

Coping with the African business environment

Strategic response under market and institutional uncertainty in the Tanzanian food processing industry

By Michael W. Hansen, Thilde Langevang, Lettice Rutashobya and Goodluck Urassa

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Abstract: Infant industry structures, weak institutions, wide spread market failures and lack of trust permeate the Tanzanian business environment. Nevertheless, some local enterprises succeed in overcoming these challenges. This paper seeks to understand the strategies of these enterprises. Drawing on case studies of Tanzanian enterprises in the food processing industry, we identify six generic coping strategies which contrast markedly with the kind of strategies conventional strategic management thinking would prescribe: Instead of focus strategies, Tanzanian enterprises diversify across industries and value chain functions; Instead of competitive strategies, Tanzanian enterprises embark on network and political strategies; And instead of internationalizing based on home-market strengths, Tanzanian enterprises internationalize in response to home-market weaknesses. We characterize the strategies adopted by Tanzanian enterprises and discuss implications for the strategic management literature.

Introduction

Sub-Saharan Africa is at a critical juncture in regard to private sector development. From the 'lost' continent, Africa is now increasingly depicted as the continent of opportunity and hope (McKinsey, 2010). It is argued that Africa is seeing the rise of a dynamic entrepreneurial class, signalling a fundamental change from the previous state-led development path (Moyo, 2009). It is further argued that African enterprises are developing competencies that will reverse the de-industrializing trends of past decades (UNIDO, 2012) and that dynamic African enterprises are rising to meet the growing demand for African products in local and international markets (BCG, 2010). In sum, the renewed hope in African development is to a large extent directed toward its private sector, its entrepreneurs and its enterprises.

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However, behind the optimism, there are harsh realities that may undermine the promises of private-sector-driven development. Sub-Saharan Africa is home to some of the most challenging business environments on the globe (World Bank, 2014). Although growth is high in several African countries, this growth is mainly fuelled by natural resources and services (UNIDO, 2012). Productivity remains low and many African countries are sliding backward on global competitiveness indexes (WEF, 2013). Across the continent, red tape and bureaucracy, over and under regulation, rent seeking and corruption remain major obstacles to enterprise development (WEF, 2013; Cooksey & Kelsall, 2011).

Much of the literature addressing the rise (or demise) of African enterprise is informed by country, value chain or industry level studies (see e.g. Bigsten, 2006; Fafchamps, 2004; Rodrik, 1998; Gibbon, 2005; Liedholm & Mead, 2013; Morris et al., 2012; UNIDO, 2013; Page, 2013) and there are conspicuously few studies that focus on African enterprise development from a firm strategic perspective (Uchenna & Mair, 2014; Mellahi & Mol, 2015; Ozcan & Santos, 2014; Acquah, 2012; Tvedten et al, 2014). In order to extend and further develop the firm perspective on African enterprise development, this paper will analyze the survival and growth strategies of seven Tanzanian food-processing enterprises. The paper will characterize the strategies adopted by these enterprises to cope with the challenging Tanzanian business environment and discuss how these strategies compare to strategies typically adopted in more developed markets. Finally, implications for the strategic management literature are outlined.

Methodology

The paper builds on qualitative data collected during field research with Tanzanian SMEs in the food-processing sector in 2013 and 2014. An exploratory multiple case study approach (Yin, 2009) was found appropriate because of the scarcity of knowledge in the area and because of our aim of understanding the impact of a challenging business environment on firm strategies. Given our focus on understanding how enterprises manage to succeed in a challenging environment, seven successful enterprises were selected as our cases. 'Successful' enterprises were defined as those with the ability to survive and achieve sustained growth over three years. We selected enterprises in the following subsectors of

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the food-processing industry: dairy, fish processing, grain milling and edible oil. Our sample comprises both large and small companies. Interviews were conducted with top managers, who, in some instances, were also the owners and/or founders of the enterprises. As a methodological tool, we asked the respondents to identify critical incidents in the life span of the enterprise. The critical incident technique is well suited to examining significant events and how they are managed (Cope & Watts, 2000). A key advantage of this technique is that it enables the researcher *“to relate context, strategy and outcomes, to look for repetition of patterns, and thus to build up a picture of tactics for handling difficult situations”* (Chell, 2004, p. 47). At the beginning of each interview we briefly explained the purpose of the interview before asking the respondent to describe the development of the business, focusing upon anything significant that had occurred, which was seen to have changed the business’ prospects either for good or for bad. We used a semi-structured interview guide to enable the informants to steer the course of the conversation while we used a check-list of the key themes to be covered. The interviews, which were all audiotaped, lasted from one to two and a half hours.

The data was processed in the following way: Firstly, through inductive data analysis we made extensive descriptions of each enterprise highlighting critical moments, key resources, strategic responses, and challenges. Secondly, we conducted a cross-case analysis through which we uncovered recurrent practices and behaviors. These behaviors and practices were grouped into generic strategies. Thirdly, these strategies were related to the kinds of strategies typically described by the existing literature on firm strategies in developing-country contexts.

It is important to note that the limited sample of firms in this study clearly cannot be seen as representative of the Tanzanian food processing industry or indeed African enterprises in general. The generalizations that can be drawn are of an analytical nature and the purpose of the empirical analysis of the seven case studies is to challenge, refine and expand the received theory on strategy in developing country contexts (Vaughan, 1992; Yin, 1994).

The perils of the Tanzanian business environment

Tanzania has 50 million inhabitants and a per capita income of just below US\$700 (measured in 2013), and thus falls into the category of *least-developed country* (LDC). Over the last decade, Tanzania has sustained growth rates in excess of 6%, fuelled by investments in extractive industries such as gold, coal, nickel and gas, and rapid development of the service sector, especially infrastructure and construction. Tanzania's economy has passed through various development phases ranging from a government controlled socialist economy to market liberalization through policies embracing private sector growth and foreign direct investment (Edwards, 2012). To promote industrial development specifically, Tanzania has adopted the Long Term Perspective Plan, which advocates for industry to drive the socio-economic transformation envisioned in the Tanzanian Development Vision (TDV) 2025, and the Integrated Industrial Development Strategy 2011-2025. A number of specific industrial development initiatives have been adopted, including the Sustainable Industrial Development Policy (SIDP) 1996-2020, the SME Development Policy, the National Trade Policy (NTP), the Agricultural Sector Development Strategy (ASDS), and the Rural Development Strategy (RDS). According to the TDV 2025, the aim of all these initiatives is to transform the country's agriculture-based economy into a competitive and dynamic semi-industrial economy by 2025. In parallel with these specific industrial development initiatives, the Government has attempted, in close collaboration with the World Bank and donors, to improve the business environment through a number of initiatives, including the BEST programme (Business Environment Strengthening for Tanzania), the World Bank Private Sector Competitiveness Project and the so-called Road Map exercise for improving the institutional environment for business, headed by the Prime Minister's office.

