Title: Comparative analysis of entrepreneurial growth strategies of two multinational conglomerates in emerging markets

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Abstract: Multinational companies (MNCs) from emerging economies have received increasing attention in recent years. We studied the entrepreneurial growth of two family-controlled MNCs, namely Tata Group in India and Sabanci Holding in Turkey and compared their growth patterns. Building on the resource-based view (RBV) of the firm, we developed a conceptual framework by which we demonstrated how core competencies of these two conglomerate companies have led to their competitive advantages. Finally, we concluded that the success factors in becoming a MNC from a local company in an emerging economy depend on strategic and visionary leadership, smooth succession of the founders, strong value system and business ethics, multiple paths for growth and the establishment of strategic alliances with western companies. This study not only advances our understanding of historical and entrepreneurial developments in multinationality of firms from emerging countries, but also provides insights for future research.

Keywords: conglomerates; core competencies; emerging markets; entrepreneurial growth; family control; multinational corporations; MNCs; resource-based view; Turkey; Sabanci Holding; Tata Group; India; comparative analysis; growth strategies; conceptual frameworks; growth patterns; competitive advantage; success factors; strategic leadership; visionary leadership; vision; succession; value systems; business ethics; multiple growth paths; strategic alliances; western companies; historical development; multinationality; entrepreneurial development; globalisation; global entrepreneurship; entrepreneurs.

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Comparative analysis of entrepreneurial growth strategies of two multinational conglomerates in emerging markets

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Abstract: Multinational companies (MNCs) from emerging economies have received increasing attention in recent years. We studied the entrepreneurial growth of two family-controlled MNCs, namely Tata Group in India and Sabanci Holding in Turkey and compared their growth patterns. Building on the resource-based view (RBV) of the firm, we developed a conceptual framework by which we demonstrated how core competencies of these two conglomerate companies have led to their competitive advantages. Finally, we concluded that the success factors in becoming a MNC from a local company in an emerging economy depend on strategic and visionary leadership, smooth succession of the founders, strong value system and business ethics, multiple paths for growth and the establishment of strategic alliances with western companies. This study not only advances our understanding of historical and entrepreneurial developments in multinationality of firms from emerging countries, but also provides insights for future research.

Keywords: conglomerate companies; core competencies; emerging markets; entrepreneurial growth; family control multinational companies; multinational corporations; resource-based view; Sabanci Holding; Tata Group.

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Biographical notes: Refik Culpan is a Professor of Management and International Business. He holds a PhD from New York University. He has also taught and conducted seminars and workshops in many countries around the world. He has published three books and numerous articles in reputable journals. His recent book is on Global Business Alliances: Theory and Practice that has been translated into Chinese. He is the Editor-in-Chief of Int. J. Strategic Business Alliances.
1 Introduction

Family-owned companies – dynasties – have dominated business and led to the creation of monumental wealth for centuries, and the examples of such companies over the years have been particularly striking (Landes, 2006, p.1). While the automotive stories of Ford, Toyota, Fiat, Renault or the financial stories of the Rothschilds, the Morgans, etc. are familiar in developed nations, research in the emerging countries is scanty. A notable exception is the study by Khanna and Palepu (2006) which presents the stories of, among others, India’s Mahindras Group and Brazil’s Bunge Group to discern and differentiate their underlying strategies of growth. Our study follows their suit with a focus on two leading companies in India and Turkey. In particular, the contribution of our study is an integrative framework, drawn from the actual experiences of two notable companies in the emerging economies, which can explain local granularities within a global model and can serve as a theoretical basis to explain the transformative evolutions occurring in other emerging economies.

2 The Indian conglomerate – the Tata Group

The Tata Group is comprised of 96 operating companies in seven business sectors: automotive, materials, engineering, energy, chemicals, pharmaceuticals, services, consumer products and information systems and communications. Table 1 lists the specifics of major Tata companies in these seven business sectors, comprised of wholly owned as well as joint ventures (JVs)/partnerships. The Tata Group was founded as a family business by Jamsetji Tata in the mid 19th century, a period when India had just set out on the road to gain independence from British rule. Consequently, Jamsetji Tata and those who followed him aligned business opportunities with the objective of nation building. Initial businesses were textiles, steel mills and building hydro-power stations. Long before many western industrial nations followed suit, Jamsetji Tata’s company introduced the eight-hour working day (1912), maternity leave (1928) and even profit sharing for employees (1934). This approach remains enshrined in the Group’s ethos to this day. Jamsetji found not just a company but a dynasty. Jamsetji died in 1904 and was succeeded by his son, Sir Dorab who progressed through the ranks in the company, and who established huge trusts. Later, JRD Tata, son of Dorabji took over. JRD Tata, who had also progressed through ranks in the company starting as an apprentice, led the company for more than five decades.
## Table 1  Business sectors of the Tata Group

