CHAPTER 9
Discussion and Interpretation

In this chapter we report the discussion on results and findings presented in earlier chapter. The discussion also contains plausible explanation of the results. These explanations have been arrived at by a combination of factors such as our understanding of business groups, quantitative information sourced from databases and contextual familiarity of the researcher. The chapter also tries to explore the acceptability of the hypotheses proposed earlier, and causes for rejection, if any.

9.1 Economic liberalisation and Market Imperfection

During the last two decades or so a number of countries around the world have undertaken economic reforms of varying magnitude and scale to liberalise and globalise their economies. In July 1991 the GOI also initiated a sustained policy of administrative reforms, popularly known as economic liberalisation. Deregulation of selected industries in India started in the mid eighties. However, since 1991 the Government of India initiated a large number of policy and administrative reforms such as liberalisation of industrial licensing, curtailment of public sector, abolition of import licenses and lowering of import tariffs, followed by convertibility of the Indian rupee and encouragement of FDI’s. This was followed by various fiscal and monetary reforms, including reforms in the banking sector, capital markets, and macro-economic adjustments included phasing out of subsidies, dismantling of price controls, and introduction of an exit policy. These reforms are collectively known as economic liberalisation.

By and large the new economic policy has reduced governmental control in favour of market-based control. This resulted in a more efficient economic environment. In support of our Hypothesis 5, we observed a significant reduction in market imperfection in the Indian economy as a result of economic liberalisation. Our test of hypotheses rejected the null hypothesis ($\mu_1$) at the 95% level, that the extent of average market imperfection in the Indian economy during the period (1990-1996) was the same as during the period (1997-2003). The alternate hypothesis ($\mu_2$) lends credence to Hypothesis 5 that the extent of market imperfection during the period (1990-1996) was significantly higher than the period (1997-2003), or conversely, market imperfection during the period (1997-2003) was significantly
lesser than in the period (1990-1996). The slope of the regression equation (indicated by its beta) was also significantly higher at -8.2 during the period (1990-1996) as compared to -2.5 (1997-2003), supporting our contention.

9.2 Strategic Fit and Performance

Researchers have used the concept of fit in strategic management research in a variety of perspectives from the point of view of content and context. From the point of view of content, fit has been viewed as moderation, mediation, matching, gestalts, profile deviation, and co-variation (Venkatraman, 1989). And from the point of view of context, fit has been studied across inputs, markets, technologies etc. However, none of these perspectives has been able to provide a satisfactory explanation of the relationship between diversity and performance. This has been indicated in our full regression analysis (Table 8.9) the effect of diversity on performance as indicated by its beta coefficient. In some models the beta coefficient is positive, while in some models it is negative. The findings are clearly inconsistent with existing research findings.

The possible inference could be that the surrogates of diversity (i.e. Herfindahl and Concentric Index) and performance (i.e. Accounting and Market based) are not robust enough or that the relationship between diversity and performance is spurious, negated by extraneous factors. Our research study points to the latter. Analysis of composition of businesses in our sample clearly indicates that performance clearly varies across different classes of strategic fit (Table 8.3) and not across different diversity levels. For instance, chemicals have an edge over steel; tea has an edge over hotels; aluminium has an edge over textiles; and petro-chemicals have an edge over financial services. In all these businesses, the group outsmarted the industry average in more number of counts than its closest competitors, where the strategic fit was high and vice-versa (see Table 9.1). This clearly supports our Hypothesis 2, that composition of businesses is a far more effective indicator of firm performance than diversity.
Figure 9.1: Comparative performance analysis across various businesses
Next, there is another area of contention among researchers whether group affiliation is profitable for a firm or not. While there are benefits associated with group affiliation, there are costs too. Our test of means clearly reveal that firm performance is enhanced; if the firm business is consistent with the dominant logic of the TMT (see Table 8.2 and 8.3), though at the cost of group performance. The electronics business of the Tata Group is a clear example in this regard. The group continued to pump in funds, though long term survival looked bleak. Thus, while this benefited the firm, the performance of the group deteriorated. The table indicates that fit is directly proportional to performance with a correlation of +0.32. ANOVA (see Table 8.5) across these businesses with two measures of fit indicates that performance difference across these categories is too significant to be refuted as a mere aberration. This supports our Hypothesis 3A that firm performance is enhanced when the individual business fit with the dominant logic of the TMT and vice-versa. In this context we moved from simple measures of fit, to a much more complex measure of strategic fit; which we feel is far more superior.

A further look at full regression analysis (Table 8.9) clearly indicates though the beta coefficient of diversity on performance is inconsistent, we have observed a consistent pattern of the effect of strategic fit and its moderating effect on performance (see Table 8.8). While the beta coefficient of strategic fit is consistently negative, indicating firm performance is enhanced at the cost of the group exchequer. While, a positive moderating effect supports our Hypothesis 3B that group performance is enhanced when greater the number of individual business, within the portfolio of businesses, fit with the dominant logic of the TMT. This perhaps enables the group to manage its various firm businesses better, if they are strategically similar.