In spite of these efforts, the country faces a number of structural and institutional challenges that seriously hamper economic growth, poverty alleviation and private sector development. The relatively high growth rates have not shown significant impact on reducing poverty rates and creating employment, especially in rural areas (Hansen, 2013). The country remains highly dependent on donors and 40% of the state budget is donor funded. Tanzania's business environment is generally considered to be volatile and unfavourable for private sector development (World Bank, 2014; WEF, 2011). Indeed, the World Bank Doing Business

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Index ranked Tanzania 125-140 out of 183 countries from 2005-2012 and the WEF Global Competitiveness Report (2011/12) ranked Tanzania 113 out of 139 countries. Furthermore, several studies have pointed to deficiencies of the Tanzanian business environment, including: the lack of finance, fragile bureaucratic institutions, corruption and rent seeking, poor infrastructures, lack of capabilities and knowledge, and inefficient provision of public goods (see e.g. Kessy & Temu, 2010; Kinda & Loening, 2010; Cooksey & Kelsall, 2011). The economy continues to rely heavily on an unproductive agricultural sector, a dominant extractive sector, and low value-adding manufacturing and service sectors. Manufacturing employment accounts for less than 5 per cent of the total labor force and Tanzania remains one of the least industrialized countries in the world. While foreign investment is substantial relative to the size of the economy, it is heavily concentrated in the mining and gas industries and only a handful of manufacturing MNCs are operating in Tanzania.

Hence, it is in this rapidly evolving but also exceptionally difficult business environment that Tanzanian enterprises must survive and grow.

Seven tales of successful Tanzanian food processing enterprises

The food processing industry is a cornerstone in the industrial development strategy of Tanzania and its development is key to lifting the productivity of the agricultural sector, which employs 70% of the population. Almost a quarter of all registered manufacturing enterprises are in the food-processing sector; sector provides 56% of employment in manufacturing. Through the Southern Agriculture Growth Corridor of Tanzania (SAGCOT), the country is now promoting agro-processing industries and high-value agro-products so as to transform subsistence agriculture into more commercialized farming. The Agricultural Growth Opportunities Act (AGOA), which gives preferential access of Tanzanian agricultural goods to EU and US markets, has also encouraged Tanzania to embark on value added agro-goods production. It is within this crucial industry that we find our seven case studies.

Azam – A Tanzanian conglomerate

Azam is a grain milling company that is part of Tanzania's largest business group, Bakhresa. Azam grew from humble beginnings as a shoe repair business to a multinational food processing giant that currently employs over 3000 staff. The history of the company dates

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back to 1968 when Said Salim Awadh Bakhresa, a Tanzanian of Arabic origin, established a shoe repair business, which was followed by a restaurant and a bakery in 1973 and 1975 respectively. A dysfunctional supply chain, which could not adequately supply wheat flour to his bakery prompted Said to expand into the grain milling business, which is now a key part of the Bakhresa conglomerate.

The Bakhresa group is organized as a family business, where Bakhresa's four sons are involved in different business units in the group, including: transport, fruit processing, production of plastic bags and grain milling. The group is headed by a board of directors, although each sister company/member is registered separately and is independently financed. Dar es Salaam serves as a hub for all subsidiary activities, where strategic activities such as lobbying and importation of raw materials are carried out. To date the Bakhresa group has diversified into bottled water (1988), polypropylene bags (2001), supplying woven bags to the firm's milling operations, fruit juice processing (2006), and soft drinks and sea ferries. Recently, the group has also established a container dry port. Future strategies are focused on food processing and the Group is considering diversifying further into sunflower cooking oil, energy drinks and animal feeds.

Despite a diversified portfolio, wheat milling remains the flagship of the group, and Azam is the market leader in Tanzania. The company as a group owns and operates one of the largest wheat processing plants in Sub-Saharan Africa (with a daily production capacity of 1,750 metric tons) and uses the latest technology imported from Switzerland. The group rarely relies on bank loans and pays promptly even before the loans mature. Furthermore, Azam is one of the few Tanzanian enterprises to engage in FDI. The company's internationalization process was incremental. It started exporting wheat flour to Malawi, Uganda, Mozambique, Rwanda and Burundi; however, due to stiff competition in the export markets and high import tariffs, it decided to establish production plants in these countries, financed partly by IFC.

The Group has thrived, despite the harsh business environment through maintaining good relationships with authorities and politicians. Through its engagement with relevant government ministries, regional bodies and parliamentary committees, it was able to influence legislation leading to the elimination of the 35% import duty on wheat while

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maintaining the import duty on processed flour. Similarly, the Group has addressed the issue of an unreliable power supply by establishing a close business relationship with the power company TANESCO; this has allowed the group to receive notification in advance of imminent power shortages.

Azania – A challenger firm

Azania is a grain milling enterprise with 350 employees. It is owned by ethnic Arab Tanzanians and is part of a larger family conglomerate. Originally, the family offered transport services (trucks) to Azam's grain milling business, but in 2001, Azania was established to challenge Azam's de facto monopoly position in grain milling. The newly established company purchased second hand technology from Europe financed by the sale of its trucks and it acquired the skills to operate the equipment through Kenyan expats. Initially, the focus was on production excellence in grain milling, however, due to the opportunistic behaviour of whole sellers, who diluted or short-sold Azania products, Azania was forced to buy up whole sellers and integrate them into its sales and marketing organization. Eventually, the company was successful in restoring the trust in its brand, achieving annual growth rates of 25%.

Azania's business model is highly dependent on the Tanzanian tariff regime, which imposes high duties on flour imports but minimal duties on grain imports. In this regard, the industry, led by Azam, has been very effective in lobbying for the government to establish tariffs that benefit the industry. Azania has followed the larger Azam into regional markets through exports and FDI, a process facilitated by the East African Community trade and investment harmonization. Thus, the company exports 25% of its production and has established subsidiaries in Burundi and Rwanda. Using its finely tuned transport and distribution network, Azania is also diversifying into new product groups such as cooking oil and soya; areas where its arch rival Azam also is present.

