



LEADING THE TATA GROUP (A): THE RATAN TATA YEARS

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December 2012. Ratan Tata (75 years old), chairman of the Tata Group, one of India's oldest (**Exhibit 1**) and most respected business groups, handed over the reins of the group to Cyrus Mistry. Speaking of his legacy, Ratan Tata said:

I do not know how history will judge me, but let me say that I've spent a lot of time and energy trying to transform the Tatas from a patriarchal concern to an institutional enterprise. It would, therefore, be a mark of failure on my part if it were perceived that Ratan Tata epitomizes the group's success. What I have done is establish growth mechanisms, play down individuals and play up the team that has made the companies what they are. I, for one, am not the kind who loves dwelling on the 'I'. If history remembers me at all, I hope it will be for this transformation.ⁱ

History is indeed likely to remember him for the remarkable transformation (**Exhibit 2**) of the 144-year-old group from a slow, bureaucratic, domestic market focused, loosely connected agglomerate of businesses functioning under the Tata umbrella into an ambitious, integrated business house that realized over 60% of its revenues from global markets. During his tenure, the group carried out some of corporate India's biggest cross-border acquisitions viz., the tea major Tetley, steel major Corus Steel and luxury car maker Jaguar Land Rover. Ironically, when he took over the reins of the group from his legendary predecessor JRD Tata, many had expressed doubts about his ability to hold the group that had over 95 affiliates operating in a diverse range of businesses that included chemicals, hotels, salt, software, steel, soaps, and watches together. Not only did he manage to hold the group together, he grew the revenues from \$6 billion to \$100 billion, market cap from \$9.5¹ billion to \$91.22 billion and importantly strengthened the competitive position of the flagship companies of the group. At the time of his stepping down, Tata Steel was one of the largest steel producers in the world; Tata Motors' portfolio comprised not only trucks, its traditional product, but also passenger cars that ranged from the ultra-low-cost car Nano to the luxury brands Jaguar and Land Rover; Tata Consultancy Services was among the top ten software services providers in the world; Tata Global Beverages was a global major in tea; Titan, apart from sustaining its leadership of the Indian watch market, had emerged as the market leader in jewellery businesses in India. Cyrus Mistry, the new chairman of the group acknowledged:

What Mr Tata has done in more than two decades as the Chairman of Tata Sons is to institutionalize the group ethos, which is much more significant today than in the days of old. We should not underestimate the immense difficulty he must have gone through to bring about this institutionalization. Although the most important first steps have been taken during his tenure, there is still many a mountain to climb if we were to fulfil his dream.ⁱⁱ

Earlier, Ratan Tata had articulated his dream for the group:

I expect the Tatas to be much bigger, of course, than it is now. More importantly, I hope the group comes to be regarded as being the best in India, best in the manner in which we operate, best in the products we deliver and best in our value system and ethics. Having

¹ 1992 Average exchange rate: ₹30.65: 1 USD (₹ = Indian Rupee)

said that, I hope that a hundred years from now we will spread our wings far beyond India, that we become a global group, operating in many countries, an Indian business conglomerate that is at home in the world, carrying the same sense of trust that we do today.ⁱⁱⁱ

TATA GROUP HISTORY

The Tata Group came into being when Jamsetji Nusserwanji Tata started a trading firm in 1868. The group entered into manufacturing in 1874 (textiles) and into services in 1904 (hotels). Jamsetji's ambition to pioneer and set up new industries in the country was sustained by his son, Sir Dorabji Tata who succeeded him as the chairman of the group. He set up India's first steel plant in 1907, its first cement manufacturing unit in 1912 and the first indigenous insurance company in 1919. Each of these units was set up as a separate company. The Chairman of Tata Sons, the holding company and the principal promoter of the group traditionally became the Chairman of the Tata group (**Exhibit 3**). The members of the board of Tata Sons and Tata Industries, the other investment arm of the Group, are typically also members of the boards of various group companies.

The pioneering spirit of the Tata Group went beyond the world of business. The group set up some of India's eminent institutions – Indian Institute of Science, Tata Memorial Hospital, Tata Institute of Fundamental Research, Tata Institute of Social Sciences, Tata Energy Research Institute, and National Centre for Performing Arts. Jamsetji Tata said:

We do not claim to be more unselfish, more generous or more philanthropic than other people. But we think we started on sound principles, considering the interests of the shareholders our own, and the health and welfare of the employees, the sure foundation of our success^{iv}.

Lord Curzon, the then viceroy of India, acknowledged the pioneering legacy of Jamsetji Tata:

No Indian of the present generation had done more for the commerce and industry of India.^v

Jamsetji's sons (**Exhibit 4**), Sir Dorabji Tata, and Sir Ratan Tata² bequeathed most of their inheritance and wealth for the good of the society when they set up the Sir Dorabji Tata Trust and the Sir Ratan Tata Trust, respectively. After Sir Dorabji's death in 1932, Sir Nowroji Saklatwala, the third chairman of the group, continued the tradition of charity through trusts. As a consequence, nearly two-thirds of the shares in Tata Sons are held by charitable trusts. JRD Tata (JRD), who succeeded Saklatwala as the chairman of the group in 1938, explained:

The Tatas are in fact a trust and an institution more than just a business house. Right from the early days I knew Mahatma Gandhi and I was quite impressed and believed in the spirit of trusteeship... I think that is the best way to apply the spirit of trusteeship – to act

² Jamsetji Tata's younger son, Sir Ratan Tata passed away in 1919.

as trustees and to consider major problems of the country in connection with the firm as trustees and not as businessmen merely trying to make money for the firm. Incidentally, we want to make money because that is the only way to make funds available to charitable trusts.^{vi}

JRD ERA

JRD joined the Tata group in 1925 upon his father's beckoning, before he could complete his university education prompting JRD to say:

Because of a lack of technical knowledge, my main contribution in management was to encourage others.^{vii}

During the 52 years of JRD's leadership, the group entered varied businesses, growing from 14 companies in 1938 to a 95 company group in 1991, which included some of the flagship companies of the Group in 2016 – Tata Chemicals, Tata Motors, Tata Consultancy Services (TCS), Tata Tea and Titan Industries. Speaking about the relationship between Tata Sons and its various affiliated companies, JRD had said:

I would call it a group of individually managed companies united by two factors...that they are part of a larger group, the Tatas. Each company enjoys its share of privilege. Second, there is innate loyalty, a sharing of certain beliefs.^{viii}

Over the years, to facilitate growth, JRD had allowed the dilution of Tata Sons' stake in the group companies resulting in the group holding company having only a small, some would say symbolic, stake in many of the group companies.^{ix} In 1969, when the Government of India with a view to curb the power of large business groups such as the Tatas introduced the Monopolies and Restrictive Trade Practices Act, the Tata group claimed that its affiliates were professionally managed independent companies and JRD was a just a part-time chairman. JRD said:

Today, except in Tata Sons, I do not wield any kind of executive authority. But because I am senior in age, I operate more on the basis of influence and confidence.^x

Even when the regulatory restrictions were eased in 1980s, JRD Tata did not feel the need to institutionalize the group affiliation. Speaking to Tata group historian R M Lala, JRD explained his leadership style:

With each man I have my own way. I am one who will make full allowance for a man's character and idiosyncrasies. You have to adapt yourself to their ways and deal accordingly and draw out the best in each man. One of the qualities of leadership is to assess what is needed to get the best results for an enterprise. If that demands being a very active executive chairman, as I was in Air-India, I did that. On the other hand, in one of our other companies where I know that the managing director likes to be alone and will get the results that way, it will be stupid for me to come in the way. At times, it

involved suppressing yourself. It is painful but necessary... To lead men, you have to lead them with affection.^{xi}

Consequently, CEOs of large Tata enterprises emerged as independent leaders in the Tata group. Tata veterans – such as – Darbari Seth, who played a crucial role in building Tata Chemicals and Tata Tea, Ajit Kerkar who was instrumental in growing the Indian Hotels business, Tata Steel chairman Russi Mody who successfully led the company through difficult times, eminent jurist Nani Palkhivala who was Chairman of ACC Ltd. – emerged as powerful leaders in the Tata group. Kerkar described:

He was the kind of chairman any professional manager should have. He laid down the policies but never interfered with the day-to-day working. ...he never imposed his own will on anything. That was his greatness.^{xii}

During his tenure, JRD started group-wide initiatives such as the Tata Administrative Services (TAS) to groom talented individuals for advanced management careers in Tata companies, sustained Jamsetji's employee-friendly philosophy by initiating many employee best-practices – eight-hour working day, free medical aid, workers' provident scheme, and workmen's accident compensation schemes – that later were made into law. For his social and entrepreneurial endeavors, JRD Tata was awarded, India's highest civilian honour, the Bharat Ratna, in 1992.³

In the 1980s when JRD started considering his succession, insiders at Tata group thought that Russi Mody would succeed him. Ratan Tata said:

For most of the 1980s, I personally thought that Russi was certain to be the next head of Tatas. He ran Tata Steel very successfully, had a larger-than-life personality and Jeh (JRD) was very fond of him. Russi was gregarious. He was outgoing. He could go into a crowd of workers and charm them.^{xiii}

In 1988, JRD asked Russi Mody to additionally head Tata Motors. However, when Russi Mody spoke disparagingly about Tata Motors to the press, the then Tata Motors' chairman, Sumant Moolgaonkar refused to hand over charge to Mody and sought the appointment of Ratan Tata as the company's chairman. Later in March 1991, when JRD announced the relatively less known and reticent Ratan Tata as his successor, it caused much drama and displeasure in the group. Unlike the other contenders for the position, Ratan Tata had no demonstrated success until then and the two Tata companies that he headed before, NELCO and Empress Mills had been shut down. Remembering his initial days, Ratan Tata said:

J.R.D. Tata had around him a team of senior managers, all of them people of substantial understanding in their respective spheres. While they may have acceded to his wish that I take over the chairmanship—and this happened suddenly—I must confess that I did not feel any sense of joyousness on their part, because some of them had aspirations to have the job themselves.^{xiv}

³ JRD is the only businessman to have received the award.

RATAN TATA: EARLY CAREER

Ratan Tata was brought up by his grandmother Lady Navajbai Tata, owing to the separation of his parents. After his graduation from Cornell University with a double major in engineering and architecture, he planned to stay on in the United States. Ratan Tata recollected:

I was quite happy with my work and, given a choice, I would have remained in the US.^{xv}

However, he had to return to India in 1962, when Lady Navajbai's health deteriorated. Upon JRD's invitation, Ratan Tata joined the group and began his career at Tata Steel. Over the next 10 years, prior to being given the responsibility of turning around the ailing NELCO, Ratan Tata had stints in various group companies. Once one of the largest producers of radios in the country, NELCO had less than 3% market share and had significant accumulated losses when Ratan Tata took charge. Over the next 3 years under his leadership, NELCO recovered achieving a market share of 20% and recouping its losses. However in 1977, even though Ratan Tata believed in the fundamental soundness of NELCO, the company was closed down owing to problems with employees union. Soon thereafter, Ratan Tata was given the responsibility to turn around Empress Mills, yet another ailing company in the group. However his plans to modernize the company did not meet the approval of Tata Sons. Ratan Tata said:

At around this time, the whole Indian textile industry went through a bad patch. So, some Tata directors, chiefly Nani Palkhivala, took the line that we should liquidate the mill. I argued with them. We needed just ₹50 lakhs⁴ (5 million) to turn it around. But Nani opposed giving us the money and we closed the mill down.^{xvi}

The experience with NELCO and Empress prompted Ratan Tata, a member of the board of Tata Sons since 1974, to write to JRD Tata about the need to have a strategic plan for the group:

I am strongly advocating the initiation of such a plan by the chairman as I personally see signs of our disintegration as a group. The first issue that needs to be addressed is whether we, as Tatas, see ourselves operating in the next 5 to 10 years as a single unified group, or a loosely connected agglomeration of independent companies...If at all it is decided that the Tatas should operate as a group, then several strategic decisions need to be taken relating to the projected organizational and operational structure of the Tatas.^{xvii}

Ratan Tata reminisced:

I used to discuss the matter with JRD, why don't we find a mechanism to pull ourselves together? At that time, I was looking at a logo – not the new one – and was asking why don't we use that as a glue and demand things from companies and give things to companies. But he never really supported that because he felt that it was not necessary. And from his standpoint, he was the patriarch, they were his team and there was no need to do all this.^{xviii}

⁴ ₹ = Indian Rupee.