9.3 Dominant Logic and Diversity

We had observed that dominant logic provided the greatest impetus to the composition of business portfolio of a group, hence its diversity. In fact, the composition of the group portfolio was the cause, while diversity was its effect. Though we do not deny the impact of the internal and external environment on the composition of the group portfolio; but it is primarily influenced by the dominant logic of the TMT. The negative beta coefficient of strategic fit on diversity is an indication of just that (Table 8.10). While a high strategic fit enhances firm performance through better allocation of resources, higher commitment of the
top management leading to more efficient strategy implementation. This strength can have dysfunctional effects too. Because new diversification projects represent a group’s response to market changes, they are also the focal point for the tension between growth and inertia. Therefore strategic relatedness exposes the downside of new diversifications: strategic rigidities. The factor that constitutes strength also comprises vulnerability. Therefore, diversifications often become dysfunctional because they do not overcome strategic rigidities. This is indicated by the negative beta coefficient of strategic fit on diversity. The initial bottleneck faced by the Reliance group in implementing its telecom project is a prima-facie example in this regard. This by and large lends credence to our Hypothesis 1 that the composition of portfolio of business of a diversified business group is shaped by the dominant logic of the TMT.

9.4 Strategic Fit and Capabilities

Increasingly, leveraging the distinctive capabilities of a firm is being suggested as the way to gain competitive advantage in the market place. Moreover, distinctive capabilities are fundamental to the success of new diversification projects that groups depend on to advance a market. Distinctive capabilities of firms also grow stronger with each diversification project. Furthermore, because a group becomes known for some particular strength (i.e. distinctive capabilities), it attracts the best of people in those disciplines, financing institutions tend to lend money at attractive rates, joint-venture partners provide best of technologies, supplier of inputs provide long standing credit. The project management skills reflecting the Reliance groups’ distinctive capability to compress project as well as operational times is a distinct example. While a firm, which does not possess these capabilities, becomes trapped in inertia unable to undertake fresh diversification moves. The paradoxical nature of distinctive capabilities can pose severe challenges to the TMT, because failure to recognise and continuously manage distinctive capabilities can hamper firm performance and compromise the groups’ future. How distinctive capabilities affect new diversifications and how they can be managed to ensure success of the diversification depends on how well the requirements of the diversification align with distinctive capabilities currently held by the firm. The success of the Reliance groups’ telecom diversification can be explained just from this point of view; though unrelated in terms of SIC. The diversification demanded certain distinctive capabilities (i.e. command over complex technologies,
backward integrate projects, compress project times), which the group already possessed. The initial bottlenecks (i.e. lack of the ability to integrate complex sub-processes) faced by the Tata group in implementing its car project another distinct example in the opposite direction. The positive beta coefficient of resources and distinctive capabilities on performance and diversity (see Table 8.9 and 9.10) is just an indication of this corroboration. This also supports our Hypothesis 7A that strategic fit facilitates the development of distinctive capabilities, which has a strong bearing on overall group performance.

9.5 Inertia and Dominant Logic

We observed that inertia due to historical evolution of firms constrained strategic responses and thereby overall performance. Comparatively younger groups like the Reliance were more aggressive in their diversification strategies as compared to the Tatas and also performed better than older groups. Relatively younger groups like the Aditya Birla group with a few dominant businesses also performed better. Comparatively younger groups stressed more on intra-group resource sharing (i.e. cohesiveness). While older groups were also slow to react to the changing demand of the environment. Organisational culture rooted in bureaucracy, top management values, structure, and decision-making process retarded diversification moves and performance. Sensing economic opportunities in the wake of deregulation of industries, the Tata group initiated a strategic shift in 1983; however the same was delayed and could not be implemented before 1991. The inability of the group to exploit the growth and profit opportunities in the initial years reflected upon their poor performance. In a fast changing economic environment, early recognition of opportunities was a strong determining factor of performance.

In the 80's and early 90's these groups led by septuagenarian and octogenarian managers were slow to respond to changes. They found it difficult to change old values and cultures deeply embedded in their people. But most importantly, to unlearn many dominant logics, which enabled them to successfully manage businesses in the pre-liberalised era, but posed difficulties in the post-liberalisation regime. Old logics developed in the core businesses in the protected era and regulated environment had been institutionalised over a long period, thus making strategic shift difficult. However, the rules of the game in most industries had been changing fast. Many old practices such as cornering licenses, maintaining power relations with bureaucrats and politicians, and creating artificial supply gaps were fast
becoming obsolete and grossly ineffective. However, changes in the top management with relatively younger generation professionals led to unlearning of these old practices and learning of new rules of the game enabling them to change their dominant logics and discharge these tasks effectively. The negative beta coefficient of inertia on performance (Table 8.9) and positive beta coefficient on diversity (Table 8.10) confirms just this. This by and large confirms our Hypothesis 6A and 6B that economic liberalisation compels business groups to change its dominant logic, while inertia constrains it.