

Case Study

THE HOUSE OF TATAS

Introduction

- 1995
- Tata's were a loose alliance of companies
- More than \$7 billion sales
- Best known commercial name in India
- Group is not a legal entity

Business Group ...

- ⦿ What is the objective of Tata Chemicals?
- ⦿ Objective of Rallis India? Tata Tea? Tata Steel?
- ⦿ Is their objective different from the objective of Tata Group?
- ⦿ How do they keep their objectives aligned? OR how do they ensure that agency issues are taken care of?

Business Groups

Groups are -

- Formally independent firms (or affiliates)
- Single administrative & financial control
- Owned by trusts/families/foundations

Bound together

- by equity cross-ownership²; and
- common board membership⁶

Business Group Affiliates ...

Affiliates' decisions are taken as

- ⦿ a single decision making unit
- ⦿ in the aggregate interest of the group

We also observe

- ⦿ Member firms helping each other
- ⦿ Conflicts of interest between shareholders

So, a b-groups performance depends on the take of its strategist and his overall agenda

JRD and Ratan: Differences (if any)

J R D Tata

- ⦿ Nation First Approach
- ⦿ We should be Pioneers ... i.e., first and largest
- ⦿ No Collaboration (never played second fiddle)
- ⦿ Depended a lot on entrepreneurial oriented people

Ratan Tata

- ⦿ Nation is Important
- ⦿ Joint Ventures ...
- ⦿ Also plays second fiddle ...
- ⦿ Hands on Approach ...

Questions

What were the major changes brought in by Ratan Tata?
Are these changes in the right direction? Explain

Changes ...

- Restructuring of Product Portfolio
- Building of Equity Interlocks among Tata Companies
- Creation of a Group Brand
- Sale of a part of Tata Industries Limited to the Hong Kong-based Jardine Matheson Group
- TAS ... Tata Administrative Service ... Revitalization
- Progressively the goals seem to have changed (1990s Vs 2000s Vs 2010s)
- Organization Administrative Control Levers have shifted

Group Brand

- Should there be a Tata brand?
- Can capitalize on reputation for quality & ethical practices
- Exactly how is this reputation going to be useful?
- Signals high quality of products/ services in environments where independent institutions to certify quality are poorly functioning (Think India Vs USA OR Bangladesh Vs Germany or Denmark).
- Are there other arenas in which the value of the group brand might manifest itself?
- Certain benefits in other factor markets
- Will also help in the cross-border market for technology or capital

Group Brand

- ⦿ Why have a group brand rather than individual company brands?
- ⦿ Institutional voids fulfillment.
- ⦿ Scale economies in developing a common brand (especially when global brands are entering)
- ⦿ Flip side – problem in one line of business can influence the whole group especially when they are independently managed
- ⦿ Also, danger of confusing the consumer when the brand is intended to signal product-specific attributes

Group Brand

- ⦿ Where is the opposition to the group brand likely to come from?
- ⦿ Opposition is high due to the brand commercial “free” usage in the past by affiliates
- ⦿ Also, new formalized system to use the brand name
- ⦿ How realistic are the economies of maintaining a group brand?
- ⦿ Group profits are Rs 25 billion (approx)
- ⦿ Cost of maintain a large domestic brand Rs 300 million
- ⦿ Trying to set the tone ... ensuring no misuse

Equity Interlocks

- ⦿ How will it help Ratan Tata?
- ⦿ Help to align incentives among affiliates
- ⦿ Effective Control (thwart other voices within group)
 - Easier to develop the group brand if the companies are more closely held
- ⦿ Interlocks Reduce the Threat of a Hostile Takeover
- ⦿ Flip Side
 - Transparency of the companies is reduced
 - Other shareholders views and interests are ignored
- ⦿ Conveys more information (or quiet life equilibrium)!!!

Jardine Sale

- ① Is the sale of a group company to a foreign investor going to help them (i.e., strengthening the group)?
- ① Why should the multinationals feel more comfortable in investing in alliance with the Tatas?

‘Ratan was moving the Tata group in the opposite direction from where it should have been going’ – Comment?



How has the Tata group managed its portfolio?

Should the Tata group diversify further and enter the new sunrise industries?

1987-91 → 1991-95 → 1995-99

tata			
netexport	-0.42	0.35	-0.27
ltdratio	1.16	1.32	0.99
pbvratio	2.17	4.60	2.23
Total assets	8582.72	21643.51	41551.85
Sales	8666.09	16320.27	29573.05
varroa	0.10	0.12	0.25
cagrta	23.28	29.93	12.06
tobinsQ	1.39	2.19	1.50
Market Capitaliza	6148.85	32820.83	36823.72
roce	16.47	13.40	13.78
roa	7.91	7.20	7.38
ronw	16.02	14.34	11.85
staratio	1.01	0.75	0.71
npm	5.23	6.27	6.61
geodiv	11.47	19.87	20.02

It was largely average ... a couple of affiliates did well especially TCS ... smaller ones became more insignificant