

Chapter 2: Globalization and the Business Environment

Tata's approach to business development

Tata is India's largest corporate conglomerate, spanning diverse business sectors, from chemicals to hotels to steel. Tata has its global headquarters in Mumbai, India. In 2023 Tata had a capitalization of \$63 billion, and operations in 125 countries.

Founded by the Tata family during British rule, its history has unfolded with the upheavals of India itself. It continued to expand in India's post-colonial period, beginning in the 1950s, when the country was officially a socialist republic. This period was characterized by a closed economy, with heavy regulation, protectionist policies, and an emphasis on self-sufficiency. As imports were limited and companies were not allowed to invest abroad, domestic firms focused on import substitution. Much of what was available to consumers, however, was perceived to be of poor quality in comparison to foreign equivalents which were barred.

With the opening of the economy from 1991 onwards, more foreign goods and foreign companies gained access to the Indian market. FDI was cautiously welcomed, although regulation and restrictions remained obstacles. Similarly, capital controls were lifted, allowing Indian companies to expand abroad. From 2004 onwards, they were allowed to borrow money from foreign banks. As India became a more open, market-oriented economy, the prospects for Indian companies brightened. Since 1991, the group has been headed by Ratan Tata, the fifth generation of his family to take the helm.

Tata companies began expanding internationally, almost as a defensive move, anticipating greater competition in the Indian market (*The Economist*, 30 May 2009). Many Tata companies are now becoming global forces. Among the Tata companies which are considered the jewels in the family crown, there are Tata Steel, Tata Motors and Tata Consultancy Services (TCS), the latter of which has been a star in India's most recent development phase, promoting computing and business process outsourcing. Among the many foreign acquisitions of Tata companies are the purchase by Tata Steel of Corus, the UK steelmaker, in 2007. Tata Motors purchased Jaguar Land Rover of the UK in 2008.

Tata Motors has developed manufacturing and distribution networks in many different parts of the world. It has also sought to develop the Tata Nano, a small, cheap car at the good value end of the market, for manufacture and distribution across the globe.

However, difficulties immediately arose in acquiring land for building the factories. The proposed site, over which some 12,000 peasant farmers had separate titles, was compulsorily purchased, to pave the way for the factory. However, the government underestimated the hostility of the

displaced farmers. Violent protests ensued, ultimately making it impossible to complete the factory. Tata abandoned the site, along with the nearly finished factory, and started again in the state of Gujarat, which, with its existing

industrial base, proved a more amenable environment. However, the shift was costly in terms of time and money, and held up progress for many years. The venture suffered – and continues to suffer – from poor transport, distribution infrastructure and complications with global and international supply chains.

In fact, the Tata Nano, called the ‘people’s car’, failed to take off among the vast numbers of modest Indians whom the company had targeted, especially in rural areas. Marketing it as the world’s cheapest car was probably not the best strategy, as cheapness tended to suggest it was poorly made and unsafe – and indeed it performed poorly in safety tests. Whether rich or poor, people desire a safe vehicle, and Tata had to rethink the car’s design and equipment, as well as its marketing. It has dropped the emphasis on cheapness.

The Tata Nano therefore had to be completely redesigned and repositioned. A new model, launched in 2015, was better quality, more upmarket, designed to appeal to the urban driver and includes air

conditioning, full electronics and digital information display.

Tata’s confidence in the bright prospects for Jaguar Land Rover (JLR) proved to be justified. Production of these premium-brand vehicles has increased since its takeover of the company. JLR’s sales and number of employees have doubled since the takeover, thanks partly to strong demand in the US, Europe, China and South East Asia; and there are now new production facilities in the EU and China.

The company continues to diversify. As well as consulting, steel and motor cars, Tata is now involved in hotels, computing, software engineering, telecoms and power generation.

Sources: Lamont, J. (2010) ‘Building Brics’, *Financial Times*, 20 January; Lamont, J. (2010) ‘Potholes in the road’, *Financial Times*, 9 February; Leahy, J. (2008) ‘Journey into conflict’, *Financial Times*, 15 September; *The Economist*, ‘Gone shopping’, 30 May 2009; *The Economist*, ‘Stakes and mistakes’, 14 November 2009.

