

TATA CHEMICALS MAGADI: CONFRONTING POVERTY IN RURAL AFRICA

Mike Valente wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In the summer of 2013, Jackson Mbui, managing director of Tata Chemicals Magadi (TCM), gazed upon the soda ash covering Lake Magadi, Kenya. He wondered how he was going to respond to a growing number of challenges that had important implications for the company's commitment to poverty reduction in the surrounding community. As producers of commodity products, incumbents in the soda ash industry were vulnerable to escalating energy costs, oversupply and economic cycles. Global growth had been sluggish since the 2008 economic recession and competition was intense, especially since the emergence of Chinese producers. Mbui reflected on the uniqueness of TCM's operating context in which the absence of government bodies meant that the company had to play a key role in addressing poverty by providing basic public services such as health care, water and education. For the last 15 years, TCM had developed a strong relationship with the Magadi community. But with a strong need to reduce costs, Mbui wondered how best to do so while remaining committed to the sustainability of the community.

TATA CHEMICALS MAGADI

TCM (formerly the Magadi Soda Company) was established in 1911 and became a wholly owned subsidiary of the Brunner Mond group in 1926, until it was bought by the Indian-based Tata Group in 2005. The plant is located in Magadi Township, approximately 120 kilometres southwest of Nairobi, Kenya and 30 kilometres from the Tanzanian border (see Exhibit 1). Magadi Township is located in Magadi Division, the poorest of seven divisions in the Kajiado District, where 57 per cent of people live in abject poverty.¹ Magadi Division covers 2,749 square kilometres in the Rift Valley province. It is sparsely populated, with an estimated population of about 22,000 people.² The isolated nature of Magadi Division has left it without many of the basic public services typically provided by government such as roads, health care, electricity, water and education that would otherwise assist in poverty reduction efforts.³

¹ Ministry of Planning / Bureau of Statistics, "Geographic Dimensions of Well-being in Kenya: Where Are the Poor?," Vol. 1.8. Nairobi, 2003.

² Intermediate Technology Development Group, "Community Development Plan: A Report for Magadi Soda Company and International Finance Corporation: Practical Action," 2004.

³ Robert W. Kates and Dasgupta Partha, "African Poverty: A Grand Challenge for Sustainability Science," *Proceedings of the National Academy of Sciences of the USA* 104.43, 2007, pp. 16,747 – 750.

TCM employs just over 500 people and each year extracts hundreds of thousands of tons of sodium sesquicarbonate from the surface of Lake Magadi. The mineral naturally forms a crusty substance on the surface of the lake called trona, which is extracted and sent via pipes to the company's manufacturing plant. There it is converted into sodium carbonate (soda ash), a vital component in the production of glass, detergents, leather tanning solutions, paper and various chemicals. TCM is Africa's largest soda ash manufacturer and one of the oldest and largest export earners in Kenya. The soda ash is transported via train to the Mombasa Port and exported to African, Asian and Middle Eastern markets. Because the company is not burdened with high extraction costs, an important competitive advantage for TCM is its low-cost production.

POVERTY IN MAGADI IN THE 1990S

Because of the absence of a governmental presence in Magadi, there were few public services available to the community and the company when TCM first started. As explained by a former managing director, "The government said, 'You guys want to extract deposits in Magadi, it's really up to you to provide all the amenities you need — water, electricity, you name it.' We built the road that you just travelled on to get here." Since TCM's founding, conflict over the use of land was prevalent as the Kenyan government and the company were accused of making bilateral decisions related to land use that failed to incorporate the interests of the community.⁴ By the mid-1990s, TCM had in place a number of public services including water provision, infrastructure, a primary school and a health care facility. Yet critics viewed its approach as very exclusive and top-down, with a past company consultant alleging that the managing director at the time "did not take the elders seriously [and] liked to see things his way. He wanted to be in control."⁵ Exhibit 2 provides a visual representation of the nature of TCM's relationship with the community and its response to poverty in the 1990s.

