LEVERAGING RESOURCES AND MAINTAINING COMMITMENT: DOMINANT LOGIC OF HIGH AND LOW PERFORMERS IN TURBULENT ENVIRONMENTS

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Introduction

Firms' strategies have been fruitfully conceptualized as positions at the marketplace, configurations, core resources and capabilities or sets of simple rules (e.g. Porter, 1980; Hamel and Prahalad, 1989; Porter, 1996; Miller, 1999; Eisenhardt and Martin, 2000). The most dominant theme in all these approaches is an assumption about the existence of a common and consistent pattern embedded in organizational decisions and actions. This pattern is sometimes called 'strategic frame' (Huff, 1982), 'dominant themes' or 'configurations' (Miller, 1999), 'interconnected choices' (Siggielkow, 2000) and most often 'dominant logic' (Bettis and Prahald, 1986; 1995). Most of these models follow a path established in the field of organizational behavior by Cyert and March (1963) which suggests that managers limit their repertoire of schemas, frameworks, and solutions. Such behavior is effective in cognitive terms because it prevents managers from being overwhelmed by flood of information and options. Over time firms develop such mindsets, frames, rules of conduct or dominant logic as a result of business experiences and tasks and choices critically important for success over a substantial period of time. Once set in place, a dominant logic becomes the driving force shaping organization's actions.

In the field of strategic management Bettis and Prahalad's seminal article (1986) presents a framework which presents dominant logic as a primary characteristic of management in a diversified firm. They defined dominant logic as a "mind set or a world or conceptualization of the business and administrative tools to accomplish goals and make decision in that business" (ibid.: 491). The conceptual foundations of dominant logic consist of two main elements: operant conditioning and complex problem solving behavior. Operant conditioning works as reinforcement of the behaviors that led to success. Complex problem solving behavior is a result of cognitive bias (heuristic of decision making) and cognitive simplifications created by conventional wisdom (paradigms) and past experiences. The concept of dominant logic, as defined above, is anchored in cognitive psychology and very systemic. Recently, following Bettis and Prahalad's (1986) concept of dominant logic, Porter's (1996) concept of strategy as set of activities and Miller's (1999) proposition to treat strategy as dynamic configurations, Siggielkow (2000) studied evolution of several firms and identified two patterns of development of such systemic logic. These patterns are cumulative effects of strategic decisions and Siggielkow (2000) termed them *patch-to-patch* and *thin-to-thick*. The former means that firm starts with one strategic theme and after it is well established it would experiment with next theme, and so on. Under this process the dominant logic would develop over time by adding new elements, presumably those that helped particular firm to become successful at the marketplace. The latter pattern (*thin to thick)* is created when the firm starts out with a consistent set of weakly developed strategic themes and elaborate them over time. In this case dominant logic exists almost as a complete system from the very beginning and it is refined and reinforced over time.

Despite the rich and insightful results of research on dominant logic or patterns of action, until now only limited light has been shed upon the issue of how dominant logic influences organizational performance. Does the evolution toward a coherent dominant logic enhance performance - as the notions of fit and alignment that have a long tradition in the management literature postulate (Miles and Snow, 1978; Powell, 1992; Jennings, D. and Seaman S., 1994; Zajac et.al., 2000)? Or maybe dominant logic overtime create rigidities that limit performance as the literature on inertia stipulates and therefore results in a need for a transformation change over time (Tushman, Newman and Romanelli, 1986; Kelly and Amburgey, 1991). Or maybe as an assumption of equifinality from systems approach (Cavaleri and Obloj, 1993) postulates, different dominant logics can result in the same performance or the same dominant logics can result in dissimilar performance, depending upon external set of opportunities and threats that firms face in the industry. In short we do not know well what kind of dominant logic creates dominant and peripheral firms in the dynamic marketplace. In this research we attempt to address this gap.

Research model and design

In order to take a step toward answering this question at a fine-grained level, together with a group of MBA students from University of Warsaw[1], we studied several firms that attained leading and peripheral position. This follows Bettis, Hall and Prahalad's (1978) suggestion to focus on outliers instead on central tendencies. Our research took place in newly created markets in Poland, during turbulent transformation into market economy in the decade of 1989-1999.