Questions for discussion

- What are the main drivers of Tata’s success over a long period of time? What are the lessons for all those who seek to build sustainable businesses?
- How has Tata benefited from globalization? What have been the key drivers of Tata’s globalization ambitions?
- What are the key priorities for both Tata and also the Indian government to address as they seek industrial development?
- Identify the key lessons from the development history of the Tata Nano as presented here.

Zara and the growth of the fast fashion sector

Inditex, the fashion empire based in Spain, is known worldwide as the creator of the Zara brand. Since its formation in Galicia in northern Spain in 1975, Zara's founder, Amancio Ortega, has revolutionized the business of retail fashion, from design through to production and distribution to its shops.

In the process, Zara has shaped consumer expectations about fashion retailing in the world's shopping centres. Where once fashion retailers would offer a new range each autumn and spring, Zara continually renews the offering at intervals as short as two weeks. When a line is successful, follow-up orders can also be delivered at very short notice, supplanting lines that are not popular. This constant renewal and responsiveness is at the heart of 'fast fashion', and Zara has become its most successful exponent. How has this company, with origins in an area of Spain thought of as a backwater, managed to revolutionize an industry? The keys to its success lie largely in the close ties between store managers and designers, as well as an efficient supply chain that gives Zara an edge on rivals in capturing the latest fashion trends.

Zara store managers see first-hand what lines are popular and which are not. They are given considerable scope to take decisions on orders, and they are in frequent contact with the company's headquarters in Spain, where the commercial managers and designers can respond immediately. In turn, factories are set up to fill orders rapidly. The role of the store managers is crucial. They are well paid by industry standards, and, in addition, can earn bonuses for meeting sales targets.

From the customer's perspective, the Zara offering is constantly changing, reflecting fast-changing trends. Industry data states that 42% of fast fashion items purchased are worn either once or not at all, and this is because fashion and desirability change so quickly. Zara's ability to respond so rapidly has made it the go-to place for all convenient clothing purchases. The result is that Zara has 8,500 shops in over 100 countries, usually in high-profile main shopping districts. However, the almost inevitable by-product is textile waste, and recycling and re-use rates in the garment industry are tiny.

Inditex has expanded rapidly in China, where it has over 700 stores and plans for further expansion. The company's online retailing has also grown and there are now online shops in 60 countries.

The responsiveness of the manufacturing process owes much of its efficiency to the fact that Inditex relies heavily on factories in relatively close proximity to its HQ. About 50% of its products are made in Spain, Portugal, Morocco and Turkey. Morocco and Turkey offer relatively low-cost labour. Labour in these

countries is not as cheap as in Asia, but the lower transport costs and speed of fulfilling orders make these closer manufacturing locations advantageous.

Zara does also manufacture in Asia, where much of the world's garment manufacturing is now concentrated. Inditex has been involved in Bangladesh, where the collapse of the Rana Plaza factory, in which over a thousand people died, brought the

dangerous conditions suffered by migrant workers to the world's attention.

Inditex has signed an accord on fire and building safety, along with other western companies, including Tesco and M&S.

Low-cost labour is a crucial issue for fast fashion. Inditex brands are manufactured in 67 factories in Brazil, where accusations of 'sweatshop' practices, such as excessive hours and lack of rest days, have led to criticisms by the Brazilian authorities. The company has a corporate social responsibility director, and it is committed to raising standards in its supply chains. However, tight deadlines and low prices paid to suppliers are inevitable aspects of the business model. To meet deadlines, suppliers resort to subcontracting, sometimes without the knowledge of the brand owner. In these situations, there is a greater risk of breaches of human rights.

The Inditex approach to global fashion retailing has been highly profitable.

Surging sales in emerging markets are now helping to ensure future growth. Ortega, who owns 60% of the

company's shares, is one of the world's richest people. In earlier eras, a fashion shop in Galicia would probably have seen the Spanish market as the limit of its ambition, but Inditex has excelled in turning the business into a global empire.

Sources: Ruddick, G. (2014) 'How Zara became the world's biggest fashion retailer', *The Telegraph*, 20 October, at www.telegraph.co.uk; Butler, S. (2015) 'Zara owner Inditex faces fines in Brazil over poor working conditions claim', *The Guardian*, 12 May, at www.theguardian.com; BBC (2013) 'Zara and H&M to sign Bangladesh safety accord', 14 May, BBC News, at www.bbc.com.