In 1983, soon after he was appointed the chairman of Tata Industries, Ratan Tata developed a group-wide strategic plan, which proposed the promotion of new and high technology ventures, increasing the group's international business and moving out of underperforming businesses. The plan also suggested that the group companies take advantage of the group's size and diversity and stressed on making Tata Group a more unified entity through increased ownership. Tata Industries, which after the abolishing of the managing agency system had been without a clear mandate, became the group's vehicle for entry into the proposed new businesses. Fresh equity infusion from group companies – Tata Steel, Tata Motors, Indian Hotels Co., Tata Oil Mills Co., Tata Chemicals, and Voltas – resulted in Tata Industries pursuing several of the newly identified opportunities.⁵

Later, following his appointment as Chairman of Tata Motors, Ratan Tata encouraged the company to expand its portfolio. Tata Motors first entered the utility vehicles segment with the launch of Tata SuMo and followed it up by entering into a joint venture with Mercedes Benz to assemble cars for sale in India and explore the potential for exports.⁶

LEADING CHANGE

Ratan Tata's appointment as chairman of the group coincided with the liberalization of the Indian economy, which dramatically changed the country's industrial landscape. The ushering in of global competition prompted many to predict that Indian companies after having operated in a protected economy for decades would lose out to new and agile competition. The Tata group was considered particularly vulnerable owing to its size, diversity, decentralized structure, and the recent retirement of its long serving chairman, JRD Tata. Ratan Tata agreed:

I think the group needed cohesion, or let me put that another way, the cohesion the group had was through the persona of J.R.D. Tata, the patriarch. My concern was that after him, it would be difficult to hold it together.^{xix}

FIRST WAVE: TRIAL BY FIRE

Ratan Tata's concerns about the group's future stemmed partly from the structural problems that he faced as a chairman. He had little control over the companies because of the low ownership stakes that Tata Sons held in them. Moreover, during the 53 years of JRD's chairmanship, the chieftains of group companies had experienced total freedom and they made it clear that they intended to guard their turfs. Darbari Seth, Chairman of Tata Chemicals and Tata Tea, put it bluntly:

The Tata group is a commonwealth of enterprises, not an empire.^{xx}

Ratan Tata had his first confrontation with Russi Mody when the latter appointed Aditya Kashyap, his protégé, as joint managing director,^{xxi} without the consent of the company's board. Only after JRD's intervention and multiple discussions with the board did Mody take back his decision. The relationship

⁵ Tata Telecom, Tata Keltron, Hitech Drilling Services, Tata Honeywell, Tata Elxsi, Plantek, and Tata Finance.

⁶ The Mercedes Benz alliance ended in 2001 when Tata Motors sold its stake in the partnership.

between the two got further stressed when in early 1992 Ratan Tata revived⁷ an old policy that set the retirement age for executive directors (including managing directors and executive chairmen) at 65 years and for non-executive directors at 75 years.⁸ Mody, 74 years at that time, complied by giving up his executive position and continued as the non-executive Chairman of Tata Steel.⁹ However, before he was to retire completely from Tata Steel, his conflict with the Tata Steel board and Ratan Tata intensified, often in the public domain. An anguished Ratan Tata said:

I don't understand why Russi behaved the way he did. He was my friend. He was Jeh's favorite. But he just became totally unreasonable. I remember one board meeting where we asked him why he kept giving interviews running down Tata Steel, of which he was the chairman. (By then, J.J. Irani was MD.) He just got up and said, "I will leave the room because this subject has been raised." And then, to our astonishment, the chairman of Tata Steel got up and walked out of his own board meeting. After that he didn't turn up for board meetings and kept bad-mouthing the company. Finally, the board had to remove him.^{xxii}

The poor competitiveness of the two flagship companies of the group Tata Steel and Tata Motors, of which he was now the chairman, was the second major challenge for Ratan Tata. Years of leadership, achieved in a closed economy insulated from serious competition, had rendered these companies with an organizational culture that had little regard for cost, quality, or customer satisfaction. Predictably in the changed context, both the companies, which constituted 50% of the group's turnover, experienced a severe decline in their revenues and profits in 1992. Ratan Tata set about transforming them. He said:

I made no effort to play a group role until TISCO and TELCO were doing extremely well.^{xxiii}

Apart from focusing on the three key drivers of competitiveness, he made significant investments in upgrading their technology and revamping their product portfolio. While Tata Steel increased the share of value-added products in its customer offerings, Tata Motors announced its plans to produce an indigenously developed passenger car, Indica. However, the company's plans to foray into passenger cars met with skepticism. Analysts considered the move very risky as the company, essentially a manufacturer of commercial vehicles, had no experience in designing cars. The venture if failed could bankrupt the company. Ratan Tata did not agree:

I think risk is a necessary part of business philosophy. You can be risk-averse and take no risks, in which case you will have a certain trajectory in terms of your growth. Or you can, while being prudent, take greater risk in order to grow faster. I think, as a group, we were risk averse and we hardly grew because either it was not safe or no one else had done it before. I view risk as an ability to be where no one has been before. I view risk to be an issue of thinking big, something we did not do previously. We did everything in small increments so we always lagged behind.^{xxiv}

⁷ The retirement policy, though established earlier, was not actively enforced till 1992.

⁸ The retirement age for non-executive directors was further lowered from 75 to 70 years in 2000.

⁹ Darbari Seth, resigned as Chairman of Tata Chemicals, 4 months before he turned 75 years. Ajit Kerkar, Chairman and MD of Indian Hotels, was forced to leave the board of the company when he turned 65 years in 1997.

Over the next 2 years, the improvements in quality and productivity resulted in both companies recording significant improvements in the performance. Even while helping the flagship companies improve performance, in order to seize the new opportunities made available by economic reforms, Ratan Tata entered into collaborations with multinationals and set up several high technology ventures such as Tata Teleservices (Bell Canada) and Tata Communications in the telecom sector, Tata Petrodyne in upstream oil and gas (with BP), Tata Information Systems in information technology (with IBM) and initiated talks with Singapore Airlines to launch airline services in India. To fund the new ventures, Ratan Tata sold 20% stake in Tata Industries Ltd. to Hong Kong based Jardine Matheson group for \$35 million (₹ 1.26 billion).^{xxv}

SECOND WAVE: THINK LIKE A GROUP

As a first step towards integrating and getting the various affiliates to think like a group, Ratan Tata sought to increase Tata Sons' stake in the group companies. Tata Sons made a rights issue of equity shares for ₹3 billion and the various trusts renounced their rights in favor of the group companies who subscribed to the equity. The money thus raised was used to increase stake in group companies. Ratan Tata explained:

There was a question whether we had the right to claim to manage these companies. In fact we didn't have the legal right, or even the moral right, to manage them. Then we set ourselves the task of seeing how we could put ourselves together as a more meaningful and recognizable group of companies with more central control.^{xxvi}

Organizing the various businesses into a coherent structure came next. With the help of the consulting firm, McKinsey & Company, Ratan Tata organized the various businesses into seven sectors – information technology & communications, engineering products and services, materials, services, energy, consumer products, and chemicals. Many of the affiliates had overlapping businesses – ACC, Tata Chemicals, and TISCO made cement; Merind and Tata Pharma had presence in pharmaceuticals. These businesses were either consolidated into one of the affiliates or sold. Ratan Tata explained:

The kind of structural change that we are seeking is giving more attention to performance and measurement of performance, greater mobility between companies in terms of manpower and a greater focus in companies on strategic issues rather than on tactical operations.^{xxvii}

TATA BRAND

Along with the restructuring, Ratan Tata started initiatives to strengthen the group's cohesion. In 1998, he introduced the Tata Brand Equity and Business Promotion Agreement between Tata Sons and the group companies. The agreement stipulated that Tata Sons, the owner of the Tata name and brand logo, would promote the group brand and protect the interests of the group companies, both in India and globally. The Tata brand name itself was to be used with much care. If a member company fell outside the core businesses of the group or was perceived as a risky new venture where the group had little experience, the

Tata name was not used. One of such companies was Trent, the retail venture, started by Simone Tata, following the sale of Lakme to the Unilever subsidiary in India, Hindustan Unilever.

