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Tata in Africa: Where to Next?

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Abstract

Tata in Africa: Where to Next?

Tata has been successfully trading in Africa for over 35 years in diverse industries and countries. This case study focuses specifically on Tata Africa's strategies and operational innovations.

In African countries, institutional voids exist — the absence of conventional mechanisms that make business work — which present a significant challenge for businesses operating on the continent. The objective of this case study is to understand how Tata has had to adapt its strategies in Africa to overcome these institutional voids in a way that has allowed it to operate successfully in multiple countries and industries.

The case study format has been used because it enables a deep analysis of the strategies adopted by Tata. It also provides a means for classroom teaching methods that will enable students to better understand the challenges of doing business in Africa and how to overcome them.

Two central questions posed to students of Africa are:

- 1.) Why has Tata developed activities that are so different from its core businesses?
- 2.) Instead of allowing the challenges it found to prevent Tata from trading in Africa, the company has devised strategies to ensure long-term success. What are they?

Based on the findings, the answers to these questions lie firstly in the “five context framework” proposed by Khanna, Palepu and Sinha (2005) to identify the existence of institutional voids, and secondly in a model derived from the research into the strategy of Tata in Africa that offers solutions to overcome the institutional voids.

Other issues for class debate and discussion are also offered.

Keywords: Africa, Tata, Strategy, Institutional voids

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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7 November 2012

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Chapter 1: Introduction

1.1 Problem Definition

Tata has been doing business in Africa for 35 years across 12 countries and seven different industries¹. The opportunities in African markets are not easy to unlock for a number of reasons. The state of infrastructure development is varied across countries as are the levels of poverty and the extent to which the informal sector and governments play a role in the different economies and local industry. What has Tata done that has ensured this long-term success?

The mechanisms that make business work² in more developed economies often do not exist at all, or not to the same extent, in African markets. These mechanisms, often referred to as institutional voids³, need to be overcome to successfully operate in Africa. Filling these gaps is a responsibility that rests with the firm.

Tata, therefore, has had to modify and adapt its strategies in order to operate in Africa. The case study examines how Tata adapted the strategy it used in other markets to African countries.

1.2 Research Purpose

The aim of this case study is to deepen the understanding of strategy innovations implemented by Tata to succeed in 12 different African markets⁴, each with their own customs, leaders, governments, rules and regulations and peculiar operating environments, thus contributing to the broader understanding of doing business in Africa.

As western markets stagnate, multinational corporations are being forced to look for growth in previously neglected regions. African countries, long neglected by most investors, are showing strong growth and the benefits of economic reform as well as good returns on investment. As a result, they are becoming more attractive to global multinationals. However firms cannot expect

to implement the same strategies used in developed markets in these mostly small and often inefficient economies due, in part, to the existence of institutional voids⁵.

Question: What modifications and adjustments in Tata's strategy were made in order to overcome the challenges faced?

1.3 Report Format

This Research Project is written in a case study format and thus intended to be used for teaching purposes⁶.

Companies doing business in Africa need to identify and overcome the varied and complex challenges of operating on the continent. For this project, a case study format was chosen because it allows for the investigation of complex social units⁷ and is well suited for learning about a little understood topic or subject⁸.

A case study provides a way of identifying why decisions were taken and how they were implemented⁹, while illuminating a reader's understanding of the phenomenon under study¹⁰.

A case study also allows a reader to adopt similar strategies in similar situations¹¹, thus allowing for a real learning experience. The case study should provide enough information and insight to enable a company to use it to develop or expand on its own Africa strategy.

1.4 Case Study

The case study gives the background of Indian multinational corporation, Tata. It talks about how, when India's economy opened up in the 1990s, a 150-year-old, family-run multinational company that serviced the needs of the Indian population was able to expand across the globe and project its business culture into new markets¹².

The case study focuses on a key executive, Rajeev Gupta, Regional Director of Information Communication Technologies (ICT) for Tata Africa and the person responsible for strategy across Tata Africa, to inform the reader about the company's strategies, the challenges it faced and how it overcame them.

1.5 Teaching Note

The teaching note allows for instructors to have solutions and information not easily identified in the case. The teaching note also draws on current academic literature that deciphers the challenges faced when operating in emerging markets.

It further presents instructors with case questions and answers, suggested further readings and models to identify the challenges faced by businesses in Africa and, from the interviews with the Tata executive supplemented by the literature, to define a model that could be used to overcome the challenges identified.

1.6 Research Methodology

Chapter 4 details the process that was used in gathering information and writing up the research report. It also explains why the said processes were followed.

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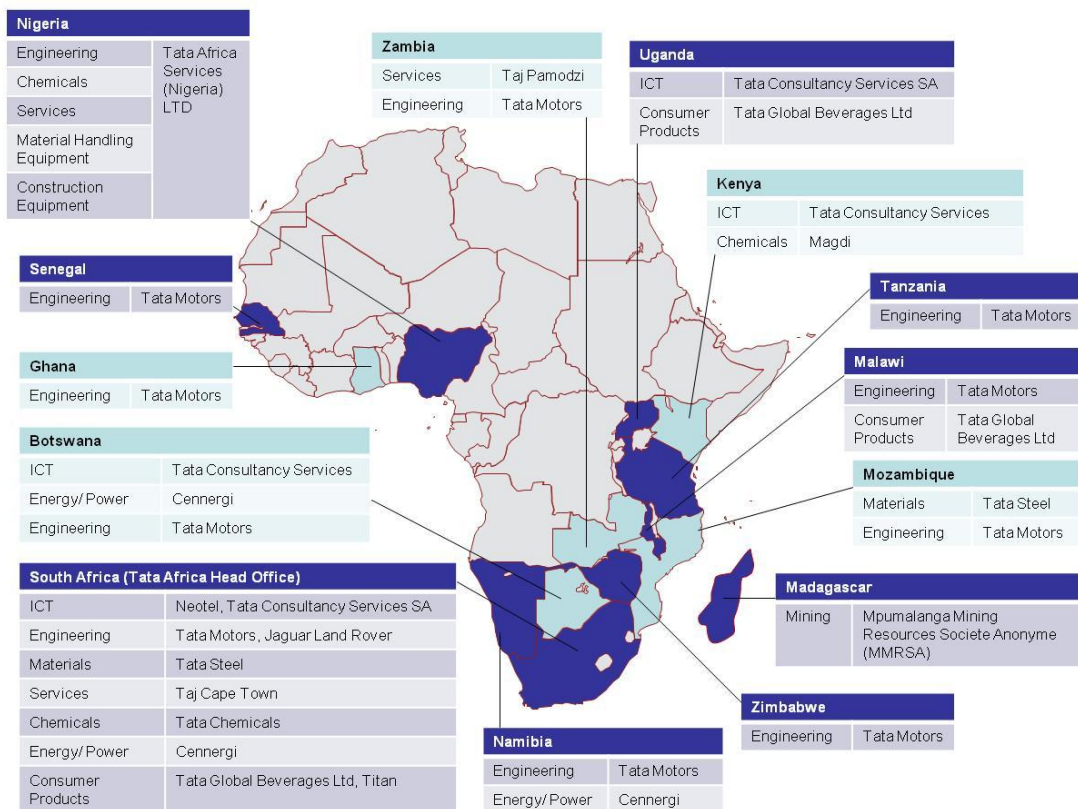
Chapter 2: Case Study

Where to Next in Africa for Tata?

Rajeev Gupta, Regional Director of Information Communication Technologies (ICT) for Tata Africa, with a map of Africa opened before him, ponders the question, “Where to next in Africa for Tata” on a cold July afternoon in his office in the wealthy area of Illovo in Johannesburg, South Africa, where the company has its African headquarters.

Africa is a vast market and there is much room for expansion. However, this expansion is not easy. The process requires constant attention and investment to be successful. Gupta looks at his business card: he may be director of ICT, but he has another, equally important, role. He is responsible for strategy across the entire Tata Africa operations, spanning 14 countries¹³ - Ghana, Kenya, Malawi, Mozambique, Botswana, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda, Zambia, Madagascar and Zimbabwe. In addition, the diverse group has interests in a range of sectors from automobiles to steel and engineering, power, chemicals, information technology, hospitality, food and beverages, energy and services¹⁴ (see Figure 1).

Figure 1: Tata Operations in Africa¹⁵



While considering his role in Africa, he laughs when he compares how doing business in African countries varies from his other international postings, which include Singapore, the United States and China. Having been based in South Africa since 2006, Gupta has experienced something of Tata's growth and development on the continent and found it to be very different from his previous postings. But his roots with the company are much deeper. Since joining Tata in Mumbai, India, in 1994, Gupta has seen it transform from a large Indian company into a multinational conglomerate¹⁶.

The Tata Story

Tata is India's largest conglomerate, with revenues of \$83.3 billion in the 2010/11 financial year and a market capitalisation of \$92.46 billion¹⁷. Tata has operations in more than seven business sectors, 80 countries and it employs 425,000 people¹⁸. Its 98 operating companies and 28 publicly listed enterprises generate 58% of the group's revenue outside India¹⁹ (see exhibit 1 for revenue

growth, exhibit 2 for business sector splits and exhibit 3 for group holding structure.)

Gupta sits in wonder at how a small trading company that started over 100 years ago doing business in key industries needed in pre-independence India, has grown into the giant it is today, with its most significant growth having been since the Indian economy opened up in the early 1990s²⁰. It now owns some of the world's most recognised brands. A number are home grown and others have been acquired along the way.

One home-grown success story is Tata Communication Services (TCS), which is one of the top four most recognised brands in software services in the world²¹. Thinking back, Gupta marvels at the scale of Tata. He says when Tata sneezes, Asia catches a cold. The scale and importance of Tata is highlighted by the fact that when Tata announces its results, the information can move Asian stock markets²². When TCS listed in 2004²³, it was the largest listing not only in India but also in Asia²⁴.

