

## RESEARCH NOTES AND COMMUNICATIONS

### PROBING THE UNOBTRUSIVE LINK: DOMINANT LOGIC AND THE DESIGN OF JOINT VENTURES AT GENERAL ELECTRIC

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*Prahalaad and Bettis (1986) have proposed that the successful management of highly diversified firms can be attributed to the concept of a corporate “dominant logic” that guides all of its business units. We argue that dominant logic addresses the problem of balancing the needs of business units against those of the corporation as a whole. We also suggest that the presence of a clear and consistent dominant logic must lead to a high degree of consistency in the strategic moves that are undertaken by each of the business units within the diversified firm. Based on a study of the joint ventures initiated by General Electric between 1984 and 1993, we show that the design of these ventures follows a pattern that is consistent with the presence and influence of dominant logic. Finally, we demonstrate that the early failure of joint ventures can generally be linked to a shift away from this dominant logic. Copyright © 2000 John Wiley & Sons, Ltd.*

The distance between corporate headquarters and the various business units continues to present a fundamental challenge that confronts the top managers of large diversified firms. As corporations expand in size and complexity, it is important to find a balance between the demands of corporate cohesion and the need to give business units sufficient latitude for independent initiative. Striking this balance has been the source of many notable innovations in the areas of corporate governance and strategy (Bettis and

Hall, 1983; Goold, Campbell and Alexander, 1994; Porter, 1987). Each of these innovations has allowed corporations to increase the scope and diversity of their activities, and in time this has tended to renew the need for further managerial and organizational innovations.

In part, some of the fundamental problems that are created by growth and diversification can be addressed by a new approach to corporate strategy which Prahalad and Bettis (1986) have called “dominant logic”. Dominant logic can allow a diversified firm to develop a framework that guides its different business units without becoming involved in each of their specific strategic decisions. Based on its origins (Bettis and Prahalad, 1995; Prahalad and Bettis, 1986), the concept can be used to refer more broadly to a general management logic that can govern

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decision-making processes throughout the firm by producing a mind-set or world view that can be shared across all of its business units.

What distinguishes dominant logic from previous approaches to the management of diversified corporations is the focus placed on cognition rather than formal planning or organizational structure. Dominant logic attempts to balance the tensions between corporate cohesion and divisional initiative by shaping the cognitive foundations on which all of the business units build their strategic processes (see Ginsberg, 1990; Grant, 1988; Ramanujam and Varadrajan, 1989; von Krogh and Roos, 1996). By seeking to inculcate in managers from each of these business units the same basic beliefs and assumptions, dominant logic endeavors to create a degree of consistency in the way that these units deal with their environments. This consistency is expected to create cohesion, while at the same time harnessing the entrepreneurial energies of the diverse business units.

The fundamental premise of dominant logic is that cognition can form a strong yet flexible link between corporate headquarters and the actions of business unit (Prahalad and Bettis, 1986; Bettis and Prahalad, 1995). Unfortunately for researchers, cognition is difficult to observe under the best of circumstances. Attempting to tap, measure, and monitor dominant logic, given that it is designed to influence cognition as unobtrusively as is possible, presents special methodological challenges. Furthermore, disentangling, let alone verifying the influence of dominant logic is greatly hampered by the scale and complexity of large diversified corporations. Because of these difficulties, there have been few systematic efforts to test for the presence or influence of dominant logic in organizations.

In this paper, we tackle the inherent difficulties of measuring the influence of dominant logic by focusing on a single corporation, General Electric, and by confining our attention to one type of strategic activity, the formation of joint ventures. We selected GE for a number of reasons. First, as one of the largest and most diverse corporations in the world today, GE has struggled with the problems of diversification for a long time, and has been at the forefront of many of the organizational innovations that have sought to address this issue. Second, under the leadership of Jack Welsh, GE has abandoned many of the

traditional solutions to the problem of diversification, relying instead on a set of premises, beliefs and assumptions which conform closely to the concept of dominant logic as described by Prahalad and Bettis (1986). Third, GE has actively encouraged its business units to seek out and form numerous global joint ventures, which allows us to assess the impact of dominant logic on these strategic decisions. In particular, we can assess whether the presence and influence of dominant logic as enunciated and communicated by GE's top management does result in a consistent pattern in the way that business units have designed their joint ventures.