<table>
<thead>
<tr>
<th>Business sector</th>
<th>Wholly owned subsidiaries</th>
<th>Joint ventures or partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power, oil and gas</td>
<td>Tata Power, Tata Petrodyne</td>
<td>Al-Taweed Power &amp; Energy Company, Tata BP Solar India</td>
</tr>
<tr>
<td>Chemicals and pharmaceuticals</td>
<td>Tata Chemicals, Tata Pigments, Rallis India, Advinus Therapeutics</td>
<td></td>
</tr>
<tr>
<td>Services (excluding information systems and communications)</td>
<td>Indian Hotels (Taj group), Tata Realty and Infrastructure, THDC</td>
<td>Tata AIG General Insurance, Tata AIG Life Insurance, Tata Asset Management, Tata Financial Services, Tata Investment Corporation, Tata Quality Management Services, Tata Services, Tata Strategic Management Group</td>
</tr>
</tbody>
</table>
Ratan Tata, the current Chairman of Tata Group, took over the reins from his uncle JRD Tata in 1991. He radically transformed the Tata Group that was a loosely coupled system comprised of 300 firms in each of which Tata Group had a relatively small share. He quit crowded markets such as textiles and cement, sold off firms that were unprofitable, revamped operations increasing efficiencies and increased Tata’s stakes enough to gain influence. The result of such reorganisation of the portfolio of businesses was that Tata Group is at present a diversified portfolio of businesses in seven business sectors. The business volume grew from $4 billion in 1991 when Ratan Tata took over to $22 billion in 2006, which equals a compounded annual growth rate of over 12% over the past 15 years. Ratan Tata exhorts his top management to stop taking baby steps and start thinking globally to make substantial steps forward.

Today, the Tata Group is one of India’s largest and most respected business conglomerates, with revenues in 2005–2006 of $21.9 billion, the equivalent of about 2.8% of the India’s gross domestic product (GDP), and a market capitalisation of $65.3 billion as of September 2007. Tata companies together employ some 246,000 people. The Group’s 28 publicly listed enterprises (out of the total 96 Tata companies) — among them stand out names such as Tata Steel, Tata Consultancy Services, Tata Motors and Tata Tea — have a combined market capitalisation that is the highest among Indian business houses in the private sector and a shareholder base of over 2 million. The Tata Group has operations in more than 85 countries across six continents and its companies export products and services to 80 countries (Tata Group URL).

The 96 Tata companies in the seven business sectors are aided by a corporate layer comprised of Tata Sons and Tata Industries that are called promoter divisions that focus on continuous diversification of the corporation away from existing core businesses. Baghai et al. (2000) pointed out that flourishing businesses do well in two types of growth (Horizon 1 and 2) and perform relatively poorly in the third type of growth (Horizon 3). They define Horizon 1 growth as realisation of efficiencies in existing businesses. Horizon 2 growth as related diversification in adjacent business areas and finally Horizon 3 growth as entry into entirely new business avenues. Most companies understand that they must invest in their future, so the funding and management of Horizon 1 is less difficult. However, it is hard to manage any organisation so that its long-term interests are not sacrificed to short-term expediency, and hence providing an organisational structure for Horizon 3 is often the problem according to Baghai et al. (2000). Tata Sons and Tata Industries have undertaken many strategic growth initiatives in entirely new areas of businesses (Horizon 3 growth).
3 The Turkish conglomerate – Sabanci Holding

Sabanci Holding is a leading industrial and financial conglomerate in Turkey. Sabancı Holding is composed of 70 companies, many of which are recognised market leaders in their respective sectors. It operates in such diverse industries as cement, energy, textiles, food and retailing, trade, tire and tire reinforcement materials, automotive, financial services and several other smaller businesses (see Table 2). Sabanci Holding has controlling interests in 13 companies listed on the Istanbul Stock Exchange. It is also a MNC with operations in 18 countries. Its companies market their products in various regions of Europe, the Middle East, Asia, North Africa and North and South America. Sabanci Holding has parlayed its strong corporate reputation, its brand recognition in local markets, its positive local relationships and knowledge of and experience in the Turkish market into a veritable advantage in forming strategic alliances with western firms to expand its businesses. It has grown through the expansion of core businesses and the formation of JVs.