Questions for discussion

- What are the key aspects of the Inditex business model that have proved crucial to its success?
- The hundreds of factories that produce garments for Inditex and other fashion retailers are mainly in countries where wages are low. Does this make the business model unsustainable, in your view?
- What are the negative aspects of fast fashion from a perspective of corporate social responsibility?
- What, if anything, can be done about garment waste, given the present structure of the industry? How might this change in the future?

Mozambique: resource riches – and no growth!

The prospect of unfathomable resource riches flowing to one of the world's poorest countries would seem like a dream come true, but the history of how such resource finds are translated into reality reads more like a nightmare for many countries. The 'resource curse' has afflicted a number of African countries, such as Nigeria, where corruption, poor governance and theft from oilfields have led to continuing failure to transform the wealth into improvements in social wellbeing. Will Mozambique go the same way? A country like Norway has reaped the rewards of resource riches, benefiting the economy and society. But there are doubts about Mozambique's ability to follow a path closer to that of Norway. Mozambique suffered from a long civil war that ended in 1992 with the establishment of a one-party state. Since the end of the civil war, Mozambique's government has sought to attract foreign investors, with priority given to large projects such as the Mozal aluminium smelter, which involved a huge investment by the global mining company, BHP Billiton. Projects such as this have propelled economic growth, but have not brought the impetus for jobs and business enterprises at grassroots level. The UN's Conference on Trade and Development (UNCTAD) has found that the government operated a 'regulatory bias in favour of mega-projects' at the expense of encouraging smaller investments which would fulfil social objectives (Zhan, 2013).

The president, Filipe Nyusi, elected in 2014 and who has been in power since then, promised to ensure that the wealth would be equitably distributed in society. But prospects are not very optimistic. Nyusi is the latest president to take office representing

Mozambique's ruling party, Frelimo, which has been in power since the country's independence from Portugal in 1975. Frelimo has close links with business and is often accused of corruption. Lingering hostilities between Frelimo and the rebel group, Renamo, destabilized the country for many years after the end of the civil war. An accord signed between the rulers and the rebel group in 2014, on the eve of Nyusi's election, aimed to end the conflict.

Huge gas reserves have been discovered off the coast of Mozambique. When transformed into liquefied natural gas (LNG), exports could ultimately generate many billions of dollars in revenues. Mozambique has long benefited from mining resources, including coal, but, for the gas discoveries, new investment in exploration and infrastructure is needed. The government is awarding exploration and mining licences to numerous multinational companies. These include Italy's Eni and the US company Anadarko – companies that specialize in gas discoveries. But they also include emerging multinationals such as the China National Petroleum Corporation (CNPC) and India's Oil and Natural Gas Corporation. Observers are

concerned that these licences are not being awarded in a transparent way, and that the country's rulers, who have links with businesses, are benefiting personally. Some of these contracts were awarded a decade or more ago, at a time when Mozambique was considered a dangerous, high-risk location. Incentives, such as exemptions from tax for 15 years, were used to entice these investors. One fear is that

the deals struck will not yield the money for the country's treasury that might have been obtainable. Further contracts for construction and logistics have been awarded, and these, too, are raising queries as to their transparency. A civil society organization that focuses on anti-corruption has said of these contracts that 'there isn't a system to find out whether the government has done good business' (Akwagyiram, 2013).

Mozambique is classified as one of the world's least-developed countries, with GNI per capita in 2023 of just \$1320. Coal exports have helped to lift the country to growth rates of over 7% for a number of years, but continued growth has not resulted in the societal gains that would have been expected. Its ranking in the UN's Human Development Index is 160 out of a total of 187 countries (UNDP, 2022). The percentage of the population living in severe poverty (defined as less than \$1.25 per day) is 60%. Life expectancy of just 50.3 years is lower than in other low-income countries, including those of sub-Saharan Africa. Seventy per cent of its inhabitants rely on agriculture for their livelihoods. In 2022, only 35% of the rural population had access to clean water.

