundations. Drawing on secondary data, we first identified changes (column three in Table 1) over more than a decade that had induced a modification (column four) of the MNE's resource-base, since DCs are about such change (Barreto, 2010). The secondary data we used were internal documents (e.g., annual reports, brochures) and external documents (e.g., specialized tourism magazines, newspapers). This includes information regarding the MNEs activities, such as the launch of new accommodation facilities and new destinations, opening of travel agencies, and acquisitions (see Table 1). We, in turn, grouped together the changes that shared similar aspects and caused comparable modifications of resources. This resulted in identifying five DCs related to five kinds of diversification activities: relational diversification, vertical-backward diversification, acquisition-based diversification, market diversification and product diversification¹ respectively. These five DCs allowed developing or strengthening the MNE's international and domestic activities.

In summary, relational diversification involved developing a new offer for new international markets. Acquisition-based diversification involved developing new products combining acquiree and acquired resources. Vertical-backward diversification involved developing the MNE's position in international markets through opening accommodations. Finally, market diversification involved opening overseas travel agencies to sell VdM's offering, and product diversification involved developing new offers in current international

¹ We apply commonly used labels to describe the five diversification activities supported by the MNE's DCs.

markets. These strategic changes, identified via secondary data, guided our interviews.

INSERT TABLE 1 HERE

We then continued the data collection with an initial set of exploratory semi-structured interviews to understand better the initiation and implementation of these diversification activities and associated changes. The purpose was to describe for each change the ensuing events and construct them chronologically to reconstitute a story (Creswell, 2007). Hence, we asked the interviewees to trace the initiation and implementation of the changes from beginning to end. We first asked: “Do you mind tracing back the change process, from the initial idea to the eventual outcomes?” Interviewees were not prompted further but simply asked to recount their experience. We then asked non-leading questions like “What happened next?” We conducted 21 exploratory interviews with staff directly involved in the changes studied. Interviews were recorded and transcribed in full.

Our study carefully triangulated literature review, data collection and data analysis. To analyze the data collected, following Gioia et al. (2012)’s protocol, we traced each of the five DCs. The initial coding adhered to the interviewees’ terms. We wrote a narrative for each change and generated first-order codes representing the types of changes based on informants’ own language and terms (see Table 2).

INSERT TABLE 2 HERE

Subsequently, comparing the change narratives within each diversification activity revealed that change in each is patterned. The MNE repeated many of the same processes to implement different changes. For example, for the vertical-backward diversification opening a riad and opening a pousada (local hotel) and launching a cruise ship overseas are three separate changes but reflect the same process. The MNE identified the destinations’ commercial weaknesses, considered how to develop the destinations, identified a response, and accordingly modified its resource-base to improve sales. The presence of patterned

changes and their associated modification of resources and capabilities brought further confidence that the MNE deployed the five identified DCs (see Table 1).

The DC in relational diversification concerns modifying the MNE's activities through developing and using IT systems. This DC was needed to help VdM specialize in the customized travel segment and target online customers. When the current TMT acquired VdM, it was focused on selling airline tickets. The TMT repositioned the firm to an underdeveloped segment: Customized travel. To do this, developing databases and IT systems were required. The TMT was well placed, having completed these or closely related projects in their previous professional life.

The DC in vertical-backward diversification is about establishing hotels and cruise activities by opening the riad in Marrakesh and the pousada in Bahia (Brazil) and launching the cruise ship in Egypt. Acquiring, over eight years, three companies specialized in adventure travel and polar travel illustrates the DC in acquisition-based diversification. Opening several travel agencies in provincial cities and abroad illustrates the DC in market diversification. Finally, the development and commercialization of new products combining destinations in Israel and Palestine characterize the DC in product diversification.

The five DCs identified can be clustered into those associated with related or unrelated diversification activities. The DCs in market diversification or product diversification enable related diversification activities. In contrast, the other three DCs (in relational diversification, vertical-backward diversification, and acquisition-based diversification) let VdM identify and leverage unrelated diversification opportunities.

Subsequently, we carried out a second-order analysis to obtain theoretical themes describing the process of each DC (Clark et al., 2010). The number of themes and the chronological order of occurrence vary among DCs. The second-order themes which emerged are information gathering, identifying a signal (e.g., trend, customer demand), strategic

analysis, capacity to experiment, formulating a response, resource structuring (resource building/acquisition), capability renewal/improvement, and capability implementation. Comparing the themes and chronology revealed how far the DC processes were different or similar amongst the five DCs (see Table 3).

INSERT TABLE 3 HERE

Assembling the second-order themes into aggregate dimensions produced the data structure (Clark et al., 2010). Providing confidence in our data and analyses, we effectively obtained the microfoundations described by Teece (2007): Sensing opportunity, seizing opportunity, and transforming the resource-base. This let us unpack the DCs associated with (un)related diversification.

3.2.2. Step 2: Collecting more data about dynamic capabilities

The initial 21 interviews yielded sufficient data to understand how the changes were implemented. We then carried out 19 further semi-structured interviews to collect more detailed data regarding the microfoundations of the five DCs, notably about how the DCs happened in practice, and what enabled them. These 19 followed a question guide developed from the data collected in step one. We used open-ended questions to avoid influencing the answers. We asked questions like “Can you explain to me the process - from inception to the outcome - of opening the riad?”. We let the interviewees speak freely. The only guidance was to explain what happened chronologically. Our interview guide asked a general question about the three principal processes without naming the sensing/seizing/transforming labels. For instance (corresponding to sensing): “How did you come up with the idea of opening a riad?” If necessary, we used a prompt such as “Where did you collect the information from?”, “What made this possible?”, and “Was this the only source of information?”

We interviewed staff directly involved in the DCs. For example, for the DC in vertical-backward diversification, they were the president, general manager, deputy general

manager (who also directs the European/Arab World Unit), accommodation manager and product managers. We interviewed at least three individuals per DC. As for step one, in step two, all 19 interviews were recorded and transcribed in full. In total, therefore, we conducted 40 interviews with 23 people, including one with responsibility for China, five for Asia more broadly (including three for the Arab world) and three for the Americas (see Table 4).

INSERT TABLE 4 HERE

We interviewed some individuals several times due to their involvement in several DCs. Each interview lasted at least 45 mins (see Table 4). Upon transcription, we emailed the informants for clarification if we found seemingly missing or inconsistent information within their responses or in comparison to our secondary data. Moreover, upon the data analysis and tracing of the sensing, seizing, and transforming processes, we asked interviewees with an overview of the business (the general manager (GM), HR manager and president) to check for our conclusions' accuracy.

Our protocol was designed to ensure trustworthy inquiry and data (Lincoln and Guba, 1985). Specifically following Yin (1994), validity was established by conducting prolonged interviews (see Table 4) and triangulating the data from knowledgeable multiple informants. The respondents knew the events and could explain actions (Gioia et al., 2012). Beyond, identifying the five DCs and elaborating the interview guide, the secondary data also allowed triangulating the data from the interviews regarding the diversifications undertaken. Moreover, we also conducted 'member checks' with, as seen above, participants reviewing our findings. It was also done by asking them about concrete events, letting them answer questions in ways that were most meaningful to them (Jenkins, 1998), and not biasing them since we let them talk freely and recorded and transcribed the interviews in full. We also establish a chain of evidence by providing throughout our article actual evidence of the data. Reliability is achieved through explaining our research design and data collection protocol.

4. Findings

Next, we examine the MNEs' five DCs in regard to their underlying microfoundations to uncover how they have been practiced in supporting (un)related diversification.

