



## **Who's at Fault? Tata Sons in 2012 or Mistry in 2016: A Case Study on the Tata Group**

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**Abstract:** Tata group is an Indian MNC founded in 1868 by Jamsetji Tata. His vision envisaged towards nation's development to see India self-sufficient. The company was headed by JRD Tata during 1939-90. His tenure made a significant contribution towards the growth of the group. In 1991, Ratan Tata took over as a chairman of Tata group of companies. His clear vision and desire to achieve along with people's support made the company grow 57 times from the year he was appointed. Since Tata lacked an heir, Cyrus Mistry, second largest shareholder in Tata sons who worked very closely with Ratan and ensured the best of his capabilities with a long term association and commitment, was appointed as the new chairman of Tata Group in 2012, after being on a position of Deputy Chairman for about a year. His leadership viewed major strategic decisions that affected Tata's market image and growth, in the view of Tata trusts. In 2016, a sudden decision of Mistry's exit raised several questions on the governance at the Tata group and the succession experiment that went wrong. The case also talks about the deviations in leadership style and reasons for the elevating trust deficit among the people concerned.

Key words: Corporate Governance, Succession Planning, Leadership, Companies Act, Tata, Ethical Values

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### **Introduction**

Tata Sons, promoter of the Tata group of companies and one amongst the largest shareholder decided to oust Mr. Cyrus Mistry from the position of Chairman, Tata group of companies in the year 2016. The group operated more than 100 independent companies into different sectors like steel, IT, automobile, chemicals, hospitality, telecommunications, consumer goods, airlines, health care, financial services, engineering services and real estate. Tata group was known for its core values of integrity, excellence, unity, responsibility and pioneering to its core philosophy and legacy since its inception in the year 1868 by Jamsetji Tata. The operating companies had seen a magnificent growth since then. Tata group was headed by Mr. Ratan Tata from the year 1991 till 2012. He took over from JRD Tata whose power and leadership skills had a proven track record with business spread across world. Tata's were wholly credited for carving the group's image and earning a collective turnover of \$103 billion. Ratan's unique strategies and decision to unite their diversified business under a single corporation had catalyzed this success establishing a storied empire. In 2011, as Ratan T. nearing the age of retirement (seventy-five), the decision of appointing his successor Mr. Cyrus Mistry to the position was taken by Tata Sons. Mistry took over as chairman of the Tata group in the year 2012 as a sixth chairman for a contract period of 5 years. It

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was on December 28, 2016 when a critical meeting with all 11 board members including Mr. Ratan Tata made a decision of ousting Cyrus Mistry from the position of chairman of Tata Group. Since the contract of Mr. Cyrus Mistry was nearing completion, sudden decision by Tata sons of showing the door to Mistry came as a shock and raised several questions on the governance at Tata group.

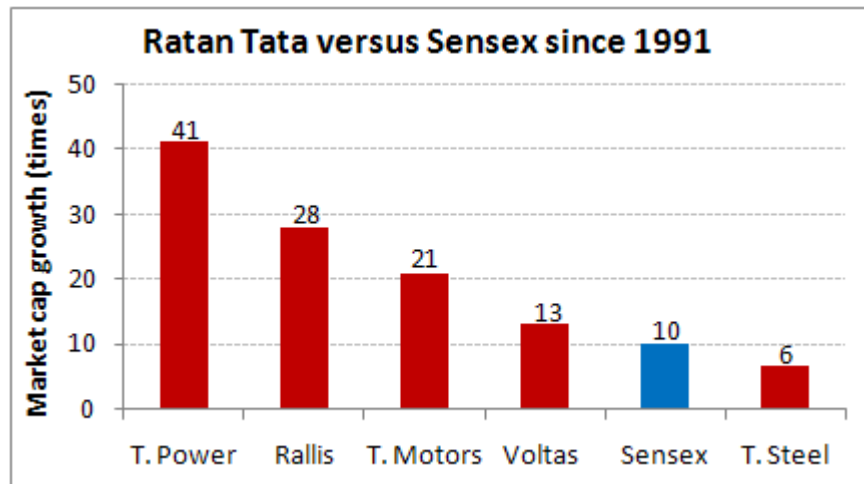
The group that was set up for more than 100 years now, had always been known for its ethical values and governance practices. It was perceived that the strategic decisions under the leadership of Mistry were not taken in good spirits by the Tata trusts: Sir Dorabji trust and Sri Ratan Tata Trust which owned a major part of share in Tata Group. The reason for such a sudden exit from Tata Sons also revealed performance and reliance issues of Mistry, as a chairman during the tenure (as said by Tata Son's). The turnover of the group had dropped down to \$103 billion in 2015-16 from \$108 billion the previous year and net debt had risen to \$24.5 billion in 2016 from \$23.4 billion in the previous year. On the other hand, Mistry's focus, as a chairman was more on consolidation of group finances than getting involved into big ticket acquisitions. Was it a succession experiment that went wrong or the Tata's failed in keeping the status quo of the governance practices? This represented an apprehension that raised many questions un-answered.