A substantial portion of the rural population surrounding TCM was Maasai, a semi-nomadic tribe, whose wealth and sustenance were inextricably tied to livestock. Due to a series of droughts in the 1990s that decimated more than 500,000 livestock, the Maasai were forced to migrate to townships like Magadi to search for an alternative livelihood. The senior chief explained, "Before all this, people were satisfied with their Nomad lifestyle. . . . But then the drought happened. There was a change. . . . And that's when they came in and demanded that they need to work for this company."⁶ The community was very critical of the human resources manager's hiring practices that allegedly excluded the Maasai. The Kenyan media had been particularly critical of TCM in light of what they perceived to be a very imbalanced situation. An article in January 1999 claimed, "The vast arid region of Kajiado is highly endowed with many natural resources. Ironically, the resources, though being exploited, are not benefiting landowners that are pastoralist, Maasai." It quoted a distraught landowner who said, "We have discovered that they are cheating us out of our natural wealth. They make huge profits compared to what they pay us."⁷

Maasai migration to the township put intense pressure on the limited public services TCM was providing, and this had important implications for the quality of services it could give to its own employees and the local townspeople (see Exhibit 3). As a result, TCM started to realize that it was difficult to tend to employee needs without considering the community. The former managing director explained, "We give employees and their family's anti-retro viral drugs for free. But it's pointless trying to focus on employees without targeting the community because the employees are interacting with the rest of the community."

⁴ L. Hughes, "Mining the Maasai Reserve: The Story of Magadi," *Journal of Eastern African Studies* 2.1, 2008, pp. 134–164.

⁵ Interview with former Managing Director, Magadi, Kenya, March 2005.

⁶ Interview with Senior Chief of Magadi, Kenya, March 2005.

⁷ Anonymous, "Natural Resources Bring Poverty to Community," *The People*, January 7, 1999.

In 1999, the managing director literally had Maasai knocking on his door with requests for jobs and assistance with public services, exposing him to a wide range of issues. At the same time, living on-site during the weekends facilitated a deep understanding of the problems. The overwhelming number of issues and requests from the community pushed him to consider them as part of a fundamental problem of community self-sufficiency:

I realized that each of them [the Maasai] would come to me with personal problems that they wanted to address, but no one person had a view of the bigger picture of what does the Maasai really want in life, what their real needs were. And so I met with [the community] and said, ‘You know I can address these individual requests, but that’s not going to solve your problem. Some of you are coming with short-term things for your own benefit, which is detrimental for the long-term benefit of the community. Your problem is much bigger, and as a group we ought to be thinking about the long-term priorities.’

Based on this understanding, TCM realized that while it had been active in providing basic public services, it was ill-equipped to deal with the problem at this scale. The managing director exclaimed, “But TCM at the time was ill-equipped. . . . The problems weren’t being addressed by the system that was in place.”

RESPONDING TO POVERTY IN MAGADI TOWNSHIP

The SWOT Process

In early 2000, after receiving a formal list of 100 grievances, the managing director teamed up with three individuals who were well-respected in the community and brought together 32 leaders of community-based organizations (CBOs) and informal community groups along with elected officials and the senior chief. The objective of the meeting was to conduct a comprehensive needs analysis, which narrowed the 100 grievances to five priority areas — education, health care, infrastructure, business development and water. Over a six-month period, the large group was divided into five smaller groups, each tasked with conducting a SWOT (strengths, weaknesses, opportunities, growth) analysis on one of the priority areas:

The principle reason for using the SWOT was to ensure that all groups, the company and the community are committed to the solutions that evolve because they have a personal connection with these solutions. . . . The idea was that if you get people doing a SWOT, they’re eventually considering it as their work and their solution, rather than my work and my solution. It helped the community to see each problem as an opportunity. What strengths does the community have to be able to sort out the problem? What opportunities does the problem present? What are the weaknesses of the community?

As an example, the SWOT analysis of the education issue identified the students, existing schools, parents and existing buildings as strengths and low enrolment, dropout rates, understaffing, lack of boarding facilities and inadequate classrooms as weaknesses. Each small group would then come up with a mission for the priority issue, with background information and a set of objectives, a strategy to achieve those objectives and an action plan. As the managing director explained, “Each of these groups was working to come up with a plan for a problem area rather than just sitting there with a list of [needs] that was put on the agenda but never addressed as such.” The mission for the education priority was to improve education standards in Magadi and to increase enrolment, adult literacy and vocational training. Some objectives included increasing the number of pupil boarders, returning all dropouts to schools and increasing education levels of students.