4.1. Sensing opportunities

Information-gathering via information systems (IS) and strategic analysis happened across the five DCs; they are the shared performative microfoundations of sensing. The five DCs are IS enabled. The IS infrastructure supported the MNE in gathering and processing information. The information collected facilitated signal detection, which induced strategic analysis. For each DC, the strategic analysis let the firm sense an opportunity; but the TMT either used their intuition or followed an analytical approach to carry out that analysis.

4.1.1. IS infrastructure

In each DC, the performative microfoundation we labelled information gathering rested on a modular infrastructure consisting of three systems. An information technology (IT) system, a knowledge management (KM) system and an ad hoc information system were used to sense opportunities. The use of high-performance technological systems to collect and store information characterized the IT system. The operational team used the KM one to share information with the TMT. Information was also collected ad hoc. The MNE's IS infrastructure is flexible as each DC did not all rely on the same systems. For instance, the DCs in relational diversification and acquisition-based diversification relied more on the ad hoc system. The DCs in vertical-backward diversification and market diversification relied more on the IT and KM ones. The DC in product diversification relied on all three.

IT. It is a system that let the MNE identify business strengths and weaknesses by automatically collecting, storing and analyzing data. The TMT's human capital facilitated the development of the system. For instance, the IT manager's knowledge directly led to the internal development of IT resources unavailable for purchase. "*With our IT knowledge, we*

figured out that we should be able to develop software” (IT Manager). Also, the TMTs’ experience in the financial sector made them fully cognizant of the value of data. This drove the MNE’s effort in IS systems. *“I come from a financial sector background, computerization and IT is ‘top notch’ there. In the tourism sector, we were very far from it. When I joined the company, and brought in the first PC, it felt like we were in the Stone Age. We realized we had to bring...software to facilitate data collection and processing”* (IT Manager). “For JRL (president) and LH (GM), it goes back to their higher education, at the University of Paris-VI’s Institute of Statistics...The five TMT members met at Fininfo [financial information provider company]. This is where the ‘gang of five’ got to know each other” (Les Echos, 2014).

IT notably allowed measuring performance across different indicators. *“We have ‘fancy’ current exchange and financial tools, meaning I can give you each salesperson’s sales today. I can give you the turnover he/she achieved this morning...I can rank it by destination, or any other way”* (President). The system automatically stored information about sales and requests from customers, displayed on a dashboard. This monitoring tool showed the TMT how quickly requests from customers were dealt with, how many came from the web etc. These systems also allowed the TMT to identify best-performing products and spot any problems quickly. For instance, it enabled identifying the destinations with low conversion rates from requests for quotation to sales. *“We calculate all the conversion rates from quotes to sales...We look at the last 30 days, and the number of requests, the turnover...We look at the financial margins, it’s a kind of dashboard...We are trying to see what is in the red...and we try and find an explanation”* (Accommodation Manager).

IT underpinned the development of vertical-backward diversification, and the market and product diversification DCs. For the former, IT had, for example, revealed commercial weaknesses in various destinations. *“We store them all (requests). We were looking at*

Morocco, at Egypt. So, we did all the possible analyses regarding customers' requests and the evolution of the turnover. And this is when we saw that our activities in Morocco and Egypt were weak" (Accommodation Manager).

For the market diversification DC, the decision to open travel agencies in provincial France resulted from analyzing customers' inquiries. It uncovered a regional clientele and identified poor conversion from inquiries to sales. Meanwhile, for the product diversification DC, the company sent customers a satisfaction questionnaire following each trip. *"Once the travel is sold, this is not over for us: Afterwards you have to collect the customers' impressions about what their experience...So, all this information is not lost, it...is integrated into our database"* (Destination Manager). Computer-generated data disclosed that customers who travelled to Jordan also requested travel to Israel.

KM. The IT generated sales reports for each activity could be coupled with direct customer feedback. Salespeople shared information they deemed interesting with their managers via the KM system. This information was then discussed at weekly meetings that the TMT attends. *"It is often the travel advisers that detect information, which they then feedback to their manager. Every Tuesday morning, we have a meeting...and we just discuss these issues, feedback, ideas, and any problems"* (GM).

For the vertical-backward diversification DC, this direct contact with customers and information feedback allowed the firm to identify a demand for riads in Morocco. For the market diversification DC, the IT system uncovered that some sales made in the French capital came from provincial France customers. From speaking to these customers directly, the managers realized they wanted to go to local agencies. Regarding the product diversification DC, customers' demand for Israel was also identified during the sales process.

Gathering information from the sales team was an important practice as it permitted the assessment of signals emanating from the data analysis reports. Triangulating the data

facilitated informed managerial decisions. As such, real-time information about customers, the market, or the environment passed on to managers by their staff was essential. Thus, it was critical that staff shared information.

The Ad hoc information system. An ad hoc system complemented the IT and KM systems. Information gathering occurred voluntarily within the firm, for instance, exploring trends in the environment following a specific question or outside it. Ad hoc information was often collected when the firm experienced poor performance to understand what had happened and why. It helped efforts to improve its offerings and develop new products. “*We may sometimes wonder why one country is tough to sell now... Is VdM the only firm facing the issue, or is it the country as such that is not attractive? If [the latter]...then we say ‘Ok’ and ask whether we want to keep doing what we are doing or how we should restart this destination...If it is a country that works well for others...we say well maybe we have a skill issue...or our offerings are not suited to our customers*” (DestinationManager).

Searching in the environment also occurred in a systematic but non-technological way. The TMT regularly and personally benchmarked the firm’s activities against competitors. “*Each activity manager must be in ‘competitive watch’ mode, know what is happening in the market, how the competitors behave. And then, send this information back to the leaders*” (HR manager). The ad hoc information system fostered the DC in relational diversification. For instance, and showing how wide the environmental scanning ran, the TMT noticed the explosion of a new and superficially unconnected type of offerings in DIY outlets that were meeting individuals’ desire to be different and to customize what they did. This prompted managers to consider applying this to holidays and offering customized services. In short, it gave birth to the idea to develop customized travel. Besides exploring the environment (an active approach), the MNE received information passively, for example, by external requests for the DC in acquisition-based diversification. Business owners contacted VdM with regards

to them acquiring their business. “[O]ur TMT is contacted...because the owners want to sell their businesses, which are in financial difficulties. It is also because our TMT...has a real reputation as financial leaders” (HR manager).

The ad hoc information system also played a major role in the DC in product diversification. When the president observed the work of a famous guerrilla street artist depicting Israelis and Palestinians shoulder-to-shoulder, he understood that trips combining Israel and Palestine were feasible.

4.1.2. Strategic analysis

In each DC, strategic analysis represented a performative microfoundation within sensing and rested on managers’ aptitude to create meaning from the signals detected. The MNE’s strategic orientation, i.e. differentiation and its appetite for being a “first mover”, shaped its analysis. For the TMT doing the same thing as competitors was pointless. This desire to be different seemed fostered by the TMT’s background. They left their previous industries and embarked on a new career with the acquisition of VdM. “If...I did the same thing as before, there would have been no point in me leaving the [finance] profession... doing what everybody else does and not being original serves no purpose” (GM). “I am going to set up a company with my friends....we wanted to build a different business” (President, TED, 2012).