Though the agreement was not mandatory, companies that wanted to use the Tata name were required to participate in the program by paying an annual fee to Tata Sons. The Tata Brand Equity agreement categorized the companies into two tiers – companies that used the Tata name directly, and had a strong association with the Tata name; and companies that did not use the Tata name directly. With an intention to create single strong equity that would benefit all the companies, it was proposed that the first tier companies would contribute 0.25% of turnover, or 5% of profit before tax, whichever was less. Further, the second rung companies would contribute 0.15% of the turnover. Ratan Tata said:

If you are to fight a Mitsubishi or an X or Y in the free India of tomorrow, you better have one rather than 40 brands. You better have the ability to promote that brand in a meaningful manner.^{xxviii}

The levy of brand fee was strongly criticized by the old guard and critics. Nani Palkhivala, the then chairman of ACC, declared that while ACC was a close associate of the group, it was not a Tata Group company. Ajit Kerkar, chairman and managing director of Indian Hotels argued the company had never used the Tata name and hence did not owe a fee to Tata Sons. Echoing these sentiments, the well-known columnist Swaminathan Aiyar wrote:

So many Tata branded products have flopped that the Tata brand is by no means a winner. The group's textile mills and Tata Oil fell sick; Lakme was sold before it suffered a similar fate. Titan Watches and Indian Hotels have prospered but neither carry the Tata name... Tisco and Telco have created the Tata reputation and cynics will say they should demand money from Ratan Tata for giving his name such prestige and not the other way around.^{xxix}

Ratan Tata defended:

When a company would go to its bankers, it was part of the Tata group; when it went to seek a new collaboration, the literature spent a long time talking about the Tata group of which it was a part. But after those situations had been achieved the issue of being a member of the Tata group sort of slipped into a lower grade.^{xxx}

Signatories to the brand agreement were required to sign the Tata Code of Conduct that codified the group's transparent and ethical business practices. They also needed to meet with certain performance requirements, which included being among the top three in their respective industries, double their turnover every 4 years and, profit after tax every 3 years (**Exhibit 5**). Ratan Tata said:

[Over the years] we didn't benchmark ourselves against the best of the breed, either in India or globally. Some companies never looked at market share, and we always compared ourselves traditionally to our past... many of them got into the phase of reacting to the market instead of being proactive.^{xxxi}

In December 1998, seven of the Tata companies – TISCO, TELCO, Tata Tea, Tata Chemicals, the Tata Electric Companies, Tata International, and Tata Industries – signed the agreement. To make the Tata name more prominent and evocative of the Tata connection to its companies in the minds of the stakeholders, TISCO was renamed as Tata Steel and TELCO became Tata Motors. The diverse logos used by group companies were also replaced with a common group logo.

DRIVING EXCELLENCE

To help him oversee the restructuring efforts, Ratan Tata set up a five-member¹⁰ group executive office (GEO). The GEO was a guide to group companies in strategic planning, benchmarking performance, and in allocating resources. To oversee performance and to enhance the interaction between the managements of the affiliate companies and Tata Sons, the GEO set up Business Review Committees (BRC) for each of the affiliates. The committees consisted of representatives from Tata Sons and external agencies such as financial institutions. Ratan Tata explained:

[T]he BRC is not focusing on what is necessary for the Tata group...It is not an internal Tata board, it is a committee of the company's board...The BRC is focusing on trying to make a company more profitable, more productive...In fact, the directors of the companies were concerned that this would take away the autonomy of the board. It is not so. The BRC will, in fact, finally make its recommendation to the board through this board committee and the board will finally take its decision.^{xxxii}

To help companies identify areas of improvement, the Tata Business Excellence Model (TBEM) was introduced. The TBEM, which was modeled along the lines of the Malcolm Baldrige National Quality Award, benchmarked all Tata companies across seven core aspects of business operations: leadership, strategic planning, customer focus, measurement, analysis and knowledge management, workforce focus, process management and outcomes of financial and non-financial parameters, and business results. The JRD Quality Value award was to be given to the company that scored the highest on the benchmarking.

Tata Motors launched Indica which received rave reviews for its design and comfort. However soon, customer complaints about the product quality and engine performance started coming in. Sales did not go as expected. Tata Motors reported a net loss of ₹5 billion because of the passenger car project, the largest loss posted by any private sector company in India and the largest loss in the history of the Tata group. The company improved its profits by following the TBEM recommendations of quality improvement, cost reduction, re-engineering of processes, and new product development. Similarly, Tata Steel embraced TBEM recommendations to become one of the lowest cost producers of steel in the world and aligned its production processes to market dynamics. The company brought down its per-tonne cost of production from \$225 to \$150, the second lowest worldwide. B Muthuraman, Managing Director, Tata Steel, asserted:

¹⁰ NA Soonawala, Director (Tata Sons), R Gopalakrishnan (Executive Director, Tata Sons), Ishaat Hussain (Executive Director, Finance, TISCO and later Director, Finance Tata Sons), Kishore Chaukar (Managing Director, Tata Industries Limited) and Manab Bose (Director, Human Resources, Tata Group).

With all these efforts, Tata Steel, by the year 2001, had become one of the lowest cost producers of steel in the world and began to be recognised in the global steel industry. We had earned the right to grow.^{xxxiii}

PURSUING GROWTH

In 2002, Ratan Tata set up the Group Corporate Centre¹¹ (GCC) to provide strategic direction and growth opportunities to the group companies and made the GEO its executive arm. To fund the growth of the group, Tata Sons took TCS public. The group sold 13% stake in the company for \$1.2 billion (₹54.2 billion). Ratan Tata said:

The proceeds from the IPO will be used to help the Tata group continue restructuring its balance sheet, promoting new ventures, and deepening its involvement in existing group companies.^{xxxiv}

Companies responded to Ratan Tata's call for promoting new ventures by undertaking several new projects. In the commercial vehicle segment, Tata Motors identified the need for a four-wheeled vehicle that could serve as a last-mile distribution transport. For ferrying goods over small distances there were either trucks, which were costly or there were three-wheeled auto rickshaws that were unsafe and fuel inefficient. The company launched Tata Ace in 2005 that was priced on par with three-wheeler auto-rickshaw but had the payload capacities of a four-wheeler truck and importantly, provided safety and maneuverability suitable to Indian roads. The product was an instant hit; it transformed the light commercial vehicle market.