#### **TATA trajectory under Mr. Ratan Tata – Chairman of Tata group 1991-2012**

Ratan Tata took over as a chairman of Tata Group in the year 1991 from JRD Tata with very little experience and a low profile. In the nineties, due to economic liberalization which was started only after months of the joining of Ratan, it made it quite difficult for Ratan to compete. After inheriting a decentralized organizational structure from JRD Tata, his focus was on improving efficiency and to leverage globalization. In the era of JRD Tata, succession planning was at its nascent stage and that a choice had to be made for the new chairman. JRD always wanted to select a person who can value the ethos of the group and there he strongly had an inclination towards Ratan as a right choice.

The advent of Ratan's leadership saw many restructuring phases with getting rid of un-profitable businesses like Lakme, Merind, Goodlas Nerolac, and Tomco and ACC on one hand and joint ventures with companies like IBM, Mercedes Benz, Pepsi Co and Timex. The group had also diversified its business via getting into the telecommunications sector in 1996.

The chart below depicts the performance of some of the Tata group companies against the Sensex since 1991. It is evident that Tata had out-performed in many sectors in the past 21 years not ignoring the success of TCS. Ratan Tata had always strived for group cohesion and creating the group's identity which was recognized with-in and out of the country via naming it as the best global brand.



Source: Business India, Ace Equity

### Progress under Mr. Cyrus Mistry – Chairman of Tata Group (2012-16)

Though the advent of Tata-Mistry battle in 2016 had raised questions on Mistry's management style, it was also noted that Mistry's focus was completely on profits maximization rather being expansionist. His era brought several major decisions in this purview. The sale of a loss making Tata steel business in Europe was highly negotiated to Greybull capital. Though Tata's debt jumped by 2%, net debt, on the other hand, saw a reduction of 3.3 percent. The market share under his leadership had grown to 8.21 lakhs cr. from 4.66 lakh cr. In addition to shell out some unprofitable businesses, Mistry also focused upon expanding the empire by ensuring the capital expenditure in its international operations that earned almost 70% of its revenue. Tata group had also expanded into the defence manufacturing business under his tenure. Mistry also viewed and created Group Executive Council (GEC) to focus on crucial decisions which was in close supervision with him.

### The Battle of Words

The civil war between Tata son's and Mistry had its inception since the time when Tata son's perceived that all the decisions of Mistry were rather an attempt to dismantle the conglomerate structure of the group, thereby, making Tata trusts less relevant. In view of Tata sons, Mistry had defended their long run strategy of empowering group operating companies and that this would bring effective decision making and group cohesiveness. Mistry, however, viewed Tata son's involvement as interference that made him face lots of challenges during execution of significant strategies in place.

Mistry's idea was to place people with domain expertise on the group operations that resulted in effective decision making in the best interests of the companies. On the contrary, it didn't go in favor of Tata sons principles as there was a commonality in the era of Ratan Tata. Tata sons were one binding shareholder and that ethical practices and governance prevailed.

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In 2015, the rolled out bidding of defence contract for futuristic infantry combat vehicles viewed Tata group of companies bidding with different external parties which was an evident picture of the fading commonality among the group companies. Another aspect that was questioned by Tata sons was the Group Executive Council (GEC) that was created by Mistry with an objective to handle companies operation independently and to keep close connects with Mistry. Tata sons had reservations against some of the council members who were acting in contravention to the values and ethics of Tata group of companies.

Mistry also highlighted his dissatisfaction with the tweaked amendments in the Articles of Association at the time of his joining as the Chairman, which said that any significant business decision requires affirmative vote of Tata trusts nominated directors. According to Mistry, this amendment was considered in a different way where the Tata trusts assumed that any crucial matter needs to be discussed with the trusts directors independently before it has to be put on table in the board meeting. This led to gradual decision making and questioned the role clarity of Mistry as a chairman. A source close to Tata trusts said that Ratan Tata was, however never interested in looking for commercial details but had only concentrated on the broader aspects like values and ethics of Tata group holistically. Mistry was supposed to put in place the governance practices framework that outlined roles of stakeholders and Tata sons and trusts that were not implemented.

One another key aspect that raised allegation upon Mistry's performance was declining revenue received from the Tata group of companies from INR 1000 crore in 2013 to INR 768 crore in 2016. Tata sons were disappointed with Mistry for not putting materialistic contribution to TCS which outperformed in every aspect. Mistry, on the contrary, focused on the businesses that were inherited by him like Tata steel, Tata Motors' passenger vehicle and IHCL via strategies like restructuring, divestment of assets of Tata steel in Europe for more efficient use of capital.