The TMT’s ability to link signals to development opportunities facilitated the sensing opportunity process. They could classify the information either as favorable, i.e. beneficial or unfavorable, i.e. harmful. The strategic analysis of these signals helped the TMT in their decision making, and their creativity. “Creativity and innovation are deeply entrenched in its leaders, they are sponges of information, but instead of replicating the information they have, they have an inexplicable mental process that allows them to transform this information and see in it something new...they are also curious people, and this is critical as it means it is pushing us to go and constantly find information” (President). For instance, they identified

opportunities related to mobile technologies: *“It is obvious that the web, iPad...offer more and more possibilities. So, we follow the world’s evolution, a world where we can do more and more things remotely, virtually, and sometimes better than in the real world...we use 3D technology”* (President, VA.com, 2010).

For the relational diversification DC, the signal revealed the opportunities afforded by customization, a segment little exploited by the MNE’s competitors. By analyzing trends regarding customized products, the TMT developed new ways to capture opportunities.

The acquisition-based diversification DC had carried the MNE beyond traditional holiday travel to adventure and polar travel. Grasping that firms operating in these sectors were in the market, they decided to acquire them and diversify into the adventure/polar segment. This also grew them to the critical size to survive in their highly competitive market. Further, the managers identified opportunities for synergy. *“Why did we want to enter the adventure travel market?...they share the same destinations as the customized travels, Therefore there were some strong synergies...notably in terms of flights to the destination”* (GM). It was also VdM’s strategic aim to develop its commercial network. The TMT believed that acquiring the firm Terres d’Aventure (literally, Lands of Adventure) that operates amongst others in Thailand and Africa would benefit both companies. *“The acquisition of Terres d’Aventure supported the development of VdM’s strategy in provincial France because it meant that the customer base and the reputation of Terres d’Aventure in these regions would benefit VdM since both brands would share the same premises”* (GM). Tourism professionals agree *“the two companies have many similarities, a fairly high-end positioning and a similar philosophy”* (L’Echo Touristique, 2001a).

Regarding the product diversification DC, the TMT interpreted the signal of customer demand for travel to Israel and Palestine as an opportunity to promote the company’s humanist image. *“Launching products combining Israel and Palestine was a way to put*

forward our values” (Destination Manager). The president corroborates this view stating “*We offer these two destinations together, it is part of our fundamental values to try and promote universalism, the tolerance of all people, of all religions*” (Voyageurs du Monde, 2010a). In their annual report (2013), VdM emphasizes that they consider tourism as a means, amongst others, to foster peace, improve human rights and the economic development of poorer nations.

Unlike these three DCs, the information gathered in the context of the vertical-backward and market diversification DCs did not reveal strengths. It highlighted commercial weaknesses, which VdM re-perceived as opportunities to widen or strengthen its resource-base. For instance, regarding the market diversification DC, customer database analysis revealed a major commercial weakness: conversion from prospects to customers was lower in towns outside Paris. This is a clear case of opportunity sensing. They spotted an opportunity in developing the firm’s presence in provincial France. “*In Paris, I have as many prospects as I have customers...When we were not in Lyon, I had 100 customers for every 800 prospects. ...Why? Isn't it because we had no presence in Lyon?*” (GM).

For the vertical-backward diversification DC, the signal also exposed an economic weakness. Some potentially attractive destinations exhibited meagre sales. Strategically analyzing the signals showed the TMT that opening VdM’s own accommodation facilities would constitute a new product development opportunity. They could offer a unique style of accommodation. They include a riad in Morocco, a pousada in Brazil, and a historic steam boat in Egypt (Voyageurs du Monde, 2010b). The riad is unique as, for instance, it is small, luxurious and built to respect the environment (BV, 2011), and “each of the riad’s room is named after a great explorer, Théodore Monod Charles de Foucauld Saint Exupéry” (LMO, 2014). All these accommodations foster the differentiated image of the firm: “*the idea was to develop our sales in a country where we had no presence and use these unique types of*

accommodation as a communication tool...It would bolster our reputation and show how unique we are!" (GM).

4.2. Seizing opportunities

In each DC, the process of seizing opportunities brought into play two performative microfoundations: The capacity to experiment, and formulation of a course of actions.

4.2.1. Capacity to experiment

This capacity concerned the managers' willingness to try something new, even when the likelihood of success was unknown. The TMT displayed boldness and perseverance "*We're not afraid to try. We will try, and if it doesn't work...we do something else. That's really important; it's in our corporate culture*" (HR manager). The President emphasizes that he became an entrepreneur very quickly, and was ready to change things, like his life and the way of doing business. He was also willing to take risks, such as creating a company with his friends so that they could do what they wanted. This meant notably creating a company that was different in terms of profit sharing and was concerned for individuals' wealth fare (TED, 2012).

The capacity to experiment was arguably a *sine qua non* condition when exercising the DCs to diversify. Without it, an MNE has little chance to engage in strategic change. Our findings demonstrate that the MNE had decided on several occasions to re-shape its resource-base in a way when facing quite uncertain results. Managers did not just rely on a rational decision-making approach but also followed their intuition. For example, for the relational diversification DC, the context was very uncertain. Customized travel was greatly underdeveloped and lacked any data on trends and customer demands. The general manager's words embodied boldness. "*We always try, but you do not know whether it will turn out to be successful. Well, to find out, give it a shot; it's the only way. It's called entrepreneurial risk!*".

The capacity to experiment was even more visible for the vertical-backward

diversification DC, where risk of failure was much higher. During the decision to purchase the cruise ship, the analysis of sales in Egypt indicated that this new activity might not be profitable, yet the TMT listened to its intuition. *“On paper, we should not have bought it at all, as we had no customers to make it a profitable activity”* (GM). *“And then, we made a bet together to renovate it. It was a bit of a crazy bet because everything is complicated on a boat like that”* (President, Voyageurs du Monde, 2010b).

For the DC in acquisition-based diversification, this capacity was illustrated by the audacious acquisition of businesses facing financial difficulties. *“The main challenges at Terres d’Aventure were of a human and social nature: the company went through three M&As in five years. There was a huge climate of distrust, and the company suffered from massive loss of skills and know-how each time it was bought and sold”* (HR manager). The challenge was to turn the company around.

Regarding the market diversification DC, the TMT went ahead and persevered with opening travel agencies in provincial France. They did so without knowing if the MNE would be profitable in these cities. *“The first question we had to ask was: are we likely to be successful...the only way to know the answer was to try”* (GM). The TMT’s willingness to try Palestine despite the perceived risky political situation that could put travelers off illustrates the capacity to experiment in the product diversification DC. *“To be completely honest, we weren’t expecting to send customers to Palestine when we started. We did it more in terms of symbol, of messages to carry: Ok there is Israel, but there is also Palestine, let us offer the two destinations concomitantly. We thought the travelers were going to be scared. We had no idea it was going to work the way it did”* (Destination Manager). *“People thought I was mad a few years ago...it was daring...we are not going to convince everybody [about the idea of promoting universal values and bringing Israelis and Palestinians together]...but bit by bit you can change things...You cannot make things worse, even if we change the outlook on*

each other of 4 or 5 families we will have helped” (President, VDM, 2010a).