We contend that the cognitive aspect of the dominant logic is shaped primarily by perception of organization and environment, and evaluations of the most difficult experiences in the early stages of the organizational life cycle. The importance of general paradigm of organization ('who we are') and environment ('what is out there') is consistent with original Bettis and Prahald (1986) concept of operant conditioning, research on sensemaking (Weick, 1995) and development of organizational identities (Petraf and Shanley, 1997). The learning through experience refers both to the behavioral psychology (Von Krogh, 1996) and seminal work of McCall, Lombardo and Morrison (1988) on the role of experience to the managers' development and growth.

[1] Mariola Ciszewska, Monika Kalwasińska, Joanna Mucha, Darek Pietrzak, Anna Radecka, Artur Woźniakowski, Ziemowit Ekiert. Special thanks to Ms Anna Radecka for her help with coding and analyzing the data.

The operational aspect of dominant logic is shaped by two elements. First are the process and content of strategic choices (Bettis and Prahalad, 1995; Child, 1976) and their effects that work as reinforcements or weakening forces (Prahald and Bettis, 1986). Dominant routines are, as postulated by Grant (1988), as the second element that structures operations across the value chain and determine firm performance (Bettis, 2000). Our full model is shown in Figure 1.

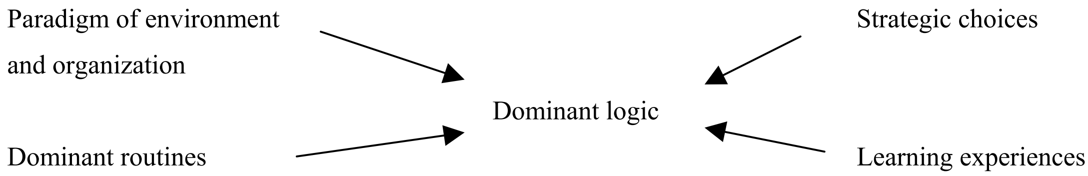

Figure 1. A model of dominant logic

In order to study what kind of dominant logic characterizes dominant and peripheral performers in turbulent environments we decided to study companies that had the same point of departure in 1989-1990 i.e. were established roughly in the same time, in the same industries and with similar opportunities and resources set, but that ended in very different destinations as dominant and peripheral firms in 2000 and 2001. While looking across several industries in Poland we searched for the industries that met in 1989-1990 the following conditions[2]: relative newness, low barriers to entry, initial lack of economies of scale and limited strategic significance for multinational companies. Finally we identified dominant companies and their *alter egos (*firm that ended in peripheral position) and researched five pairs of such 'twin companies' in the following industries (Table 1):

	Cosmetics[3]	Public opinion and marketing research	Consulting	Computers	Outdoor
Leading firm	ERIS SA (20 mln usd)	SMG/KRC S.A (12 mln usd)	WGK Ltd. (3 mln usd)	Optimus SA (150 mln usd)	Alpinus SA (22 mln usd)
Peripheral firm	DAX Ltd (5 mln usd)	Demoskop (1,4 mln usd)	Management Focus Ltd (0.7 mln usd)	Baza Ltd (3 mln usd)	Janysport (250 000 usd)

Table 1. Pairs of analyzed firms in particular industries and their approximate turnover in 1999.

After securing permission from the CEO, we conducted a series of extensive interviews, ranging from 1 to 3 hours in each company, with all managers that worked in the company for a significant period of time (ranging from five year to eleven i.e. the company's inception). A total

[2] This set of conditions was agreed upon by a panel of entrepreneurs and consultants as creating in the early 90s the best conditions in the environment for new ventures evolutionary growth and not favouring any particular player at the starting point.

number of over fifty interviews was performed – nine at the most and four at the least in each firm. In analyzing data we used a qualitative data analyses software program called Atlas.ti. It simplified the process of coding and systemizing data and set us ready for theory building.