In the new technology areas, the group established presence in all aspects of telecom services – fixed-line and wireless services employing CDMA technology through Tata Telecom, GSM cellular services through a joint venture with AT&T and Birlas, long distance calling, internet and value-added services through Tata Communications, following the acquisition of state-owned company Videsh Sanchar Nigam Limited.

In the beverages business, with a view to globalize its footprint, Tata Tea sought to acquire Tetley, the UK-based global tea major. The company's \$318 million bid failed as it could not put together its funding arrangements well in time. R.K. Krishna Kumar, Managing director of Tata Tea at that time recalled:

We realized that we had to get our act together on our funding arrangements well in advance, if we ever desired to make such a large global acquisition. It was a lesson well learnt.^{xxxv}

In 2000, when Tetley came up for sale again, Tata Tea bid \$435 million and won. The takeover was the group's first international acquisition and the largest cross-border takeover by an Indian company at that time. Tata Tea, which was a third of the size of Tetley beat competition from US consumer products major

¹¹ Initially, the GCC consisted of Ratan Tata and three other senior group executives – NA Soonawala, RK Krishna Kumar and JJ Irani – from the board of Tata Sons.

Sara Lee and Nestle, the Swiss foods major and emerged as the world's second largest tea company with sales in 44 countries. Ratan Tata said:

In a world where brand strength is crucial, the acquisition of Tetley will provide Tata Tea with a global opportunity.^{xxxvi}

The deal was mainly financed through a debt of \$320 million, and as a consequence Tetley continued to function as an “independent” company with Tata Tea playing largely a monitoring role. Homi Khusrookhan, the then managing director of Tata Tea, said:

A leveraged buy-out has perforce certain limitations attached to it, in terms of what you can and can't do as long as the high leverage continues. Therefore, in the early days following the acquisition, Tata Tea restricted its role to an advisory one: monitoring, guiding and watching over Tetley's operations.^{xxxvii}

Two years later, Tata Tea and Tata Sons raised their stake in the company, retired high cost debt, and integrated the operations of Tetley to capture synergies in areas of tea buying and blending.

THIRD WAVE: GOING GLOBAL

The Tetley acquisition was the start of the globalization drive at the Tata Group. The Group Centre recruited Alan Rosling from Jardine Matheson to spearhead the effort and Arun Gandhi, a leading chartered accountant, who had advised Tata Tea in the Tetley acquisition to provide the requisite valuation and taxation expertise. Ratan Tata said:

I have felt for some time that we have been an inward looking group. We could have gone overseas much earlier; the Aditya Birla Group did that many years ago. But we were very obsessed with ourselves in India. And I suddenly felt — certainly when I started to sit on boards overseas — very conspicuous by the fact that we were only in India.^{xxxviii}

Over the next decade, the Tata Group companies made a string of acquisitions (**Exhibit 6**). Affiliate companies identified targets that either filled gaps in their product portfolios or provided sourcing advantages or gave access to new geographical markets. The GCC provided M&A advisory support, helped the group companies to mobilize capital, assessed whether the target company would fit into the Tata's values and provided post-acquisition integration support. Importantly, it acted as a repository of knowledge and expertise transferring learning from previous acquisitions to the affiliates. Speaking of its acquisition of Daewoo Commercial Vehicle Company in Korea, Ravi Kant, Vice Chairman of Tata Motors said:

Tata Motors was one of 10 bidders, including Chinese and European companies. Initially, we faced some difficulty in being accepted as a serious bidder. I think the one thing that helped us win the deal was our philosophy. Mr Ratan Tata suggested that we should see ourselves as a Korean company, not as an Indian company in Korea. That made all the difference.^{xxxix}

In the beginning of 2007, Tata Motors acquired the ailing premium luxury car brand Jaguar and top of the line utility vehicle brand Land Rover from Ford Motor Company for approximately \$2.3 billion. Though Tata Motors wished to buy only Land Rover, Ford was selling both the brands (JLR) as a package. The GCC helped Tata Motors raise the \$3 billion (about ₹120 billion) from multiple banks. Analysts and investors said Tata Motors was making an expensive mistake, especially since experienced car makers such as BMW and Ford could not turn around JLR. However, Ratan Tata saw it as a unique opportunity to move into premium segment with access to world class iconic brands. Ravi Kant said:

The deal has dramatically changed the perception of Tata Motors worldwide. People see us differently now, with greater respect. Doors that were closed earlier are now opening. People are coming on their own from all corners of the world and making so many offers. It created a huge impact.^{x1}

The financial crisis hit soon after the deal closed, and demand for luxury cars tumbled in Europe and North America — its two biggest markets and Tata Motors posted a loss of \$520 million in FY09. Analysts were out in droves with their “we told you so” reports. Undeterred, the company even as it embarked on a serious cost reduction initiative, explored new markets such as China, Saudi Arabia, Russia, etc. By 2010, JLR turned profitable and soon became the mainstay of Tata Motors in terms of both revenues and profits.

However, JLR was not Tata group’s biggest acquisition to date. Towards the end of 2006, Tata Steel acquired the British Steel maker, Corus for \$12.1 billion, following a competitive bidding process. Tata Steel had gained experience in acquiring Natsteel in Singapore and Millenium steel in Thailand that strengthened its supply chain and provided access to East Asian markets. The company had initially bid \$7.6 billion for Corus, which was challenged by CSN, a Brazilian steel company. The following months saw intense negotiations from both sides of the deal. Finally, in January 2007, Tata Steel purchased a 100% stake in the Corus. The deal, by far the biggest overseas acquisition any Indian company made Tata Steel the world’s fifth-largest steel producer, with annual capacity of 25 million tonnes.

As in the instance of JLR, the 2008 recession deeply impacted Corus. Multiple changes in the top management, slow integration of the company by Tata Steel compounded the challenges and as a consequence, Corus, a profit-making company at the time of its acquisition, lost \$303 million in 2010. While the company managed to turn around the very next year, following job cuts and asset sale, the debt-laden company was still struggling to improve the performance of its European operations.

ENCOURAGING INNOVATION

While the Tata companies were making big strides in international markets with acquisitions, closer home they were developing affordable products that served the lower income segments. Ratan Tata said:

All along, the focus of entrepreneurs and corporations has been to develop products for the top of the pyramid that has about 250-300 million people. Though these people constitute about 25-30 percent of the population, the need of the hour is to create products and services for the rest of the 1.2-billion Indians.^{xli}

One of the successful innovations from the Tata group was Tata Swach, the world's cheapest water purifier. Access to clean drinking water has been difficult in most Indian villages and in parts of urban areas. Tata group set out to find a market-based solution to provide clean drinking water and reduce health problems arising from drinking contaminated water. As a result of collaboration between TCS, Tata Chemicals and Titan Industries, the Swach technology combined low-cost ingredients such as rice husk ash with superior nanotechnology. It does not need electricity or running water to operate and meets international water purification standards. Its affordable price – ₹500, ₹750 and ₹1000 for three variants – put the product within the reach of consumers at the bottom of the pyramid.