4.2.1. Formulation of a course of actions

While the capacity to experiment was present in the seizing process of each DC, how it materialized varied. The MNE’s courses of action in seizing the opportunities differed. For the relational diversification DC, it built a database so it could specialize in the customized travel market. *“You have to think about what it means to sell customized travel, it means having all the potentially needed components ‘in a box’ and being able to draw on what the customers want” (GM).* Human capital underpinned the way the MNE seized the opportunity as the ex-finance managers had experience in database design and development. *“Were we able to transfer these tools and techniques to VdM? Yes, with our professional background, fifteen-year experience, we command the technology. Who will transfer it into the company? Well, it’s simple, us” (GM).*

In the context of vertical-backward diversification DC, the MNE carried out studies to identify whether the new activity would be profitable. *“He (GM) had looked at everything... turnover, what we were doing, what we could do...I was dealing with what exactly was happening...in Marrakesh; studying in detail the requests etc. and he was the one who designed the initial plan, thinking of things such...construction and refurbishment costs...Is it a goer, or is it not?” (Accommodation Manager).* The MNE had all the necessary data about sales for Marrakesh. Once again, TMT’s human capital and experience were at play. *“We are lucky that our leaders have a financial background...they always had in mind, that data is important. This is rare in tourism...So, as soon as they arrived at VdM...they set up a data collection of turnovers, number of customers by hotels, by country...we can make all sorts of computations” (Accommodation Manager).*

For the DC in acquisition-based diversification, seizing the opportunities was related to financial assessments of the target companies. *“We carried out the necessary audits*

ourselves...Carrying out the audit ourselves is also a better way to acquire information about a company than to read a report written by a third party...you get a better sense of the company” (GM). The TMT’s experience and skills once again supported VdM’s successful business acquisitions through M&As. “M&A skills...We had them. It was my job. I worked in an investment bank for several years, and I specialized in M&As” (GM).

In the context of the market diversification DC, the MNE formulated two responses to seize the opportunity. The first was to raise capital to finance opening new agencies. *“We did not have the financial means to pursue our development policy, so we had two solutions: go into debt...; or raise capital, we actually did both” (GM). The second response was about deciding agencies’ size. “We could have gone to Lyon by recreating what we had here (Paris) ...What we did has nothing to do with that!...we didn’t have the money to recreate something as big as here” (GM).*

For the product diversification DC, the MNE operated differently from its competitors. *“We first contacted officials, the tourist office...We explored what was on offer...we realized that there was rather little competition for non-ethnic non-pilgrimage travel...we wanted to offer customized packages, so to do this, you need to have real knowledge and expertise in the field. So, you had to go there and conduct a feasibility study” (Destination Manager).*

4.3. Transforming

Three performative microfoundations characterized the accomplishment of the transforming process. They are resource structuring (resource building/acquisition), capability renewal or improvement, and capability implementation.

4.3.1. Resource structuring

For the relational diversification, vertical-backward diversification and product diversification DCs, resources were developed internally as they were unavailable on the market. For example, when the TMT wanted to specialize in customized travel, they

developed customized Information systems and databases internally. “*When I arrived at VdM, I immediately looked at the software that existed on the travel market, I saw nothing that satisfied us...we decided to build our own*” (IT manager). Given that VdM is about customized offerings and that direct and personalized contact with the customer is essential, they created a system allowing for quotes, rather than a final price like it is the case for many packaged holidays (L’Echo Touristique, 2001b). When the MNE sought to open a riad in Marrakesh, they built a riad. They did so because very few riads were available for sale in Marrakesh. “*Very often we buy places that are not hotels in any form or shape. We restore them and then transform them into hotels*” (GM). A similar logic was applied for the Egyptian boat: VdM’s Steam Ship Sudan was completely renovated to transform it into a hotel, and make it comfortable and luxurious, and also to reduce the environmental cost of a Nile cruise (L’Echo Touristique, 2008a). For the two other DCs, the resources were transformed through acquisitions of businesses or commercial space. They acquired several operating ‘adventure’ businesses such as Terres d’Aventures (Voyageurs du Monde annual report, 2013) and also existing accommodation premises (GM).

The TMT did not hesitate to carry out operational tasks to build or acquire resources. This facilitated knowledge acquisition and an appreciation of the resources the MNE needed. In turn, changes were rapidly implemented. “*When starting something new, decisions have to be made. It helps if the decision-maker can do the job of designing and launching the project, and going on-site*” (GM). This applied to all the MNEs’ DCs.

Regarding the relational diversification DC, and upon deciding to specialize in the customized travel market, the TMT observed the sales team’s work methods and discussed how they could be adapted to deliver customized offerings. This helped them grasp the systems and databases needed. Thereafter, in the context of the vertical-backward diversification DC, for the opening of accommodation facilities, the TMT also took charge

directly and looked for the properties themselves. “[in Egypt] *I went with my associate; we visited 150 boats*” (GM). “*I remember, we arrived quite late, we discovered this boat which was in a terrible state. We discovered it, one night, it was abandoned*” (President, Voyageurs du Monde, 2010b).

The same happened for the market diversification DC. “*I visited different cities, and I looked for premises that could be suitable for us*” (GM). The TMT hands-on readiness to get involved in operational tasks was also evident in the product diversification DC. For example, the president was heavily involved in developing new products in Israel and Palestine and in facilitating contacts for the product manager. “*I went on-site with our President. He checked some of the hotels we intended to use...some of the new trips we planned to launch...As President, he had a lot more power than I did...his presence made it possible to arrange important meetings*” (Destination Manager). For the acquisition-based diversification DC, the TMT dealt with the audit and the financial plans. “*It’s JFR [President] and AC [GM] who took charge. They carried out the research, developed the business case and met people. They also contacted the banks and...set up the financing agreement*” (HR manager).

4.3.2. Capability renewal/improvement

Each DC led to either *renewing* or *improving* the MNE’s resource-base. The unrelated diversification DCs modified the resource-base through capability renewal. They altered their resource-base, rather than simply upgrading it. Capability renewal ensuing from the relational diversification DC happened with both the TMT and salespersons working in tandem so that the tools matched the needs on the ground. “*It was done through consultation, there was a functional manager on the user side and a technical manager and it was a team that worked together*” (IT manager). For the vertical-backward diversification DC, relational recruitment was the basis for renewal. It enabled the MNE to recruit people known to its workers or social networks to acquire or transfer knowledge. It fostered communal social capital and boosted

the know-how available internally, supporting rapid skills development. When launching new accommodation facilities, the MNE needed a manager in the local market, and each time recruited someone they knew, either directly or indirectly, through their acquaintances.

In the context of the acquisition-based diversification DC, the MNE significantly extended its resource-base. For instance, when Terres d’Aventure was purchased, VdM’s resource-base was built by integrating acquiree and acquirer resources (adventure travel and customized travel). This ultimately enabled the provision of a new product: a customized adventure travel offering. *“With Rando Lodge the objective was to bring together the best of each company... VdM is known for...offering exceptional accommodation worldwide. Terres d’Aventure is known for off-the-beaten-track travel and hiking...Rando Lodge was really this idea...we are going to offer hikes in exceptional landscapes, but you don’t have to camp, you can stay in an exceptional hotel, eat well and be pampered”* (HR manager). Rando-Logde offers 28 different hikes with comfortable accommodation (L’Echo Touristique, 2008b).

The related diversification DCs modified the resource-base through capability improvement. The market diversification DC enabled the MNE to improve its provincial agencies’ operations to sell more diverse products. It did so by adding a new application to its IT systems. When opening agencies in regional France, to compensate for the lack of staff and expertise, the MNE added functionalities to its systems. They created a “private mini-website which contains the planned trip with access limited to the client” (JDN, 2008). That way, it could assign local customers to a salesperson working in another agency, specialized in the customers’ destination of choice. Thus, customers could be appropriately advised and their customized travel crafted. *“We have developed a system that ...has allowed us to resolve the apparent paradox that, with just four sales staff per travel agency, we can process 80 countries”* (GM).