Azania originally adopted a low-cost strategy in order to compete with Azam; however, this backfired and more recently the company has pursued a differentiation strategy with intense focus on quality, marketing and product diversification. In spite of its growth, the company is distinctly aware that its efforts are constantly hampered by the restrictive

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business practices of Azam; for instance, Azam has been able to disrupt Azania's logistics and sales operations by putting pressure on whole sellers and logistics providers not to service Azania.

Power food – a social enterprise?

Power Food Industries Ltd is a food processing enterprise with 35 employees specialized in nutritious food products. The managing director, Anna J.H. Temu established the enterprise in 1993 with a mission to produce nutritious food made from locally available crops (millet, sorghum, maize mixed with soybean) for people with special nutritional requirements, such as children and nursing mothers. With a degree in agriculture, majoring in food science, Ms. Temu had key knowledge in the field. However, she struggled financially during the first years, having to rely solely on her personal savings and the support of her husband, while simultaneously managing the business and retaining her existing position in a bank. A critical moment occurred in 1996 when Ms. Temu stepped down from this position and invested her savings in the business. Later on she managed to obtain a loan, which enabled her to acquire newer and better machinery. However, the enterprise continued to struggle and in 2009 it was facing severe financial difficulties. While attending an exhibition Ms. Temu learned about Nutriset, a French company that produces PlumpyNut - a peanut-based paste for severely malnourished children. By using the business contacts established at the exhibition, she managed to enter into a franchise partnership with Nutriset. Nutriset has a mission to foster the nutritional autonomy of developing countries and thereby contribute to their economic development. As such, Nutriset has developed the PlumpyField Network through which local enterprises in developing countries are assisted through technology transfer and quality standard support to produce the products close to where they are needed. In order to meet PlumpyNut's requirements, Power Food received funding from two foreign sponsors, both of which are socially motivated investors. In 2010, after extensive upgrading of production facilities, equipment and staff, Power Food started to produce the PlumpyNut paste and was audited and certified by UNICEF in 2011. The product is mainly sold to humanitarian organizations with UNICEF as the main buyer. Most of the raw materials used in the paste are imported as it has not been possible to find local suppliers able to comply with the required standards.

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Ms Temu is a member of a number of associations in Tanzania that work to improve the conditions for food processors and female entrepreneurs. By persuading the government that it is not a “usual commercial undertaking” but a “business serving social needs” with export potential, the enterprise has achieved the status of Export Processing Zone (EPZ), which, among other benefits, implies import tax relief. Ms. Temu emphasizes that the enterprise is not about growth but about delivering a service to support the Tanzanian development process, in this case by providing nutritious food to women and children.

Vickfish – Exporting to global markets

Tanzania has recently emerged as one of the largest exporters of Nile Perch fillets from Africa to EU and US markets. From 2000 to 2010, Tanzanian fish exports registered an average annual growth rate of 17 percent; and in 2010, Tanzania exported frozen Nile Perch fillets amounting to US\$71 million, over 90 percent of which was exported to high income markets. Originally, most of the Nile Perch processing industry was located in Kenya and Uganda, but since the 1990s at least 10 large-scale fish processing plants evolved in the Tanzanian Mwanza region. The proximity of an airport enabled the export of chilled (as opposed to frozen) fish directly to the European and Middle Eastern supermarkets and restaurants. Exports of Tanzanian fish fillets are considerably higher than Kenya’s (US\$22 million) and Uganda’s (US\$5 million), both of which also have access to the fish catchment area in Lake Victoria.

One of the main fish export enterprises is Vicfish. Vicfish is a fish processing company located in Mwanza on the shores of Lake Victoria. It processes and packages Nile perch for export to Europe and has around 600 employees and a turnover of more than \$30 million. It is owned and managed by Tanzanians of Indian origin and is part of the Bahari Bounty Group. Vickfish is one of the few Tanzanian companies that export processed food products to European and other advanced markets. The Bahari group’s involvement in food processing goes back more than 20 years, but it was with the contacts to European supermarket chains that the lucrative fish export business took off. The business was established after building contacts to European supermarket chains that were seeking new suppliers for a growing European market for fish products. Nile Perch became a popular and inexpensive alternative to salt water fish from Northern waters and it is sold under the name

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of Victoria fish. Vicfish's exports also supply the US, Japan and the Middle East. The company maintains the high standards necessary to enter the European market and is Fairtrade and ISO 22000 certified.

Recently however, the company has been struggling due to limited fish supplies; a consequence of the ineffective regional fish-stock management scheme, which has failed to prevent overfishing of Lake Victoria. Moreover, the airport lacks the capacity to service the large planes that are required to reduce transport costs and lead-times. Consequently, a large proportion of exports are shipped by truck to Uganda or Kenya, which adds significantly to costs. Finally, intensifying price competition, especially from Vietnam, has undermined the market for Vickfish's products. It appears that Vickfish's prospects are dire: The company's involvement in this industry has been short lived, briefly thriving due to a market niche window that is rapidly closing due to dwindling supplies, growing transport costs, and intensifying competition.

VOIL – The decline of an import substitution business

The VOIL (Vegetable Oil Industries Ltd) case is a unique example of a business that has endured through all three landmark policy phases Tanzania has undergone within the past decades: the post-independence/pre-nationalization period, the nationalization/socialism phase and the economic reforms/liberalization period. The history of VOIL and its path to becoming a well-established edible oil company, dates back to 1966 when two Tanzanians of Indian origin became business owners of three cotton ginneries. Based in the cotton rich Mwanza region, they sold the ginned cotton to both domestic and export markets. A critical incident occurred in 1967 following the government's nationalization policy, which led to the nationalization of various businesses including ginneries and milling plants. The two founders were compelled to change their business mission from exporting ginned cotton to processing cottonseeds into edible oils, hence the inception of VOIL. VOIL became the first manufacturer and seller of edible oil (cooking oil and fat, ghee and margarine) in Tanzania, and by the early 1990s, when market reforms were initiated, VOIL had become a market leader.