The Tata Nano was the other major initiative undertaken by the group following the observation of Ratan Tata that Indian families that could not own a car needed a safe and affordable four-wheeler transport. In 2003 at the Geneva Auto Show, Ratan Tata announced that the company would develop a people's car that would be priced at \$2500. The announcement attracted international attention and the ultra-low-cost car branded Nano became the most talked-about car, as world over, people awaited its unveiling. The excitement however did not translate into sales when the car was launched in 2009. Ratan Tata said:

The Nano is something I would love to make successful because I don't think it's exploited its full potential right now. There has to be another push to make Nano what it can be.^{xlii}

Tata Group Innovation Forum (TGIF) was set up to promote innovation. To facilitate exchange of ideas and learning, TGIF operated a platform, Innoverse, which enabled members to seek solutions to novel problems. Further, to recognize the innovation efforts of the various group companies, TGIF organized an annual innovation competition *Innovista*.

PASSING THE BATON

In August 2010, Ratan Tata announced that he would be retiring as the group chairman¹² in December 2012. He was due for retirement in 2007 (when he turned 70 years), but the board of Tata Sons modified the policy and extended the retirement age of non-executive directors to 75 years that enabled him continue as the head of the Tata group.

Over the years, when talking about his retirement, Ratan Tata had said he would prefer a person in 40s or early 50s to replace him as that would give the new chairperson a long tenure. To avoid the conflicts that he had to face in 1991, he set up a five-member search committee – consisting of Tata Sons directors, R. K. Krishna Kumar and Cyrus Mistry, who is the son of Shapoorji Pallonji Mistry, the largest individual shareholder in Tata Sons; Noshir Soonawala former vice chairman of Tata Sons; Shirin Bharucha, group legal advisor and Warwick University Professor, Lord Kumar Bhattacharyya – to find the group's next chairman. The committee was given an open mandate to find the right candidate, who could be within or outside the Tata group, an Indian national or a non-Indian. Several known names were considered, with Noel Tata, being thought of by many as the frontrunner. Noel Tata was not only Ratan Tata's half-brother, but also Shapoorji Pallonji Mistry's son-in-law. He was the Vice Chairman of Trent Ltd. and the

¹² Ratan Tata had already retired from executive positions at the group companies in 2002, when he turned 65 years, in compliance with the group retirement policy.

Managing Director of Tata International. However, the committee which had initially set itself a deadline of March 2011 to find a successor struggled to find a suitable candidate. R K Krishna Kumar, said:

Our committee has come to the conclusion that we cannot find a replacement for Mr Tata! We may have to change and rearrange the model in terms of what we are looking for. It is not an easy task, but we will identify the next chairman of Tata Sons within a few weeks by end-May or early June.^{xliii}

Finally, on November 23, 2011, the search committee selected Cyrus Mistry, its former member who had recused himself from the committee in early 2011, as the next Tata group chairman. A member of the board of Tata Sons since 2006, Mistry an alumnus of Imperial College, London (Engineering), and London Business School (Management) had been a member of the Tata Sons board since 2006. Describing the choice as a “good and far sighted one”, Ratan Tata said:

I have been impressed with the quality and calibre of his participation, his astute observations and his humility. Don't be fooled by his quiet demeanour. He is his own person, knows where he wants to be. I feel confident that he will lead the group in a manner that is of the highest integrity. Cyrus is the right person for the job, I welcome him.

Dismissing notions that his larger-than-life persona would linger even after he retired, Ratan Tata said: “I don't think it is right to have a ghost to shadow over somebody” and his advice to Mistry was: “you should be your own person, you should take your own call and you should decide what you want to”.^{xliv} Accepting the responsibility, Cyrus Mistry said:

...the responsibility of Chairmanship brings with it the winds of change, but the core of the Tata Group must and will remain unchanged. Our commitment to maintaining the highest ethical standard in the conduct of our enterprises; our continuous emphasis on business excellence and managerial competence; our belief in our employees and their well-being; our sense of obligation to the customers we serve; our responsibilities towards the environment and the communities that we touch and the greater good of the countries we operate in – without this core DNA that is uniquely Tata, there is nothing to differentiate us from our peers.

The Tata Group's revenue today stands at over \$100 billion. That seems an incredible figure when you consider where we were a decade back. With our collective zeal and effort, I am convinced that we can together write a future that continues to build on the past and takes the Tata name to newer frontiers of growth.^{xlv}