Sticking to its core principle of giving back to the society in which it operates, Tata has been ramping up its expansion into international markets since the 1990s, acquiring, on average, one company a year from the mid-1990s to 2003, five companies in 2004, 12 in 2006 and more than 20 in 2006²⁵.

By 2009, Tata had made 37 international acquisitions; the jewels in the crown being Tetley Tea in 2000, Corus Steel in 2007 and Jaguar-Land Rover in 2008²⁶ (see exhibit 4 for Tata's recent global acquisitions). Leading the internationalisation of Indian companies, it was the first of them to have a substantial presence in Africa²⁷. By 2012, its investments in Africa exceeded US\$145bn²⁸.

Moving into Africa

China has been leading the new emerging market scramble for Africa, with India coming a distant second. Gupta says his own company, like other international companies, has historically been focused on the US and Europe²⁹,

although Tata has been a pioneer in running dual strategies in Africa and western markets. Now that the latter markets have contracted, investors, including Tata's competitors, are starting to look at opportunities in other regions that offer higher returns on growth. Africa is one of them³⁰. Gupta is leading that push for Tata.

The words of Raman Dhawan, CEO for Tata Africa and the company's torch-bearer in Africa, are instructive. Mr Dhawan has consistently spoken about how his companies' move to and expansion into Africa is strategic as the conglomerate is expecting to grow its presence on the continent substantially over the next two decades. "If you can be a good international company, you will find growth in Africa," he is fond of saying³¹.

There are more than 1 billion potential customers in Africa. The question facing companies the world over is how does one go about capturing these customers and which markets are most strategic to this end? Africa, no longer the dark continent, offers hardy investors vast opportunities.

Tata's Early Mover Advantage

Political and economic stability over the past two decades, as well as a projected population of 2 billion by 2050³², has positioned Africa as the next frontier for investment and expansion for global multinationals. But Tata got in ahead of the game.

The Tata connection to Africa can be traced back to the turn of the previous century – between 1909 and 1912 - when three donations equal to £5 000 were made by Sir Ratan Tata to Mahatma Gandhi's Transvaal Passive Resistance Fund to fight for the rights of Indians in South Africa³³.

But Tata's first investment was much later. In 1977, it established Tata Zambia in Lusaka, which was its African headquarters for a long time during the period South Africa was under apartheid rule. It began exporting trucks and buses to Zambia and later took on the management of the Pamodzi Hotel between 1990

and 1996, when Tata Zambia bought a 70% stake in the hotel. While the hotel is now a public limited company, the Taj Group continues to manage it. Tata Zambia has also expanded into mining, manufacturing and agriculture³⁴.

But Mr. Dhawan and Tata were merely camping in Zambia, waiting for South Africa to change its policies and become an internationally accepted market³⁵ so it could set up its headquarters in Africa's biggest economy.

When South Africa became a democracy in 1994, Tata moved quickly, opening its new African headquarters in Johannesburg in 1995³⁶. For Mr Dhawan South Africa is the benchmark for the whole of Africa. "We can reach the continent much better established in South Africa"³⁷. South Africa is seen as Tata's second home market after India and the beachhead for expansion into other African markets, a priority for Tata³⁸. Tata Holdings Africa in Johannesburg, a subsidiary of Tata International, is responsible for identifying development opportunities and promotion of new projects.

The requirements for African expansion are not always clear-cut, but Gupta knows that even in countries that seem to have everything, there are many fields to play in: expanding existing industries into new markets, or new industries into existing markets.

Gupta scoffs at the traditional approaches of the competition from Western markets. The company does consider the conventional parameters that support both the general and sectoral business environment and the normal considerations businesses use when looking at expansion. These include absolute gross domestic product, strong economic growth, ease of doing business, viable populations as well as sector-specific constraints and requirements: for example, mineral deposits, transport infrastructure, legal and political risks, etc.³⁹. But it also believes that in Africa, companies need to have additional ways of measuring economic potential, particularly as some of this information may be difficult or impossible to get.

Gupta continually makes the point that Africa is not just one country. He believes many issues differentiate each country from its neighbours and its neighbours' neighbours. For example, there are differences in legal systems, political systems and cultures between countries. Gupta is adamant that there cannot be one Africa strategy for Tata; strategies have to be country-specific⁴⁰ and not confined only to those "nice to visit" countries⁴¹. Some of the more risky markets also offer good opportunities.

Having its roots in an emerging market positions Tata well to devise innovative business tools to cope with the challenges the company faces as there are many similarities between the experiences Tata has had in India and those it is having in African markets. These similarities carry valuable lessons and make Tata more able to adapt to different cultures and challenges. For example, literacy is a common problem both in Africa and in India. Tata's experience in its home market enables it to adapt and work within the limitations this challenge presents.

However, it also allows Tata to continue to give back to the societies in which it operates⁴² by involving itself in the educational needs of any country in which it does business. Corporate social responsibility is integral to Tata's mission in markets in which it operates. Gupta remembers a speech by Tata's Chairman, Ratan Tata, in 2005; "We want to expand into geographies where we can have a meaningful presence. We have chosen countries where we felt we could make an impact and, secondly, where we were able to participate, as we have in India, in the development of that country⁴³."

For a vast multinational such as Tata, training people and managing talent present many challenges; these are exacerbated in its Africa operations. One of the biggest challenges in Africa is poor education. Education levels are generally low, with enrolment levels in secondary education between 20% and 35%⁴⁴. This situation is compounded by a lack of skills training in schools and tertiary institutions. In ICT and engineering particularly, Tata has struggled to get the right local skills and therefore been forced to bring in talent from abroad. This is contrary to the company's principles as it prefers to create local

employment as part of its contribution to the development ⁴⁵ of the country in which it operates⁴⁶ but this takes time.

Attempting address this problem, Tata has firstly developed a good relationship with academia, contributing to more than 100 postgraduate university scholarships in South Africa, given without any obligation to join Tata after the end of study. The scholarships form an invisible part of the company's corporate social investment (CSI) programme but they allow Tata to contribute to the knowledge economy and invest in possible future Tata employees. ⁴⁷

Secondly, Tata employs people on the job⁴⁸. For example, it has invested in a training centre in Richards Bay in South Africa to service its ferrochrome plant there, as well as a training centre for its telephone company Neotel⁴⁹. In Germiston, near Johannesburg, Tata Motors (SA) has established a technical training centre for the skills development of dealer mechanics, not only for people from South Africa, but also from the rest of the continent⁵⁰.

In keeping with its CSI DNA and in order to assist local communities, Tata focuses on adult literacy. It has adopted a computer programme that has been developed to teach the 200 million illiterate people in India to read. The company has adapted this programme to Northern Sotho for a South African context, teaming up with the World Development Bank Trust to implement the project⁵¹. Words come up on the computer screen while a narrator repeats the sound that represents the word⁵².

Tata has also joined with South African organisation Kgabane, set up by the Ministry for Minerals and Energy in partnership with mining company Harmony Gold, to train people from the rural areas with the aim of increasing employment opportunities. As part of the programme, trainees travelled to India to learn about making jewellery and ceramics⁵³.

Innovative solutions are an integral part of Tata's strategy to maintain an edge over its competitors in Africa. Examples of products it has designed for emerging markets are the Tata Nano, a \$2,500 motor car aimed at the poor of

India to alleviate the problem of people being forced to use a motorbike to transport their families every day⁵⁴.

Another innovative product is SWATCH, a water filter it has built for use in Uganda. Using a husk, which is a by-product of its soda ash manufacturing process (Tata Chemicals is the world's second-largest manufacturer of soda ash)⁵⁵, it has produced a water filter for African communities. The husk would normally get thrown away, as it was thought to be useless but Tata found a good use for it that has helped to improve the living conditions of Africans.

In Uganda, it has engaged with the Uganda Revenue Authority to modernise the tax system. While many may look at this as an IT project, Tata considers the project to be a catalyst to make the country economically independent by improving the tax revenue in this still aid-dependent country⁵⁶.

The modernisation of key systems has a direct bearing on a country's ranking on ease of doing business indices and increasing its self-reliance. Furthermore, entering into this partnership is a signal that the government is serious about good governance and transparency. By assisting in the fight against corruption and improving governance in many of its projects, Tata is contributing to the growth of the countries in which it operates.⁵⁷

The company has also been invited to implement similar projects in Kenya, Zambia and Tanzania⁵⁸. This will improve the overall competitiveness of the region and assist with trade between the members of the East African Community,⁵⁹ enabling Tata to build business and geographical links across the region⁶⁰.

In addressing problems on a small scale that improve the overall ease of doing business comes consolidation, a vital part of the Tata strategy in Africa and crucial for the continent's development. Africa needs regional integration to be able to offer larger markets to would-be investors. Gupta calls it "aligning agendas in Africa". And in doing so, Tata is contributing to creating a more attractive business environment.

Building regional nodes speak to Gupta's notion of consolidation. Countries benefit but so does Tata. Instead of each Tata company performing all functions, roles, costs and expenses can be shared across companies leveraging common functions and sharing skills, financial systems and experience⁶¹. Performance is enhanced using shared technology platforms and information. For example, a person in Neotel South Africa can launch a query within the Tata Africa Group of companies where somebody in Titan (watches) could assist via Tata's intranet system.

For Gupta, the type of interventions it is making in African countries through sharing skills assistance and innovation marks the difference between operating in developed countries and working in emerging markets. Developed countries expect Tata to deliver high-quality services and solutions in time at the best price. African countries, too, expect this but they are looking for partnerships more than simply contracts. For Africans, such partnerships mean they look to multinational companies not only to bring technology, services, skills and solutions, but also for them to support job creation, skills upliftment and other contributions to society⁶². Tata embraces these expectations.