Dominant logic of dominant firms

Both dominant and peripheral firms that we studied have coherent dominant logic, but its elements and dynamic differ. In a nutshell dominant firms follow simple rules and use them to maximize their set of opportunities. They were flexible and quick. They made mistakes, but they learnt fast. Over time they have established strong and durable relationships with key actors in their markets. Their dominant logic resembles Siggielkow (2000) patch to patch model of behavior but it has consistent features across all elements of our dominant logic model.

The most common aspect of paradigm is an external orientation. Dominant firms are focused on environmental trends and events and perceive them as a set of opportunities to be leveraged. They are focused on marketing of their products and services and this focus is combined with creation of optional marketing strategies, experiments and innovations, quick entries and exits in search for a possibility to create a standard and/or a brand. If they lack resources, knowledge or experience they try to borrow them through alliances. They also use alliances in order to share the risk and responsibility with partners. The key role in this respect is played by owners that in all cases perform the role of natural, passionate and optimistic leaders.

In terms of routines dominant firms are pragmatic and opportunistic – they introduce them only when it is necessary and when they think that they will benefit out of it. The aim of introducing routines was always the same – to control chaos resulting from fast growth and development and secure against loosing accumulated tacit knowledge. By trial and error they evolve into flexible but centralized organization, where leaders play important role and can bent rules and procedures. Centralization is however limited in order to allow middle management to take responsibility for operational decisions.

Dominant firms made much more choices perceived as strategic than peripheral firms. We calculated that each dominant firm made 8 to 11 strategic choices comparing to 3 to 5 made in peripheral firms. Most of these choices were made fast, intuitively but with reasonable amount of analysis and calculations.

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[3] Cosmetics industry did exist under the communist regime but many companies were so dependent upon export to Soviet Union that they either went bankrupt after 1989 or had such limited reputation and product range that it did not create any barriers to entry.

Finally, dominant firms acknowledge easily that they went through traumatic situations and they treat them as learning experience. Traumatic or difficult experiences always trigger structural or procedural changes in dominant firms, and are used as *memento* or cultural saga to remind managers of possible problems and pitfalls.

The synthesis of links between paradigm, choices, experiences and routines create a dominant logic of dominant firms that performed a role of strategy in almost all cases. The process of dominant logic development can be summarized as a process of developing simple rules that enabled them to make sense and choices in a confusing, turbulent environment. Dominant firms develop their rules one by one ("patch to patch"), mainly by following difficult experiences and choices made. The four rules common to all dominant firms are deceptively simple and to some degree counter-intuitive.

Be optimistic

First strategic rule of the dominant firms is 'Be optimistic'. Perception of environment is very positive – it is a set of opportunities to be followed, exploited and leveraged. Natural extension of this optimism is action orientation, focus on growth, taking challenges head on, room for initiative and errors etc. All dominant firms, since the very beginning, behaved like happy kids – they tried all the time something new, they were making more (and costly) mistakes than average firm but they all tried and experimented more than other firms. Perception of the environment in terms of opportunities does not mean disregarding threats but the focus is on selecting and leveraging opportunities. In the effect of this process actions are taken in new market areas (experimenting with new fields). Scanning the environment and recognizing fields that may occur as core in the future result in investing in them faster than competitors. Such decisions are quick, often intuitive but supported by analyses, almost always risky what may sometimes lead to mistakes, but if successful they are milestones. Through innovative actions in terms of products, technologies or customer's services dominant firms shape client's needs and requirements influencing in this way competitors, who must adapt.

Dominant marketing research company created a standard, branded tool to research rich and very visible media market and over time cornered this market. The same firm exploited globalization (perceived by alter ego as the most dangerous threat) to enter new markets – an international network of agencies was established. Dominant producer of outdoor cloths gained strategic investor VauDe at the very beginning, what enabled this firm to monitor global environment (fashion, style, used textiles, colors) and transfer this knowledge to local market fast. It also developed extensive number of product lines in order to cover clients' needs in all major sports (alpinism, sailing, bicycling, skiing etc.). Dominant cosmetics producer cooperates with selected competitors in following areas: purchasing certain raw materials, production for competitors, mutual employees' training (e.g. in introducing microbiological laboratory).