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However, VOIL's market power was significantly reduced starting in the 1990s when economic reforms and trade liberalization policies were introduced. Cheap edible oil imports from Malaysia and Indonesia greatly curtailed the market power VOIL had hitherto enjoyed, and its turnover plummeted. In response to these events and the increasingly harsh business environment, the owner began to forge partnerships with shareholders of Asian origin from Uganda and diversified into several other businesses in unrelated industries. These businesses included: (i) Victoria Polly Bags Ltd (producing polypropylene woven sacks); (ii) Victoria Moulders Ltd (producing plastic injection items, plastic rolls, tire retreading, PVC pipes, and liner bags); (iii) Hotel Tilapia in Mwanza City; and (iv) Mbalageti Safari Camp in Serengeti National Park. All these divisions were operated as independent subsidiaries of the group. VOIL also diversified into building *go-downs* (warehouses) for rent. In the edible oil category, VOIL began to manufacture sunflower cooking oil after the production of cooking fat was discontinued due to health concerns among the consumers.

VOIL employs 41 permanent and 250 temporary workers. With an annual capacity of 16,000 Mt., the annual turnover in 2010 was US\$3.4 million. Exports are minimal and are mainly aimed at markets in neighboring Kenya, Uganda and Rwanda. Like other manufacturing businesses in the country, VOIL must operate in an exceptionally harsh business environment, characterized by unpredictable legal and regulatory systems and infrastructural problems. Accordingly, VOIL must interact with multiple statutory regulatory bodies such as tax authorities, fire authorities, food safety authorities, planning authorities, etc., each of which charge an annual fee and tax. A one-stop approach to assist investors and manufacturers to deal with the multitude of regulatory bodies and their respective payments is non-existent; an on-going source of frustration for the company. Energy problems are rampant and the railway line service is deteriorating, which forces VOIL to use roads for transporting finished goods to more distant markets such as Dar es Salaam, Moshi and Arusha. The lack of a cost-effective means of transportation has led to uncompetitive operations when compared to Dar es Salaam based oil processing enterprises. In response to stiff competition, excessive bureaucracy and high operational costs, VOIL has shrunk in size. The company moreover has focused its attention away from mass markets towards niche markets. The company is contemplating whether it should divest its edible oil business

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entirely to move into more profitable and less cumbersome sectors, such as building and construction. This divestment drive has been accentuated by the fact that several family members have relocated abroad.

Tanga Fresh – growing through foreign linkages

Tanga Fresh Limited (TFL), Tanzania's leading milk processing company, originally emerged from the Dairy Farmers' Organization. Supported by the Dutch-Tanzanian bilateral development program, this smallholder dairy farmers' organization was established in 1992 to facilitate joint milk marketing and input procurement. This led to the registration of the Tanga Dairies Co-operative Union (TDCU) an umbrella organization that brought together 11 dairy farmer cooperative societies. TDCU invited a group of Dutch farmers through Holland Dairies (Dutch Oak Tree Foundation) to support the development of a processing plant. The Dutch Oak Tree Foundation formed a joint venture with TDCU in 1996 and supported TFL to begin with a modest milk processing factory with a daily capacity of 15,000 liters. The Company acquired 20 acres of land with buildings previously owned by the Government during the privatization of parastatals. After restructuring, the ownership of the company was allocated as follows: Tanga Dairies Co-operative Union (TDCU- 35%), Dutch Oak Tree Foundation (45%) and management (20%).

The initial challenge of the company was to source reliable, quality suppliers. The TFL initiated the Modern Dairy Service Network (MSDN) in 1998 to improve the milk collection system through improved quality assurance, market guarantee for farmers' milk and the establishment of a dairy farmers' information service. It also constructed new milk collection Centres (MCCs) as part of a cold chain to implement commercial milk collection, processing and marketing. Today, the company procures raw milk from over 3500 rural smallholder dairy farmers organised through 13 primary cooperatives and over 5,000 participating dairy farmers. The company has 60 employees in production and a similar number in distribution. The Tanga Fresh production process adheres to strict international hygiene standards and uses state-of-the-art European equipment and techniques. It is highly active in lobbying for a better business environment in the dairy sector through the Tanzania Milk Processors Association (TAMPA). In order to control for quality, the milk is delivered to the factory in insulated milk tanks where all batches are further tested before being certified for

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production. Farmers must register as members of the system, after which they are entitled to extensive support services. TFL is governed by the Board of Directors comprising investors, TDCU and management. The management team is comprised of the experienced local managers and expatriates with over 15 years of experience in the dairy sector.

Like other enterprises in the sector, TFL faced a number of value chain related challenges including low quality of raw milk, competition from imported milk, and unreliable milk supply. The company has not only faced upstream challenges in relation to inputs, but also downstream issues, such as accessing packaging material and finding outlets for its products. Moreover, as the sector is heavily regulated with more than 17 sector-specific regulations, the company faces considerable challenges in dealing with many regulatory bodies and thus having to comply with often conflicting regulations.

Tan Dairies Limited – Diversifying upstream and downstream in the value chain

Tan Dairies Limited, a medium-scale family owned milk-processing company based in Dar es Salaam, began in the early 1990's to operate a small-scale dairy farm at the founders' home. From selling milk to the local neighbourhood, the founders expanded the production base into a small-scale Milk Collection Centre (MCC). Since Tanzanian food safety regulation forbid sale of raw milk directly to consumers, batch pasteurization had to be introduced as the business expanded. By 2000, the business was fully specialized in dairy processing and became officially registered as a private limited company with capital investment of US\$250,000 and a milk-processing capacity of 1,000 litres per day. The company has since expanded its processing capacity to 10,000 litres per day, it has 55 employees and an average annual turnover of \$1,000,000. TDL has acquired land and modern dairy-processing facilities and it continues to expand. Through increased automation, the company has also diversified its product range to include butter, cheese, ghee, cream, ice cream, pasteurized and cultured milk, fresh and flavored milk. It has successfully developed the DESA[®] brand of dairy products, which is claimed to be unique owing to the natural flavor of milk from local cows grazed on natural pastures.