While bringing technology, services, jobs and skills to deliver solutions to the African countries in which it operates, Tata is careful to not position itself as an Indian multinational⁶³. Rather, it wants to be seen as a global organisation with a distinctly local flavour. This view has informed its acquisition of leading international brands such as Tetley Tea, Corus Steel and Jaguar-Land Rover. While these may be English brands now owned by a multinational from England's former colony, the management, manufacturing facilities and flavour of the companies are still English. Internally there might have been changes, but from the outside it remains business as usual⁶⁴.

Tata has focused on positioning itself as a local player⁶⁵. Ideally Tata tries to either start green field operations from scratch or to acquire 100% of an existing company. It then establishes partnerships with local companies and players, which form the basis of the local model used by Tata Africa⁶⁶. The coffee

processing plant in Uganda is a successful case of the model. It is part of the Tata group but its product is local Ugandan coffee. It is a Ugandan product by Tata, processed in Uganda and sold globally in coffee markets around the world.⁶⁷

In South Africa Tata Motors opened its assembly plant near Pretoria in July 2011. Designed to assemble light, medium and heavy commercial vehicles, the capital outlay was sourced and financed by South African companies and the entire workforce is South African⁶⁸. Another South African example is the ferrochrome plant in Richards Bay (2000). This was Tata Steel's first overseas green fields venture.

Diversification has helped Tata to be successful in business and in its philanthropic endeavours. Rapid urbanisation in Africa and the flow of people to the cities highlights the need for the goods and services that Tata offers - cars, housing, power, construction, education and others. Not only are these sectors Tata's businesses but they also provide opportunities for the company to "give back" to communities in its markets. Diversification is a large element of localisation and helps countries achieve their strategic goals⁶⁹.

Gupta is confident of his company's ability to diversify because of its structure, which revolves around the establishment of local subsidiaries, and he sees huge opportunities in Africa's rapid urbanisation. "If you look at [a] development of this nature, it is a multi-business facility; you need automobiles, you need city planning, you need capital, housing, education, power, construction and so on – so a lot of my businesses can participate in this growth"⁷⁰, he says.

Passionate about giving back to the society in which he operates, he pays attention to his customers, from the person who buys the salt, to the guest at a Taj hotel or the company or government that buys a multimillion-dollar software package to run their economy or businesses. He remembers arriving in South Africa and thinking that the country seemed to have it all, from McDonald's food outlets to Mercedes-Benz trucks. How can we help, given what is already here, he thought?⁷¹

Tata's partnerships and relations are not confined to the private sector and communities. It has built some strong relationships with governments across Africa. It has a close relationship with the Zambian government, close relationships with Egypt, with Nigeria and Mozambique and others where it does business. Gupta believes that as long as those government relationships are there, you start seeing key investments following through⁷². In South Africa, where the company has large investments, Tata Chairman Ratan Tata sat on Thabo Mbeki's investment council when the former president was still in power⁷³.

Putting Down Roots

Tata employees buy into the Africa story. Many of Tata Africa's senior executives have been in Africa for a long time – 10, 15, or even 20 years in some cases – building the requisite business and political relationships. Mr Dhawan has lived in Africa for 35 years⁷⁴.

This long tenure makes it easier for them to integrate into local communities. The expatriate employees are not only based in South Africa but they are posted to different African countries. "That has been one of the success factors for us. [A] lot of people [who] came in initially to Africa have now moved on to other countries in Africa, but they [have] managed to build quite a strong network of individuals within the Tata group to the point where we talk about the 'Tata family' of employees. So individuals who worked in Zambia might now be working in South Africa. As the company builds regional [geographies], it is easy to get people to move around because the initial fear of Africa isn't there anymore because there are communities of expatriates that have been built up⁷⁵.

Another tactical advantage for Tata versus other Indian companies is whereas they are often family run businesses and all the power rests with the family, Tata is run by different country CEOs or company CEOs, giving Tata a lot of decision making agility⁷⁶. This differs not only from other Indian companies but

also from competitors from South Africa and Western markets where the usual modus operandi is a two-year secondment, with major decisions being made at head office in Johannesburg, New York or London. Gupta asks how much someone can learn about doing business in a country if they only live there for two years. The only way to succeed, he says, is for expatriate managers to roll up their sleeves and get involved in the market they are in.

Challenges and Falling Short

While wanting to do more and replicate education successes in India, South African government bureaucracy has got in the way of training local people⁷⁷. Tata has been talking to the government in South Africa about assisting and working with government on education initiatives but there have been challenges in terms of legislation. Gupta says it is a problem. “Tata has wanted to work with government to improve education for years but they just don’t see it; they just don’t want to see it. Tata has the money, the capital and the will. The company sees it as part of the business of doing business, but the South African government just does not get it.

In response, Tata has internally created specialist training facilities. Tata’s training facilities in India are very successful and they have the expertise and experience to run such facilities elsewhere. Gupta points out that Tata is not some fly-by-night company. But, he adds, at the moment there is too much legislation preventing any meaningful skills training facilities for the public getting off the ground⁷⁸.

Currently all CEOs in the company are Indian, but the group hopes to change this. The company aims to build local executives for company and country operations and it would like to continue pursuing skills training and transfer options. Gupta says they would like to be in a position to attract top local “business celebrities” to ensure that the best local talent thinks of Tata when looking for a new opportunity. Not only will this help to build business contacts and networks within one country, it could be helpful across broader African networks⁷⁹.

Despite its overall success in Africa, the company has also experienced some business failures and difficulties. Acknowledging key similarities between India and African countries, including how to work with bureaucracy, has helped, but recognising the business environment and its challenges has not been a silver bullet for success⁸⁰.

In the hospitality sector, for example, the company has had several setbacks. Occupancies at the Taj Pamodzi hotel are not as high as they would like. Slow market conditions have also led to the company putting on hold plans to build hotels in Durban and Johannesburg. The group's hotel in Cape Town is fairly good but not optimal.⁸¹

Neotel, the company's landline operator in South Africa, intended to be a strong competitor to parastatal monopoly Telkom, is struggling⁸². Even after a change of management, Neotel is still failing to build a strong market position⁸³.

Tata has been weak in the area of marketing. Not only is the Tata brand not as well-known as it should be given the company's deep roots in Africa, but attracting talent is proving to be difficult. Potential talent is unaware of the brands that Tata owns, including Jaguar-land Rover, Corus Steel and Tetley Tea. Gupta thinks that perhaps Tata should go out and "buy" some high-profile local talent to help put it on the recruitment map in African markets. He believes more must be done here in this regard⁸⁴.

Productivity in Africa is much lower than in India due to a lack of skills⁸⁵. But, notwithstanding current market forces and the global economic situation, Gupta believes this may be a good time for more aggressive expansion to, in the words of his chairman, Ratan Tata, "lead and not just follow"⁸⁶.

Gupta says the company has learnt several lessons about expanding into Africa over the past few decades. He believes that, given the Tata presence on the continent since the late 1970s, the company should have a greater footprint than it does currently. He says it should have expanded faster and more

aggressively to certain countries. The last six to seven years has seen a big push by Gupta and Tata, but the lost time can never be recovered in terms of early mover advantage⁸⁷.

Learning from the success of its CSI initiatives in India, more could have done to build strong brand affinity in Africa for Tata. A key ingredient of Tata's success in India has been its CSI initiatives but this experience has not been fully leveraged in the same way in Africa despite the fact that it is a core component of Tata's business strategy. More could have been done to build the brands, create relationships with communities and transfer skills and knowledge⁸⁸.

Where to Next?

Looking at the map again, Gupta wonders "what next?" North, south, east or west? He needs to consider how to position Tata in relation to its biggest competitors on the continent and see where the group's companies could make the biggest impact.

In making his decision on where to go next in Africa, Gupta recalls his concerns when Tata came to South Africa in the mid-1990s: "What could I offer this country, I thought? It has everything... When we were in Zambia we knew the country was underdeveloped: they would need automobiles, which we were trading in; they might need some farming equipment; they might need bicycles; they might need more import[s] of commodities – we could play in so many fields. But South Africa... they were not waiting for our trucks. Mercedes and others were already here... There was a clear-cut requirement, [a] visible requirement, in the other countries that we had operated in, but [not] in South Africa. We asked ourselves what difference we could make."

It was only after spending time in South Africa, venturing deeper, did he realise that South Africa was far from being the developed country it had appeared to be at first. "Slowly we persisted and today we have a diversified portfolio"⁸⁹.

Gupta considers the facts: Tata has been more successful in the English-speaking countries of Africa while it has found the Portuguese-speaking countries, for example, quite tough and it has been a steep learning curve operating in them. Considering the future, ease of doing business is a key factor for Gupta in choosing new markets to expand into. Botswana and Namibia rank high on his list of easy countries in which to conduct business. Things will be harder in other markets such as Kenya, Uganda, Senegal and Zimbabwe⁹⁰.