In September and October 2000, sub-group meetings took place to report on progress for each issue, and these provided the managing director with a progress report to present to the TCM board, senior managers and the larger group of 32 leaders in November. In collaboration with managers and the community, a community policy was devised and ratified by the board. The policy said that TCM was “Committed to work with the local community to develop and grow a positive relationship of mutual understanding, trust and respect, develop these relationships into long-term partnerships for mutual advantage of all parties.”⁸ From this point forward, senior management involvement in community affairs was to be tied to their performance appraisals.

SWOT Committee

Despite the success of the above process, outside individuals pressured the company with requests. The managing director explained, “A number of individuals wanted short-term things for their own benefit, which disagreed with the long-term benefit of the entire group.” In March 2001, the company and the community established the SWOT committee, made up of those individuals involved in the SWOT process. A smaller “executive” SWOT committee was made up of seven community leaders and three TCM managers who were tasked with identifying and implementing responses to the five priority areas while reporting back every six months to the larger group of 40 members. This committee also channeled issues emerging from the community and made sure that they represented township level issues rather than individual level requests. The company’s community liaison officer (CLO) explained, “So when the community has an issue, they didn’t just come and . . . harass [the company] with the issue. They talk about it and leaders go in to the SWOT. They sit there. The company and the community come up with a process to solve the issue. So that is the SWOT system.” The first meeting took place on June 21, 2001 and laid out the frequency of meetings, how the group would be constituted and some of the rules such as the required number of members in attendance, the types of issues heard and how members could lose membership status.

SWOT Subcommittees

Each SWOT committee meeting put in place action items related to the five priority areas and established subcommittees made up of individuals from the company and the community tasked with planning, implementing and evaluating projects such as the establishment of the Patterson Secondary School or a water project. Members of the health services subcommittee included the TCM doctor, senior chief, public health officer, TCM community development office and elected officials who collectively addressed issues such as deteriorating quality of care for inpatients, responses in drought conditions, challenges with nighttime patients, limitations of ambulance service and new drug needs.

To balance the financial contribution of TCM for the building of the secondary school, the subcommittee visited the elders of four locations in Magadi and asked for four cows as a contribution to the school. The subcommittee sold the 16 cows and contributed Ksh1million⁹ for the school. The elected official spoke of the importance of ownership that this helped create:

We as a community are ready to contribute anything for the secondary school now. We have contributed around 200 and something thousand. That is a very good move because it will show that we also are the owners of that project. And we will make sure that it will not be destroyed by

⁸ *Community Policy, Magadi Soda Ash, 2005.*

⁹ *Approximately US\$109,000.*

anything and it will be sustained for other generations, to be used by any other generation to come.¹⁰

TCM engineers were allocated to the secondary school subcommittee because they had important engineering skills. Finance employees were instrumental in the business development subcommittee to assist the community in building a cooperative that would bid for TCM contracts. Similarly, employees as part of their job description in transporting soda ash by train took responsibility for filling the underground water tanks while others incorporated community transportation as part of their service.

Community Liaison Officer

TCM also established the CLO position to represent a single point of contact for the community and to ensure that requests were funnelled to the SWOT committee. The CLO explained, “One manager would have a soft heart for the community; the other manager wouldn’t have a soft heart. So the decision was made to have a community office so that all the community issues are taken there.” The CLO spearheaded the implementation of projects and held the smaller SWOT committee accountable to the actions promised. The CLO could call on any TCM department such as, for instance, engineers from the manufacturing department, the supply chain or rail operations, if expertise was required. By March 2004, positive stories started to emerge, such as one in *The Standard* speaking of the unprecedented governmental role of TCM:

TCM controls life (and death) here and manages a 60-bed hospital where 90 per cent of the patients are the local Maasai. The rise of this township in the [middle] of nowhere is a historic feat and today remains one of the only Kenyan towns whose infrastructure is managed by a private company. Magadi is perhaps the only town in Kenya where you can drink water safely from the tap.¹¹

