

PRAHALAD, C and BETTIS, R (1986), The Dominant Logic: A New Linkage between Diversity and Performance, *Strategic Management Journal*, 7, pp. 485-501.

The purpose of this paper is to propose a crucial linkage, referred to as the 'dominant general management logic,' between diversification and performance; and to show how this approach can add significantly to our understanding of performance in the diversified firm. This linkage consists of the mental maps developed through experience in the core business and sometimes applied inappropriately in other businesses.

The conceptual framework linking diversity and performance is based on the following premises. Top management of a firm should be viewed as a collection of key individuals (ie a dominant coalition) who have significant influence on the way the firm is managed. The complexity of the top management process is a function of strategic variety, not just the number of distinct businesses or the size of those businesses. Strategically similar businesses can be managed using a single *dominant general management logic*. The dominant logic is stored via schemas and hence can be thought of as a structure. However, some of what is stored is process knowledge. Hence, the dominant logic can be considered as both a knowledge structure and a set of elicited management processes. The ability of a top management group to manage a diversified firm is limited by the dominant general management logic(s) that they are used to.

Dominant logic is a mind set or a world view or conceptualisation of the business and the administrative tools to accomplish goals and make decisions in that business. It is stored as a shared cognitive map among the dominant coalition. It is expressed as a learned, problem solving behaviour. In order to understand the difficulties faced by a top management group in changing the dominant logic, we need to examine the research streams that deal with the development of cognitive maps and the associated problem-solving behaviour. There are four streams of research that highlight the process by which a dominant logic evolves: operant conditioning, paradigms, cognitive biases and artificial intelligence.

These premises allow the development of a framework for assessing the linkage between diversity and performance. They relate strategic variety amongst businesses in the firm and changes in it with the appropriateness of the dominant general management logic(s) that top managers in that firm use. The article examines the problems that diversified firms face in relating strategic variety and the dominant general management logic(s).

There are several implications of including these concepts in the study of diversity and performance. The limit to the diversity of businesses within a firm is determined by the strategic variety and the strategic variety a firm can cope with is dependent on the composition of a top management team. Each top management teams has an inbuilt limit to the extent of diversity it can manage.

Top managers are less likely to respond appropriately to situations where the dominant logic is different, as well as not respond quickly enough, as they may be unable to interpret the meaning of information regarding unfamiliar businesses. The process of changing dominant logics is important to any firm that encounters rapid change in the structure of the industries in which it competes. These issues revolve around the ability of the firm or its dominant coalition to learn. The literature on organisational learning suggests ways in which organisations can change or add dominant logics.