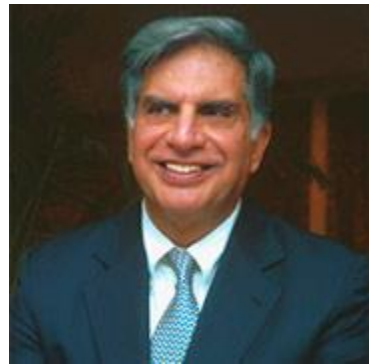




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The Tata Group after the JRD Period: Management and Control Structure



IIM Calcutta
2012

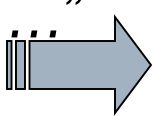


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Tatas ... Historical Overview

- ❑ Established by Jamsetji Tata in the 19th century (2nd half)
- ❑ Operated through a holding company, Tata Sons
- ❑ In 1938, JRD Tata took over. Over the next 53 years, the group expanded & diversified. Breaking with the Indian business practice of having members of one's own family run different operations, JRD pushed in professionals.
- ❑ Tata affiliates became legally independent under the dismantling of the managing agency system in 1970
- ❑ A semblance of unity was maintained by using cross holdings; cross-company directors' meetings; and JRDs charm and moral force.

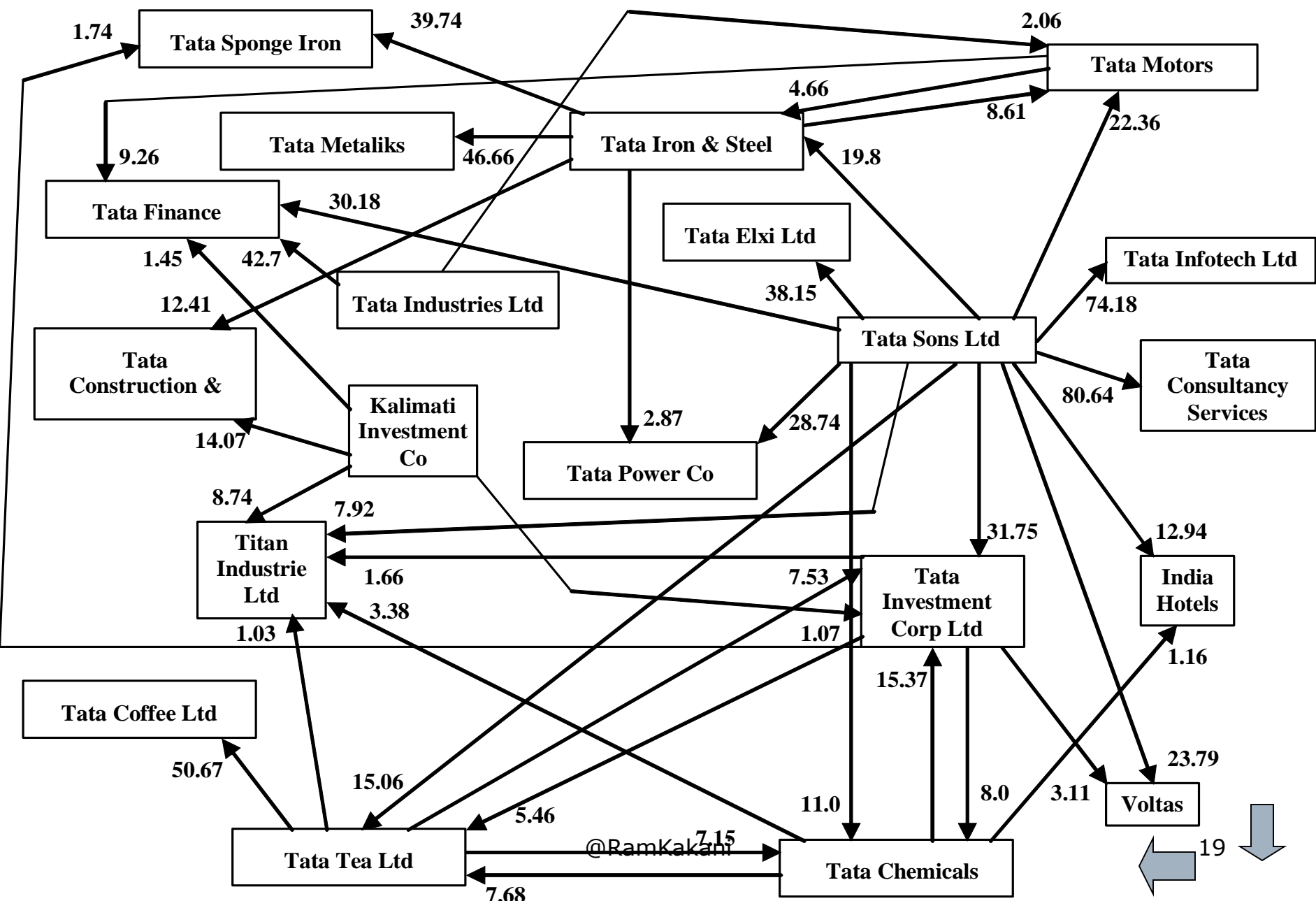
The JRD Days ...