Table 2 Business sectors of Sabanci Holding

<table>
<thead>
<tr>
<th>Business sector</th>
<th>Wholly owned subsidiaries</th>
<th>Joint ventures or partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement</td>
<td>Akcansa (36%), Cimsa (44%), Oysa Cimento (18%)</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Enrjisa (50%, with Verbund, Australian company, supplies energy to Sabanci companies)</td>
<td></td>
</tr>
<tr>
<td>Textile</td>
<td>Bossa (50%), Yunsu (44%)</td>
<td></td>
</tr>
<tr>
<td>Food and retailing</td>
<td>Carrefoursa (40%, a joint venture with French Carrefoure), Marsa KJS (50%, joint venture with Kraft), Sapeka (52%, seed processing)</td>
<td></td>
</tr>
<tr>
<td>International trade</td>
<td>Exsa Americas Inc., Universal Trading (Jersey Limited)</td>
<td>Exsa (25%)</td>
</tr>
<tr>
<td>Tires and reinforcement materials</td>
<td>Sakosa (polyester yarn)</td>
<td>Beksa (50% with Bekaert to produce steel cord and wire), Brisa (43% joint venture with Bridgestone of Japan), Dussa International (50% joint venture with DuPond to produce yarn and tire cord)</td>
</tr>
<tr>
<td>Automotive</td>
<td>Temsa (47%, commercial vehicles, construction machinery)</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>Ak Investment Fund, Ak Securities, Akhayat (life insurance), Sabanci Bank</td>
<td>Akbank (43%), BNP-Ak-Dresner Bank, Bnp-Ak-Dresner Leasing, Aksigorta (57%, insurance with exception of life)</td>
</tr>
<tr>
<td>Tobacco</td>
<td>Philip Morris (25% marketing cigarettes with Philip Morris), Phils (25% manufacturing cigarettes with Philip Morris)</td>
<td></td>
</tr>
</tbody>
</table>
As displayed in Table 2, Sabancı Holding’s multinational business partners include such prominent companies as Citigroup, Bridgestone, Toyota, Bekaert, Verbund, Heidelberg Cement, Carrefour, Dia, Hilton International, Mitsubishi Motor Co., International Paper and Philip Morris.

By the end of 2006, the financial picture of Sabancı Holding can be summarised as follows: consolidated revenues of US$12.1 billion, with a 14% increase, consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) of US$1.9 billion, consolidated total assets of US$48.1 billion, and the total group exports of US$1.13 billion (Sabancı Holding URL).

Sabancı Holding is considered as a family-owned company, of which the Sabancı family collectively owns 74.7% of the shares the company. Even now four family members serve on the board of directors, including Guler Sabancı, the Chairperson and Managing Director and Erol Sabancı, Vice Chairman. The Sabancı Holding shares are traded on the Istanbul Stock Exchange with a free float of 25.3% and depository receipts are quoted on stock exchange automated quotations (SEAQ) International.

The pattern of strategic growth of the corporation consists of JVs, acquisitions, technology licensing, marketing and distribution agreements. Some of the current strategies undertaken in the last two years by the corporation exemplify its aggressive growth. A closer scrutiny of the apparently disparate strategic growth initiatives outlined in Table 2 reveals deeper threads of strategic rationale and drivers of Sabancı Holding. We will elicit those drivers of growth of the Sabancı Holding when we compare this conglomerate with the Indian conglomerate giant – Tata Group in the remainder of the paper. We will analyse these two conglomerates with a reference to current theories in strategic management that explain how the companies achieved the phenomenal growth by pursuing a variety of strategic approaches.

### 4 Literature review

#### 4.1 Growth stages

To be competitive, companies must grow and growth is usually achieved in stages overtime. Stewart (2006) suggested that strategy is a process of firm’s life over many years or even decades. Chandler (1962) studied the evolutionary stages of several large firms in a historical context and found distinct patterns that consistently repeated across many firms. First, firms start out small in one industry and then as business expands and local markets are exhausted search for new markets ensues. After that, related
diversification into other adjacent industries takes place and finally entry into newer industries occurs resulting in a multinational firm participating in multiple business segments. Like Chandler (1962), McGee and Thomas (1994) also discussed expansion paths as a series of sequential steps. An initial entry consists of an immediate market opportunity. After establishing in an immediate market segment, a firm develops a longer-term competitive position by investing in special and complementary assets (Teece, 1987). The process of moving toward the desired mix of assets overtime is called the expansion path.

McGee and Thomas (1994) found that successful firms were the ones that used relevant assets to engage in a continuous series of innovations. When a firm enters a new business, it starts with a small investment into an area more or less related to its core business. It then moves into another, less related area, and the scale of investment grows overtime. With each entry, the firm learns from past mistakes and revises its expectations (Chang, 1995). Chandler (1962) found in his seminal study that as firms become more dependent on international operations, they are also likely to become more diversified. There are clear links of mutual interdependence between the growth stages theory and the resource-based theory. For example, Bogner et al. (1996) showed that, after initial entry, the firm proceeds to build capabilities to move sequentially from one industry to another. The process of establishing a competitive advantage in new markets draws upon a firm’s resources, capabilities and core competencies (Laurie et al., 2006; Prahalad and Hamel, 1990; Tallman, 1991). Thus, exploration of firms’ expansion paths can be anchored in a theoretical framework introduced next as the RBV of the firm in achieving a competitive advantage.