## **FUNCTION OF DOMINANT LOGIC IN DIVERSIFIED FIRMS**

Prahalad and Bettis (1986) argue that there are limits to how far large diversified corporations can use specific market and product synergies to improve performance. They suggest that diversified corporations often seek relatedness at the managerial level through the development of a shared cognition. This should take the form of a single dominant cognitive model which can be understood and practiced across a wide variety of business units (Ginsberg, 1990; Grant, 1988; von Krogh and Roos, 1996). In more basic terms, therefore, the concept of "dominant logic" (Bettis and Prahalad, 1995; Prahalad and Bettis, 1986) is associated with a general management logic that produces a mindset which governs decision making processes across all of the business units within a diversified firm.

The benefits of such a general management logic is to be found in its capacity to create a mindset which regulates the relationship between corporate headquarters and the various business units in large diversified firms. Chandler (1991) suggests that corporate headquarters must encourage growth and innovation by giving the business units sufficient freedom to respond swiftly to perceived opportunities while, at the same time, ensuring that entrepreneurial freedom does not undermine the basic strategy of the firm. Although these two functions are distinct in principle, they have frequently come into conflict. Giving business units more autonomy often results in fragmentation and loss of control, while on the opposite side of the ledger, constraining

the freedom of business units to make decisions can have the undesirable effect of dampening their entrepreneurial energies.

The development of a dominant logic, as proposed by Prahalad and Bettis (1986) can allow organizations to strike a balance between the need for direction and control at the corporate level and the need for flexibility and speed at the level of the business units. The use of such a logic allows corporate management to avoid the rigidity that results from excessive reliance on elaborate planning and control systems, while providing them with tools to guide the decision making of the various business units. What makes this guidance potentially more flexible is its intrinsically unobtrusive nature: Instead of relying on intrusive monitoring and complex hierarchies of reporting, dominant logic works indirectly by exerting influence on the process by which managers of the business unit attend to and process information.

The use of indirect control through cognition to guide decision making does have some support. For example, Perrow (1986) suggests that organizations often seek to change behavior by controlling key premises that are crucial for sense making in highly ambiguous situations (see also Weick, 1990; Fiegener, 1994). Dominant logic is essentially a form of premise control which top management uses to counteract the centrifugal tendencies of highly diversified corporation. It does this by enacting at a deeper level a common set of assumptions and beliefs of how management should approach decision making. These premises and beliefs are distinct from the specialized knowledge of markets and products which business units use when developing their strategies. They can sometimes emerge over time from a shared understanding of past actions and events, or in other cases, result from the persistent efforts by top management to instill at every level of a large diversified firm a coherent set of assumptions of how business should be approached.

When fully in place, the basic elements of dominant logic consist of premises, beliefs, and assumptions that are shared by managers at all levels of the organization. To get to this point, however, dominant logic must be carefully developed and actively supported by the corporate management. This support is usually evident in various aspects of a firm's training and indoctrination procedures, in the development and adher-

ence to certain procedures and in the types of behaviors and decisions that get rewarded. Finally, dominant logic manifests itself in two aspects of managerial cognition: information processing and sense-making. The basic elements of a firm's dominant logic—premises, beliefs and assumptions—affect both the types of information that is sought and the manner in which this information is processed.

For the most part, the effect of dominant logic is to encourage all of the managers in the various business units of an organization to focus on certain types of information that must be considered in their decision making. As Bettis and Prahalad, (1995) point out, dominant logic works as an "information filter" screening out unneeded and unwanted information. The screening function, however, is not merely passive, but is actually driven by a more active form of sense making process that is reinforced by subsequent actions. As they put it:

Organizational attention is focused only on data deemed relevant by the dominant logic. Other data are largely ignored. 'Relevant' data are filtered by the dominant logic and by the analytic procedures that managers use to aid strategy development. These 'filtered' data are then incorporated into the strategy, systems, values, expectations, and reinforced behavior of the organization. (Bettis and Prahalad, 1995: 7).