To establish new destinations (Israel and Palestine), the MNE improved its product

portfolio by increasing its product range. That required an incoming local agency (in the industry jargon a “receptive”). Here too they leveraged their networks. *“it was really not easy to find someone who could do business in our niche market, and you find people indirectly...it’s really going to seem far-fetched, but JR, the artist (friend of the President), has an uncle, whose business partner has his son who works for a receptive agency in Israel. So, you see, it’s really very convoluted, but ultimately the business is done by using our network of people relationships”* (Destination Manager). Personal relations were also used during the renovation of the cruise ship (Voyageurs du Monde, 2011), as reflected here too: *“The father of JF [President] is an engineer; he...assisted a lot. Finding such a skill in the family has given us an advantage”* (GM).

4.3.3. Capability implementation

Having distinguished the performative process of capability renewal vs improvement, DCs re-converged for capability implementation. For both types of diversification, it occurred through putting in place the resource for selling customized travel (relational diversification DC), operating new accommodation facilities (vertical-backward diversification DC), and offering new destinations (product diversification DC). Establishing the resources to sell customized travels through new agencies in provincial France (market diversification DC) and selling customized travels combined with other types of travel (acquisition-based diversification DC) also characterized the implementation.

5. Discussion and conclusion

5.1. Theoretical implications

This study extends the IB literature by affording a nuanced understanding of the DCs underpinning an MNE’s diversification activities. We respond to calls for research in the IB DC literature as Li et al. (2019), echoing amongst others Lessard et al. (2016), stress that empirical research designed to unpack MNEs’ DCs operating under dynamic international

market conditions is scarce. While there is an extant body of literature related to firm- and country-specific drivers of international diversification, there is lack of understanding of the DCs undergirding MNEs' diversification activities and of how MNEs configure their DCs to suit un(related) diversification activities. Our study adds novel and important clarification to these issues by developing the still largely unappreciated role of DCs as underpinnings of MNE diversification (Barreto, 2010; Ng, 2007; Døving and Gooderham, 2008) and of the role of microfoundations in IB research (Foss and Peterson, 2019). We found that the MNE exercised five DCs, three concerning unrelated and two concerning related diversification, that shared some common microfoundations but also differed in others. Our analysis allowed us to shed light and contribute to the IB literature in regards to the DCs, and their microfoundations underpinning MNEs' diversification, the configuration of DCs in consideration to them fitting un(related) diversification, and the development of the theoretical treatment of Teece's (2007) framework by incorporating the microfoundation and configuration arguments for MNEs' DCs.

5.1.1. The microfoundations of dynamic capabilities underpinning MNE diversification

Foss and Pedersen (2019) and Niitymies and Pajunen (2020) have called for enriching IB microfoundation understanding. Moreover, and in their study of internationalization strategies, Ayden et al. (2020) concluded that sensing, seizing and transforming may exhibit common features at the surface, but the organizational actions underlying them may vary depending on the strategy and stage of internationalization of each firm. Our study contributes to their body of work. We do so by conceptualizing the difference between surface and actions by highlighting the importance of unpacking the microfoundations of DCs, distinguishing their ostensive and performative elements. While this distinction has been considered in the IB literature in terms of capability learning in international new ventures (Prashantham and Floyd, 2012), it is not discussed in terms of what it means for an MNE's

DCs despite its importance for developing a nuanced understanding of the microfoundations of DCs. We revealed that the MNEs' performative microfoundations associated with the ostensive sensing microfoundation include information gathering and strategic analysis. We showed that seizing was performed through a capacity to experiment, then formulating a course of actions, and that transforming happen in practice via structuring, then capability renewal or capability improvement, and capability implementation. Our findings showed that all the DCs share the same ostensive microfoundations. However, there were differences in their performative microfoundations, which we unpack when exposing our next contribution.

We also extend the current IB understanding of the performative microfoundations of DCs by empirically evidencing that they can be both of an organizational and an individual nature (Bendig et al., 2018; Haapanen et al., 2019). IS infrastructure to gather information and resource structuring reflect the organizational nature. For instance, modular IS infrastructure that combines IT, KM, and ad hoc systems boosted the MNE's ability to sense opportunities by detecting and capturing information widely and by many individuals and by allowing communication across levels in the MNE. This finding brings much needed empirical evidence towards the argument that IS-enabled DCs are critical to firms (Mikalef et al., 2020). This is especially so for MNEs that face turbulent and complex contexts. It also goes some ways to appreciate how the IS infrastructure's modularity impacts DCs (Mikalef et al., 2020).

The individual nature is evident in strategic analysis and the capacity to experiment. Managers' interpretations determined the choice to seize or not the sensed opportunities and hence the ensuing strategic decision. Our study exposes that strategic analysis rests on managerial intuition as well as purely analytical reasoning. Providing empirical support for Hodgkinson and Healey's (2011) theoretical argument, we show that even when the analytical reasoning generates unfavorable evaluations, managerial intuition might counter these judgments and free managers to associate a *prima facie* unfavorable signal with an

opportunity. Our research also supports Moon's (2010) argument that cultural intelligence matters in relation to DCs. For instance, expressing the firm's humanistic values was core to the DC in product diversification in conflict-ridden Palestine and Israel. Finally, it also reveals the importance of leaders' visionary traits of boldness and perseverance, especially for the unrelated diversification DCs. They fostered continuous engagement in risky activities and in experimentation. This reinforces the argument that while much of the IB research emphasizes managerial rationality (Maitland and Sammartino, 2015), it is essential to consider the roles of the decision makers' cognition in their firm's internationalization process (Niittymies and Pajunen, 2020).

In substantiating the role of cognition, and human and social capital as DCs' managerial underpinnings (Tasheva and Nielsen, 2020), we illuminate that, when considering an MNE's performative microfoundations, i.e., the "specific actions, by specific people, in specific places and times" (Feldman and Pentland, 2003, p. 101), one needs to do so in the broadest sense and account for organizational elements. This is novel to the IB literature, as the nascent microfoundation research has concentrated on the individual (Foss and Pedersen, 2019; Niittymies, 2020).

5.1.2. Dynamic capability configurations underpinning MNE diversification

Our second contribution pertains to bringing empirical evidence to both the configurational approach advocated by Gelhard et al. (2016) and by Luo (2000), and to Ambrosini et al.'s (2009) conceptual theorizing of the types of DCs. Our study illuminates the role of diversification activity, and related type of DC, in conditioning differences in the performative microfoundations of the transformation process. As the definitions of DCs evidence (Ambrosini and Bowman, 2009), the transformation process is the crux of DCs. Without the modification of the resource-base, DC deployment is incomplete (Barreto, 2010). Hence, contributing to current understanding of how this process is configured is particularly

important. This contribution responds directly to calls by Schilke et al. (2018), Li et al. (2019) and Nayak et al. (2020) to provide a detailed understanding of the nature of DCs. We showed that VdM had leveraged two types of DCs. The first one concerns related diversification, with DCs in product diversification and market diversification. The second concerns unrelated diversification, with DCs in relational diversification, vertical-backward diversification and acquisition-based diversification.

In terms of the DCs supporting related diversification activities, the findings show that sensing is IS-enabled and occurs in practice via lower-level managers and employees. In terms of unrelated diversification, the TMT played the central role. In short, this demonstrates that both the TMT and lower-level managers matter in the sensing process. This highlights the importance of a decentralized IS governance and a flexible infrastructure as it provides a better attunement to the external environment, reactivity and responsiveness (Mikalef et al., 2020). This finding complements Nonaka et al.'s (2016) and Peters et al.'s (2019) work, which stress that sensing should not be restricted to the TMT.