5 The RBV for Tata Group and Sabanci Holding

Since Wernerfelt’s (1984) early introduction of resources of the firm as competitive advantages and further development of the concept by Barney (1991) and Peteraf (1993), this conceptual framework has gained popularity among strategic management researchers. At present, the RBV of the firm is perhaps the most influential framework for understanding strategic management and competitive advantages of firms. It suggests that a firm’s resources and capabilities are most important in gaining and sustaining competitive advantage. Drawing on the RBV, Prahalad and Hamel (1990) elaborated on the linkage among different businesses in a diversified firm sharing less tangible resources such as managerial and technical know – how, experience, and wisdom. They called this operational economy of scope as ‘core competence’ by defining as ‘the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies’ (Prahalad and Hamel, 1990 p.82).

We believe that the RBV provides sound theoretical lenses for the analysis of the resources, capabilities and competencies of our two cases. Therefore, next, we will elaborate on Tata Group and Sabanci Holding within the RBV framework.

6 The competencies framework

The critical question is how these two companies, Tata Group and Sabanci Holding, have been successful even though they started in unfavourable market environments in their
respective countries. Based on the RBV, it is possible to develop a framework in which all heterogeneous resources of and capabilities of a firm can be defined and examined and their impact on the firm’s competitive advantages can be demonstrated. As Prahalad and Hamel (1990, p.81) claimed, the root of competitive advantage is “to be found in management’s ability to consolidate corporate-wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities”. In other words, core competencies are considered those resources and capabilities that serve as a source of a firm’s competitive advantage over rivals. Drawing on this notion of core competencies, we developed the Core Competencies Framework in Figure 1, which represents major core competencies of Tata Group and Sabanci Holding as well as environmental factors leading to competitive advantage. Each component of this model will be elaborated to elicit the commonalities and differences between Tata Group and Sabanci Holding.

6.1 Entrepreneurship

Strategic entrepreneurship as a great competency helps the firm to find and exploit opportunities in its external environment to renew and grow the firm. Strategic leaders are decisive to pursue their visions and are committed to energising those around them. They not only set the vision for their companies, but also help to establish an organisational culture conducive to grow. When we examined both of our cases, we found a strong trace of strategic entrepreneurship. At Tata Group, Jamsetji Tata set up textile and steel manufacturing businesses and then his sons Dorabji and JRD Tata led the company for more than five decades. Currently, Ratan Tata transformed the Tata Group into a modern MNC. Similarly, at Sabanci Holding, Sakip Sabanci achieved great success and currently Guler Sabanci followed the founder’s dreams. Currently, Guler Sabanci has been carrying out his predecessors’ aspirations by contributing a great deal in transformation of the firm into a highly diversified MNC.
Tata Group grew from being one industry player into a significant participant in seven business segments. It grew by creating new growth platforms (Laurie et al., 2006) on which they could build families of products and services and extend their capabilities into multiple new domains. Likewise, Sabanci Holding too exhibited this entrepreneurial behaviour by expanding into new business domains from its early modest start.

6.2 Raising capital

Envisioning high growth scenarios can only be translated into action by deploying appropriate capital resources to support the growth initiatives. In harnessing capital required for sustainable growth, Tata Group and Sabanci Holding have utilised three sources of funds: (i) internally generated net cashflows, (ii) domestic stock and bond markets and (iii) foreign stock markets. For example, Tata Group has transformed 28 of its 96 companies into public companies enabling the firm to effectively tap into stock markets. Additionally, Tata Group has listed Global Depository Notes (GDRs) in 2004 and American Depository Notes (ADRs) on NYSE in 2005, thus tapping into global stock markets for liquidity. Similarly, Sabanci Holding has funding strategies making sourcing of capital across the globe an important strategic task for the corporation. From its inception, Sabanci Holding has established a commercial bank, Akbank, and in recent years, its shares are quoted on Istanbul Stock Exchange and depository receipts are quoted on SEAQ International.