Over time, there is a progressively tighter relationship between the underlying beliefs and assumptions and the patterns of information processing and sense-making. This relationship becomes stronger as a result of the inherent ambiguity of business problems in general, and of organizational environments in particular. Many situations that face firms are inherently ambiguous, and remain that way until managers are able to decide which dimensions should be examined with great care, and which should be given less attention. Left on their own, business unit managers may deal with such ambiguities by focusing on factors that further their own goals and interests without much regard for corporate goals and interests. Dominant logic offers a single framework (Weick, 1995) that influences the manner by which information is processed and ambiguities are resolved by managers in the various business units.

To sum up, dominant logic can be used to exert some degree of control over decision making at

the business unit level through an attempt to influence how managers in these units interpret information. Compared with past approaches, the shaping of the cognitive foundations of business unit managers is a far less intrusive way of ensuring that they focus their attention on issues that are of concern to corporate strategy. By controlling key premises, dominant logic can guide the decisions and actions of these units without curtailing their freedom to respond swiftly to emerging threats or opportunities by launching fresh initiatives. The basic intent of dominant logic is therefore to create a consistency in the way that business units approach decisions, which in turn is expected to result in a consistency between the actions of business units and that of the guiding dominant logic as formulated by corporate headquarters.

## DEVELOPMENT OF GE'S DOMINANT LOGIC

After examining several potential candidates, we selected General Electric under Jack Welch as the most promising organization for studying the influence of dominant logic. When Welch took charge of the firm in 1981, GE was heavily reliant on a cumbersome planning and control system that had been developed over many years (Aguilar and Hamermesh, 1985; Greenwood, 1974). The development of this system had gradually transferred power to staff analysts, thereby reducing the ability of business unit managers to act quickly when confronted with unexpected threats or new opportunities. The speed of decision making at GE had therefore slowed to a crawl even as its environment was becoming more turbulent and unpredictable. As Jack Welch put it in a speech to Harvard Business School students in 1985:

We are a magnificent high-tech company as long as it takes a long time and a lot of money. And that is a problem we are really fighting as we try to seed new ventures. They take too long, and they take too much money and the market quickly moves away from us.

In order to free the business units from constant corporate interference, Welch began to concentrate on the development at the corporate level of a specific set of premises and beliefs that

could guide the decisions and actions of the various business units (McDonald and Gandz, 1992). As such, these premises and beliefs were designed to provide the corporate headquarters with a more unobtrusive form of control. Above all, these premises and beliefs were driven by Welch's belief that GE must strive to become a global leader in all of its businesses. The emphasis on such a position also required that GE also reduce the layers of management, delegate power down to decision makers and cultivate entrepreneurship. Taken together, these elements formed a guiding philosophy that would allow the various business units of GE to strive for global leadership by providing them the ability to respond quickly to emerging opportunities.

Although the message was strong and clear, Welch had to convey the key components of his philosophy to GE's managers across all of its business units. He found that he was able to use GE's existing management school in Crotonville, New York to accomplish this purpose (Noel and Charan, 1992). Above all, Welch insisted that this school should become an arena where the new approach to decision making he was trying to infuse in GE would be aired and debated (O'Brian, 1994). Participating in the discussion meant that GE managers were more likely to "buy into" the new approach.

At the same time, Welch also realized that new ways of thinking do not get implemented in organizations unless they are backed by a meaningful system of evaluation incentives. He reduced the complex and confusing incentive system at GE by stressing a few key dimensions of performance. Evaluation by peers, subordinates, and bosses, put emphasis not only on results, but also on commitment to the new premises, beliefs, and assumptions that are consistent with GE's overall approach.

Without using the term, Welch was developing and putting into place a system which conforms closely to dominant logic as promulgated by Prahalad and Bettis (1986). The backbone of this logic was the injunction to business units to become either number one or number two in their markets. For Welch, however, this injunction was not another instrument of control, but the means of freeing managers to move faster by providing a set of premises and beliefs that could guide their decision making. As Welch explained to an

audience of Wall Street analysts at the end of his first year in office:

What will enhance the many decentralized plans and initiatives of this company isn't a central strategy, but a central idea—simple core concept that will guide General Electric in the eighties and govern our diverse plans and strategies (quoted in Tichy and Sherman, 1994: 72, italics in the original).