Experimentation: enter fast, grow fast, exit fast

A second strategic rule of the dominant firms is "Enter fast, grow fast, exit fast". In all dominant firms we observe a passion to fight, to win, to be a leader. Founders established boundaries of the strategic domain by the choice of industry, and than allowed managers to experiment with option set. A key process is typically marketing and therefore nobody can experiment with an attitude toward customers but all other options are kept open. Dominant firms sometimes institutionalize innovations and experiments with special symbolic or financial rewards, or founders give clear signals how important it is. This rule also applies to solutions concerning the organization of the firm (e.g. outsourcing, structure, logistics, distribution).

Eris (dominant cosmetics producer) launched the premium line products as the first Polish firm on the market, entered the service segments by establishing a network of franchised beauty saloons and then opened a school for professional cosmeticians. It also started to produce products for children but soon exited from the market because it proved to be difficult and did not allow for brand leverage. Optimus (dominant hardware and software provider) strived from the very beginning in 1990 to attain a position of dominant firm in an industry, and used fast product upgrades, alliances with Microsoft, Intel and Lockheed Martin, and constant extension of its offering (from hardware to software, consulting services, integration services, B2B, portals, vortals) as ways to keep first mover advantage. At the time of the research Optimus was really a group of 29 firms led by a core firm. Dominant consulting company focused on privatisations that offered the highest growth potential, than quickly started to create a range of products and even dependent companies in order to create or enter markets for business plans, restructuring, crisis management, HR. SMG/KRC entered over time all possible markets for research – political, social, marketing, and all types of research – customised (ad hoc), syndicated etc, but all the time concentrating its efforts on multinationals. Thus it covered all possible products and markets but focused on those offering highest growth potential. It has also introduced special awards for innovative thinking: Virtuti Researcheri, dinner with the president, one month wage bonus etc. After traumatic experience (exit of employees of a department of quantitative research - they started a new and competitive firm) the new structure was designed, HR policies installed, including ESOP. Alpinus, dominant outdoor textiles producer, experimented with all possible product lines and types. Most of them were unsuccessful in terms of profitability and Alpinus eventually exited them. A rule –

search for any market segment that can offer growth potential. It also decided to outsource the part of production and organise distributions (network of franchised shops).

Maintain flexible but centralised organisation

Of course dominant firms eventually mature. All of them introduced routines governing key processes, and most of them hire over time professional managers to support team of owners. However they do not formalize and standardize their operations to such a degree as peripheral firms.

Dominant marketing research firm is organized into nine large project teams that compete for clients but follow 'one industry – one client' rule. Leading computer producer is organized in relatively autonomous SBU's but regulated with standard operating procedures. Although the rest of the dominant firms have functional structures not only top management but also middle management - especially brand managers enjoy quite vast autonomy.

Identify key actors and embed them in your network

The fourth strategic rule of the dominant firms is „Identify key actors and embed them in your network". Dominant firms have established interfirm ties with key actors on the market (clients, competitors, suppliers, distributors, employees) in order to gain access to knowledge, resources, information, markets or technologies. Networks of complementators created clear advantages for dominant firms (Shapiro and Varian, 1999). They allow them to make innovative choices otherwise impossible, and in the same time to share the risk with partners or outsource some functions to them. The set of key actors depends on the type of market. For example on markets dominated by individual clients – cosmetics, spices, outdoor outfit, computers (retail), it is not possible to have direct relationships with clients, and therefore the importance of distributors is observed. On the other hand, markets of institutional clients – market research, consulting, computers (wholesale) are characterized by strong, personal relationships with clients.