6.3 Building alliances

Strategic alliances between firms are now a ubiquitous phenomenon and are often used to acquire necessary resources and capabilities (Gulati, 1998; Simonin, 1999). Tata Group utilised alliances to propel the firm into new businesses by accessing new technologies and new market opportunities. Technology transfer via strategic alliances led Tata to build its automotive, power and energy businesses (see Table 1). Likewise, Sabanci Holding utilised strategic alliances to build its retail, energy and automotive businesses (see Table 2). As Child and Faulkner (1998) suggested that alliances serve as a vehicle to enter foreign markets, both Tata Group and Sabanci Holding used alliances to gain access to foreign markets. The rationale for the numerous alliances for both companies was risk reduction, access to partners’ capital and knowledge of technologies and markets. Both companies considered alliances as a strategic instrument to gain competitive advantage. Alliances are seen as part of acquisitive growth for both firms. In some cases, Tata Group eventually bought out the partners to own 100% of the new businesses, as in the case of Tata Tea and Tata Chemicals.

In ‘Building Alliances’, the relationship building with their respective governments deserves special note. As it is true in many developing countries, governments in India and Turkey play a significant role in shaping the economies through their investments, incentives and regulations. Thus, companies building close relationships with central and local governments in those countries have naturally benefited from those ties. In this context, both Tata Group and Sabanci Holding nurtured strong bonds with their respective governments by effectively lobbying the legislators or government officials to obtain favourable allocations or regulations in terms of production and import quotas (license raj in India) and high import tariffs in Turkey. It is well known that both the companies have established good relationships with their governments to receive
favourable treatments. It is not uncommon for senior Tata officials to assume senior
government jobs (e.g. JRD Tata became the Honorary Chairman of Indian Airlines, a
government-owned enterprise). Success begets success. As new business avenues opened
up with new markets and technologies, government tended to favour Tata Group and
Sabanci in granting the required licenses, incentives or other favourable treatments. Some
of the corporate social responsibility initiatives (discussed later in this article) have had
political support from the government, as their goals were highly congruent to those of
the central governments in both India and Turkey.

6.4 Managerial skills

In their empirical research, Tseng et al. (2007) found that knowledge-based resources of a
firm provide instant and long-lasting impact on international growth of a firm. In this
fashion, both Tata Group and Sabanci Holding utilised the managerial skills resident
within their firms to achieve sustainable competitive advantage. Furthermore, Tata Group
and Sabanci Holding have recruited from the cream of the crop, top-notch engineering
and business schools in India and Turkey, respectively. In particular, Tata Administrative
Services serves as a management ‘transitional and training grounds’ in which many of the
new recruits get trained across the many divisions in the Tata Group before they are
assigned to lead one of them. Job rotation is facilitated by Tata Administrative Services,
which is similar in intent to the Indian Administrative Services that modelled after Indian
Civil Service originally instituted by the British government in ruling a vast nation such
as India. They use corporate projects to provide hands-on learning-by-doing for these
individuals. For example, an acquisition project is handed off to a rising star to evaluate,
negotiate and conclude the deal after which the post-acquisition integration project is led
by that individual. However, the Sabanci Corporation in addition to their prominent
recruitment of best talent from other universities in Turkey, they select outstanding
students from the Sabanci University, which the Trust of Sabanci Holding had
established.

6.5 Company culture and image

From their beginnings, both companies have established strong company culture
emphasising hard work, responsibility, quality products, better relationships with
customers, suppliers, partners and the governments. It is no surprise that Tata and
Sabanci have accumulated an enviable positive corporate image in their respective
countries. The name Tata conjures up in the mind of Indians not only a successful large
global enterprise, but also a firm with solid values and corporate social responsibility
towards its shareholders, employees, customers, suppliers and communities. For example,
Tata Group has established several trusts that work as charities that funnel about 20% of
corporate profits for social causes such as education, healthcare, entrepreneurship and
housing. Tata Group is also noted for developing and supporting self-sufficient Tata
cities (e.g. Jamshedpur which is the Tata Steel company town). Likewise, The Sabanci
Trust built numerous primary, secondary and high schools, established a reputable private
university named, Sabanci University, established student dormitories, provided
scholarships to students and still regularly funds many other charitable causes in Turkey.
Whiteman and Cooper (2000) suggested that successful and long-living companies
embed themselves firmly in their communities. It is a tribute to these two companies to
say that they have strongly entrenched themselves in the very fibres of the communities that they live in. One can say, it is their strong brand equity that provides an inimitable competitive advantage to these two companies in their respective countries. Tata in India and Sabanci in Turkey immediately evoke a positive image in the minds of the locals. This in itself may be a contributing factor to their success in their respective countries relative to their foreign competitors who are eager to enter their countries to capture their market share. ‘Many emerging-market companies have kept multinational rivals at bay by adapting to the special characteristics of customers and business ecosystems at home’ (Khanna and Palepu, 2006, p.64). Barney (1986) asserted that organisational culture can be considered as a source of sustainable competitive advantage. We have come to the conclusion that it is true for our two cases too.