RESPONDING TO POVERTY IN MAGADI DIVISION

Community Impact Assessment

Beginning in 2003, an independent impact assessment of the surrounding division, part of which included the township, was completed as part of TCM’s application for funding of a second plant from the World Bank. While the report found that the positive “impact of TCM was indisputable since, in many cases, basic services were not being delivered by the state,”¹² it illuminated some important limitations of the existing approach. First, “The community had become increasingly expectant of the company to provide more and more social and welfare services, creating a potential expectation gap.”¹³ Non-governmental organizations (NGOs) in the division similarly expressed concerns of dependence, with one NGO representative explaining, “We wanted to do an emergency obstetrics care training and the ministry wanted us to do everything, to conduct the training, provide desk coats, cleaning them, and you ask [the government] ‘what is your role?’”¹⁴ Second, a number of issues were raised at the SWOT that were beyond its scope but were nevertheless related to its success. For instance, while the Patterson Secondary School provided the necessary physical infrastructure to improve access to education, it did not consider

¹⁰ Interview with Elected Official, Magadi, Kenya, March 2005.

¹¹ John Kaman, “Struggles That Made Magadi,” *Sunday Standard*, March 7, 2004.

¹² *Ibid.*

¹³ PriceWaterhouseCoopers, “Magadi Soda Company Limited: Proposal to Develop Stakeholders Communication Plan and a Sustainability Report,” August 2004, pp. 38.

¹⁴ Interview with NGO Representative, Magadi, Kenya, May 2009.

the deep-rooted cultural challenges that inhibited young girls from going to school. An NGO employee explained, “Unless you get the adults, you know, the fathers and mothers, to believe that education is important, the children will never go to school. . . . So we want to go beyond the building of the secondary school.”¹⁵ At the same time, the health clinic was overloaded with patients due to the overwhelming deficiencies in public services in the broader Magadi division (outside of Magadi Township) related to issues of safe drinking water and health prevention. Third, there were independent initiatives throughout the division that represented a duplication of efforts. The report concluded:

Planning is undertaken in a vacuum and on an ad hoc basis: different sets of stakeholders, each doing their own appraisal of the development problems and needs in the area concerned, develop their own plans and programs with limited reference to other actors and with little sharing of information. . . . While the lack of resources is often cited as the main constraint, it is more the lack of information about what development programs are being planned and funded by which body.¹⁶

In light of these issues, the CLO explained that the company was facing an important decision point: “So that became a defining moment where there are two roads, one road where TCM would carry the whole issue, or another road where I think we need to bring in other parties.” In July 2004, a SWOT analysis was completed of a number of stakeholders including women’s groups, group ranches, appointed Kenyan government representatives and ministries, local government and political leaders, district administration, local / national / international NGOs / CBOs and the private sector (TCM) to “clearly identify and delineate the roles and responsibilities . . . in relation to managing community development activities in the area.”¹⁷ The results of the SWOT analysis revealed that most of the ministries had poor resources and a poor connection and rapport with the division for local level implementation of ministerial initiatives. TCM had the physical infrastructure while NGOs were diagnosed as having highly skilled technical expertise and human resources for community mobilization, participatory approaches and communication but lack of transparency and collaboration between groups leading to duplication, overlap and confusion in targeted communities. CBOs had community mobilization skills and participatory decision-making processes within the community but were small in size and had few resources.

Stakeholder Forum

By early 2007, the Stakeholder Forum was established as the platform through which multiple stakeholders could respond to problems that existed at the division level. Initially a 50-member committee, a steering committee was formed of nine members representing NGOs, CBOs, youth groups, local government and TCM. The division officer (DO), who represented the government for the division, was the chair of the forum and played an important role in getting government ministries involved. The forum allowed for a greater understanding of the issues in the division, as one member explained: “In fact stakeholders have assisted us so much because . . . they can raise an issue which maybe you were not aware, [and] from there we can pick issues and advise the government accordingly.”¹⁸ It also allowed community members to discuss issues with a wide range of actors, rather than just TCM:

¹⁵ *Ibid.*

¹⁶ *PriceWaterhouseCoopers, “Magadi Soda Company Limited: Proposal to Develop Stakeholders Communication Plan and a Sustainability Report,” August 2004, pp. 39.*

¹⁷ *CDP Consultancy Team, “Preparation of a Community Development Plan: Magadi-Soda Expansion Project,” August 2004.*