Dominant market research company SMG/KRC established a network composed of employees, clients, competitors. On this market employees are of strategic significance as they have direct contacts with clients. Quality of these relationships determines client's satisfaction and loyalty. Therefore SMG underlies the importance of its people, constantly reinforces their passion and loyalty via employees ownership plan, good atmosphere in the workplace, and careful process of selection and recruitment performed by a president nick-named 'The General'. At the base of durable relationships with clients is mutual trust supported by offering the unique service (here is the role of employees), the highest quality products (with the most advanced technology), special financial incentives for long term clients and outplacement of its former employees in clients' firms. SMG/KRC decides from time to time to have an alliance with certain competitors to share the risk or maximize probability of introducing the standard product (e.g. internet research). However, since the merge with The Kantar Group (international research concern) alliances with competitors becomes rarity as the strategic partner provides SMG with the access to its brand, products, technologies and clients making competitors unimportant.

Eris (dominant cosmetics producer) in course of growing established strategic ties with distributors, suppliers, competitors. Its own network of loyal distributors covering the whole country provides the firm with the information from individual clients, makes possible to outsource some parts of marketing (e.g. promotion) and makes it difficult for competitors to penetrate the market. Eris also included its distributors in sales to hypermarkets. Relations with suppliers of key ingredients are based on trust (e.g. on time delivery) and cooperation (e.g. Eris employees are trained in new ingredients applications in suppliers' laboratories) that play more important role than price. Cooperation with selected competitors includes, as it was mentioned above, ordering ingredients, technical help in case of emergency, exchanging experiences through staff training.

All other dominant firms have also created strategic networks which differ in terms of particular embedded actors, but the aim of establishing is always the same – to develop complementators and use their strengths in competition struggle. Networks are based on a combination of trust and transactions. Trust is more common in relationships with clients, distributors, and suppliers). Transactions regulate relations with competitors (in this case there is a real danger of opportunistic behavior). Ability to concentrate on key actors and build with them strong relationships was developed by dominant firms gradually by a process of trial and error. It is strictly connected with the misfit created by dominant firms – to achieve their aims they had to find ways to leverage resources and establishing durable ties was the easiest way to do so. Networks create constant opportunities to learn and provide a transfer of the knowledge between embedded actors and dominant firms are capable of taking advantage of it.

A dominant logic of peripheral firms

A surprising result of this research is a discovery that a dominant logic of companies that lost their chance at the marketplace was almost from the very beginning very coherent, almost mature, and its evolution resembled '*thin to thick'* model of Siggielkow (2000).

In general the dominant logic of peripheral firms vary between one another. Each of the firm had its own story of market failure but there are some commonalties.

The environment, as peripheral firms perceive it, consists of few opportunities, but mostly of threats and problems to solve. Their CEO's have acted like firemen putting out one fire after the other. Over the years they became masters at spotting threats and problems that might have a negative impact on the whole industry and their companies. They emphasize the unfairness and ruthlessness of competitors as the source of the bad business climate. They point to forged products, counterfeited materials and unethical practices as examples of the competition actions. Disloyal and fickle customers complete the picture of the pessimistic paradigm.

Strategic choices of peripheral firms were few and made very early in their life cycle. In spite of changes in the environment and new competitors, owners of the peripheral firms stuck to their primary choices as predicted by organizational ecology theory (Hannan and Freeman, 1989) and suggested by commitment theory (Ghemawat, 1991). The choices were made after long and arduous analyses and risk minimization was major concern. However in turbulent markets agility, experimentation and promptness of decision pay off and persistence and commitment do not. Janysport's business ideology is high quality, durable outdoor equipment with the total neglect of marketing and product esthetics, whereas Alpinus realized that nowadays in the outdoor business fashion comes before function. Baza Ltd. was established at the same time as Optimus but its owner did not change his strategic choice of limited product range (computers and peripherals) in spite of the market trend towards integrating computers, software and services. Also his initial choice of structural configuration of the firm as a federation of regional offices enabled Baza to grew rapidly at the beginning, it eventually precluded synergies, cooperation and integration of effort. Demoskop long commitment to public and social research and quantitative, „scientific" methodology, resulted in lost growth opportunities and image of an inflexible firm. In all of this cases peripheral firms did have a complex strategy and the choices of markets, products, and sources of competitive advantage were clearly made. At the same time these strategies were not successful in the longer perspective because they were rigid, driven by choices made at the inception of the firm and were not adapted to changing environmental situations.