6.6 Domestic market demand

There is usually shortage of supply of a variety of consumer and industrial products in emerging markets. India and Turkey are not an exception to this phenomenon, which Khanna and Palepu (2006, p.67) call ‘institutional voids’. In meeting such demands, Tata Group and Sabanci Holding saw these institutional voids as business opportunities (Khanna and Palepu, 2006), whether they are information asymmetries or resource asymmetries or unfulfilled product shortages. In exploiting these new opportunities, they deftly ‘avoided head-to-head competition with foreign companies and they focused on niche opportunities that allowed them to capitalise on their existing strengths’ (Khanna and Palepu, 2006, p.68).

6.7 Global opportunities

Once they established themselves in their domestic markets, Tata Group and Sabanci Holding have tapped market opportunities in foreign markets either through sole investments or partnerships with foreign firms. In a recent article, Teng et al. (2007) reported the effect of firm resources on grow in mutinationalisation. We have similar observations as well. For example, Tata Group expanded into more than 85 countries across six continents through exporting goods and services and investing in those countries. Specifically, Tata Consulting Services (TCS) leveraged its cost – leadership position in Information Technology (IT) consulting services to become a formidable global player in the world and currently has multi-million dollar IT consulting assignments in over 40 countries across the globe. TCS effectively competes with global giants such as IBM Global Services and Accenture. Tata Steel is becoming a global player through acquisitive growth, which includes purchasing of steel mills in Russia and Eastern Europe. Tata Hotels (Taj Group) is a dominant regional player, with five-star reputation, in the Middle East and South East Asia. Similarly, Sabanci Holding exploited global opportunities by expanding into both developed and emerging markets. Kordsa Global, a Sabanci Holding company in the tire and tire cords sector has investments in the USA, Germany and several emerging economies including Argentina, Brazil, China, Egypt, Indonesia, Iran and Thailand. Moreover, Teknosa, the Holding’s technology products retailing chain, acquired another firm, called Primex, in Romania.
6.8 Commonalities and differences between Tata Group and Sabanci Holding

When we compare the company characteristics and growth patterns of both Tata Group and Sabanci Holding, we came across numerous similarities and differences between these conglomerates. Tables 3 and 4 display them respectively. After their modest start, both companies have pursued a phenomenal growth and became conglomerates. While their founding fathers built the groundwork for the two companies, their successor sons and grand-sons/daughters have carried the torch successfully. Since the companies are owned by the founders’ families, the decision making and controlling were faster and easier in comparison to public companies. Moreover, to tackle to lack of technological and management know–how, the companies sought help from western companies to transfer technology, capital and even managerial talents. For example, Sakip Sabanci mentioned how he convinced the American president of Goodyear Tire Company of Europe to come to Turkey and establish a new tire company for Sabanci in the country. Furthermore, both companies built equity (e.g. JVs) and non-equity strategic alliances (e.g. licensing agreements) with numerous western companies in a variety of industries as displayed in Tables 1 and 2. Culpan (2002) considered strategic alliances as powerful weapons in achieving competitive advantages in today’s global, dynamic and synergistic markets. Especially, companies from emerging markets could use strategic alliances to access the desperately needed resources and capabilities through partnerships with those western multinational firms. Tata Group and Sabanci Holding used this strategic tool effectively.

Table 3  A comparison of similarities of Tata Group and Sabanci Holding

<table>
<thead>
<tr>
<th></th>
<th>Tata</th>
<th>Sabanci Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family control</td>
<td>Overall, family controlled. Some divisions, for example, TCS (Tata Consulting Services) have gone public; but Tatas retain management control of operations</td>
<td>About 75% of the equity shares owned by the family, although it has numerous joint ventures</td>
</tr>
<tr>
<td>Strategic leadership</td>
<td>Ratan Tata, current Chairman of Tata Group succeeded the founder in 1991. He demonstrated excellent leadership in expanding the company</td>
<td>Sakip Sabanci, a long time leader, expanded the holding after taking over from his father and founder, Haci Omer Sabanci</td>
</tr>
<tr>
<td>Alliances</td>
<td>JVs and other partnerships are seen as a vehicle for strategic growth</td>
<td>JVs and other partnerships are widely used as growth strategies</td>
</tr>
<tr>
<td>Growth pattern</td>
<td>Started with concentric diversification which continues at divisional level now. Stage 2 is unrelated diversification at group level</td>
<td>Started with related diversification and moved into conglomerate diversification</td>
</tr>
<tr>
<td>Economies scale</td>
<td>A MNC with 96 companies in seven industries in 85 countries. Has the market capitalisation of $65 billion</td>
<td>A MNC with 70 companies in seven major industries. Holds $48 billion assets</td>
</tr>
<tr>
<td>Corporate image and culture</td>
<td>A high recognition in India for TATA brand. Known for conservative culture with little glitz and glamour. Relied upon for high quality products. Provided philanthropic benefits to the communities</td>
<td>A high recognition in Turkey for Sabanci companies and brands. A conservative company with a little glamour. Relied upon for high-quality products. Provided philanthropic contributions to the communities</td>
</tr>
</tbody>
</table>
Comparative analysis of entrepreneurial growth strategies