TDL procures fresh milk from large-scale farms and from more than 2,000 smallholder dairy farmers. It has established eight milk collection centres located in different regions. With the support of development partners, TDL is developing the Morogoro Dairy Hub located in the

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coastal area. This hub will involve the establishment of additional milk collection centres and assistance to optimise the farmers' production by, for example, procuring inputs such as pasture seeds, feeds, or veterinary drugs or by organizing irrigation systems. The company has equipped the production centres with modern machinery and laboratory equipment to ensure the high quality of its products; an advancement bringing considerable competitive advantages. Due to underdeveloped distribution and marketing infrastructures, the company has been forced to invest heavily in distribution and marketing. TDL's distribution relies on sales agents to supply directly to supermarkets, retail shops, hotels, hospitals and schools. Through this direct sales force TDL's products are sold to more than 15000 outlets in Dar es Salaam.

Generic strategies of the Tanzanian enterprises

The case stories presented in the previous section are summarized according to performance, growth drivers, challenges and strategy (Table 1).

-----Insert table 1 -----

While the strategies our case firms have adopted initially appear obscure and dispersed, we identify several patterns that emerge from the way these enterprises respond to the challenges of the Tanzanian business environment. These patterns can be condensed into six generic strategies, which contrast markedly with the kinds of strategies we would expect from firms operating in developed markets: Instead of focus strategies, our Tanzanian enterprises diversify across industries; Instead of specializing, our Tanzanian enterprises integrate across the value chain; Instead of competitive strategies, our Tanzanian enterprises embark on network strategies; Instead of taking the regulatory environment for given, our Tanzanian enterprises actively seek to influence regulation through political lobbying; and instead of internationalizing based on home-market strengths our Tanzanian enterprises internationalize due to home-market weaknesses. In the following we will characterize these strategies in light of the extant literature and discuss implications for the strategic management literature.

Diversification strategies

Ten to fifteen years ago, the issue of performance of diversified and non-diversified companies was among the most researched yet contested areas within the strategic management literature (Comment & Jarrel, 1995). On the one hand it was argued that diversification across industries entails performance advantages due to cross subsidization (of brands, capital, or managerial talent), scale advantages in generic functions, innovation spillovers, and financial risk diversification (Gold & Luchs, 1993). On the other hand, it was argued that diversification creates diseconomies of scope, including coordination problems, lack of synergies and learning, and foregone benefits of specialization (Comment & Jarrel, 1995). In line with the latter position, management scholarship, since the 1990s, has tended to rationalize corporate strategies in terms of specialization and focus rather than diversification (Palich et al., 2000). Indeed, the diversified firm has been increasingly depicted as a dinosaur by many western management scholars (Khanna & Palepu, 2010; Ramachandran et al., 2013).

Contrary to the prescriptions of much western management thinking, the Tanzanian food processing enterprises appear to diversify massively across un-related industries. This is most evident with the large industrial 'houses' or conglomerates in our sample. For instance, the Bakhresa Group has a number of enterprises under its umbrella covering the food and beverage sector, packaging, logistics, marine passenger services and real estate. Similarly, VOIL operates several businesses in numerous sectors including plastic bags, plastic products, tires, building rentals and hospitality services. Likewise, Azania is currently diversifying into cooking oil and soya. The smaller players also displayed centrifugal tendencies by diversifying into unrelated industries. The owners of our case enterprises demonstrated a highly pragmatic and, at times, opportunistic investment approach, where they were willing to invest in industries in which they had no previous experience.

How then can this diversification strategy be rationalized theoretically? As already suggested, the notion that diversification harms performance is still heavily contested (Comment & Jarrell, 1995). In fact, an emerging literature on strategy in developing countries argues that diversified strategies in many instances are superior to focused strategies (Khanna & Palepu, 1997; 2010; Ramachandran et al, 2013). The business group

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literature (see e.g. Guillen, 2000; Khanna & Rivkin, 2001) contends that diversification into unrelated industries allows enterprises to overcome challenges created by deficiencies in the institutional and market environment. Khanna and Palepu (2010) argue that diversification is particularly efficient in developing countries due to the existence of underdeveloped capital, product and labour markets: In terms of the capital markets, a developing country such as Tanzania is characterized by a lack of institutional mechanisms that safeguard investments, discouraging investors from investing in new enterprises. Diversified enterprises with an established reputation therefore have easier access to investor capital. These firms are also able to benefit from financial cross subsidization by using internally generated capital to fund new activities and they spread their financial risk. In essence, asset owners in least developed countries will often function as financial arbitrators as much as industry specialists. In terms of labour markets, Tanzania, like other emerging markets, lacks skills, which means that enterprises often have to train their staff themselves. Diversified enterprises are better able to maintain this cost and transfer skilled staff and managers between business units. In terms of product markets, both buyers and sellers in a market like Tanzania suffer from a dearth of information due to poor communication infrastructure, lack of consumer-information organizations and governmental consumer agencies. Moreover, since judicial arbitration mechanisms are absent or inefficient, consumers have few options if products or services do not meet expected standards. These circumstances significantly increase the cost of building a trustworthy brand. As such, diversified enterprises are able to leverage the value of their established brand name to enter new and even unrelated industries, without having to gain the trust of consumers anew.

Value chain integration strategies

It is common within strategic management thinking to argue that enterprises will benefit from focusing on their core competencies and shedding non-core activities. Specialization can be achieved by supporting and nurturing particular functions and activities considered core to the business (Prahalad & Hamel, 1990; Prahalad, 1993) and/or it can be achieved by outsourcing non-core activities and functions, typically activities that provide less value to the firm (Quinn & Hilmer, 1995). By focusing on specific activities, firms may achieve scale advantages; they may free resources to innovate more; and they may be able to generate

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higher value for their customers. Outsourcing can in this context be used strategically as a way to focus on higher value added activities and as a way to learn new competencies. Where the above-mentioned literature on diversification focuses on specialization *among* value chains and industries, the literature on core competencies and outsourcing focuses on specialization *within* value chains and industries. The ability to focus on core competencies and shed non-core activities has been greatly enhanced in recent decades due to the liberalization of markets, improvements in information technology, reduced transport costs, and improved quality of related and supporting industries around the World. From a transaction-cost perspective (Williamson, 1975), the relative balance between transaction costs of market or contractual relations and coordination costs of hierarchy has tipped in the former's favour, allowing for broader and deeper outsourcing of value chain activities (Morris et al., 2011; Quinn, 2013).