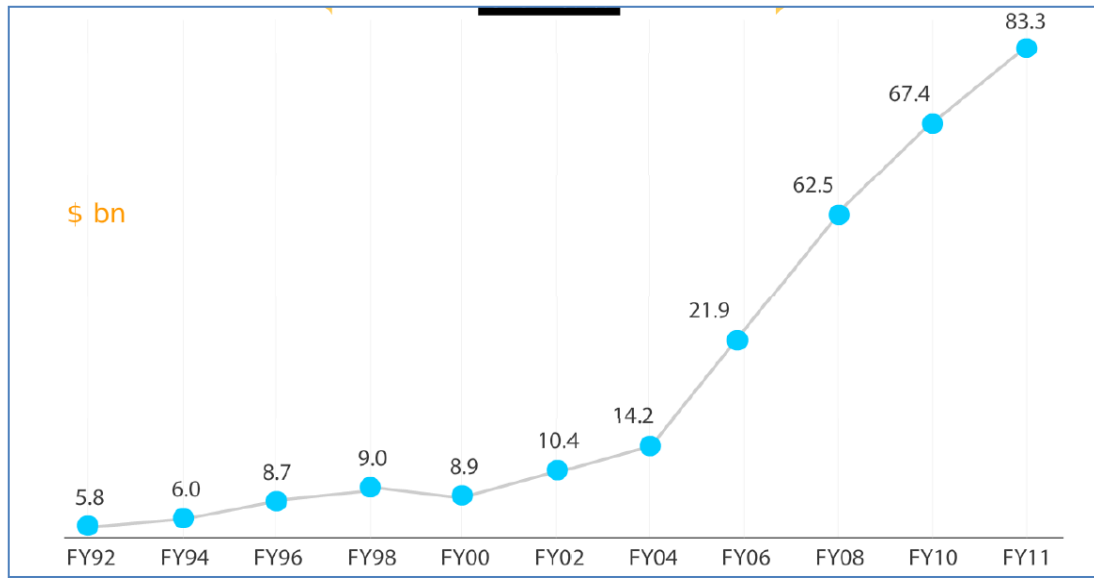
Different legal systems in Africa's former colonies add further unique challenges. The former colonies work according to the laws of the colonisers. Anglo-Saxon, Portuguese, French, Belgian or even Dutch laws are all practised in Africa⁹¹.

Looking further afield, they may decide to establish a presence in West Africa or enter the telecoms market in Angola, for instance, or develop mining interests in the Democratic Republic of Congo. Or how about another coffee-processing plant in Rwanda or Burundi? Could another Taj hotel be built in rapidly growing Mozambique?

What about launching a new industry in an existing market? The Tata vehicle brand has been so well accepted in South Africa that perhaps the next step is to open a car factory alongside the truck plant. Or should it consider a factory in another regional hub such as Nigeria, Kenya or Ghana? Where can we make a difference with what we do next – that is the key question Tata is pondering?

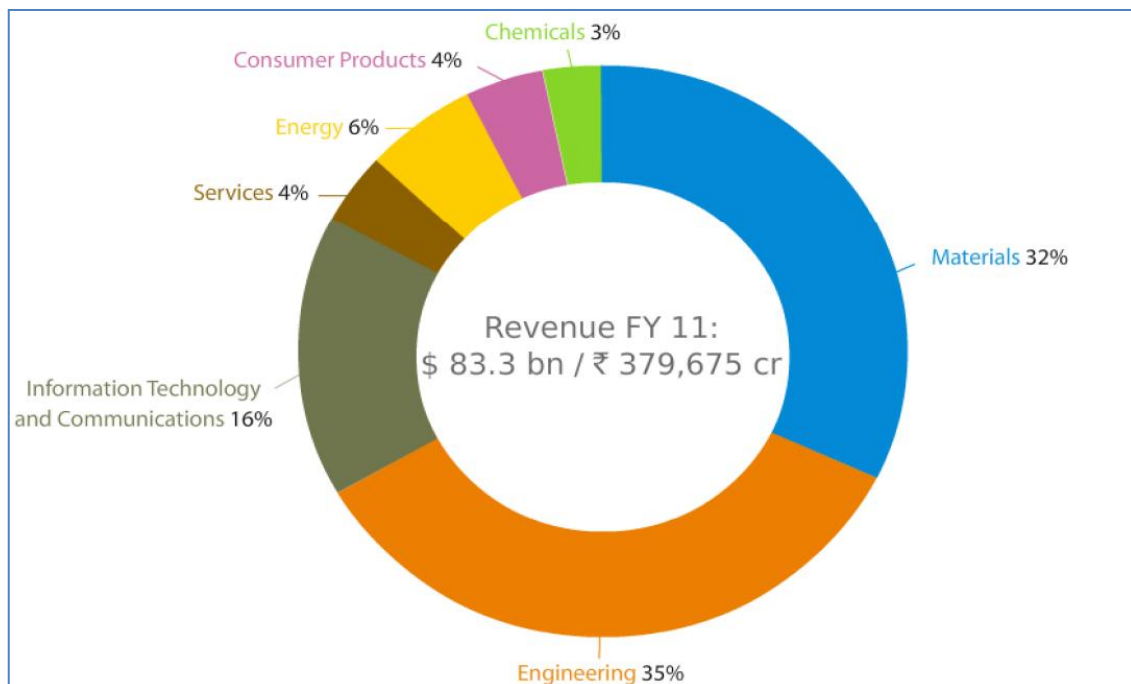
Appendix

Exhibit 1: Tata Group Revenue Growth



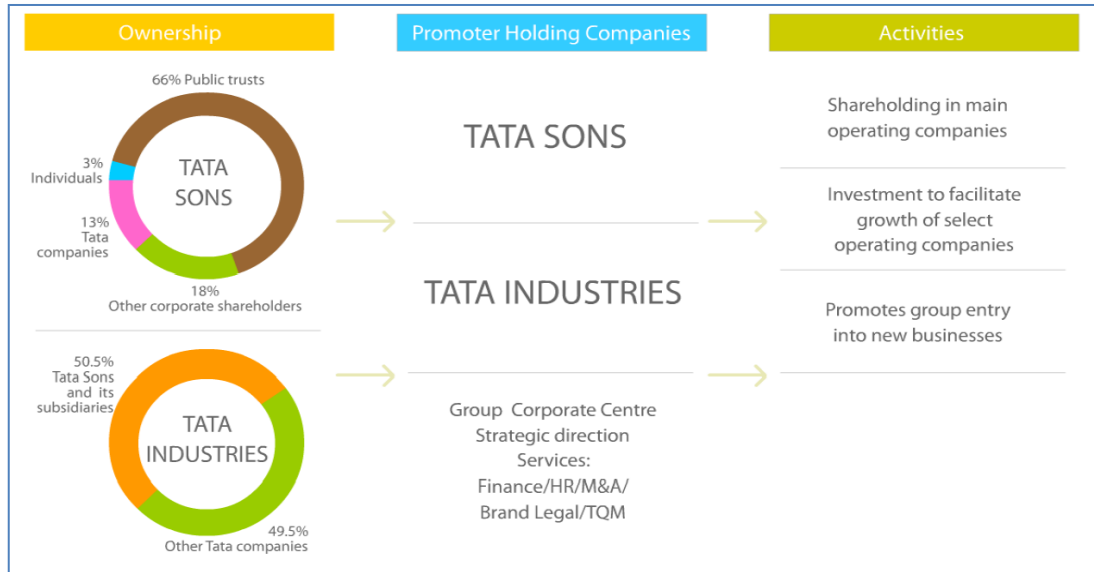
Source: www.Tata.com

Exhibit 2: Tata Group Business Sectors



Source: www.Tata.com

Exhibit 3: Tata Group Holding Structure



Source: www.Tata.com

Exhibit 4: Tata Group International Acquisitions

Acquisition Date	Buyer	Acquisition	Shareholding
April 2011		Olam International, Republic of Gabon	25.1 per cent
August 2011	Tata Chemicals	EPM Mining Ventures, Canada	30.6 per cent
January 2010	Tata Communications	BT Group's (BT) Mosaic Business, UK	100 per cent
April 2010	TRF	Hewitt Robins International, UK	
December 2010	Rallis India (through Tata Chemicals)	Metahelix Life Sciences, India	53.5 per cent
	Tata Chemicals	British Salt, UK	100 per cent
	Tata International	Bachi Shoes India, India	76 per cent
	Tata International	Euro Shoe Components, India	76 per cent
January 2009	Tata Communications	Neotel, South Africa	30 per cent
March 2009	Tata Tea (now Tata Global Beverages)	Grand, Russia	33.2 per cent
July 2009	TRF	Dutch Lanka Trailer Manufacturers, Sri Lanka	51 per cent
October 2009	Tata Motors	Hispano Carrocera SA, Spain	Remaining 79 per cent

January 2008	Tata Chemicals	General Chemical Industrial Products (now Tata Chemicals North America), US	100 per cent
March 2008	Tata Projects	Artson Engineering, India	
	Tata Motors	Jaguar and Land Rover Brands, UK	
	Telco Construction Equipment Company (Telcon)	Serviplem SA, Spain	79 per cent
	Telco Construction Equipment Company (Telcon)	Lebrero SA, Spain	60 per cent
June 2008	Tata Communications	China Enterprise Communications Limited (CEC), China	50 per cent equity interest
August 2008	Voltas	Rohini Industrial Electricals, India	51 per cent
September 2008	Tata Power	Geodynamics, Australia	10 per cent
October 2008	Tata Motors European Technical Plc	Miljøbil Grenland / Innovasjon, Norway	50.3 per cent
December 2008	TCS	Citigroup Global Services, US	100 per cent
January 2007	Tata Steel	Corus, UK	100 per cent
March 2007	Tata Steel	Rawmet Industries, India	
April 2007	Indian Hotels	Campton Place Hotel, US	
	Tata Power	Acquired Coastal Gujarat Power, India	
	Tata Tea through Tetley group (now Tata Beverages)	Vitax and Flosana trademarks, Poland	
	Tata Communications	Transtel Telecoms (TT), South Africa	
June 2007	Tata Power	PT Kaltim Prima Coal and PT Arutmin Indonesia, Indonesia	30 per cent equity stake
October 2007	TRF	York Transport Equipment (Asia), Singapore	51 per cent
January 2006	Tata Metaliks	Usha Ispat, Redi Unit, India	100 per cent (wholly-owned)
	Tata Interactive	Tertia Edusoft GmbH, Germany	90 per cent
		Tertia Edusoft AG, Switzerland	90.38 per cent