Tata sons and Mistry also had divergent views with reference to the loan extended to C. Sivasankaran Siva's group. Mistry alleged that interference of Tata trusts questioned his position as a chairman. The boardroom battle went to an apex when it was found that crucial business decisions had been taken without keeping Tata sons and Tata trusts in the loop. Therefore, on October 24, in an official meeting between the shareholders, the decision of Mistry's exit was taken after voting where six votes were favoring the exit and two against. On one hand, where Tata sons admitted giving chance to Mistry to resign and had an respectful exit, Mistry claim that the exit came to him as a shock and was never discussed with him.

### **Key Reasons for Rift between the Two Leaders**

- The leadership style being different, Mistry considered the suggestion of experts close to Tata trusts as interference from the trust in general and Ratan Tata, specifically.
- Ratan Tata and his nominees expressed their dissatisfaction upon the decision taken by Mistry and his team with regards to the investment of 10 crore for the state assembly elections as it could have an adverse impact upon the high ethical standards of Tata Group with the policy of investing only in parliamentary elections
- With respect to the biddings for Joint Venture with Strategic equipment Division (SED) and Bharat Forge, the interlocutors close to Ratan Tata, viewed JV with SED as a fruitful bidding, however it was not taken in good spirits by Mistry and was presumed as sheer interference
- 2016 also saw the turndown of the proposed merger with the US pizza chain Little Caesars through Mistry and his team by Ratan Tata in view of understanding that it may pull down the image of the Tata group and that it can be handled by separate Tata entities like Starbucks under Tata Global Beverages which already has a reputation in the market
- Tata group's credibility was at stake when Mistry, in view of Ratan Tata failed to manage empathetic and smooth relations with Japanese workers and that Tata-Docomo dispute worsen the situation
- Mistry's emphasis on getting into real estate business concerned Ratan Tata to the extent of taking a firm decision on continuing Mistry as a Chairman, Tata Group

After ousting Mistry, the GEC, which was the conglomerate's brain trust and close to Mistry was also dismantled. Mistry was not happy about the manner this exit was implemented and further, he wrote an explosive letter addressed to Tata group expressing the challenges during his tenure at Tata sons as chairman and that the "legacy hotspots" he inherited from Ratan entailed a write down of 1.18 lakh crore over the coming years. While Ratan Tata took over as an interim chairman for a period of four months to ensure stability and continuity till the new successor was decided by the board, Mistry remained the director of various companies. Tata sons were determined to take out Mistry from the companies' directorship. As a result, Mistry was replaced by other key persons from different companies. Tussle between Tata and Mistry also resulted in ejection of Mr. Nusli N Wadia, chairman of Bombay Dyeing and close friend of Ratan Tata from the position of independent director of three companies: Tata Steel, Tata chemicals and Tata Motors. It was perceived by Tata sons that Wadia acted as a catalytic agent in scoring support for Mistry, a charge which Wadia denied. Developments under this battle also made Tata's in 2017 propose to convert itself in a private limited holding with 75% of the shareholders giving the proposal a green signal, thereby restricting "free transferability" of shares owned by Mistry and his family who had 18.4 % stake in the Tata Group. This step in view of Ratan Tata was taken in the best interest for the group as a whole, however considered by Mistry as an attempt to oppress minority shareholders interest.

### **The Future Impression**

Mistry did not accept and treated this ousting as illegal had filled a case against Tata sons and Ratan Tata resulting in negative implication on the group's brand image and market reputation. Legal experts following the case viewed this as a lack of corporate

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governance and had expressed a strong need to revise the governance policies with respect to protect the security of independent directors. Experts also questioned the succession planning strategy that was adopted and experimented. The Tata-Mistry battle also had an impact on stocks of Tata group of companies that declined to a large extent. In addition to this Tata Sons opined that repeated exoduses from the culture and ethos of the company resulted in the increased trust deficit among Tata trusts with Mistry. *Was the leadership style of Mistry appropriate enough to lead the teams effectively? Is the lack of effective communication possible reason to such a situation? Will Tata regain their inherited reputation of being ethical in governance that is being questioned and bring back the cohesive culture and values?*

### **Discussion Questions**

1. “Mistry claimed that his ousting was illegal and represented lack of governance”. Do you agree? Comment in light of the issues discussed in the case.
2. Discuss the way succession planning was executed and how it could have been implemented in an effective manner.
3. What is the role of independent directors? Comment its significance in the case.
4. A big question still remains: Who’s at Fault? Debate with respect to the succession planning strategy in 2012 and Mistry’s lack of governance allegation against the ousting in 2016.