Sources: England, A. (2014) 'Mozambique prepares to exploit gas bonanza', Financial Times, 27 October, at www.ft.com; UNDP (2014) Human Development Report 2014 (New York: UNDP); World Bank (2014) 'World Development Indicators, World Bank Data', at www.data.worldbank.org; Akwagyiram, A. (2013) 'Will Mozambique end up like Nigeria or Norway?', BBC news, 4 April, at www.bbc.com; Zhan, J. (2015) 'Making foreign investment work: lessons from Mozambique', The Guardian, 30 July, 2013, at www.theguardian.com.

Questions for discussion

- What is the resource curse, and why has it been a risk in Mozambique?
- Why are energy companies in a strong position with respect to negotiating for licences in countries such as Mozambique?
- To what extent would the prospect of transparency and equitable distribution of wealth be promoted if investing companies had a strong sense of social responsibility?
- What should the priorities of the Mozambique government be and why?

India, growth and development

India is an established global leader in computing and financial services, but its manufacturing sector has lagged behind. A consequence has been lacklustre economic growth, along with increasing imports of consumer goods, to satisfy its huge population of 1.6 billion. Manufacturing's share in the economy is only 20%. India's major advantages as a location for manufacturing are its huge working-age population and low-cost labour. Each year, 12 million young people enter the labour market, and the medium-skill jobs offered by manufacturers could significantly help to ease this pressure. However, lack of education and vocational skills has been a factor in holding back the country's manufacturing investment. Most workers are in the informal sector, working for unorganized enterprises and simply gaining knowledge on the job. Equipping workers with relevant vocational skills is one of the prerequisites for increasing manufacturing jobs. In particular, the present government was originally elected on the promise of economic reforms to open up the economy to investors and to pursue programmes of 'employability'.

India's position as an emerging economy is often compared with that of China, whose stunning economic growth has been built on export-oriented manufacturing. India has excelled in some sectors, such as finance, technology and pharmaceuticals, which have global

markets, and also has a growing garment manufacturing sector.

However, it has missed out on the global supply chains that have contributed to China's growth. Restrictive labour laws and bureaucracy are deterrents to investors, as is the poor physical transport infrastructure.

Accordingly, India is investing very heavily in developing transport infrastructure and supply and distribution chain routes. There are now major road building programmes, and the railway network is being upgraded all of the time. India's seaports are also attracting great investment. Additionally, Air India announced the purchase of 500 Airbus airliners, to be delivered by 2028, so that there is a viable and effective inter-city routes for the whole country.

The government is additionally encouraging FDI and commercial investment across the whole of the country to develop social as well as commercial facilities. The Indian health service suffered very greatly during the COVID-19 pandemic, and this has led to a recognition that much of this part of the infrastructure must also be developed.

This positive message to foreign investors is now seeing results, starting with a 46% rise in FDI over the 2014 – 2015 period, and continues to grow at similar rates over the period to date. There is considered to be a demographic advantage with India,

where the working-age population is growing more rapidly than the total population. So for example, Hasbro, the toy maker, is now manufacturing its

Play-Doh and Monopoly in India, as well as in Vietnam and Indonesia. The attempts to lure manufacturers in global supply chains are now seeing fruit. Foxconn, the Taiwanese company well known for its factories making iPhones in China, is opening plants in India to make smartphones for the growing Chinese company, Xiaomi. Car manufacturing is also on the rise in India, with manufacturers mostly eyeing India's domestic demand. General Motors has increased its production of cars for the Indian market. Volkswagen, too, is manufacturing cars for Indian buyers. The financial services and technology sectors continue to grow and attract extensive investment from western banks and institutions. There is also a thriving tourist industry, again fuelled by outside investment.