February 2006	TCS	Tata Infotech, India	
March 2006	Tata Chemicals	Brunner Mond (now Tata UK Chemicals Europe), UK	36.5 per cent
April 2006	Tata Steel	Millennium Steel, Thailand	67.11 per cent
May 2006	Tata Tea through Tata Tea (GB) (now Tata Global Beverages)	JEMCA, Czech Republic	Assets: intangible and tangible
June 2006	Tata Coffee (now Tata Global Beverages)	Eight O'Clock Coffee Company, US	100 per cent (wholly-owned)
September 2006	Tata Tea through Tata Tea (GB) (now Tata Global Beverages)	Joekels Tea Packers, South Africa	33.3 per cent
November 2006	Indian Hotels	Ritz-Carlton Hotel, US	
February 2005	Tata Steel	NatSteel Asia Pte, Singapore	100 per cent (wholly-owned)
	Tata Motors	Hispano Carrocera, Spain	21 per cent
March 2005	Tata Chemicals	Indo Maroc Phosphore S.A. (IMACID), Morocco	Equal partner
April 2005	Tata Motors	Tata Finance, India	Merger
July 2005	Indian Hotels	The Pierre, US	Management contract
	Tata Industries	Indigene Pharmaceuticals Inc, US	<30 per cent
	Tata Communications	Teleglobe International, UK	
August 2005	Tata Technologies	INCAT International, UK	
	Trent	Landmark, India	76 per cent
September 2005	Tata AutoComp	Wündsch Weidinger, Germany	
	Tata Communications	Tat Power Broadband, India	
October 2005	Tata Tea through Tata Tea (GB) (now Tata Global Beverages)	Good Earth Corporation & FMali Herb Inc, US	100 per cent (wholly-owned)
	TCS	Financial Network Services, Australia	
	TCS	Pearl Group, UK	Structured deal
November 2005	TCS	Comicro, Chile	
December 2005	Indian Hotels	Starwood Group (W Hotel), Sydney	100 per cent (wholly-owned)

January 2004	Tata Chemicals	Brunner Mond (now Tata Chemicals Europe), UK	63.5 per cent (Dec 2005); 36.5 per cent (Mar 2006)
	TCS	Airline Financial Support Services India (AFS), India	100 per cent (wholly-owned)
March 2004	Tata Motors	Daewoo Commercial Vehicle Company, Korea	100 per cent (wholly-owned)
	Tata Communications	Dishnet DSL's ISP division, India	
	TCS	Aviation Software Development Consultancy India (ASDC), India	
June 2004	Tata Chemicals	Hind Lever Chemicals, India	Amalgamation
July 2004	TCS	Phoenix Global Solutions, India	
November 2004	Tata Communications	Tyco Global Network, US	
July 2003	Tata Communications	Gemplex, US	
February 2002	Tata Sons	Tata Communications (formerly VSNL), India	100 per cent (wholly-owned)
September 2002	Indian Hotels	Regent Hotel (renamed taj Lands End), India	Effective 100 per cent
December 2002	Tata Teleservices	Hughes Telecom (India), India	50.83 per cent
November 2001	Tata Sons (TCS)	Computer Maintenance Corporation (CMC), India	
February 2000	Tata Tea and Tata Sons (now Tata Global Beverages)	Tetley Group, UK	100 per cent (wholly-owned)

Source: www.Tata.com

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⁹¹ Ibid.

Chapter 3: Teachers Note

Case Synopsis

The case study focuses on Tata in Africa. It looks at how the group, faced with a multitude of challenges, has modified and adjusted its strategy to overcome these issues. Coming from an emerging market has been valuable for Tata as it has had to deal with many of the same challenges in African countries as it faced – and overcame - in its home market. The challenges were expected and often familiar, which made it easier for Tata to find ways to deal with them in order to succeed in African markets.

The Tata Group takes a long-term view of its investments in Africa, working closely with governments and staff and integrating into local communities. This long-term view has allowed the company and staff to do business successfully in different African countries.

The case study shows how it is in Tata's DNA that doing good in the communities in which the company operates is good for business. How, when the company expands into new territories, it looks not only at the business case but about how it can make a difference and contribute to society.

The case also identifies what mistakes Tata has made and analyses how the company could have done things differently.

Immediate Issue

Rajeev Gupta, the man responsible for Tata's Africa strategy, is the character in the case study. His job is to devise strategies and consider various options for the company to drive its further expansion in Africa. Although Tata has been successful in Africa, Gupta believes it could have done certain things better. He also knows that the company has been slow to take advantage of its early mover advantage and admits that it should have moved more quickly to secure markets before new competitors arrived.

A variety of options are available to Gupta. However, it is imperative that that any option chosen is consistent with Tata's desire to make a difference in the countries in which it does business.

Basic Issue: Research Motivation

The aim of this case study is to better understand the strategy innovations implemented by Tata that have enabled it to succeed in Africa.

The continent is receiving global investor attention as high growth rates, better governance and growing markets offer opportunities to companies looking for good returns. It is an attractive business destination with a population of more than one billion people, more than half of whom are younger than 24 years of age. By 2050, Africa's population is expected to double, surpassing both those of India (1.6 billion) and China (1.4 billion)⁹².

Owing to declining traditional markets in the west, it has become imperative for firms to look to growing, untapped markets, including those in Africa, to boost profits. Globalisation is one of the most critical challenges facing CEOs in western markets⁹³ and Africa will, in all likelihood, play a significant role in the future success of many companies. With forecasted growth rates well above those of traditional markets, a growing population and an abundance of natural resources, investors simply cannot afford to continue ignoring Africa.

Doing business on the continent is not straightforward and the opportunities its markets offer are not easy to unlock. Africa is often viewed incorrectly as one market, a generalisation that overlooks the fact that there are 54 countries, each with its own customs, leaders, governments, rules and regulations.

An understanding of how to do business successfully in Africa is imperative for companies. It cannot be done by simply replicating business models in home markets. The environment is made more complex by the existence of institutional voids, or rather the absence of normal mechanisms that make

business work⁹⁴. These voids need to be overcome to successfully operate in Africa.

The objective of this case study is to understand what modifications and adjustments Tata has had to make to its strategy in order to overcome these institutional voids.

Teaching Objectives

The objective of the case study is to assist students to understand that doing business in foreign markets is not as easy as applying strategies employed in the home market. Furthermore, when doing business in Africa it is important to understand that the normal mechanisms that make business work might not always exist and the company itself will be required to fill these gaps or institutional voids⁹⁵. Therefore a firm must firstly be able to identify the institutional voids and secondly be able to overcome them if it wants to operate in Africa. The five contexts model⁹⁶ helps with identification while a new model, using research on Tata, has identified solutions to overcome them.

Assignment Questions

Question 1: Why has Tata developed activities that are so different from its core businesses?

Question 2: Instead of allowing the challenges it found to prevent Tata from trading in Africa, the company has devised strategies to ensure long-term success. What are they?

Suggested Additional Readings

Khanna, T., & Palepu, K. G. (2010). *Winning in Emerging Markets: A road map for strategy and execution*. United States of America: Harvard Business Press.

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Discussion Questions for Use in Class

- What could Tata have done differently?

One weakness admitted by Tata Africa is that the brand Tata is not well known in Africa. Therefore one option available for it is to strengthen its marketing activities.

Tata could have done a better job of applying lessons learnt in its home market to African countries. Tata itself has its roots in an emerging market which has enabled it to practice and refine a strategy for emerging market operations. The company is faced with many of the same challenges at home that it faces in African markets. Having responded successfully and learnt how to overcome these challenges in India means Tata could have taken those lessons and applied them better in Africa in order to gain greater competitive advantage.

- Considering the options available to Rajeev Gupta, what should Tata Africa do next?

Case Analysis: Assignment Answers

Question 1: Why has Tata developed activities so different from its core businesses?

Companies struggle to apply the models they use in their own countries or in more developed parts of the world to African markets because these models rely on the more traditional business methods that work elsewhere but tend not to work in Africa because of an underdeveloped underbelly of “soft infrastructure”⁹⁷.

This problem manifests itself in institutional voids or in the absence of the specialised intermediaries that make business work⁹⁸, which are taken for granted in developed markets and which investors from those markets expect to exist in African markets in some form.

Examples of these intermediaries include executive research firms⁹⁹ to source talent for a local operation, efficient transportation infrastructure for products and people, communication methods¹⁰⁰, market research firms, regulatory systems and even contract-enforcing mechanisms¹⁰¹.

These specialised intermediaries “make markets work”¹⁰² and offer support to and protect multinational corporations (MNCs). Markets suffering from institutional voids lack the business safeguards taken for granted by executives in developed markets¹⁰³. Enforceable contracts, for example, allow businesses to transact in foreign markets with a peace of mind but in many African markets, companies may find contract enforcement extremely difficult and find they are not backed up by an effective legal system. Institutional voids impact upon the rules of the business game as companies themselves are often required to provide the missing infrastructure to fill these voids¹⁰⁴.

Tata has had to develop strategies to overcome these institutional voids.

Institutional voids add to the cost of doing business in emerging markets due to the difficulty and cost of accessing capital, existence of unpredictable regulatory systems and the absence of contract-enforcing mechanisms. It is usually more difficult and expensive to get these services than it is in western markets, for example. Furthermore, MNCs often lack the pool of management skills required to run their new operations. Local knowledge of the talent pool and relevant methods and policies to attract and retain employees add to the complexities of trading in these markets¹⁰⁵.

Further challenges await new and expanding MNCs. Hard infrastructure inefficiencies abound. Poor road and rail networks, sub-standard communications systems and the large geographical areas that need to be covered make conducting business in Africa arduous. MNCs find it difficult and costly to modify their offerings and communications to suit local markets. This may lead to difficulties in offering these products or services at competitive price levels within the targeted markets¹⁰⁶.

Overcoming these voids may prove to be an opportunity and source of competitive advantage for firms identifying Africa for expansion.