Exhibit 1

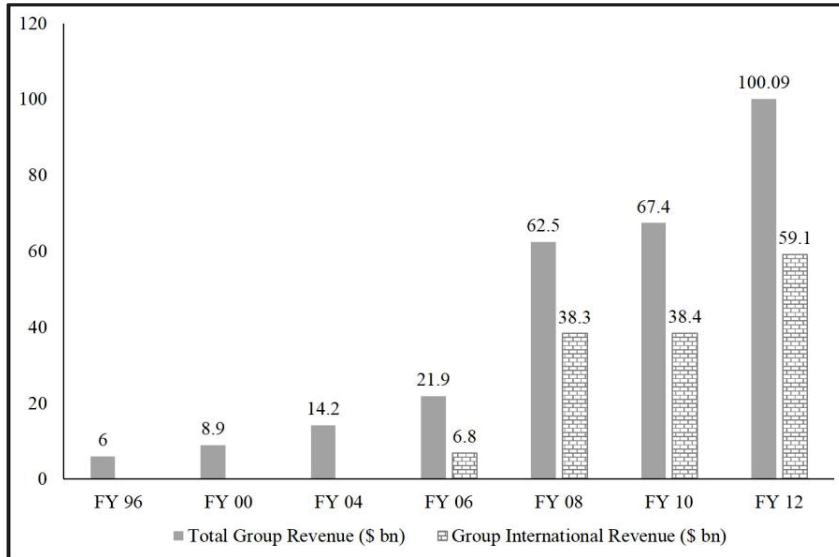
Tata Group history in brief

Year	Event
1868	J. N. Tata starts the group with a private trading co.
1874	Forays into textiles: Central India Spinning, Weaving & Mfg. Co. is set up.
1904	India Hotels Company is founded to set up India's first luxury hotel.
1907	Tata Iron & Steel Company (now Tata Steel) established; country's first steel plant set up at Jamshedpur
1910	Tata Hydro Electric Power Supply Company is set up.
1911	Indian Institute of Science is established in Bengaluru.
1912	Tata Steel becomes one of the first in the world to introduce 8-hour working days.
1917	Tatas enter the consumer goods segment with Tata Oil Mills to make soaps, detergents, and oils
1932	Tata Airlines is established; opening up the aviation sector in India
1939	Tata Chemicals is established.
1945	Tata Engineering & Locomotive Company (now Tata Motors) is founded to make locomotive & engineering products.
1952	The group starts manufacturing cosmetics under brand 'Lakme'.
1968	Tata Consultancy Services, India's first software company, is founded.
1984	Titan Industries – a JV between Tata Group and Tamil Nadu Ind. Dev. Corp. is set up to make watches.
1995	Tata Quality Management Services institutes JRD QV Award, laying foundation of the Tata Business Excellence Model.
1996	Tata Teleservices is established to spearhead the Group's foray into the telecom sector.
1998	Tata Indica – India's first indigenously designed & manufactured car – is launched, spearheading group's entry into passenger cars.
2000	Tata Tea (now Tata Global Beverages) acquires Tetley Group (UK).
2001	Tata-AIG – a JV between Tata Group and AIG marks the re-entry of the Group in Insurance. The Group's earlier insurance venture was nationalized in 1956.
2002	Tata Group acquires controlling stake in Videsh Sanchar Nigam Limited (now Tata Communications). TCS becomes first Indian software company to cross one billion dollar mark in revenues.
2004	TCS goes public in India's largest IPO until then. Tata Steel makes its first major overseas investment in NatSteel Asia, Singapore. Tata Motors acquires the heavy vehicles unit of Daewoo Motors, South Korea.
2005	Tata Communications acquires Tyco Global Network, making it one of the world's largest provider of submarine cable bandwidth.
2007	Tata Steel acquires Corus, UK-based steel co. for \$12.1 billion, then the biggest overseas acquisition by an Indian co.
2008	Tata Motors acquires Jaguar Land Rover from Ford; unveils the Tata Nano – the world's cheapest car.

Source: Group website; Author research.

Exhibit 2

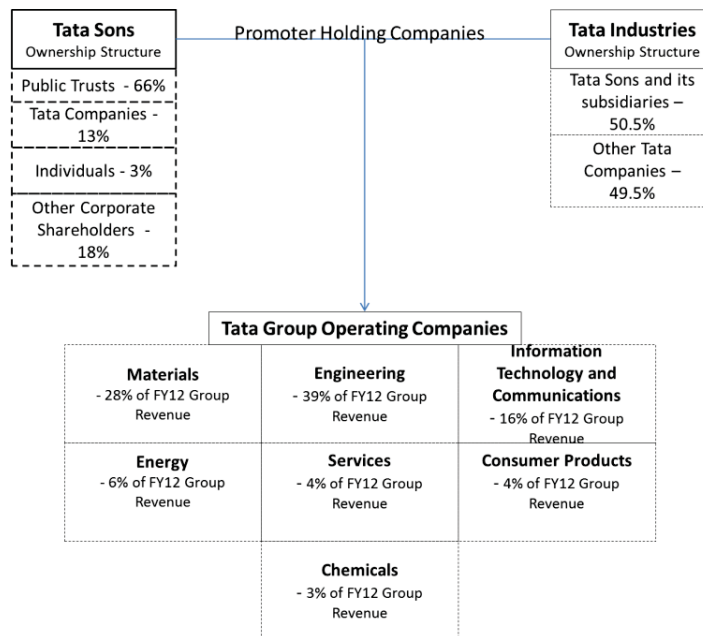
Tata Group domestic and international revenue growth (\$ billion)