INSERT TABLE 5 HERE

The distinction between the two types of an MNE's DCs lets us both shed light on the configurational nature of DCs, and explain variation in the nature of DCs (see Table 5). It enables us to elucidate the role of two notable, different domains of an MNE's diversification activity (i.e., unrelated vs related), and associated types of DC, as conditioning differences in the transformation process' performative microfoundations. By clarifying the MNE's diversification-specific DC configurations in terms of their organizational and individual microfoundations, we extend the limited research on DC configurations in terms of their microfoundation in an IM context (e.g. Haapanen et al., 2020).

5.1.3. A dynamic capability microfoundations framework for MNE diversification

INSERT FIGURE 1 HERE

Our third contribution pertains to extend Teece's (2007) framework (see Figure 1) by beginning to integrate a configuration and microfoundation argument for MNEs' DC. Distinguishing the two types of an MNE's DCs stresses the important, though different, roles of exploitative and explorative learning in MNEs (Sheng and Hartmann, 2019).

The DCs in related diversification are incremental DCs. They are about exploitative learning. They impact upon the resource-base through incremental adjustments. They do not transform the nature of the firm's resource-base fundamentally. Both these DCs allow the MNE to diversify its operations. Moreover, these DCs involve not only the TMT but also lower-level managers and non-managerial employees to facilitate exploitative learning. That is, the accumulated experiences that they collectively live through when engaging in related diversification activities result in learning benefits that are context-specific (Baron and Ensley, 2006; Love et al., 2016). Exploitation creates reliability in this learning through repetition and refinement (Holmqvist, 2004). This experiential learning yields internationally exploitable knowledge that enables MNEs to take further advantage of additional related diversification opportunities. In this sense, both the organizational and individual performative micro-foundations of these incremental DCs are of an enabling nature (Adler and Borys, 1996) and foster the use of knowledge gained from similar experiences.

On the other hand, the DCs in unrelated diversification activities are renewing DCs. The nature of these DCs is about explorative learning since they create a resource-base of a different nature from the one that existed in the MNE. These DCs predominantly rest on the TMT and involved explorative learning. Here, the TMT's past experiences gained in dissimilar markets and business environments, including such from prior roles and from engagement in unrelated diversification activities, translate into generative-based learning (Cope, 2005). This type of experiential learning generated through variety in experience (Holmqvist, 2004) produces exploratory generative knowledge that can be further leveraged

through additional unrelated diversification efforts. Here too, both the organizational and individual performative micro-foundations of these renewing DCs are of an enabling nature (Adler and Borys, 1996), but they foster the leverage of exploratory knowledge gained through generative learning from dissimilar experiences.

This contribution extends current debates on the microfoundations concerning ambidexterity in MNEs (e.g., Christofi et al. 2021; Faroque et al. 2021) and allows us to suggest how MNEs may maintain a balance between explorative and exploitative learning by leveraging different DC configurations to enable (un)related diversification. Here, MNEs' internationally exploitable knowledge growing from the learning through related diversification efforts may be supplemented by the exploratory generative knowledge learned through past experiences and those ensuing from their unrelated diversification efforts (Lafuente et al. 2021).

By encapsulating the ostensive and performative microfoundations of DCs and accounting for the nature of diversification activity in consideration of the underlying explorative vs exploitative learning distinction, the framework helps develop the conceptualization of DCs within the MNEs' context. Accordingly, the configuration of an MNE's DCs to enable diversification activities rests on the following: First, MNEs incorporate the three processes of sensing, seizing and transformation into each DC; representing the ostensive microfoundations of DCs. Second, these microfoundations are enacted through embedding selectively suitable organizational- and individual-level performative microfoundations fitting (un)related diversification activities. Third, the nature of DCs in terms of their performative microfoundations is shaped by the underlying learning associated with (un) related diversification activities. Related diversification comes with exploitative learning, which rests on certain performative microfoundations. These generate and leverage previously utilized and exploitable knowledge, and rely mostly on the

involvement of lower-level managers to incrementally improve the MNE's resource-base. Unrelated diversification is linked to explorative learning coming with different performative microfoundations. These produce and enable the use of exploratory generative knowledge and rely mostly on the involvement of the TMT to renew the firm's resource-base in a creative and pioneering fashion. Accordingly, we provide a nuanced dynamic capability microfoundations framework that clarifies how DCs enable MNE diversification.

5.2. Practical implications

Our research lets us develop some managerial implications regarding the DCs associated with MNEs' diversification, helping us advance the quest for making DCs more actionable for MNEs (Grøgaard et al., 2019). We have shown the importance of IS to detect a signal. Our study highlights the importance of modular IS in the sensing process. It also shows the importance of both strategic analysis to identify opportunities, and of the managers' interpretation of signals. We have explained that transforming allows an MNE to implement certain diversification activities. One can surmise that these practices may also be suitable for other kinds of diversification, since such strategic practices are required to address identified problems or seize opportunities, whatever strategic direction is envisaged. It also reinforces that in complex and turbulent industries, firms have to have a decentralized IS infrastructure. They also have to ensure they exercise DCs so that there is a close alignment between all their types of resources and capabilities and their business process, so that they can rapidly address changes in their environment and attain strategic objectives (van de Wetering et al., 2020).

Importantly, we illuminate that the nature of DCs differs in terms of performative microfoundations. Hence, while MNEs should, put in place the three principal processes that enable DCs and make up their ostensive microfoundations, the extent to which DCs support (un)related diversification activities relies on putting in place fitting organizational structures and processes and on involving certain individuals who shape the DCs' performative

microfoundations. Specifically, while DCs of an incremental nature for engagement in related diversification activities involve lower-level managers and non-managerial employees and ought to foster exploitative learning, those of a renewing nature to support unrelated diversification activities rely on TMT involvement and on facilitating explorative learning.

5.3. Future directions and limitations

Our research has some limitations future studies can address. First, we used a single case study research design which limits the extent we can generalize the findings. This said, the emergent nature of our research purpose justifies our design. Our work develops current understanding of the ostensive and performative microfoundations of MNEs' DCs, but more research is needed in this area. Second, while we saw that opportunity sensing results from making sense of a signal, scant understanding exists of how sense-making occurs in this specific regard. Third, there is limited understanding of how far performative microfoundations could be significantly different across MNEs operating within the same ecosystem; representing an opportunity for further research.

Moreover, we showed that DCs' microfoundations are dependent on the (un)related diversification activity. Other studies are needed to understand how MNEs' DCs are configured when engaging in a wider variety of diversification activities. We studied an MNE operating in a highly competitive environment. Our findings are, therefore, relevant to other MNEs facing similar conditions. Our study substantiates the importance of IS to sense opportunity (Mikalef et al., 2020). This is likely to be true in many industries, especially as environments become more complex and competitive. With the rise of artificial intelligence and big data analytics, more research is needed to understand further the performative microfoundations of MNEs IT-enabled DCs (Van de Wetering et al., 2020).