Framework and Model

The “Five contexts framework”¹⁰⁷ proposed by Khanna, Palepu, and Sinha (2005) is a means to identify the institutional contexts of a country. The five contexts are:

1. Political and Social Systems

A country’s political systems affect its product, labour and capital markets. It is imperative that a firm wanting to expand into a new market identifies a country’s power bases, including the media and civil society. It also needs to establish if “checks and balances are in place” and find out how decentralised the political system is¹⁰⁸.

2. Openness

The more open a country is, the easier it is to do business. Not only will companies in such countries have access to the services of local and international intermediaries but also global intermediaries¹⁰⁹.

3. Product Markets

The macro political and social systems and the openness of an economy shape the product markets. Global companies trading in emerging markets can find it difficult to access information that is typically taken for granted in developed countries. Information on prospective target markets may be difficult to find or may not even exist, for example, market size and incomes¹¹⁰.

4. Labour Markets

The problems associated with labour markets highlight the difficulties firms may face in finding local skilled labour. There may be just a few companies that can assist in their search, the talent may not exist or there may be no way to gauge the quality of the talent upfront¹¹¹.

5. Capital Markets

In emerging markets, companies may encounter unsophisticated financial and capital markets. This includes, for example, a lack of credit rating agencies, merchant bankers and venture capitalists. This would make it difficult for a firm to gauge the credit worthiness of a prospective customer or partner or raise capital within the country for investment. Another concern for an investing company is whether they are able to get their money out of a country¹¹².

*Identifying Institutional Voids*¹¹³

This is done by asking a set of questions adapted from Khanna et al (2005)¹¹⁴. The answers to these questions or lack thereof will help a firm to identify how its entry strategy and business plan will need to be adapted¹¹⁵:

POLITICAL AND SOCIAL SYSTEM ¹¹⁶	OPENNESS ¹¹⁷
<ol style="list-style-type: none"> 1. To whom are the country's politicians accountable? Are there strong political groups that oppose the ruling party? Do elections take place regularly? 2. Are the roles of the legislative, executive, and judiciary clearly defined? What is the distribution of power between the central, state, and city governments? 3. Does the government go beyond regulating business to interfering in it or running companies? 4. Do the laws articulate and protect private property rights? 5. What is the quality of the country's bureaucrats? What are bureaucrats' incentives and career trajectories? 6. Is the judiciary independent? Do the courts adjudicate disputes and enforce contracts in a timely and impartial manner? How effective are the quasi-judicial regulatory institutions that set and enforce rules for business activities? 7. Do religious, linguistic, regional, and ethnic groups coexist peacefully, or are there tensions between them? 8. How vibrant and independent is the media? Are newspapers and magazines neutral, or do they represent sectarian interests? 9. Are nongovernmental organizations, civil rights groups, and environmental groups active in the country? 10. Do people tolerate corruption in business and government? 11. What role do family ties play in business? 12. Can strangers be trusted to honour a contract in the country? 	<ol style="list-style-type: none"> 1. Are the country's government, media, and people receptive to foreign investment? Do citizens trust companies and individuals from some parts of the world more than others? 2. What restrictions does the government place on foreign investment? Are those restrictions in place to facilitate the growth of domestic companies, to protect state monopolies, or because people are suspicious of multinationals? 3. Can a company make greenfield investments and acquire local companies, or can it only break into the market by entering into joint ventures? Will that company be free to choose partners based purely on economic considerations? 4. Does the country allow the presence of foreign intermediaries such as market research and advertising firms, retailers, media companies, banks, insurance companies, venture capital firms, auditing firms, management consulting firms, and educational institutions? 5. How long does it take to start a new venture in the country? How cumbersome are the government's procedures for permitting the launch of a wholly foreign-owned business? 6. Are there restrictions on portfolio investments by overseas companies or on dividend repatriation by multinationals? 7. Does the market drive exchange rates, or does the government control them? If it's the latter, does the government try to maintain a stable exchange rate, or does it try to favour domestic products over imports by propping up the local currency? 8. What would be the impact of tariffs on a company's capital goods and raw materials imports? How would import duties affect that company's ability to manufacture its products locally versus exporting them from home? 9. Can a company set up its business anywhere in the country?
PRODUCT MARKETS ¹¹⁸ <ol style="list-style-type: none"> 1. Can companies easily obtain reliable data on 	

<p>customer tastes and purchase behaviours? Are there cultural barriers to market research? Do world-class market research firms operate in the country?</p> <p>2. Can consumers easily obtain unbiased information on the quality of the goods and services they want to buy? Are there independent consumer organizations and publications that provide such information?</p> <p>3. Can companies access raw materials and components of good quality? Is there a deep network of suppliers? Are there firms that assess suppliers' quality and reliability? Can companies enforce contracts with suppliers?</p> <p>4. How strong are the logistics and transportation infrastructures? Have global logistics companies set up local operations?</p> <p>5. Do large retail chains exist in the country? If so, do they cover the entire country or only the major cities? Do they reach all consumers or only wealthy ones?</p> <p>6. Are there other types of distribution channels, such as direct to consumer channels and discount retail channels that deliver products to customers?</p> <p>7. Is it difficult for multinationals to collect receivables from local retailers?</p> <p>8. Do consumers use credit cards, or does cash dominate transactions? Can consumers get credit to make purchases? Are data on customer creditworthiness available?</p> <p>9. What recourse do consumers have against false claims by companies or defective products and services?</p> <p>10. How do companies deliver after-sales service to consumers? Is it possible to set up a nationwide service network? Are third party service providers reliable?</p> <p>11. Are consumers willing to try new products and services? Do they trust goods from local companies? How about from foreign companies?</p> <p>12. What kind of product-related environmental and safety regulations are in place? How do the authorities enforce those regulations?</p>	<p>If the government restricts the company's location choices, are its motives political, or is it inspired by a logical regional development strategy?</p> <p>10. Has the country signed free-trade agreements with other nations? If so, do those agreements favour investments by companies from some parts of the world over others?</p> <p>11. Does the government allow foreign executives to enter and leave the country freely? How difficult is it to get work permits for managers and engineers?</p> <p>12. Does the country allow its citizens to travel abroad freely? Can ideas flow into the country unrestricted? Are people permitted to debate and accept those ideas?</p>
<p>LABOUR MARKETS¹¹⁹</p> <p>1. How strong is the country's education infrastructure, especially for technical and management training? Does it have a good elementary and secondary education system as well?</p> <p>2. Do people study and do business in English or in another international language, or do they mainly speak a local language?</p> <p>3. Are data available to help sort out the quality of the country's educational institutions?</p> <p>4. Can employees move easily from one company to another? Does the local culture support that movement? Do recruitment agencies facilitate executive mobility?</p> <p>5. What are the major post recruitment-training needs of the people that multinationals hire locally?</p> <p>6. Is pay for performance a standard practice? How much weight do executives give seniority, as opposed to merit, in making promotion decisions?</p> <p>7. Would a company be able to enforce employment contracts with senior executives?</p>	<p>CAPITAL MARKETS¹²⁰</p> <p>1. How effective are the country's banks, insurance companies, and mutual funds at collecting savings and channelling them into investments?</p> <p>2. Are financial institutions managed well? Is their decision making transparent? Do non-economic considerations, such as family ties, influence their investment decisions?</p> <p>3. Can companies raise large amounts of equity capital in the stock market? Is there a market for corporate debt?</p> <p>4. Does a venture capital industry exist? If so, does it allow individuals with good ideas to raise funds?</p> <p>5. How reliable are sources of information on company performance? Do the accounting standards and disclosure regulations permit investors and creditors to monitor company management?</p> <p>6. Do independent financial analysts, rating agencies, and the media offer unbiased information on companies?</p> <p>7. How effective are corporate governance norms and standards at protecting shareholder interests?</p> <p>8. Are corporate boards independent and empowered, and do they have independent directors?</p> <p>9. Are regulators effective at monitoring the banking industry and stock markets?</p> <p>10. How well do the courts deal with fraud?</p> <p>11. Do the laws permit companies to engage in hostile takeovers? Can shareholders organize themselves to remove entrenched managers through proxy fights?</p> <p>12. Is there an orderly bankruptcy process that balances the interests of owners, creditors, and other stakeholders?</p> <p>8. Does the local culture accept foreign managers? Do the laws allow a firm to transfer locally hired people to another country? Do managers want to stay or leave the nation?</p> <p>9. How are the rights of workers protected? How strong are the country's trade unions? Do they defend workers' interests or only advance a political agenda?</p> <p>10. Can companies use stock options and stock-based compensation schemes to motivate employees?</p> <p>11. Do the laws and regulations limit a firm's ability to restructure, downsize, or shut down?</p>

Could it protect itself against executives who leave the firm and then compete against it? Could it stop employees from stealing trade secrets and intellectual property?	12. If a company were to adopt its local rivals' or suppliers' business practices, such as the use of child labour, would that tarnish its image overseas?
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Question 2: What has Tata done to ensure long term success?

The above “five contexts framework” identifies ways to spot the institutional voids in a market. Tata offers real solutions to overcome these institutional voids.

1. Leadership with Social Accountability

How do Tata’s philanthropy and CSI programmes lead to success in different African markets?

Founding Tata in 1868, JN Tata is quoted as saying, “In a free enterprise, the community is not just another stakeholder in business, but is in fact the very purpose of its existence”¹²¹. The founder’s philanthropic values were established in the belief that the finest minds were to be identified, harnessed and directed towards the service of nation building for India to emerge from poverty¹²².

After the formation of the Tata Group in 1868, Jamsetji Tata and his sons created two charitable trusts and gave their entire shareholdings to these trusts. Today, two-thirds of dividend payouts are to charities as a result of the group’s holding company, Tata Sons, being two-thirds owned by charities¹²³. In the words of Alan Rosling, the executive responsible for Tata’s internationalisation “We’re making money so our shareholders can give it away”¹²⁴.

