

Abstract

The Indian strategic context, with the ushering of the economic reforms, underwent radical changes in 1991 (Joshi and Little, 1994). Before 1991, the diversified and the affiliated firms had dominated the Indian corporate landscape. However, in 1999 only a handful of these firms were dominant in their industries/product categories. The primary reason can be attributed to the change in the strategic context that eroded the earlier advantage of being diversified and the affiliated. The efficacy of the diversified firms to create value was being questioned. The sudden change in the perceptions regarding these firms to create value had a puzzling link to the change in the strategic context. This raised the issue of evaluating the rationale of the change in the strategic context leading to a change in the firms' strategy/behaviour.

The decline in the fortunes of the diversified firms led to a series of conflicting prescriptions given to these diversified and the affiliated firms. These ranged from remaining diversified to achieving "focus". "Focus", as may be recalled, was at that point of time (the 1990s) the latest management fad in the western corporate world. The underlying assumption when prescribing was, that the prescriptions are generalisazable and what is applicable for the firms in the developed economies is good enough for the firms operating in the developing/emerging economies. This additionally raised the issue of the notion of specificity of the strategic context and therefore the validity of generalisation of management prescriptions across different strategic contexts.

This generalised cookie-cutter approach to strategy overlooks the fact that the firms are distinctive entities and need customised prescriptions. Similarly, this logic is extended to a collection of firms that are embedded (Granovetter, 1985) in their strategic context. The *Contextual Imperative* becomes an important determinant for the relevance of the prescriptions. The notion of the firms being embedded in their strategic context has been studied at both the intra-industry and the macro levels. These are studies of firms with respect to their behaviour and performance within, the strategic groups (McGee and Thomas, 1986), an industry (Porter, 1980), and within an economy (Whitley, 1992). All these are reflective of the specificity of the context they are embedded in. Even though, Whitley (1992) studies the impact of the strategic context of the firms on their behaviour, he does not explicitly investigate into the change in the firm behaviour with the change in their strategic context.

The consideration of strategic context and the embeddedness of the firms implicitly address the issue of *ex-ante* conditions influencing the firms' strategic choice (Child, 1972). Additionally, it are the changes in the strategic context and hence of the *ex-ante* conditions that tend to change the firm strategic choices and hence the behavior. The *Contextual Imperative*- the importance to consider the role of the strategic context in the formulation of the firm strategy was the focus of this study. The research focused on assessing the impact of the strategic context on the firm behavior and performance. The research query was furthered by addressing the issue of whether a change in the strategic context, changed the firm behavior. All these questions were addressed with respect to the diversification strategy of the firms.

Diversification as a context-driven strategy would involve the deliberation on issues of the specificity of the strategic context and of the rent generating resources, and consequently, the choice and direction of diversification *per se*. It would also impinge on the methods of measuring diversification and relatedness and the impact on the performance. This study focused on investigating the role of the Indian strategic context on the diversification decision of the firms. It entailed the delineation of the specificity of the Indian strategic context; its role in influencing the diversification decisions of the firms; and the consequent impact on performance.

This study of the diversification behaviour of the firms in the Indian strategic context was particularly relevant because (1) the change in the strategic context due to the economic reforms of 1991 led to the emergence of two distinct strategic context for almost whole of the corporate landscape (2) this setting offered the unique opportunity of studying the differential behavior of the same set of firms across the strategic contexts (3) formed one of the comprehensive panel data studies, about the strategic behavior of the Indian diversified firms (4) It contributes to the mainstream diversification literature, by adding a new theme. It extends the *ex-ante* conditions to include the strategic context as one of the influences of diversification decisions (Varadarajan and Ramanujam, 1989).