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Figure 1

A dynamic capability microfoundations framework for MNE diversification

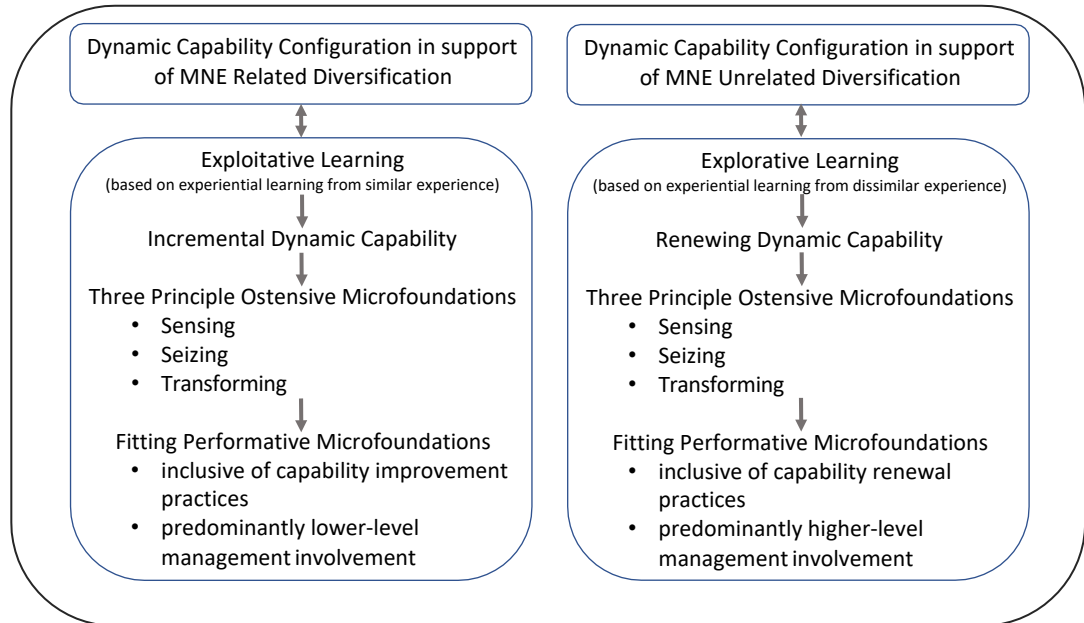


Table 1

Dynamic capabilities and changes implemented by the MNE

Type of diversification	Dynamic capability	Changes	Examples of secondary data	Resource-base modification	Date
Unrelated diversification	DC in relational diversification	Databases and IS systems development to design customized travel packages	“And to meet the expectations of this new audience, the tour operator launched in mid-April a new version of its website and modernized its back-office systems to better demonstrate its positioning as a creator of customized travels, and improve its efficiency in dealing with requests for quotes” (JDN, 2006).	Designing and selling customized travel via a computerized process	1997
		IS system development to sell customized travel via the Internet	“With 90% of new customers, and a dynamic online strategy, the Voyageurs du Monde website has become a benchmark in customized travel” (L’Echo Touristique, 2001b).	Selling customized travel online	2000
	DC in vertical-backward diversification	Opening a riad in Marrakesh (Morocco)	“The Tour Operator will open its own riad in January, it is located at the heart of the Marrakech medina” (L’Echo Touristique, 2002).	Hotel-management expertise	2000
		Launching a cruise ship on the Nile	“Voyageurs du Monde's Steam Ship Sudan has been completely renovated to improve on-board comfort, but also to reduce the	Hotel-management	2001

		(Egypt)	environmental cost of a Nile cruise” (L’Echo Touristique, 2008a).	expertise	
		Opening a pousada in Salvador of Bahia (Brazil)	“Finally, since 1999, Voyageurs du Monde has acquired a cruise ship on the Nile, a Riad (the Villa Nomade) in Marrakech in Morocco (a second Riad for rent is operated in the same city: the Riad Aladdin)... a hotel restaurant with 17 rooms in Salvador of Bahia (Brazil)” (QDT, 2006).	Hotel-management expertise	2006
	DC in acquisition-based diversification	Acquisition of Terres d’Aventure	“A Terres d’Aventure has changed ownership. Jean-François Rial, CEO of Voyageurs du Monde, signed a memorandum of understanding for its acquisition on the evening of Wednesday February 7” (Le Monde, 2001).	Skill development in luxury adventure travel	2001
		Acquisition of Nomade Aventure	“On October 14, the Voyageurs du Monde group finalized the acquisition of the adventure trekking specialist Nomad Aventure... Voyageurs du Monde is pursuing its niche strategy, strengthening its position in the adventure niche” (L’Echo Touristique, 2004).	Skill development in budget adventure travel	2004
		Acquisition of Grand Nord Grand Large	“At the beginning of August, Terres d’Aventure, a subsidiary of Voyageurs du Monde, acquired 89% of the capital and voting rights of the company GNGL (Grand Nord Grand Large), the French leader in trips to the polar circle” (Tourmag, 2007).	Skill development in polar travel	2008
Related		Travel agencies	“Since 1998, VdM has opened seven "Cités des Voyageurs" [travel	Managing an	1999

diversification	DC in market diversification	opening in French provincial cities	agencies] in provincial France, in Lyon, Toulouse, Marseille, Nice, Rennes, Lille and Grenoble” (QDT, 2006).	agency in different geographical areas	
		Travel agencies opening in Brussels in Belgium	“And the French clientele is not the only target. The group is now making its international development in international its growth priority. After Brussels last year, the second agency outside France is due to open in Geneva this year” (L’Echo Touristique, 2010).	Managing an agency abroad	2008
	DC in product diversification	New destination development: Israel	“The idea appeared to me 5 or 6 years ago. We plan trips to 120 countries around the world, I found it normal to suggest Israel and interesting to imagine the destination outside the pilgrimage circuits. I wanted people to be interested in this country as in any other” (President, Voyageurs du Monde Le Mag, 2010).	Development and sales of new products in Israel	2007
		New destination development: Palestine	“Voyageurs du Monde announced on Tuesday the launch of combined Israel-Palestine destination, a first for individuals according to the VdM team who wants to use tourism as a tool to further develop understanding between peoples.” (QDT, 2010)	Development and sales of products combining Israel and Palestine	2010

Table 2

Data structure.

DC in relational diversification		
First-order concepts	Second-order themes	Aggregate Dimension
DIY stores are very successful and thrive; People like to decorate at home; People like to personalize their house, their garden, their car	Information gathering from environment	SENSING
We take ownership of our environment; We take over our garden We personalize our car; so don't we want to have personalized travel too?	Identifying a trend	
Extensive market research; Existence of some tour operators offering custom-made travel; Tour operators going bankrupt; Tour operators with few destinations	Information gathering about competitors	
We must do it on a larger scale; We must offer customized travel in every destination	Strategic analysis	
Not sure it works; To know, you have to try; The entrepreneur's risk	Capacity to experiment	
1% of the company's activities dedicated to customized travel; Managers' observation of employees' working methods; Identification of organizational weaknesses; Save time in the process; Computerize the process	Formulating a response to exploit the opportunity	
Development of databases by top managers; Construction of computer software by the IT manager	Resource building	TRANSFORMING
Creation of software functionalities; Modeling the data to learn; Experimentation team to test computer software; Participation of salespersons to improve KM and ICT systems	Capability renewal	
Development of customized travels; Ability to offer customized travel to 180 destinations; Sales increase	Capability implementation	
DC in vertical-backward diversification		
Data storage; Data by destination, global data; Calculation of conversion rates; Data by month, by semester etc.; Dashboard	Information gathering from computer system	SENSING
Direct relationship with customers; Customer requests for riads	Information gathering	