Using the trusts as vehicles, the Tata family has been able to contribute to the development of Indian society with establishment of various institutions including the Indian Institute of Science (1911), the Tata Institute of Social Studies (1936), the Tata Memorial Hospital (1941), the Tata Institute of Fundamental Research (1945), the International Institute of population studies (1956) and the JRD Tata Ecotechnology Centre (1996) with plans to build the Tata Medical Centre¹²⁵.

Tata's social reforms in India were ahead of their time, many years ahead of national legislation and were undertaken even before being adopted in western markets. Examples are the eight-hour working day (1912), paid leave (1920), maternity benefits (1928) and retirement gratuity (1937)¹²⁶. CSI and philanthropy are key to Tata's success¹²⁷ as is a pervasive and strategically-oriented corporate social responsibility mindset¹²⁸.

The strong CSI commitment has also assisted in Tata's pursuit of foreign acquisitions. Legend has it that Former British Prime Minister Tony Blair endorsed the Tata acquisition of Jaguar–Land Rover by saying it was best for Britain because Tata came with a track record of being welcomed by other countries, and people respected them¹²⁹.

2. Low Income Innovations

How does innovation for low cost manufacturing of products aimed at the poor guarantee success in dynamic African markets?

Ratan Tata, Chairman of the Tata Group, is passionate about producing innovative affordable products for the masses. Tata lived this passion by driving growth through new technologies and innovation¹³⁰. New innovations allowing for high quality yet affordable products aimed at the poor are the secret of Tata's success¹³¹.

In motor car manufacturing, the use of low-cost but skilled Indian labour, instead of industrial robots as are used in western markets, to manufacture the Tata Indica motor vehicle led to a saving of about \$1bn on design and production costs. This operational innovation resulted in a break-even point on an output of 80,000 vehicles, about 30% less than the norm¹³².

A more recent example of innovation for the masses on an industrial scale is the Tata Nano, the world's cheapest motor car retailing at \$2,500. Competing in the lowest profit-per-car segment in the auto industry and against the strongest of the Japanese auto manufacturers, Tata set out to manufacture a motor car

that would retail not for 10% less, but 75% lower than existing entry level products¹³³.

Producing the Nano in large volumes, manufacturing high volume parts in one plant and using more plastics and glues as opposed to welding meant Tata was able to offer a motor vehicle at ground-breaking prices. A dynamic distribution model with low break even points through which the cars can be sold, serviced and even assembled from fully knock down or semi knock down form, assist in keeping expenses to a minimum¹³⁴.

The Nano was originally aimed at the Indian masses transporting families on scooters. In India, the Tata Nano went on to create new markets for itself by appealing to a larger segment of the population who previously were not in the market for a four-wheeled vehicle, from the young to the old¹³⁵.

3. Going Global, Acting Local

How does being seen as a local company contribute to long-term success in African markets?

Kant summarised the international strategy of Tata thus: “Our business philosophy is to be seen as a local company in the country of operation”¹³⁶. The philosophy of Tata, as communicated by Chairman Ratan Tata at many employee forums is to “go global locally”, thereby contributing to those countries¹³⁷.

In an interview with Mckinsey Quarterly in 2005, Ratan Tata stated: “We want to expand into geographies where, as a group, we can have a meaningful presence. We have chosen countries where we felt we could make an impact and where we are able to participate as we have in India, in the development of that country”¹³⁸.

When entering new markets Tata does not overhaul management but rather strives to ensure the company is regarded as being local. Ravi Kant, Director of Tata Motors, says, “The Tata philosophy is to be seen as a local company

rather than an Indian company. Hence we keep mostly local management and work to augment and support them. We connect ourselves with the society and environment in which we operate both politically ... and culturally, through taking part in various activities like having an Indian food festival or a music programme”¹³⁹.

An example of the success of this strategy was highlighted by the case where, in the face of stiff competition from about nine other bidders when acquiring Daewoo Commercial Vehicle Co. in 2004, Tata followed a strategy to be seen not as an Indian company but a Korean one. It became Korean as much as possible in thought and outlook, adapting itself to Korea’s society, environment and even government. This included retaining Korean management and having Koreans running the operation¹⁴⁰.

An extended presence and an understanding of the market requirements are necessary for being able to innovate¹⁴¹ for a market in ways that are relevant to it. This requires a long-term mindset, making idealistic short term strategies for success redundant. The longer term focus involves “becoming local”.

4. Talent Management and Development

How does ensuring a pipeline of talent lead to success in dynamic African markets?

Tata believes that in order to reach new markets, companies must overcome distribution and service challenges. In order to do this, however, they need to cultivate executives and managers¹⁴².

Accepting the risk that skilled people are not guaranteed to remain employees forever, Tata continues to train people, with a constant input of manpower and continual up-skilling of staff. Tata does believe, however, that developing skills locally rather than importing skilled people does assist with retention¹⁴³.

Tata believes that a further advantage of educated people is that they think rationally, rather than being swayed by rhetoric or another person’s views.

Therefore Tata aims for a high degree of education, especially in a country that is highly unionised like South Africa¹⁴⁴.

In most of their African businesses, Tata runs “state of the art training schools”. In the automobile companies, it has cut-outs and models for training, as it has in India. In South Africa, there is a ferrochrome training centre at Richards Bay and training centres for Neotel and the automobile business in Johannesburg¹⁴⁵.

In Singapore, the Tata Government Training Centre, supported by the Singapore government, was the first training institute of its kind there. Included in the curriculum are various trades including millwright work, mould making, electrical and hydraulic installation, precision machining and tool making¹⁴⁶.

5. Local Integration and Long-term Focus

The CEO of Tata Africa has been in Africa for 35 years. In addition, senior executives have resided in Africa for many years. This has allowed them to learn how to do business and build networks in different African countries.

The method often employed by companies from western markets and South Africa is a two-year secondment whereas the Tata employees “reside” in Africa allowing for a thorough understanding of the requirements to do business there.

6. Creating Regional Nodes

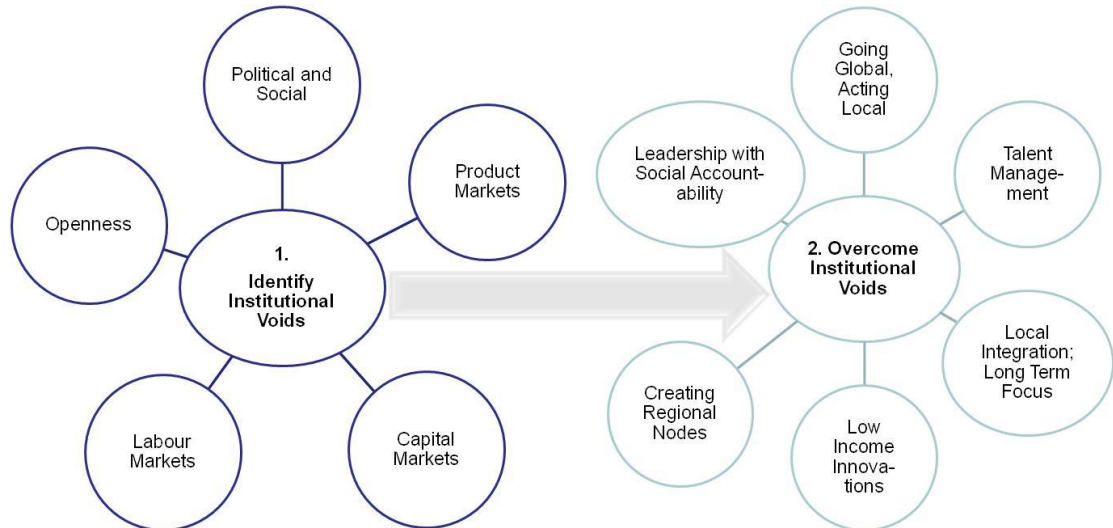
Tata Africa has successfully created trading blocs or regional nodes in certain areas of Africa. This has allowed for the development of support networks for its expatriate work force and allowed the different Tata companies to reduce costs and share certain services, expertise and problem solving across the various companies in the region.

Summary: Questions 1 & 2 – Strategy Innovations to Succeed in Africa

Doing business in Africa involves firstly identifying institutional voids, using the Five Contexts Framework¹⁴⁷. Thereafter, a firm needs to modify strategy and

make adjustments in order to compensate for these voids. These adjustments to strategy we learn from Tata Africa.

Figure 1: Strategy innovations to succeed in Africa



Additional Points to Raise

Why should Tata look at choosing complex African markets when more developed markets would be easier to do business in? The context for the writing of this case study was the western financial crisis. At this time, from 2008, emerging markets were receiving much interest from these developed country markets. Many of these emerging markets were in Africa and were being considered as investment targets for global capital for the first time.

High economic growth rates made a number of African countries very attractive to foreign companies. However, companies considering investing in the region faced many difficulties in doing business that they would need to overcome in order to succeed. Firms need to be aware of the existence of institutional voids, how to identify them and then how to overcome them.

Tata, coming from an emerging market, is well placed to be able to deal with the institutional voids, having experienced them at home. Tata was able to use lessons learnt in India into the different African markets. However, Tata admits it could have used this advantage much more effectively in Africa.

The company's DNA is ingrained not with a recently popular cliché that doing good is good for business, but that doing good, making a contribution to and uplifting the societies in which it operates is the reason for business. Tata is two-thirds owned by trusts, which positions it as a company that makes money to give it away.

Rajeev Gupta himself admits that when arriving at a world-class airport in Johannesburg and seeing Mercedes Benz motor vehicles and McDonald's restaurants all over the city, he asked himself what Tata could possibly offer the market. This points to the very realistic mindset of the Tata Group.

Tata is a family run business that has grown up to be one of the largest multi nationals in the world. Being a family business, the different Tata businesses are run by different family members of various generations, ensuring Tata management continuity and inter-generational leadership.