Source: Tata group presentation, Tata website

Exhibit 3

Tata Group Holding Structure

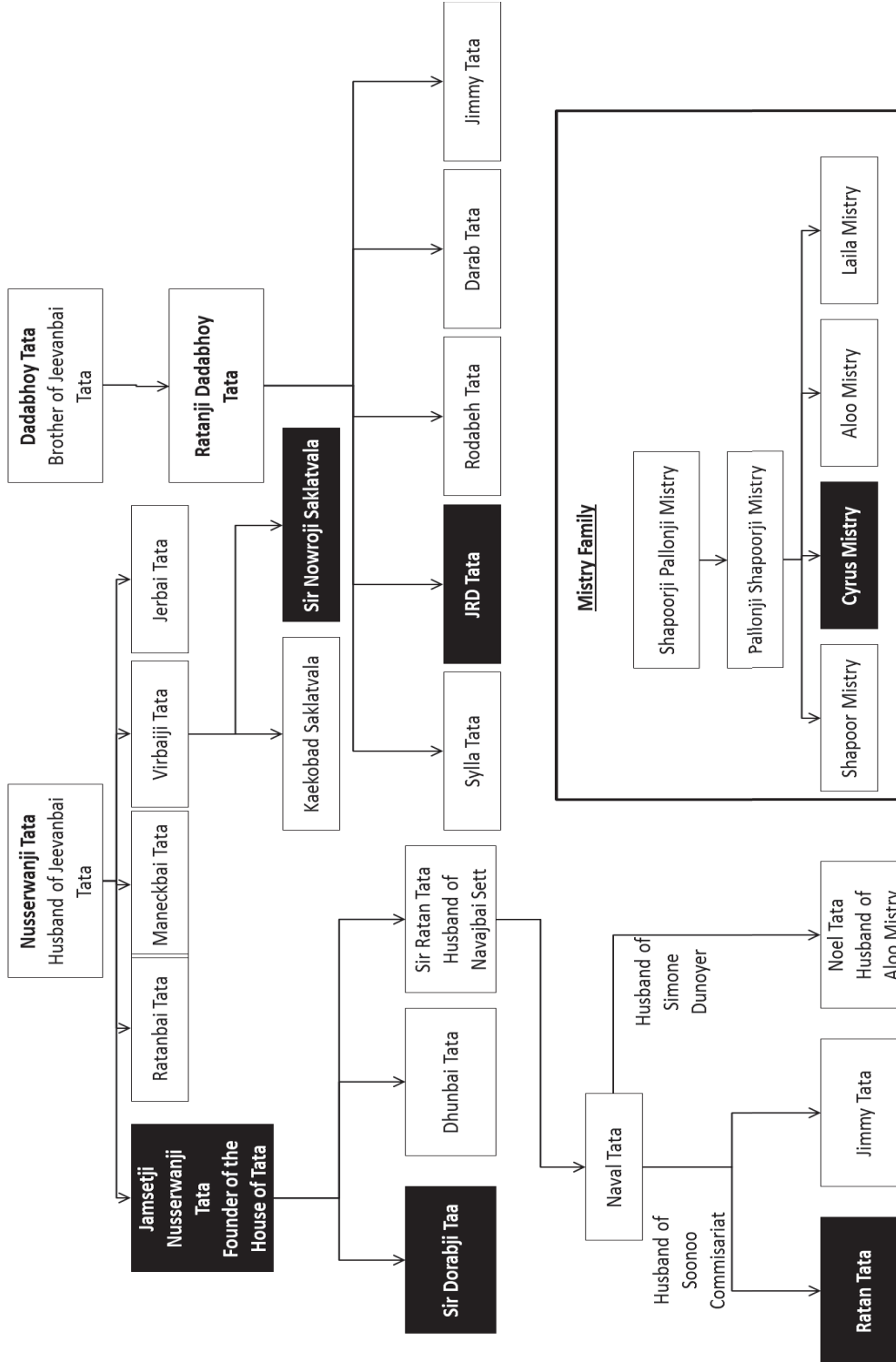


Representative Tata companies: **Materials** - Tata Steel, Tata Advanced Materials, Tata Metaliks; **Engineering** – Tata Motors, Voltas, Tata Construction; **Information Technology and Communications** – Tata Consultancy Services, Tata Elxsi, Tata Communications, Tata Sky; **Energy** – Tata Power, Tata Petrodyne; **Services** – Indian Hotels, Tata AIG Life Insurance, Tata Capital; **Consumer Products** – Tata Global Beverages, Trent, Titan; **Chemicals** – Tata Chemicals, Rallis.

Source: Tata group presentation, Tata website

Exhibit 4

Tata Family Tree



Source: <http://www.tatacentralarchives.com/documents/Family-Tree.pdf>



Exhibit 5

Performance of top 10 Tata companies¹³

<u>In ₹ Million</u>	Mar-92	Mar-00	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
Total							
income	100,699	349,364	2,948,624	2,737,039	3,204,793	3,927,070	4,294,035
Interest paid	5,487	16,084	306,803	312,933	362,457	490,525	608,313
Profit	5,938	26,156	108,758	107,952	305,561	293,289	174,881
Borrowings	49,251	138,260	1,335,224	1,296,239	1,424,792	1,645,468	1,843,841
Current							
liabilities	38,054	115,487	975,324	1,104,877	1,220,366	1,476,279	1,669,213
Current							
assets	59,905	194,670	2,925,676	3,027,557	3,632,363	4,393,804	4,800,055
Total assets	119,132	451,478	1,235,530	1,294,020	1,642,220	1,970,058	2,204,041
Cash flow:							
Operations			289,478	343,591	304,216	410,853	539,644
Investments			(431,078)	(254,517)	(289,264)	(354,173)	(489,474)
Financing			183,272	(20,004)	54,116	(14,899)	(95,951)

Source: Centre for Monitoring Indian Economy

¹³ 1992: Tata Motors, Tata Steel, Voltas, ACC, Tata Chemicals, Tata Tea, IHC, Titan, Tata Communication, Tata Power; 2000: Tata Motors, Tata Steel, Voltas, Tata Tele, TCS, Tata Chemicals, Tata Tea, IHC, Titan, Tata Communication, Tata Power



Exhibit 6

Tata group acquisitions

Year	Tata Company	Acquired Company	Country	Stake acquired	Value \$Mn
2000	Tata Tea	Tetley Group	United Kingdom	100%	433.6
	Tata Communications	Gemplex	United States		
2004	Tata Motors	Daewoo Commercial Vehicle Co.	Korea	100%	102
	Tata Communications	Tyco Global Network	United States		130
2005	Tata Steel	NatSteel Asia	Singapore	100%	285.4
	Tata Motors	Hispano Carrocera	Spain	21%	16.1
	Tata Chemicals	Indo Maroc Phosphore	Morocco	50:50	38
	Indian Hotels	The Pierre	United States	Lease	9
	Tata Industries	Indigene Pharma	United States	<30%	
	Tata Communications	Teleglobe International	United States		239
	Tata Technologies	INCAT International	United Kingdom		
	Tata AutoComp	Wünsch Weidinger	Germany		8.6
	Tata Tea	Good Earth Corporation	United States	100%	31
	TCS	Financial Network Services	Australia		
	TCS	Pearl Group	United Kingdom		
	TCS	Comicro	Chile		
	Indian Hotels	W Hotel (Sydney)	Australia	100%	29
	Tata Chemicals	Brunner Mond	United Kingdom	64%	111.6
2006	Tata Interactive	Tertia Edusoft Gmbh	Germany	90%	
	Tata Interactive	Tertia Edusoft AG	Switzerland	90%	
	Tata Chemicals	Brunner Mond	United Kingdom	37%	65.4
	Tata Steel	Millennium Steel	Thailand	67%	167
	Tata Tea	JEMCA	Czech Republic		21.7
	Tata Tea	Eight O'Clock Coffee	United States	100%	220
	Tata Tea	Energy Brands	US	30%	677
	Tata Tea	Joekels Tea Packers	South Africa	33.30%	1.72
	TCS	TKS-Teknosoft	Switzerland	75%	80.2
	TCS	Total Communication Solutions	Australia	100%	11.6



Exhibit 6 (Contd.)

Year	Tata Company	Acquired Company	Country	Stake acquired	Value \$Mn
2007	Indian Hotels	Ritz-Carlton	US	100%	170
	Tata Steel	Corus	UK	100%	12100
	Indian Hotels	Hotel Campton Palace	US	100%	58
	Neotel	Transtel	South Africa	100%	33
	Tata Tea	Mount Everest Mineral Water		25.70%	38
	Tata Power	PT Kaltim Prima Coal and PR Arutmin	Indonesia	30%	1100
	TRF	York Transport Equipment Asia	Singapore	51%	
2008	Tata Chemicals	General Chemical Industrial	US	100%	1005
	Tata Motors	Jaguar Land Rover	UK		2300
	Telcon	Serviplem SA	Spain	79%	
	Telcon	Lebrero SA	Spain	60%	
	Tata Communications	China Enterprise Communications	China	50% equity	
	Tata Power	Geodynamics	Australia	10%	44.1
	Tata Motors Europe	Miljøbil Grenland/Innovasjon	Norway	50.30%	2
	TCS	Citigroup Global Services	US	100%	512
2009	Tata Communications	Neotel	South Africa	30%	
	Tata Tea	Grand	Russia	33.20%	
	TRF	Dutch Lanka Trailer Manufacturers	Sri lanka	51%	8.67
	Tata Motors	Hispano Carrocera	Spain	79%	
	2010	Tata Communications	BT group's mosaic business	UK	100%
2011	TRF	Hewitt Robins International	UK		
	Tata Chemicals	British Salt	UK	100%	231.8
	Tata Chemicals	Olam International	Gabon	25.10%	290
	Tata Chemicals	EPM Mining	Canada	30.60%	

Source: Tata website