In conclusion, Welch's well known injunction represented a central theme that was designed to guide the strategic deliberations of all of its business unit managers. Its intent therefore was to weave the disparate decisions of different business units into a single coherent whole, not by setting forth a specific corporate strategy, but by creating a unified approach to how decisions are taken. Imposing a dominant logic was meant to produce in managers in different parts of GE a similar logic of decision making, and by implication a consistency in their respective actions which would accord with the overall corporate logic.

## **DOMINANT LOGIC AS A FRAMEWORK FOR JOINT VENTURES AT GE**

Although Jack Welch had clearly invested considerable time and energy into the development of a set of premises and beliefs for GE, the question that must still be addressed is what impact did this large scale recasting of decision making have on the actions of its business units. We endeavored to answer this question by confining our attention to a single type of strategic decision taken by the business units that could easily be compared with each other. After reviewing a few alternatives, we decided to focus on joint ventures that were initiated by GE because this type of decision has been made with considerable frequency by most, if not all, of the firm's business units.

Designing a joint venture requires the manager to make trade-offs between perceived benefits and potential costs. Although the benefits and costs of joint ventures may be well known, business unit managers do not usually find it easy to determine the set of benefits and the set of costs which they should emphasize. Sorting through all

of the pertinent information, deriving estimates of benefits and costs, and making the appropriate choices are difficult and time consuming in the best of circumstances.

In highly diversified corporations that have no dominant logic, business unit managers will fall back on their own past experience and on long-standing industry practices to evaluate the trade-off between possible benefits and risks. Given the diversity of managerial experiences and industry practices, we would expect to find little if any consistency in the pattern of joint ventures formed by the various units of a diversified firm. By contrast, in organizations such as General Electric the presence of a strong dominant logic should produce a more consistent pattern in how business units form joint ventures. This consistency would result from the manner in which the firm's overall dominant logic affects how managers assess the costs and benefits of joint venture opportunities.

The operation of dominant logic can therefore be likened to that of a lens through which managers attempt to evaluate the trade-off between costs and benefits that is associated with each prospective joint venture. Consequently, the information generated by such opportunities is filtered through the premises, beliefs and assumptions that are embedded in the organization's dominant logic. In this way, the corporate headquarters can push the managers of all of the business units to focus on the aspects of proposed joint ventures that are dictated by the firm's overall dominant logic.

Our central thesis, therefore, is that joint ventures that are undertaken by GE's business units are likely to be consistent because they must result from trade-offs that reflect the firm's overall dominant logic rather than from trade-offs that are made simply in response to their own specific needs. It is in this light that Jack Welch's injunction to the business units to be number one or number two takes on special significance. Welch explicitly stated that GE should develop alliances, such as joint ventures, only where such collaboration would help to clearly enhance the competitive position of any of its businesses (Malnight and Aguilar, 1989: 3; Tichy and Sherman, 1994: 227).

We would therefore expect business units at GE to avoid partnership **whenever possible** with powerful firms which have the resources and capabilities to challenge GE in the foreseeable

future. If an alliance with such firms is formed—either because smaller firms are not available, or because the advantages are too strong to ignore—we would expect business units to restrict collaboration to specific parts of the value chain, for example production or marketing. Alternately, if collaboration along the entire value chain offers benefits that cannot be ignored, we would expect business units to try and confine the joint venture to a specific geographical region or market.

Although GE's dominant logic may dictate such a pattern of joint ventures with large firms, the real choices available to it are likely to be restricted by the nature of the specific industry. Many global industries are dominated by a few large firms with considerable resources and extensive capabilities, giving the business unit little flexibility in the design of its joint ventures. Nevertheless, if top management succeed in inculcating dominant logic into the business units, we should see a systemic trend to restrict the scope of collaboration with large partners. More specifically, although GE will form alliances with large rival firms, it will try to reduce the risk posed by sharing of knowledge and resources by restricting the collaboration either to specific value creating activities or to particular regions of the world. This concern is expressed by the following hypotheses:

*Hypothesis 1: When forming global joint ventures with partners of comparable power and scale of operations, GE business units will, whenever possible, attempt to restrict the scope of its collaboration.*