Table 4  A comparison of differences between Tata Group and Sabanci Holding

<table>
<thead>
<tr>
<th></th>
<th>Tata</th>
<th>Sabanci Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$4 billion in 1991 growing to $22 billion in 2006 (12% CAGR)</td>
<td>$12 billion in 2006</td>
</tr>
<tr>
<td>Number of employees</td>
<td>246,000</td>
<td>52,000</td>
</tr>
<tr>
<td>Industries</td>
<td>Started in heavy industry (steel) and gradually moved into high-tech software development and consulting industries</td>
<td>Started in textile industry and gradually moved into conglomerate diversification</td>
</tr>
<tr>
<td>International markets</td>
<td>Early start, though in a small way, in international markets. Now actively participates in 85 countries</td>
<td>Entry into international markets is more recent. Now has operations in 18 countries</td>
</tr>
<tr>
<td>Degree of diversification (entry and expansion into different industries is evident at portfolio level)</td>
<td>Diversified into chemicals and pharmaceuticals; consumer products; information systems and communications</td>
<td>Diversified into cement; banking; insurance; hydro-electricity and tires</td>
</tr>
</tbody>
</table>

In their growth patterns, they started with businesses that they knew best. For example, Tata started with steel manufacturing while Sabanci Group began with a cotton-yarn manufacturing because the founding fathers worked in those sectors respectively for many years and gained very good insights of the businesses. Then, they expanded into other related areas for example, Tata in metals and composites and Sabanci in textile manufacturing. However, once they built enough capital, business experience and competencies, they grew almost exponentially even in numerous unrelated businesses. Tata established a successful IT consultation company while Sabanci built JVs with the giant French retail company, Carrefour in mass retailing and with the US multinational DuPont in manufacturing tire cords.

While the above-mentioned similarities exit between these two cases, there are also some major differences present in the operations and strategies of the two companies. Table 4 reveals some interesting differences. Based on their revenues, Tata Group is 83% bigger than Sabanci Holding, but both appear to be equally well diversified in several business sectors (Tata in seven sectors and Sabanci in 13 sectors). However, Tata Group began its internationalisation much earlier than Sabanci Holding which began its internationalisation journey only recently. Tata Group has a much bigger employee base than Sabanci Holding, which perhaps can be explained by its relative bigger size. Especially, interesting to note is the mix of businesses in their respective portfolios. Tata Group exited cement and hydro-electricity businesses while Sabanci is still very active in cement industry and retailing, but in auto manufacturing Sabanci Holding sold its JV shares to its partner Toyota. Tata Group has forged ahead in IT consulting and communications whereas Sabanci Holding has a modest venture into these high-technology businesses. In 1990s, Tata Group went through a radical reconfiguration of its portfolio of businesses during which it exited several businesses that were unprofitable. Tata Group became a lean-and-mean portfolio from 300 businesses to 96 businesses. Sabanci did not go through such a significant portfolio consolidation as Tata did. At the risk of making a daring conjecture, one may posit that Sabanci Holding is just
one stage behind Tata Group in its stages of growth and this inference may imply that as Sabanci Holding grows in size to $22 billion revenue mark, it may reconfigure its portfolio of businesses and enter some technology sectors such as telecommunications and IT. These differences indicate, however, that there are multiple pathways to grow for firms. These multiple paths for our cases involved two principle modes. The first mode was a growth through diversifications in both conventional and emerging industries. The second one meant a growth through wholly owned subsidiaries and JVs and partnerships with other firms. It must be noted, however, these two modes overlap. We identified these two modes only for an analytical purpose.