- In 1990, JRD once commented on his role: *“My being chairman today is very different ... the companies are free to operate independently. ... I do not wield any kind of executive authority. But because I am senior in age, I operate more on the basis of influence & confidence ...”*
- He further stated *“... there is something absurd in so far as we have no more interest than any other shareholder in most of the companies. We get nothing extra for managing them. ...”* 
- Given the community structure and ageing patriarch, the group’s decision process became slow and there was rising internal friction **[may call, unmanageable business federation].**

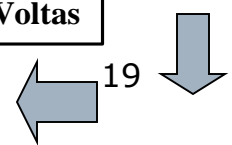
Ratan Tata takes over ...

- ❑ In 1991, Ratan Tata was nominated by JRD to lead.
- ❑ One Tata director described Tata Group as “*no longer existing as a group except in their culture and name ...*”
- ❑ Ratan’s first challenge was to consolidate a group of individual companies which, under powerful chairmen were going their own way.
- ❑ Ratan Tata, the strategist, made a few smart moves:
 - reduced the retirement age for affiliate CEOs
 - And others discussed earlier .. Including the rights issue of the Tata Sons

Ownership Structure of Tata Group Listed Firms in 2005



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Tata Ownership Structure in 1980s

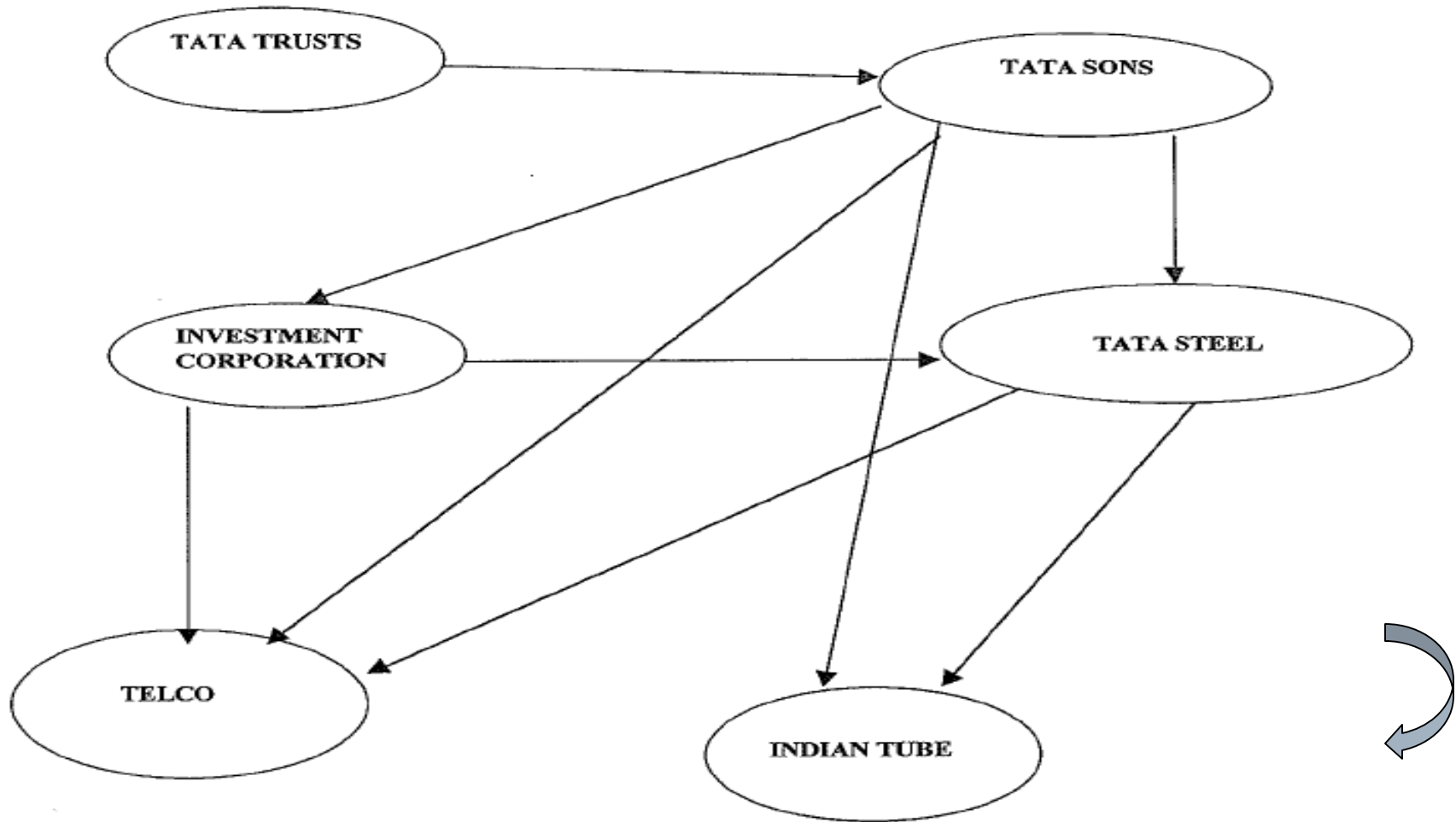
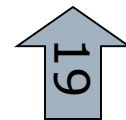
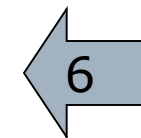