¹⁸ *Interview with Stakeholder Forum member, Magadi, Kenya, January 2013.*

And in fact the beauty of the Stakeholder Forum is that the community will be able to talk directly to all the development partners. Look, here TCM is doing a, b, c, d, but this problem is getting out of hand, TCM cannot handle all this on their own. Therefore AMREF [the African Medical and Research Foundation, an NGO], can you do something on this, and easily AMREF can come in. The Ministry of Livestock, what can you do? And therefore it becomes easier for the community to be heard by all authorities represented.¹⁹

The forum allowed for a more coordinated response to particular issues. For instance, rather than have their own independent peer educators for HIV / AIDS, different stakeholders established one group of educators that would be available as necessary for any of the organizations to use. In a related vein, the Stakeholder Forum allowed for an integrated response to issues in education, water provision and health care:

At Magadi hospital, we are institutional based. So we are best organized to give services within the hospital. But with this approach, you're waiting for people to get sick. So we have to go out for the prevention bit, because the hospital is curative. But we're not well-staffed or well-equipped to do that. So when we go for an outreach program, we'll have one vehicle and maybe just one nurse. So we have partnered with some youth, women and church organizations who will assist once we are there. The community health workers [peer educators] . . . who are partially trained, maybe will be able to do clerical things and all that. So most of our outreach activities are heavily dependent on those other CBOs or small organized groups.²⁰

A government official used the analogy of a basket to explain the pooling of resources available from multiple actors in the Stakeholder Forum: "The forum is like a basket whereby we can bring in all the resources and maybe from that basket now the community can access others rather than depending on the government, maybe other NGOs or the private sector. That was the idea of that forum."²¹ In response to drinking water issues that were overloading the health facilities, AMREF, an NGO, explained: "AMREF got the funds for the pipeline, but we don't have the technical skill. And TCM has engineers and we used those. TCM did the survey and AMREF implemented them, again putting the three pipelines in three villages. AMREF built the tank near the source and the water can be treated from there."²²

Because of the Stakeholder Forum, TCM's role in the Patterson Secondary School evolved from working with the community in its construction and operations in its early stages to years later playing an advisory role in addition to providing funding for student bursaries. The government technically owned the school while local governmental bodies, CBOs and NGOs played the primary role in the day-to-day operations.

RESILIENCE TO EXTERNAL FORCES

In 2008, Kenya erupted in violence and protest after what was believed to be a manipulated presidential election that resulted in incumbent President Mwai Kibaki remaining in power. Because each presidential candidate originated in a particular tribe, the conflict was along tribal lines, resulting in thousands of deaths throughout the country. The senior chief explained why Magadi was immune from this violence: "Even last year when there were issues around the general election, I think Magadi was one area where we have different types of Kenyans and I believe we didn't have a conflict here because of the SWOT

¹⁹ *Ibid.*

²⁰ *Interview with TCM Magadi Hospital doctor, Magadi, Kenya, May 2008.*

²¹ *Interview with Government Official from Ministry of Agriculture, Magadi, Kenya, January 2013.*

²² *Interview with AMREF employee, Magadi, Kenya, May 2009.*

system.”²³ Another event that threatened TCM’s relationship with the community was a train bridge collapse in 2012 when gallons of fuel spilled from the company’s train into the nearby river, affecting the small community in the region who relied on the river for water. Deeply irate, the community prevented any recovery work the following day, demanding compensation for polluted water in seasonal rivers and pastures. In response, TCM held an urgent meeting on-site with local leaders and government officials. This meeting was possible because TCM, in cooperation with local leaders, had previously established the Kajiado Leaders Forum (an equivalent to the Magadi SWOT committee) the previous year. As a result of an already existing engagement process, TCM was able to draw on the goodwill created with the chairman of the forum, also an area councillor, and another elected councillor sitting on the forum who was a member of one of the affected families. On the Monday following the incident, a plan of action was developed including an environmental impact assessment, insurance claim process and a plan of future meetings with community and government representatives.