By contrast, General Electric is likely to be less concerned about asset leakage when the partners are small- or medium-size firms with regional operations, largely because these companies usually lack the capabilities to transform these assets into a competitive threat. Thus, when it comes to forming alliances with firms that are **not** of comparable position, GE's dominant logic is likely to allow business units more leeway in their choice of breadth of geographic and value chain collaboration. GE is more likely to be motivated by the specific needs of the joint venture, and less concerned with the possible exploitation of valuable resources and skills by its partners. This lack of concern is expressed by the following hypothesis:

*Hypothesis 2: When forming joint ventures with firms that have less power and operate on a smaller scale, GE will not seek limits on the scope of its collaboration, allowing instead for this scope to be dictated by specific market needs.*

Finally, as we noted earlier, the influence of dominant logic on joint venture formation is often constrained by industry reality. In many instances, business units may operate in markets where the choice of partners or the proposed joint venture design is not ideal from the point of view of GE's dominant logic. In spite of such problems, however, business units may decide to pursue a joint venture because they believe that the potential advantages that it offers may justify the potential risks. After the agreement is signed, and the process of implementation begins, it is not uncommon for these risks to resurface, either directly as a result of disputes, or indirectly because managers exercise greater vigilance. Such vigilance can become self-fulfilling, producing conflicts and tensions that undermine collaboration, and often lead to premature termination of alliances (Ghoshal and Moran, 1996; Lampel and Mezias, 1996). For example, a 1984 alliance between GE and Rolls-Royce collapsed after GE accused Rolls-Royce of violating the spirit of their agreement by embarking on a new engine project. The dispute became quite bitter, with "tempers flaring" on both sides. This gives us the following hypothesis:

*Hypothesis 3: Joint ventures that depart from GE's dominant logic are likely to be terminated more quickly than joint ventures that are more consistent with the corporation's dominant logic.*

## STUDY OF GE'S JOINT VENTURES

### Sample and data

Alliances can run the gamut from informal cooperation to the establishment and maintenance of jointly run entities. For purposes of this study, we confined our analysis to joint ventures that required considerable commitment of resources and the establishment of a joint management team. Our survey showed that General Electric formed joint ventures in areas as diverse as air-

craft engines, household appliances, power equipment, and factory automation.

Information on GE's joint venture activity was obtained from annual editions of *Predicast's Index of Corporate Changes*. We focused on joint ventures that took place between 1984 and 1993. The choice of 1984 as the starting date was dictated by the Jack Welch's tenure as CEO. Although Jack Welch came to power in 1981, it took him several years to change the basic decision-making processes in GE. We did not consider joint ventures that were announced after 1993 because they were still too recent, making it difficult to verify the success of their implementation.

In all, we identified 70 joint ventures that were initiated between 1984 and 1993. More detailed information on each of these joint ventures was obtained from business and trade publications. Each joint venture was categorized on the basis of available information along two dimensions of scope: (a) whether it was intended to serve global versus regional markets; and (b) whether it was designed to cover broad versus narrow range of value-chain activities. All of the joint ventures were categorized by three raters, including one of the authors, who were familiar with issues relating to scope of collaboration.

The geographical scope was established by searching for references to a particular region of the world in the agreement. The agreement was considered to be regional if it was explicitly confined to one or two well defined markets such as Europe or South East Asia. Scope of activities were determined by searching for references to particular types of activities in the value chain that the joint venture was designed to focus on. Again, agreements were considered to be of narrow scope if they were restricted to one or two specific activities such as R&D or marketing. There was over 95 percent agreement between the raters, and any disagreements were satisfactorily resolved by further scanning of the available information on the particular joint ventures.

Our next task was to categorize each of the partners according to whether their position was comparable to that of GE. We used the *Directory of Multinationals* to identify firms that operated on a scale comparable to that of GE. The directory, which is compiled by John M. Stopford (1992), lists the 250 largest multinational companies. The multinational scope of these largest

companies suggested that they would either already have or will be easily able to develop the resources and abilities that could pose a formidable threat in the near future to GE's aspirations for global market leadership. By contrast, we assumed that firms that were not listed in the directory were not in the same "league" as GE and, hence, did not pose a short-term competitive threat.

Finally, we examined each of the joint ventures to determine whether they successfully made the transition from agreement to implementation. Of the 70 joint ventures that GE attempted, 17 were terminated within three years of the time they were first announced. In many cases, the failure of these joint ventures could be attributed largely to a competitive threat that the partner may have posed to GE's global aspirations. For example, GE's widely publicized alliance with Rolls Royce to jointly produce and market aircraft engines collapsed when the two firms could not resolve issues raised by their long-standing rivalry.