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Chapter 4: Research Methodology

4.1 Research Design

Design Chosen

The research project took a qualitative approach, employing the case study method. As an empirical inquiry, the case study investigates a contemporary phenomenon within its real-life context (Yin, 2003). A case study involves investigating a real world, contemporary issue and relating it in a narrative story-like manner (Saunders & Lewis, 2012).

Reasons for Choice

According to Schramm (1971) in Yin (2003) “the essence of a case study, the central tendency among all types of case studies, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result”. A case study approach is therefore well suited for this topic as it is conducive to learning about a little understood or known subject (Leedy & Ormrod, 2001) whilst being an illuminating educational practice (Merriam, 1998).

A case study, by helping to simplify a scenario, assists in investigating complex social units of multiple variables of potential importance to understanding the phenomenon. Being heuristic, a case study illuminates a reader’s understanding of the phenomenon under study, whilst it is also particularistic in being able to suggest to a reader what to do in a similar situation (Merriam, 1998). Being descriptive, a case study allows for a “rich, ‘thick’ description of the phenomenon under study” (Merriam, 1998, p. 28).

A case study approach was chosen as it is well suited for learning about a little-understood or known subject (Leedy & Ormrod, 2001). A case study strives to understand why a set of decisions were taken and what their result was (Schramm 1971 in Yin, 2003) whilst being an illuminating educational practice (Merriam, 1998).

A qualitative design was therefore the correct method to undertake whilst striving to explain the reasons for Tata's successes, challenges and failings in Africa.

4.2 Scope

Scope and Reasoning

The scope of this research project was to understand the operational innovations and strategies adopted by Tata to successfully enter different African markets.

The project took the form of a two-phase qualitative study consisting of in-depth interviews. Phase 1 involved an in-depth interview with Abdullah Verachia, associate of the Gordon Institute of Business Science (GIBS) and head of the India Africa Business Network (IADN). Mr Verachia greatly assisted in offering an understanding of the culture of Tata and provided valuable background information on Tata's foray into Africa. In addition, Mr Verachia proved to be a great source of additional information about Tata through his personal contacts.

Phase 2 took the form of an in-depth interview with Rajeev Gupta, Regional Director of Information Communication Technologies (ICT) and head of strategy for Tata Africa. Phase 2 uncovered the processes, corporate characteristics, innovations and social and cultural strategies adopted that have contributed to Tata's success.

Additional information on Tata and conducting business in Africa was gathered through interviews with Dr Lyal White, Director of the Centre for Dynamic Markets (CDM) at GIBS as well as through participating in and attending CDM events.

4.3 Universe/ Population

Population and Reasons

The population for this research project were multinational companies (MNCs) that conduct business in Africa. The sample used was Tata as it has been able to conduct business in more than 12 African countries (www.tata.com, 2012) for more than 35 years, proving it has the ability to adapt to different markets and remain relevant within those markets for an extended period of time.

Indications from Tata were that the company would like to incorporate this case study into their Africa Brand Plan.

4.4 Unit of Analysis

Unit and Reasons

Yin (2003) describes the unit of analysis as related to the “fundamental problem of defining what the ‘case’ is” (p. 22). In this research project, this involved understanding the operational innovations and strategies of, and therefore actions taken by, Tata to successfully enter and remain relevant in the various African markets.

4.5 Sampling

Sampling Technique

The sampling technique adopted for this research was non-probability sampling. Non-probability sampling was appropriate as the research did not require the involvement of the entire population but rather a small carefully selected sample, suitable for the in-depth interview to be undertaken (Merriam, 1998).

Technique Chosen

Purposive sampling was the non-probability technique chosen.

Reasons for Choice

Purposeful or purposive sampling is best used when an investigator wants to discover, understand and gain insights. It requires choosing a sample best

suited to answering the questions and contributing to the solutions sought (Merriam, 1998). In purposive sampling, the researcher uses his or her best judgment to choose the potential participants according to their ability to answer the questions at hand (Saunders & Lewis, 2012). In this case, the researcher has chosen Tata and will choose the participants or executives of Tata according to their perceived ability to contribute to a solution.

Sampling Frame

A sample frame, according to Saunders and Lewis (2012), is the list of all members of the population. For this paper the list of staff or executives at Tata Africa constituted the sample frame.

Sample Size

This involved interviewing Rajeev Gupta, head of strategy for Tata Africa, the Tata executive best placed to outline the reasons for Tata's continued success.

4.6 Research instrument/ Measurement

Design

Yin (2003) lists five components that a case study research design should include:

- 1) A study's questions
- 2) Its propositions
- 3) Its unit of analysis
- 4) Linking the data to propositions
- 5) Criteria for interpreting the findings

The data collection method took the following structure:

Phase 1

- First round interviews with Abdullah Verachia
- Body language, nuances and expressions of interviewees were noted
- All interviews were recorded and transcribed
- Interview notes were taken at interviews

- Capital letters were used for emphasis
- Data was synthesised for comparison and reproducing
- Interview data was compared to public literature for commonalities and differences

Phase 2

- Interview with Rajeev Gupta
- Body language, nuances and expressions of interviewees were noted
- All interviews were recorded and transcribed
- Interview notes were taken at interviews
- Capital letters were used for emphasis
- Data was synthesised for comparison and retelling
- Interview data was compared to public literature for commonalities and differences

Additional information gathered through discussions and events held by the CDM.

4.7 Case Study Questionnaire

1. What is the second most important country in Africa after South Africa for Tata?
2. What are the most important industries in Africa for Tata?
3. How long have you been with Tata?
4. How long have you been in Africa?
5. What other markets besides South Africa have you worked in in Africa for Tata?
6. What other industries have you worked in at Tata Africa?
7. How have you moved within Tata Africa and why?
8. In your opinion, what are the key elements that made Tata a success in so many African countries for so many years?

9. What form of international expansion does your company prefer to use in Africa? How does this differ from the approach taken in other dynamic markets? How does this differ to that taken in more developed markets?
10. What strategies have Tata implemented that differ from those employed by South African and Western companies, if any?
11. What are the factors you consider in a country before deciding to do business there? Metrics?
12. What informed the choice of African markets you have already expanded into?
13. Once established in a market in Africa, how does the management of Tata companies of that country differ between countries in Africa and versus other markets if at all? How does the management differ from that employed by Tata in India?
14. Looking back on the expansion into Africa, what would you have done differently?
15. What are the major barriers to doing business in Africa experienced by your company? How does it overcome these?
16. In your opinion, is the company outperforming or underperforming your peers? Figures/examples?
17. What are the future African expansion plans for your business?

Talent Management

18. What policies are in place to ensure a supply of local talent?
19. What is the percentage of locals versus expats employed by your company? What are the main criteria for selecting local African talent?
20. What are the highest levels occupied by locals? What prevents uptake of more locals? What prevents the promotion of more locals?
21. What practices are used to train the local staff? What practices are used to train the expat staff? Are these any different to those used in India?
22. Looking back, what would you do differently if you could?

Corporate Social Investment

23. What Corporate Social Responsibility programmes are implemented by your company and in what countries?

24. How is spend calculated? For example as a percentage of turnover or as options become available?
25. Please give examples of actual successes and failures.
26. Looking back, what would you do differently if you could?

Innovation

27. What innovative products or services have you developed that allow you to capture the lower end of the market?
28. Looking back, what would you do differently if you could?

Being seen as a local company

29. Do you believe you are regarded as a local company in Africa?
30. How do you go about being seen as a local company?
31. Please give examples of actual successes and failures.
32. Looking back, what would you do differently if you could?

Reliability and Validity

Reliability is the consistency and trustworthiness of research findings (Kvale, 2007) and the degree to which it gives consistent results (Gillham, 2005).

Validity of an account depends on the interviewer relaying a balanced account of what took place and whether a method investigates what it set out to investigate (Kvale, 2007).

In qualitative research, and in the case of the interview as a research method, it is essential the interviewer consistently, reliably and without bias communicates the findings. Therefore I have made every effort to ensure the findings from the interviews are relayed accurately and without bias.

Pre-testing

Pre-testing was not applicable for this research as the project was limited to qualitative, and not quantitative research.

4.8 Data Analysis

Whilst analysis often begins during the collection of data (Leedy & Ormrod 2001), it must go beyond the mere text restructuring of what was communicated to a deep interpretation of what was actually said (Kvale 2007). The interviewer requires a rigorous understanding of the material and context in order to be able to accurately relay the facts.

Data analysis in a case study typically involves five steps (Creswell, 1998; Stake, 1995 in Leedy & Ormrod 2001):

1. Organising the facts and details about the case
2. Categorising the data into meaningful clusters or groups
3. Interpreting other documents, occurrences and data for meanings in relation to the case
4. Identifying themes and patterns
5. Synthesising the information and drawing conclusions

4.9 Research Limitations

Owing to the nature of this research project, the following limitations applied.

In an interview approach as adopted by this research project, one must be aware of pre-judgements and interview biases (Gillham, 2005). Being aware of this, every effort was made by the interviewer to limit any bias.

Complete access to Tata executives was not possible, as is often the case with these exercises, but interviews with Rajeev Gupta and Abdullah Verachia, combined with discussions and information gathered in discussions and CDM events, ensured valuable information was collected.

Other companies may have implemented similar strategies but have not been successful. These companies were naturally excluded as the case is based on Tata. Similarly, executives from other companies that have been successful in Africa will not be interviewed. Industries and countries outside Tata's footprint and experience were excluded.

There is a risk in conducting interviews with company executives that large failings may not be revealed due to embarrassment. However the interviewees did come across as being very open and possible failings were revealed.

Only one company's view was sought, which naturally lends itself to bias and no external perspectives on how Tata has conducted business in Africa were sought.

Time limitations prevented exploration of further innovations employed by other international companies in Africa.

4.10 References

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