CHART I : Inter Corporate Investments in Tata Group

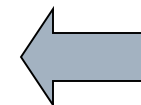
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A few private benefits to Shapoorji (Tata Sons Key Investor)

- ❑ Shapoorji's firms get all the Mumbai-based groups construction projects. The Tata group has awarded many of its prestigious contracts – Taj Intercontinental, Titan Factory, and Forbes Resilens Factory – to Shapoorji's construction company.
- ❑ Shapoorji also owned one of the biggest Tata Motors dealerships through United Motors.
- ❑ In addition there are a lot of non-monetary benefits. For example, both his sons are on the board of a few Tata affiliates. One of the family members is also a board member of Tata Sons.



How has Control Increased?

- Through increased monitoring of affiliates by creating the GEO and BRC
 - The Group Executive Office (GEO) under Tata Sons provides group focus to affiliates and looks at restructuring, acquisitions, and new forays. It has two full-time executive directors
 - Each Tata affiliate will have a Business Review Committee (BRC) for interaction between Tata Sons and the management of the company. CEOs will also have to present their plans and strategies before BRC. It will meet thrice a year to look at strategy and operational performance. Its recommendations will be sent to the company boards.

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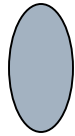
Results on Control ...

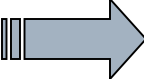
- During 1990-95, a large number of internal battles were fought (see, Khanna and Palepu, 1998; and Sampath, 2001)
- From 2000-05:
 - There have been zero internal battles fought in public (based on print media search). Even differences within the group affiliates seem to have been well managed.
 - Tata Sons GEO executive members and a few key men often act as the groups spokesmen (even managing the Tata group affiliates board meetings)
 - There has been no new and independent initiative by any Tata group affiliate on their own

Conclusion on Tata Group

- ❑ Prior to restructuring and under JRD, in 1991, the Tatas used to manage their affiliates with very small equity. As a result, the chairmen of group affiliates had grown accustomed to ruling independently (no control)
- ❑ Ratan Tata, the strategist, decided to change the group to make it more cohesive and controllable. The group restructuring involved various steps along with strengthening ownership using cross-holdings.

Conclusion



- ❑ An increase in cross holdings by affiliates combined with pyramid structure provides a mechanism to control firms without needing significant investments.
- ❑ The group indeed achieved higher management control and created enough defenses against takeovers.
- ❑ An increase in indirect control may exacerbate agency costs as it provides private benefits and increasing incentives to CMS. 
- ❑ This can be done by tunneling of assets and earnings.
- ❑ Cross holding (as in Japanese keiretsus) can also result in a state of quite life equilibrium.