The distribution of GE's joint ventures is provided in Figure 1. Each of the 70 joint ventures considered for this study was allocated to one of four cells on the basis of the scope of the activities that they encompassed and the scope of the market that they were designed to serve. The number of joint ventures that GE initiated with large and small firms are provided separately in

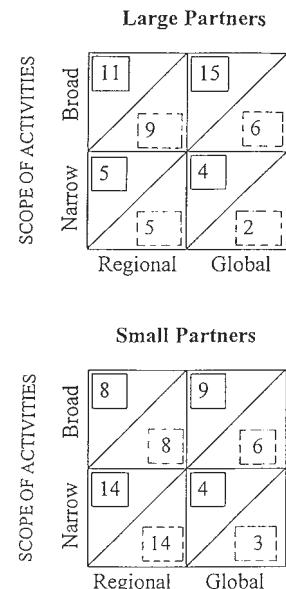


Figure 1. GE's joint ventures

the top left hand corner of each of these cells. For the most part, these alliances were well distributed across all of the cells. Finally, joint ventures that were still active three years after their initiation, are listed in the bottom right hand corner of each of these cells.

### **Analysis and results**

Our analysis began with an examination of the hypothesized relationship between the type of joint venture and the size of the partner. Hypothesis 1 argues that GE's dominant logic would direct it to try to restrict the scope of the value-chain when undertaking joint ventures with powerful world-class partners. Hypothesis 2, on the other hand, argues that the company would be indifferent as to the scope of the collaboration when the partners are small and operate on a regional scale.

To test these hypotheses, we split the data into two subsets. The first subset contains joint ventures that GE formed with global partners, and the second subset consists of joint ventures that the company formed with small regional partners. The data subsets were used to construct contingency tables in which the joint ventures were classified according to their geographic and value-chain scope. Each of the contingency tables indicated the distribution of the joint ventures across the four resulting cells. Chi-square analysis was performed on the resulting contingency tables to determine whether the distribution of joint ventures among the four cells was randomly distributed.

In the case of large partners, evidence against a random distribution of joint ventures across these cells would lend support to Hypothesis 1. This would suggest that, whenever possible, GE would either try to push for restriction in scope of activities or in scope of the market in their design of joint ventures with large firms. In fact, a chi-square analysis did reject the hypothesis of random distribution of joint ventures in the case of large partners ( $c^2 = 9.23$ , significant at the 0.05 level). Even though these large global firms may have offered a wide range of opportunities for collaboration, 20 of the 35 joint venture efforts were restricted either in terms of scope of activities or scope of market. More tellingly, 10 of the 15 broad based joint ventures with large firms were within the aircraft engines and power equip-

ment industries. The global nature of these industries may have made it difficult for GE to gain any significant benefits by restricting the scope of the joint ventures that they chose to undertake with the few available multinational firms.

On the other hand, in the case of small partners, evidence of a random distribution of joint ventures in the case of smaller partners would lend support to Hypothesis 2. This would suggest that GE is not particularly concerned with the particular types of joint ventures that it chooses to form when the partners are small regional firms. As expected, our chi-square analysis did **not** reject the hypothesis of random distribution of joint ventures in the case of small partners firms ( $c^2 = 5.79$ , not significant). There was almost no difference in the design of joint ventures with small firms in terms of scope of activities. Because many of the small firms tended to be limited in their global reach, there was a slightly larger number of joint ventures that were regional in character.

Finally, we turn to the testing of Hypothesis 3. This hypothesis argues that the probability for successfully negotiating and implementing a joint venture declines when GE goes against its own dominant logic in its formation of alliances. We can presume that the firm would be confronting such a situation when one of its business units forms a broad based alliance with a large global partner. We coded for this potential for tension by using a dummy variable for scope. The scope variable was coded 1 for alliances that were both broad and global and 0 for all other possible combinations. Similarly, the size of the partner was coded 1 for large global partners and 0 for small regional partners.