However, where much contemporary management thinking would tend to argue that enterprises should specialize in activities where they have core competencies and where value added is highest, and outsource other activities to related and supporting enterprises, this does not seem to resonate with the Tanzanian enterprises. On the contrary, the Tanzanian enterprises massively integrated upstream and downstream in their value chains. For instance, the two dairy enterprises Tandairies and Tanga Fresh both spend considerable managerial time and resources on developing their supply base by facilitating producer cooperatives, collection centres, and transport infrastructures. Moreover, and even more challenging for managers, both enterprises invested vast resources in developing their own packaging, labelling and distribution infrastructures in order to be able to bring their products to the markets. In short, the initial strategic focus and core competencies related to production excellence, was diverted toward urgent tasks related to organizing supplies, distribution and sales.

In order to make theoretical sense of this peculiar 'total value chain integration' strategy, we can look to the development economic literature for inspiration. Already back in the 1950s the British development economist Hirschman (1958) argued that a main feature of African developing economies is the lack of backward and forward linkages. According to Hirschman, these economies lack the dense industrial infrastructures that support economic growth in

more developed economies. In such environments, firms tend to become 'stand-alone firms', as it is unlikely there are many, if any, firms they can collaborate with, either upstream or downstream in their respective value chains. In the case of Tanzanian food processing enterprises, they simply have to integrate vertically as service or input providers are weak or non-existent. A related explanation for the total value chain integration could be that the transaction costs of external contractual relations (such as outsourcing and subcontracting) are exceptionally high in an economy characterised by low levels of trust and ineffective contract enforcement mechanisms (Peng, 2003; Hansen, 2013) such as in Tanzania.

Network based strategies

Classical Industrial Organization (IO) based perspectives analyze strategy in terms of positioning vis-à-vis industry competitors. Hence, successful firm strategy must focus on industry configurations, particularly the moves of competitors (Bain, 1969; Porter, 1981; Conner, 1991). Through analysis of the configuration of the industry and market ('five force' analysis), enterprises form strategies, which can be summarized by three generic strategies, 'cost', 'focus' and 'differentiation' (Porter, 1981). A somewhat conflicting and more recent contribution to understanding competitive strategy is the resource based perspective, which views successful strategy in terms of the firm's ability to develop, combine and deploy unique and non-replicable resources (Barney, 1991; Wernerfelt, 1984). Based on their resource configurations enterprises will carve out temporary positions in the market that are difficult for other enterprises to challenge due to their non-imitable nature.

However, rather than erecting entry barriers for competitors and/or differentiating themselves in the market, the Tanzanian food processing enterprises appeared more focused on establishing and maintaining networks and alliances. For instance, several respondents actively used membership of business associations to facilitate knowledge sharing and collaboration on specific aspects of their business, for example, packaging. Gender based networks were shown to be especially important, as illustrated by the influential position held by the Women's Business and Food Processing Association among female owned food processing firms. We also found that network collaborations across the value chain seemed essential for several enterprises. These networks were needed in order

for the enterprises to mend the value chain and get products to the market; for instance the two dairy enterprises in our sample promoted the formation of networks among input providers (e.g. cooperatives and collectives) in order to compensate for the lack of scale and quality in the supply chain. Ethnic networks appeared especially important as illustrated by VOIL and Vicfish, which were highly integrated in the Tanzania-Indian business community and both enterprises obtained important managerial and financial inputs from India. Likewise, Azania and Azam had strong ethnic ties to the Tanzanian-Arabic business community. A particularly interesting aspect of these ethnic networks is that they appear to be pan-African in the sense that the early and rapid internationalization of VOIL, Azam and Azania into neighbouring East African countries was clearly facilitated by ethnic networks.

That networks are important to business strategy is not a novel insight. Indeed, it has long been argued that alliances and networks are equally essential to successful strategy as is competitive positioning (Hamel & Doz, 1989; Dunning, 1997). Networks can be established with industry peers (e.g. competitors) or with firms in other industries (e.g. suppliers and service providers). Several authors have argued that networks (ethnic, social, gender based) are particularly important in developing countries due to the often weak capabilities of individual enterprises and the overwhelming market and institutional failures (Hoskisson et al., 2000; Puffer et al., 2010). These networks are typically informal rather than contract based because formal contract based collaborations are discouraged by failures of the legal system and institutional environment (Rutashobya et al, 2009).

Political strategies

The strategic management literature is ambiguous in regard to its view on the endogeneity of market conditions, and especially regulation. As argued by Hirshman (1970), enterprises can essentially adopt three generic strategies in relation to regulation: *exit* (leave the market), *loyalty* (adapt to the regulation), or *voice* (seek to change the regulation). In neo-classical modelling, regulations are normally assumed to be exogenous to firm strategy and the regulatory and normative environment within which firms operate is seen as given, leaving firms with *exit* or *loyalty* strategies. There is however a long tradition within strategic management that seeks to understand *voice* strategies. According to this tradition, prices, entry and regulation are partly endogenous to firm strategy (Hoskisson et al, 1999; Rugman

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& Verbeke, 2003) and manipulation of market conditions is especially common in monopolistic or oligopolistic market structures (Carlton & Perloff, 2000; Hutzschenreuter & Israel, 2009). Some view such political strategies as dysfunctional 'capture' of regulation (Jalilian et al., 2007) or expressions of rent seeking efforts by corrupt politicians and regulators (Buur et al, 2013). Others however, view such political contacts as necessary ways of ensuring that business interests are heard and accounted for in policy and regulation (Rodrik, 2004).

In the case of the Tanzanian food processing firms, it appeared that political strategies were absolutely essential to firm growth and survival. All major conglomerates in Tanzania are represented in the Parliament by owners or family members (e.g. Bakresa Group, Mohammed Enterprises and Ako) and these enterprises appear to actively use these representatives to influence the regulations that potentially may impact their businesses, e.g. local content regulation, VAT regulation or import-export tariffs. For instance, Azam successfully ensured that import tariffs remained low on grain imports but high on the import of wheat, thus securing the company a protected market. This tendency is further illustrated by Tanga Fresh's lobbying efforts, which secured VAT exemptions for the dairy industry. These exemptions and tariff rules were justified on social/humanitarian grounds, since dairy products are argued to be part of the food basket of the urban poor. Conversely, a company's failure to establish political contacts can carry severe consequences, as illustrated by VOIL, a company that used to enjoy a protected home market position due to good political contacts, but lost its political influence during the 2000s and was unable to counter the liberalization of the Tanzanian market for edible oils.