7 Analysis of strategic leadership at Tata Group and Sabanci Holding

Leadership at Tata Group and Sabanci Holding had been exceptional at their inception and in subsequent time periods as well. Businesses hoping to survive over the long term will need to renew and transform themselves and that requires visionary leadership. As attested in the literature (Bass, 1997; Bass and Avolio, 1993; Burns, 1978), strategic leadership plays a vital role in the transformation of a company’s businesses. Given its complexity, Hoyte and Greenwood (2007) compared business transformation to a precarious rock climbing exercise that requires meticulous balance and ongoing adjustment with clear end goals in mind. Business transformation moves an organisation from an existing condition to a future state that represents a targeted strategic ideal. Without effective leadership, business transformation will not succeed and the strategic vision will not come to fruition (Hitt and Ireland, 2002). In today’s tumultuous business climate, organisations often need to work against the competitive clock to transform systems, processes, methodologies and competencies in order to enjoy brief competitive advantage or even just to sustain profitability. After our enquiry, if we have to define the key reason for the success of these two companies, we can express that in two words: strategic entrepreneurship. Above anything else, strategic entrepreneurship seems to be the most valuable core competency of Tata Group and Sabanci Holding, which have contributed immensely to their current growth and becoming a MNC. Superior leadership skills and competencies at these companies have fuelled a phenomenal growth in a variety of industries and led to become multinational companies. Both Ratan Tata at Tata Group and Sakip Sabanci at Sabanci Holding have successfully exploited market opportunities by introducing new products and services to satisfy a need in their respective markets. They not only enabled their companies to adopt needed products and services to their local markets initially, but they also guided their firms to become international players competing with other giant companies in global markets. For example, Tata Group has become a major player in offering information systems consultancy services even in the US market while Sabanci Group produced tire cords in Europe. Thus, leaders with a great vision become strategic entrepreneurs with many accomplishments as front-runners exploiting new market opportunities as they become available. Collins and Porras (1996, p.78) stated that building a visionary company requires 1% vision and 99% alignment. In a survey of CEOs, 98% of them cited communicating a ‘strong sense of vision’ as the key activity for organisational performance (Lipton, 1996, p.85). Not everything succeeds, but experimentation and
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8 Conclusion

We used a case-based and longitudinal study of firm’s evolutionary patterns to derive strategic insights. The case study is a qualitative enquiry that investigates a contemporary phenomenon within its real-life context, especially when new theory development emerges from observation (Yin, 1994). As a qualitative enquiry, a case study is ‘both the process of learning about the case and the product of our learning’ (Stake, 1994, p.37). Tsoukas (1989) suggested that comparative study of organisations produces explanatory knowledge that is valid for theory development. Accordingly, we can draw several insights from the above ‘comparison and contrast’ of Tata Group and Sabanci Holding. They can be summarised as follows:

1. Both Tata Group and Sabanci Holding exhibit strong leadership with clearly articulated vision that has retained astonishing consistency over several decades.

2. Smooth transition is evidenced in the succession of leadership across generations. Such smooth dynastic devolution of corporate power is remarkable, notwithstanding the well-known forces of disruption during succession and inter-generational transfer of power in family-run businesses. Trouble-free succession over decades has preserved well both Tata Group and Sabanci Holding.

3. Strong values and business ethics are clearly demonstrated in both the companies’ relationship with their customers, other firms as well as the society at large. These values and ethics have always emphasised quality and good company image. Consumers have developed the belief that products and services from these companies are always reliable. Similarly, both domestic and international companies doing business with Tata Group and Sabanci Holding have trusted their business partners and satisfied with the attitudes and business ethics of the respective companies. Moreover, significant portions of the corporate profits are allocated to the trusts established by the two conglomerates to focus on community service and betterment of the poor. While achieving a positive external corporate image, their strong values had an effect in establishing well-run systems, processes and internal cultures.

4. Both Tata Group and Sabanci Holding have followed multiple strategic pathways for growth. The tale of these two companies demonstrates that they pursued organic growth, acquisitions JVs and strategic alliances to achieve their strategic objectives. However, while Tata Group steered successfully into the new economy with software development and consulting, Sabanci Holding successfully achieved conglomerate status predominantly in the traditional economy.

5. Both conglomerates continuously established strategic alliances to expand their business scope, limiting their risks and drawing new knowledge of markets and/or technologies. Although this strategic orientation is a part of their growth pattern as noted in number 4 above, this has been a distinct characteristic of their growth.
strategies, which we believe deserves a special mention. In order to transfer technology and human competency needed, both companies have effectively utilised various forms of strategic alliances with western firms (e.g. JVs, licensing) to develop new products and expand into new markets.

Our study has the limitation of focusing on just two cases. However, they are distinct cases and provide useful insights into development of multinationality of family-controlled firms from emerging countries. They display some of the general characteristics that other family-controlled firms might exhibit in other emerging countries. Nevertheless, the current study provides important insights into future research in the following areas. First, a larger number of cases from emerging countries can be included in the future study which may display the effects of cultural differences across countries. It would add to our collective knowledge of growth strategies in emerging economies, if more comparative studies are conducted to shed light on multinationality of family-owned enterprises. Second, with a collection of quantitative data, the degree of diversification of a sample of MNCs from emerging economies can be empirically tested. This would help to develop better understanding of the transformation of family-controlled firms from a small domestic company to a multinational conglomerate. We hope our study with its conceptual framework, thorough comparison and observations would stimulate the future research on the subject.

References


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Note

1Based on the interview of late Mr. Sakip Sabanci by one of the authors.