Despite all of this progress and FDI there remains the overwhelming need

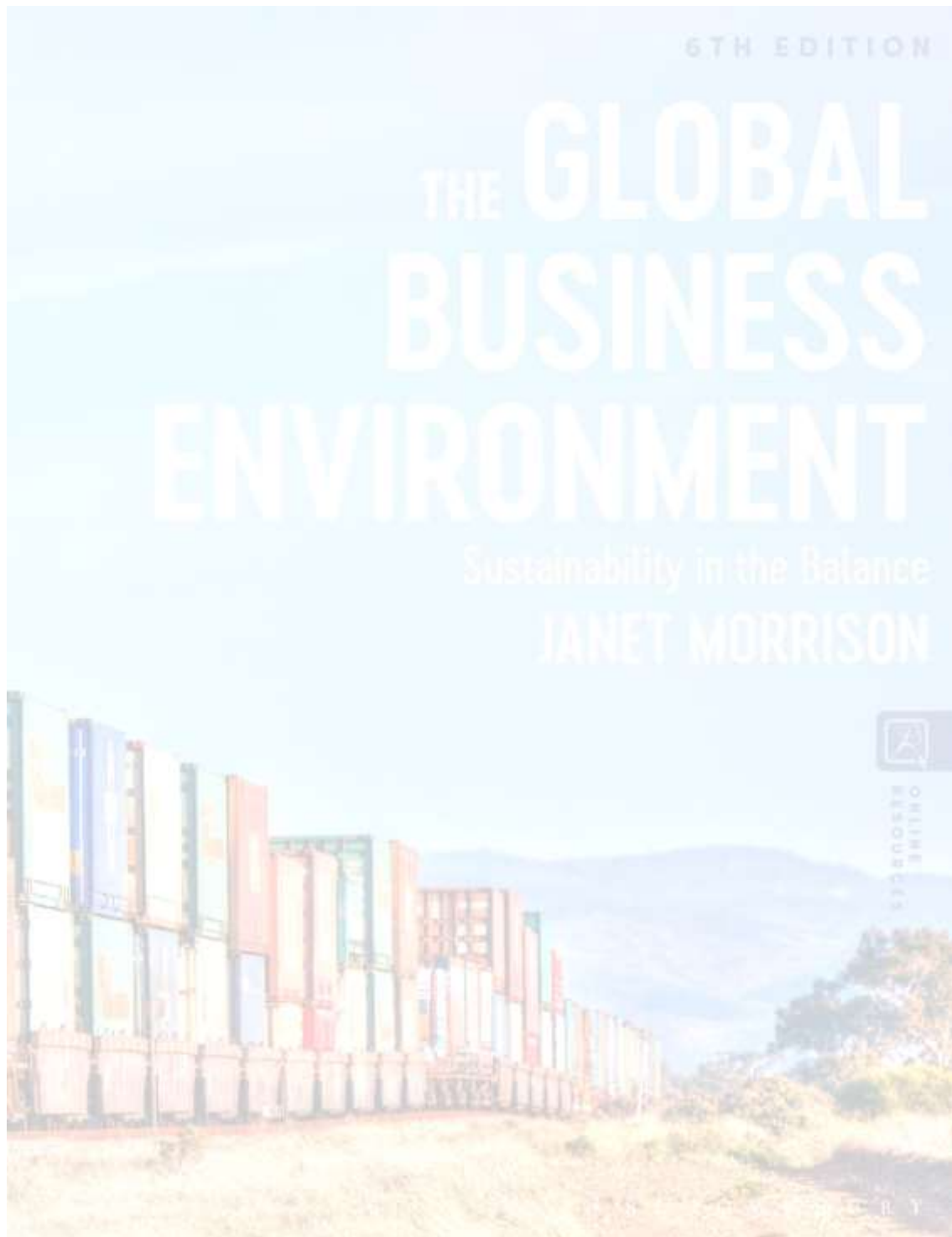
for sustainable employment among its vast population. Jobs are needed at all levels: professional, technological, skilled, semi-skilled and unskilled. Some 60% of the population is still rural,

although agriculture is just 20% of the country's GDP. Poverty and poor mass education continue to hold back development. Overall, the economy of India grew by 8.9% in 2022, showing overwhelming demand for investment and new jobs across the board.

Sources: Bradsher, K. (2015) 'India's manufacturing sector courts world but pitfalls remain', New York Times, 14 October, at www.nyt.com; Kazmin, A. (2014) 'Modi seeks to change fabric of economy', Financial Times, 26 September, at www.ft.com; World Bank (2022) 'Doing Business 2022', at www.doingbusiness.org

Questions for discussion

- What are India's advantages as a host country for manufacturing FDI?
- What factors act as deterrents to would-be investors?
- What is the reasoning behind the push for 'made in India'? What does manufacturing industry deliver to host countries that other industries do not deliver?
- How should India now develop its economy to satisfy all of the issues noted above?



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