Hence, there is no doubt that several of our case enterprises owed their market position almost exclusively to politically formulated tariff walls, taxation regimes, and local content requirements and that they were actively involved in influencing these policies and regulations. The political economy literature may help us understand these political strategies. This literature argues that political strategies are especially important to firms in developing countries due to the high level of political intervention in the market aimed at protecting infant industry or to promoting industrial development (Altenburg & von Drachenfels, 2006). In such politized markets, political contacts will be a key firm capability

(Kock, & Guillén, 2001; Khanna & Palepu, 1997; 2010). The importance of political contacts may also help to explain why business groups are relatively common and successful in least developed countries like Tanzania; As the costs of building and maintaining political contacts are high and fixed, large and diversified firms can relatively better afford buying themselves the pivotal political influence (Khanna & Palepu, 2010).

Social enterprises

The strategic management literature typically analyses enterprises as profit/shareholder value-maximizing entities. However, several of the case enterprises in Tanzania appeared to be less concerned with profits and value creation for owners and more concerned with achieving social objectives. These companies reported that their primary objective was to achieve social goals such as providing better quality food for the poor or build productive capacity in rural areas. Instead of seeking commercial funding, these enterprises relied on development funds and social investment as their main source of finance. This type of enterprise is exemplified by Powerfood, since, at numerous points in its evolution, the company has received donor assistance and capital injections from social investors, both in the form of capital and in the form of advice and training. This assistance was received on the merit of the company's explicit social mission. Indeed, the owner repeatedly stated that her main ambition was not to grow the business but to serve a social need, in this case providing infants with nutritious food. Similarly, although to a lesser extent, Tanga Fresh further illustrates the importance of social orientation. This company was an offspring of producer cooperatives. Through continuous financial and technical collaboration with Dutch social investors over many years, this company had developed production excellence.

The social orientation of Tanzanian enterprises can be understood through the lens of the emerging social enterprise literature. The social enterprise literature is to a large extent inspired by Yunus' work with micro credits and social enterprises in Bangladesh. He essentially defines 'social entrepreneurship' as innovative initiatives that help people (Yunus, 2008). Social enterprises do pursue profits, but, as argued by a number of scholars (e.g. Perrini & Vurro, 2006; Mair & Marti, 2006), they pursue profits as a means to achieve social goals. Especially enterprises operating in poor segments in developing countries - the bottom of the pyramid (BoP) - need to consider social objectives due to the evident and

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pressing development needs (Panum & Hansen, 2014; London & Hart, 2004). Hence, they need to focus on objectives related to social change, positive environmental impact, poverty orientation and the participation of women in the production process to an extent much larger than is the case for enterprises located in developed countries (Altenburg & Von Drachenfels, 2006). An added benefit of a socially oriented focus is that it opens up opportunities for obtaining patient capital from socially motivated investors.

Upstream internationalization strategy

The strategic management literature has over the last 20 years merged with International Business (IB) literature to address strategic management of MNCs (for a review, see Tallman, 2007). The IB literature has traditionally argued that enterprises that internationalize will do so based on strong home market capabilities that can be extended to foreign locations (Hymer, 1976). Moreover, it has been argued that enterprises, especially smaller enterprises, will typically follow incremental internationalization paths, starting with low-levels of commitment in familiar markets, and then, as the enterprise gains experience with internationalization, gradually increasing commitments in ever more distant markets (Johansson & Vahlne, 1978; 2009).

The internationalization paths of the Tanzanian food processing enterprises are distinct in at least two respects: First, where we would expect internationalization to focus on downstream activities (expanding into foreign markets) (Kuada, 2008), the case enterprises typically embarked on upstream internationalization first, seeking inputs such as technology and skills, before moving into downstream internationalization. Accordingly, Azania, Azam, Powerfood and Tanga Fresh all based their expansion strategies in the Tanzanian market on foreign skills and technology imports. Second, while some of the enterprises, in accordance with traditional IB accounts, indeed embarked on downstream internationalization, this internationalization was not based on a strong home-market position, but rather on a weak or non-existent home-market position. The two grain-milling enterprises Azania and Azam quickly expanded into Uganda and Rwanda through FDI even before the Tanzanian market had become saturated. Similarly, Vick Fish essentially moved directly into exporting frozen fish to European and Asian markets by air transport, bypassing any contact with the Tanzanian market.

Contemporary IB is able to shed some light on the particular internationalization paths of the Tanzanian enterprises. The fact that some of the case companies skipped stages in the traditional internationalization path and moved into international operations in a rapid and accelerated sequence resembles the paths of so-called Born Globals (Oviatt & McDougall, 1994). Born Globals are firms that in a short time span and based on little or no home market consolidation move into global markets. Mathews (2006) has argued that such paths are particularly common among Asian MNCs who, according to Mathews have internationalized at a rapid pace, based not on a strong ownership specific advantage built in their home countries, but based on agility in *learning* and *leveraging* skills obtained through *linkages* to other enterprises (hence the LLL framework). Consistent with this theory, several of the Tanzanian case enterprises started their internationalization through upstream activities, for example, by acquiring capital, technology and skills from foreign firms and then using this capital, technology and skills as a springboard for consolidating their domestic market position and expanding into regional markets (Kuada, 2006; Luo, 2007).

Discussion

In this paper we have identified a number of coping and growth strategies adopted by Tanzanian enterprises. These strategies correspond, but to a limited extent, with the strategies of traditional strategic management thinking: First, the Tanzanian enterprises diversify instead of focus on core competencies. Second, they integrate vertically in their value chains instead of specializing in particular functions and activities. Third, they use informal networks rather than formal contractual agreements to engage with other enterprises. Fourth, they use political contacts rather than market competition to secure their market position. Fifth, many depict themselves as enterprises with an overarching social mission instead of focusing on growth and shareholder value. And finally, they internationalize rapidly from a position of weakness in the home market rather than from a position of home market strength. In Table 2, we have contrasted the identified generic strategies of Tanzanian enterprises with strategies of traditional strategic management thinking.

----- Insert table 2 -----

At first sight, these Tanzanian strategies seem diverse and disparate. However, on closer inspection it becomes evident that they all, to a large extent, derive from a common root, namely the challenging Tanzanian business environment.

The strategic challenges posed by the Tanzanian business environment

Especially three specificities of the Tanzanian business environment can explain the particular strategies adopted by the Tanzanian food processing enterprises: weak market support institutions, underdeveloped supply industries, and low levels of competition.