INCREASING COMPETITIVENESS OF THE SODA ASH MARKET

As the aftershocks of the 2008 financial crisis finally hit Kenya, TCM had to close its plant for a record time period to allow the company to run down the high stocks of soda ash that had piled up. The *Daily Nation* explained, “TCM has been one of the most severely affected, despite it being tucked away in the salty waters of Lake Magadi.”²⁴ Exacerbating the challenge of difficult economic times, Chinese companies were finding ways to produce soda ash more efficiently, not to mention a more general reduction in commodity prices globally. An article in the *Business Daily* explained, “How manufacturing companies manage their oversight of materials, information and finances will make the difference between whether a firm fails or succeeds.”²⁵ What is more, natural soda ash plants, such as TCM’s, were restricted to lower grades of soda ash unlike their synthetic-producing competitors that could use a true chemical synthesis to produce a purer product for higher end industrial glass. While TCM’s newer plant allowed it to increase the grade of the ash, it was still quite dependent on the quality of the ash available by nature, which was typically a low to mid-grade used for container glass.

At the request of a consultancy group hired by the parent company to assist in finding ways to reduce costs, TCM provided a detailed breakdown of the firm’s costs but was unable to provide specific details on lines of expenses related to community efforts. The human resources manager explained:

We had an independent consultant come in and they requested information on our community spending. But we don’t account for things that way. Take, for example, the very common instance where an employee such as an engineer spends a few hours helping to fix some technical problems at the secondary school. It’s difficult to separate out how much of the engineer’s salary was used to fund community projects versus the operations of the plant. We’ve always just included this as part of operations.

The consultancy group suggested to TCM senior management that they remove community activities from the organizational chart, separate employee community activities from those activities related to core operations and therefore remove community expenses from its income statement.

TCM considered establishing the Magadi Foundation as the central platform through which to fund community activities. The purpose of the foundation was multifold. First, it would provide a non-profit organization through which external actors, including NGOs and the parent company Tata Group, could

²³ Interview with Senior Chief of Magadi, Kenya, March 2005.

²⁴ Justus Ondari, “Putting Fizz in the Soda Ash,” *Daily Nation*, April 21, 2009, pp. 10.

²⁵ James Makau, “Magadi Changes Tack to Ride Out of Hard Times,” *Business Daily*, October 1, 2009, pp. 5.

contribute funds to community projects and thereby further relieve some of TCM's financial commitments. Second, it would allow TCM to follow the advice of the consultancy's recommendation by essentially charging any community-related activities conducted by employees to the foundation, thereby keeping any costs associated with community development independent of TCM's operational costs. Third, the foundation would be able to carry on projects that were started by NGOs that lacked the funding to continue. The CLO explained, "We also have other NGOs operating in Magadi, such as AMREF for example, that are operating on a project kind of mode. They will come and say, 'we want to work for two years,' so what happens to their projects if it comes at the end of the two years, who is responsible in carrying forward some of those activities . . . the answer to that will be the foundation."

On the one hand, Mbui recognized the need to reduce costs to remain competitive and that the costs of community development were, indeed, one category of costs to consider. But on the other hand, he was not sure whether the consultancy's recommendations would compromise what many perceived to be a very successful approach to responding to poverty in the community. He wondered whether the foundation was the best way to go and, more importantly, how it would fit with the existing approach TCM had used in the past and took so long to develop with the aid of partners. TCM had developed such strong relationships with stakeholders in the division that the last thing the company wanted to do was damage those relationships.