	from customers	
Meeting every Tuesday; Analysis of dashboards; Weakness in Morocco; No room available on the service provider's only riad	Identifying a commercial weakness	
How to develop sales in this destination?; Use accommodation as communication tool; Unique accommodation to improve our image and originality	Strategic analysis	
Idea to open our own accommodation; It was not our core business; We improvised and became hotelier	Capacity to experiment	SEIZING
Study of the tourist capacity in the area; Study of the capacity of the firm to fill the accommodation	Profitability study	
Property search by local receptive; Top managers visit property; Purchase of historic properties; Renovation of properties to turn them into accommodation	Resource building	TRANSFORMING
Recruitment of the former receptive as director of the riad; Recruitment of the father of the president to renovate the boat	Capability renewal	
Constitution of a team specializing in new destinations; Training of the team; Sale of products	Capability implementation	
DC in acquisition-based diversification		
Leaders are contacted by businesses' owners; Target company leaders failed to run their business successfully; Target company leaders want to retire	Information gathering from target leaders	SENSING
Offer similar products; Companies compatible with Voyageurs; Willingness to be in both customized and adventure sector; Commercial synergies	Strategic analysis	
Information gathering about potential target companies by top managers; Development of economic files; Financial, accounting and social audits	Audit of the companies	SEIZING
Businesses acquired made big losses; Decision to buy companies; Business recapitalization	Capacity to experiment	
Maintaining the identity of acquired firms; No merger to be stronger on the market; Have two market positionings; Increase market share	Resource acquiring	TRANSFORMING
Transfer of knowledge, skills; Business skills articulation; Joint production; New products mixing business know-how	Capability renewal	

Originality by offering honeymoon trips to the mountains Development and sale of new products	Capability implementation	
DC in market diversification		
Analysis of customers' profile; Customers from Paris; Presence of a few customers in cities other than Paris	Information gathering from computer system	SENSING
In Paris, 100 customers for 100 prospects; In Lyon 100 customers for 800 prospects; Better conversion rate in Paris than in provincial France	Identifying a commercial weakness	
Why? Because the company is not present in Lyon; How to prosper in provincial France?; Do the same for customers in provincial France	Strategic analysis	
Questioning whether it can work in provincial France; Try to find out if it will work	Capacity to experiment	SEIZING
Questions on how to set up in provincial France; Not the funds to build a large agency like in Paris; Open a 500 square meter agency with four sellers	Formulating a response to exploit the opportunity	
Search for premises by the General Manager; Establishment of agencies in historic districts; Choice of premises in a building steeped in history; Decoration of premises in a similar style to the Paris agency	Resource acquiring	TRANSFORMING
Specialization of each salesperson on 2 or 3 destinations; Questions on how to sell 80 destinations with 4 sellers; Development of a new sales system; Computerization of this system	Capability improvement	
Creation of a team with salespersons from the Paris agency; Reliance on an experienced team; Transfer the corporate culture; Selling customized travels in provincial France	Capability implementation	
DC in product diversification		
Trips to Israel and Palestine requested by some customers; Direct relationship with customers in direct sale	Information gathering from customers	SENSING
Familiarity with the work of the artist JR; Installation of portrait of Israelis and Palestinians side by side	Information gathering from the environment	
Some clients who were in Jordan wanted to go to Jerusalem; Some clients who were in Israel wanted to go to Bethlehem; Visible demand in customer surveys	Information gathering from customers	
Proposed Jordan program with extensions to Damascus; Logic of being	Identifying customers	

able to offer Jerusalem and Bethlehem	request	
Develop trips including both Israel and Palestine; Highlight the universalist values of the firm; Do it in terms of symbol; Do it in terms of messages to convey	Strategic analysis	
Risk averse due to safety reasons; Problems linking to going through the check point; After seeing the photos of Israelis and Palestinians side by side, why not organize trips to both destinations; Travel to Palestine Realization that it is safe; Existence of real potential	Capacity to experiment	SEIZING
Study of the current market; Existence only of pilgrimage trips; Little competition in the non-pilgrimage travel market; Make Israel / Palestine travel as not being about pilgrimage	Formulating a response to exploit the opportunity	
Development of a new offering; Proposal of customized trips to both Israel and Palestine	Resource building	TRANSFORMING
Visit of destination manager with the president; The president uses his network to find a receptive; The artist JR suggests receptives he knows	Capability improvement	
Salesperson training; On-site production tracking by sellers	Capability implementation	

Table 3

The MNE's five dynamic capabilities

		OSTENSIVE MICROFOUNDATIONS								
		SENSING			SEIZING			TRANSFORMING		
		PERFORMATIVE MICROFOUNDATIONS								
Unrelated diversification	DC in relational diversification	Information gathering from environment	Identifying a trend	Information gathering about competitors	Strategic analysis based on intuition	Capacity to experiment	Formulating a response to exploit the opportunity	Resource building	Capability renewal (through IT tools and participatory management)	Capability implementation
	DC in vertical-backward diversification	Information gathering from computer system and from customers	Identifying a commercial weakness		Strategic analysis based on intuition	Capacity to experiment	Profitability study	Resource building	Capability renewal (through relational recruitment)	Capability implementation
	DC in acquisition-based diversification	Information gathering from the leaders of			Strategic analysis based on analytical	Capacity to experiment	Commercial study of the targeted firms	Resource acquiring (target	Capability renewal (through	Capability implementation

		targeted firms			method			acquisition but no merger)	information exchange between firm's employees)	
Related diversification	DC in market diversification	Information gathering from computer system	Identifying a commercial weakness		Strategic analysis based on analytical method	Capacity to experiment	Formulating a response to exploit the opportunity	Resource acquiring	Capability improvement (through IT tools development)	Capability implementation
	DC in product diversification	Information gathering from computer system, from customers and from the environment	Identifying a commercial demand		Strategic analysis based on intuition	Capacity to experiment	Formulating a response to exploit the opportunity	Resource building	Capability improvement (through product development, relational recruitment)	Capability implementation

Table 4

Interviews.

Informant number	Informant title	Number of interviews	Hours interviewed
1	Human Resource Manager	8	10h15
2	IT Manager	2	45 minutes
3	Unit Manager - Asia	2	2h30
4	Travel Consultant - China	1	50 minutes
5	Product Manager - USA and Canada	1	55 minutes
6	General Manager	5	6h00
7	Unit Manager - Europe/Arab World	1	1h30
8	Product Manager - Namibia	1	1h40
9	General Services Manager	1	1h
10	Social and Environmental Responsibility Unit Manager	1	45 minutes
11	Destination Manager - Asia	1	45 minutes
12	Product Manager - Italy	2	2h30
13	Product Manager - Brazil	1	1h
14	Destination Manager - Morocco	1	50 minutes
15	Destination Manager - Egypt	1	50 minutes
16	Diving Activities' Manager	1	1h30
17	Accommodation Manager	2	3h00
18	Commercial Network Manager	3	2h45
19	Destination Manager - South America	1	1h15
20	Product Manager - the Arab World	1	1h
21	Product Manager - USA and Canada	1	1h
22	Deputy General Manager / Director of the European & Arab World Unit	1	45 minutes
23	President	1	1h
TOTAL		40	44h30

Table 5

Dynamic capability configurations for un(related) diversification

Type of diversification	related diversification	unrelated diversification
Illustrative activities	product diversification market diversification	relational diversification vertical-backward diversification acquisition-based diversification
Type of dynamic capability	incremental/exploitative	renewing/exploratory
Adjustment to resource-base	incremental/minor	fundamental/substantial
Learning	exploitative	explorative
Management involvement	including lower level managers and non-managerial employees	mostly top management
Performative process flow within transformation process	involves: capability <i>improvement</i>	involves: capability <i>renewal</i>
Ostensive process flow	sensing, seizing, transforming	sensing, seizing, transforming