Weak market support institutions

Low levels of trust in combination with a weak institutional environment make enterprises eschew formal contractual relationships. Contracts are difficult to establish, as reliable information about performance and capabilities of potential partners is lacking. Cultural, religious and ethnic differences make bargaining difficult and risky and monitoring of contracts is hampered by inefficient or absent auditing and reporting systems. Consequently, contractual disputes are difficult to reconcile, since there is virtually no way of getting redress through the court system. Moreover, by engaging in formal contractual relations, business transactions become more visible to rent seeking regulators and competitors. Facing these institutional failures and voids, enterprises prefer to engage in network collaborations, where ethnic or regional affinities and ties are used to compensate for the lack of trust and predictability in formal markets. This is evident in our sample, where all enterprises relied heavily on networks. Alternatively, institutional failures and voids prompt enterprises to avoid engaging with other enterprises, and instead to organize activities internally, as seen with the value integrating enterprises in our sample.

Underdeveloped supply industries

The underdevelopment of intermediary product and service industries means that food processors cannot rely on backward and forward linkages for their survival and growth. Instead, they have to organize more or less the entire value chain themselves. The fact that

local technology and consultant industries are rather underdeveloped further forces enterprises to look abroad for improving or complementing their capabilities. Some compensate for this by seeking technical and financial assistance from development agencies and social investors. Others embark on internationalization at early stages, not to access foreign markets, but to access skills and technology through partnerships with foreign firms. This technology and skill acquisition in turn assists the companies in strengthening their positions in the home and regional markets.

Low levels of competition

The level of competition in the industries we studied appeared relatively low. Industrial players were limited in number and typically characterized by low levels of productivity. Formulating strategy mainly based on positioning against competitors in such a low competition environment does not make much sense. Instead, interaction with industry peers typically occurs through networks, informal alliances and collaboration in business associations. While there is, of course, stiff competition in certain sectors, this competition mainly derives from imports of foreign products, not from locally based industry peers. Due to low levels of productivity, it is for most local food processors futile to try to compete head to head with foreign imports. Instead, they typically adopt political strategies to ensure that foreign products are excluded from domestic markets, for example, by influencing import tariffs, taxes or local content rules.

Implications

In tracing the identified strategies of Tanzanian food processing enterprises back to the specificities of the Tanzanian business environment, this paper gives credence to the institutional strategy perspective (Morris Peng, 2002, 2003; Khanna & Palepu, 2010; Hoskisson et al, 2000; Kostova & Zaheer, 1999). This perspective holds that strategic thinking must explicate the particular institutional context in which strategy is formulated and analyzed, especially in developing country contexts. In such contexts, conventional strategy perspectives, such as the Industrial Organization and Resource Based perspectives, must be complemented with institutional theory (Peng et al., 2009). Many of the institutional challenges - institutional voids, informality and institutional volatility – that motivated

strategic management scholars working with Asia and Eastern Europe to focus on institutional dimensions (see e.g. Kostova & Zaheer, 1999; Peng, 2002; Hoskisson, 2000; Wright et al, 2005; Khanna & Palepu, 2010) are even more pronounced in an African context. Institutional challenges may not only be more pronounced in Africa, they may also be of a different nature due to specificities of African colonial history, political conflict and ethnic cleavages. Hence, there is a need for strategic management research to further develop the institutional strategy perspective in an African context (see Mellahi and Mol (2015) for a similar argument).

Conclusion

Six generic strategies have been identified based on the seven case studies; strategies that contrast sharply with the kind of strategies that typically are prescribed for western enterprises. Are these strategies then imperfect or ineffective, mere expressions of less sophisticated managerial and organizational practices? In our view no! These strategies are perfectly rational - and indeed necessary - strategies for enterprises operating in countries that are at early stages of industrial development and where uncertainty is extreme. The identification of Tanzanian coping strategies enabled us to extend the literature's strategy spectrum to include strategies that are rooted in business environments radically different from those typically studied by strategic management scholars. Overall, the analysis reaffirms the importance of explicating the specificities of country contexts in strategy analysis, thus giving credence to the institutional strategy perspective.

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Table 1

Firm	Sector	Performance	Drivers of growth	Challenges	Strategy
Tandiaries	Dairy	Struggling, low productivity	Dedicated leadership Development agenda Support from development assistance	Lack of capacity and know how Ensuring stable supplies	Full value chain integration, building milk supply, distribution and marketing
Tanga Fresh	Dairy	Expanding in local market. High productivity	Foreign linkages Good local and central government relations	Getting quality supplies Business environment Distribution	Production excellence Value chain integration Donor orientation
Vick fish	Fish processing	Struggling in export market	Linkages to foreign buyers Regional Indian networks	Foreign competition and lack of inputs	Export orientation Low value chain integration
Voil	Edible oils	Winding up business	Protection Ethnic networks	Regulation, red tape, rent seeking, tariff reduction.	Diversification/ downsizing
Azam	Grain milling	Expanding rapidly Export and FDI	Effective lobbying Tariff regime Scale advantages Virtual monopoly position Logistics management.	Electricity Foreign imports	Political contacts Production excellence Diversification Internationalization
Anzania	Grain milling	Struggling to gain market shares Export and FDI	Knowledge of industry and local markets Tariff regime	Unfair competition	Challenger firm Differentiation strategy Diversification Internationalization
Power food	Grain milling	Slow growth	Dedicated entrepreneurship Social investors Foreign alliances	Licenses, Certifications, Credit Donor driven	Production excellence Internationalization

Table 2

Successful strategy according to conventional strategy thinking	Successful strategy in Tanzania
<i>Specialization in industries and products</i>	<i>Diversification across unrelated industries</i>
<i>Focus on core competencies/ functional specialization</i>	<i>(Total) value chain integration</i>
<i>Competitive strategy based on positioning and differentiation</i>	<i>Collaborative strategy based on ethnic and economic networks</i>
<i>Treat regulation and prices as exogenous to firm strategy</i>	<i>Influence regulation, entry and prices via political contacts</i>
<i>Primacy of commercial orientation</i>	<i>Primacy of social orientation</i>
<i>Downstream internationalization to exploit advantages</i>	<i>Upstream internationalization from weak home market</i>

Coping with the African business environment

<i>derived from strong home market position</i>	<i>position</i>
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