EXHIBIT 1: MAGADI, KENYA



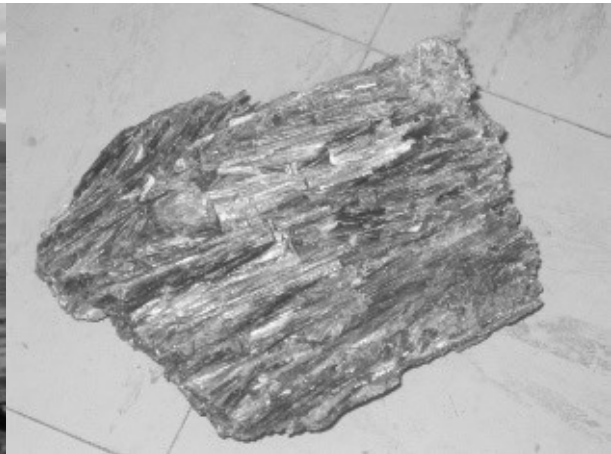
TCM Factory



Magadi Township



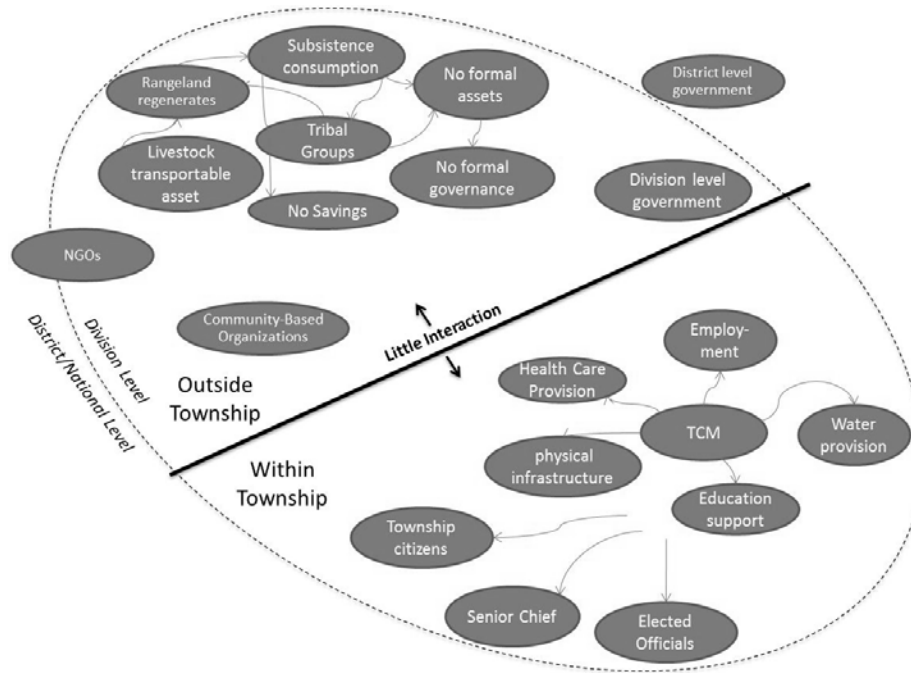
Lake Magadi



Trona (Soda Ash Raw Material)

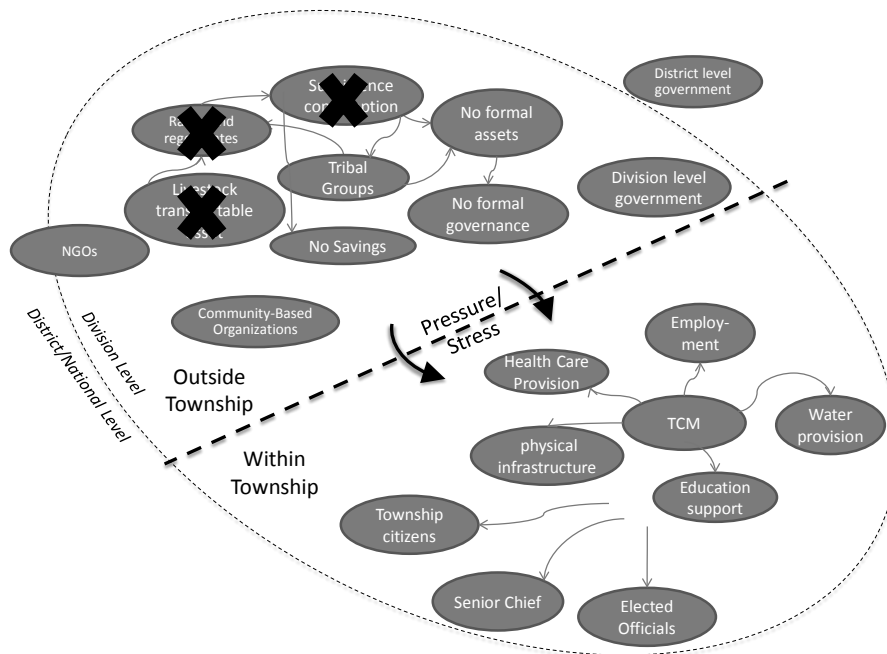
Source: Photos taken by case author.

EXHIBIT 2: MAGADI TOWNSHIP/DIVISION IN 1990 TO 2000



Source: Created by case author.

EXHIBIT 3: IMPACT OF DROUGHT IN MAGADI DIVISION IN 1999



Source: Created by case author.