In terms of routines, peripheral firms much faster then dominant firms formalized their activities and introduced standard operation procedures. Planning, budgeting, controlling, remuneration and motivation systems have been present at these firms almost from their inception. There is, however, a clear difference between formalization performed by dominant and peripheral firms. Dominant firms formalize professionally i.e. they standardized those activities that were critical in terms of overall productivity or activities that had to be standardized by law (e.g. accounting). Three out of five dominant firms have undergone the process of ISO certification, which was a crowning of the process of formalization. Peripheral firms on the other hand, standardized and formalized their activities due to limited trust that owners have in their employees, centralization of decisions at the top management level and as a response to the hostile and unpredictable environment in order to minimize the mistakes and errors.

Finally, the most striking feature of researched peripheral firms is the fact that they almost do not report any difficult situations from their past. One would think that after a decade of limited growth or decline owners and managers would spot easily at least two difficult situations and describe them as learning experiences. In fact in most of the firms they have problems in spotting even one. In case of Management Focus managers do not report any such situation. In case of Baza any problems were blamed on environment and an owner of the Baza at the verge of bankruptcy stated bluntly: "I could not say that I learnt anything important". In case of Demoskop and Janysport they relate to conflict between owners. In case of Dax it is a crisis at the Russian market. Peripheral firms do not classify situations as learning experiences, do not learn easily and if any learning occurs it just reinforces existing dominant logic in terms of perception of the environment as hostile, rightness of earliest strategic choices and limited value of routines.

Conclusions

This paper addresses the issue of dominant logic as cognitive, strategic, operational and evolutionary concept useful in studying how dominant and peripheral firms build their strategies in turbulent markets. Studying elements and dynamism of dominant logic of outliers that had almost the same chances to grow in newly established markets in Poland we came with two dominant patterns of dominant logic. Dominant firms do not have coherent strategies and rigid designs. They also do not search for a fit but follow simple rules that enable them to create and leverage opportunities, influence the stream of events, establish standards, brand names and publicity and establish networks of complementators. The set of presented rules has developed gradually and rules are not mutually exclusive but they permeate each other. Their dominant logic develop in a 'patch to patch' fashion as they learn from difficult, traumatic experiences.

Peripheral companies are very different. In a sense their dominant logic is more coherent and consistent than dominating companies and develops in 'thin to thick' fashion, but it is also more limited and rigid. They do not follow the logic of opportunities but problem solving; they develop strategies and follow their initial commitments; they built centralized and formalized designs; and they become eventually slaves of their dominant logic, rationalizing failures and forgetting experiences.

Both dominant and peripheral firms have a consistent dominant logic with cognitive and operational components, and most of the time they stick to the cognitive paradigm and managerial choices. However, the dominant logic of dominant firms enabled them to leverage opportunities and grow rapidly, while the dominant logic of peripheral firms limited their option set and made them inertial and unable to change. Firms that became peripheral have developed early solution in the form of strategic choice (Child, 1997) - simple, focused, consistent strategy and than become strongly committed to its execution. Almost all dominant and peripheral firms were able to indicate at least one difficult or traumatic experience in the history of the company (dominant firms have much more of them), however they treat them differently. In each case dominant firms made these events into a learning lesson creating a new rule out of it (like starting ESOP after a group of specialists left the company). In peripheral companies these experiences were not leveraged in any way – they were just ‘bad memories’ for everybody.

In a way dominant firms operated since the beginning like opportunistic and happy kids, using simple rules to experiment in the marketplace and search for such leveraging points as possible standards, brand names, publicity, fastest growing segments, internal flexible organisation and network building. Peripheral firms quickly developed full-fledged strategies and started to operate like mature and experienced companies. This dominant logic strengthen overtime, irrespectively of difficult experiences and visible limitation to growth, either because of owners values, limited environmental scanning and therefore an erroneous evaluation of company’s position or plain inertia. It seems that managers at peripheral companies slowly learnt how to live with limited options and they tend to blame it on environment or unfair and unjust strategies of dominant firms.

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