We then performed a logistic regression in which the early success or failure of the alliance was regressed against the size of the partner firm, the scope of the venture and the interaction between these. Results of the logistic regression lead us to strongly rejected the null model at less than 0.001 significance. The relative fit of the three components of the regression are also shown in Table 1. These indicate that an interaction between scope and size was a much better predictor than either size or scope taken alone. Thus, we can claim some degree of support for Hypothesis 3, which suggests that an alliance of broad scope with a large global partner is most likely to increase the probability of failure.

Table 1. Logistic regression results

Factor	B	S.E.	Wald	Sig	Fit
Size	-1.52	0.636	5.72	0.0168	75.71%
Scope	-2.21	0.631	12.33	0.0004	77.14%
Size*Scope	-2.28	0.676	12.39	0.0004	81.43%

## DISCUSSION

The concept of dominant logic is closely tied to the emerging stream of research on strategic cognition. Research in this area combines work on managerial thinking with that on strategic decision making (Cohen, 1991; Jelinek and Litterer, 1994; Kim, 1993). In so doing, work on strategic cognition focuses its attention on the cognitive correlates of interaction between different levels of the organization. In large diversified firms, the interests and thinking of corporate managers that oversee all of the business units can frequently clash with those of business unit managers who have to deal with the competitive dynamics within their respective industries.

The development of a dominant logic (Prahalad and Bettis, 1986) can provide a more unobtrusive method of reconciling any possible conflicts that may arise from the need for corporate control and the need for business unit initiative. Above all, dominant logic offers diversified firms the opportunity to develop a cohesive set of beliefs that gives shape to cognition at every level. As such, dominant logic can also help decrease the burden of decision making that confronts managers both at the corporate and at the business level in large diversified firms. It is an approach based on cognitive simplification and economy that is reinforced through the use of organizational training, procedures and rewards.

As a cognitive coping mechanism, dominant logic should be clearly evident when firms confront complex and ambiguous strategic decisions such as the undertaking of joint ventures. Our main contention in this paper is that, in corporations where dominant logic is strongly felt, managers will be guided by the premises and beliefs that emanate from the corporate level. These aspects of a dominant logic are likely to exert their strongest influence on prospective joint ventures, during both information gathering and analysis. In a firm such as GE, a strong dominant

logic will therefore push all business unit managers to respond similarly to collaborative opportunities, and this in turn, will result in greater consistency in the pattern of joint ventures that are formed and that are successful.

It must be emphasized, however, that the specific form of this consistency will depend on the dominant logic of the particular firm. In this study, we tied a key tenant of GE's dominant logic to its pattern of joint venture formation and success. Other studies can follow up by studying other diversified firms to examine the influence of their particular logic on their pattern of joint venture formation. For example, in firms that emphasize technological innovation, joint ventures that enhance the business unit's technological capabilities are likely to take precedence over other aspects of collaboration.

The use of dominant logic also extends beyond research on the formation of alliances. Cote, Langley and Pasquero (1996) have used dominant logic to explain the acquisition moves of a large Canadian engineering firm. We would suggest that the concept of dominant logic can also be extended to study other types of critical strategic moves. For example, as firms embark on global strategies, how does the dominant logic of a firm influence its pattern of entry into new markets? Are there certain characteristics that the markets have to satisfy in order to be consistent with the overall dominant logic of the firm? Similarly, with the increased emphasis on new product development, how does the dominant logic of a firm influence the frequency and pattern of new product introductions? Do firms tend to prefer certain types of new product development which would fit with the capabilities that are emphasized by a firm's dominant logic?

In conclusion, this paper argues that dominant logic targets fundamental strategic beliefs not with the goal of entrenching a single approach to strategic analysis, but with the intention of constraining how managers see business problems. The distinction may be subtle, but it is an important one. The development of dominant logic allows corporate managers to inject corporate thinking into the interpretation process without incurring the liabilities that are associated with formal planning or structural controls. In effect, dominant logic decreases the interpretive freedom of business units by stipulating specific types of criteria must be part of data gathering

and analysis. By restricting interpretive freedom along a few key dimensions, dominant logic ends up influencing the interpretation process as a whole. The subtle yet strong influence of dominant logic flows from the cognitive tendency of human beings in general, and managers in particular, to strive for consistency and coherence in their responses to the complex and ambiguous stream of information to which they are constantly exposed.

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