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Creating a Corporate Advantage: The Case of the Tata Group

The (Tata) group has projected a new type of company onto the global stage — more diversified than Western firms, more engaged in the life of the community, and, if its employees are to be believed, better equipped to prosper in both developed and developing markets.

- From an article in The Economist (March 2011)

INTRODUCTION

As Tata group geared up for its new chairman in December 2012, R. Gopalakrishnan, Director, Tata Sons, and a member of the Group Executive Office (GEO) and Group Corporate Centre (GCC) of the Tata group, reflected on the past fifteen years he had spent with the group and the group's evolution. In this period, the revenues of the companies in the Tata group had grown annually at a compounded rate of about 20 per cent to reach US\$100 billion in 2011-12, with 60 per cent accounted for by business from outside India.

Before joining the Tata group, R. Gopalakrishnan ("RG" to his colleagues) had spent over 30 years with the multinational, Unilever, and he couldn't help but notice the distinctive ways in which the Tata group was structured and operated as compared to a typical Western-type conglomerate. RG recalled, "The first thing I noticed here was that the parent was unlisted and the subsidiaries were listed, which is very uncommon for a Western-type conglomerate. That provides a vast degree of freedom to the listed subsidiary and yet a nurturing relationship with the parent." Even compared to other similar Indian business groups, the Tata group had a distinct culture, which RG could only describe as "Tata-ness". Just as the Indian nation, with its multitude of languages, customs and traditions, was held together for centuries by a common culture, Tata-ness was the critical glue that bound the diverse businesses of the Tata group together and created a common identity. RG thought the best way to describe the relationship between the corporate and the affiliate companies in the Tata group was through the metaphor of the traditional joint family system in India. In this system, an extended family of parents and the families of their sons and daughters shared a large house called a *haveli*. In such a house, there was some common property shared by all the members and some private property that belonged to individual members, and the culture was that of "live and let live".

Professor Raveendra Chittoor, Arohini Narain, Dr. Richa Vyas and Chetan Tolia prepared this case solely as a basis for class discussion. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case was developed under the aegis of the Centre for Teaching, Learning, and Case Development, ISB.

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RG also realized that there were downsides to such a structure. "We started *Project Prune*, where we tried to realize some economies of scale and scope across group companies," he said. However, there was no diktat on implementing the project. The *Project Prune* team worked with the management of the different group companies and made them aware of some cost saving opportunities to pool their purchases (say, computers), but the individual companies were completely free to choose whether or not to participate in the project.

RG observed:

Project Prune worked very well in some areas, while it did not in others. For example, we tried to pool media buying across companies, which could result in huge savings for the group and for each of the companies, but when companies did not feel comfortable, we decided to let go. In a conglomerate like GE, or even in some other business groups in India, such a measure would have been enforced. But the Tata group would not do it.

Still, RG felt that this was probably the right way of doing things given the diversified nature, structure and culture of the Tata group, and the fact that many of the group's affiliate companies were independent public companies listed on stock exchanges, each with its own board of directors and leadership. Yet, he knew the group's approach was open to debate.

STRUCTURE OF THE TATA GROUP

A typical diversified corporation in the West (see Exhibit 1) had a set of diverse businesses housed as divisions or strategic business units (SBUs) in a single company (an M-form structure).¹ Business groups (BG), on the other hand, were characterized by a structure that brought together a set of diversified businesses in a way that was quite distinct from the multi-business diversified corporation structure widely prevalent in the West. All the individual businesses of a diversified business group were typically held in separate companies (legal entities), with one or more holding companies (often owned by a family or families) having controlling equity stakes in all the individual companies. Each of the diverse businesses was housed in a separate company which might have its own distinct CEO, management team, board of directors and shareholders (see Exhibit 2). These individual companies, affiliated to a business group, could be either private companies or public companies listed on a stock exchange. The term "federal structure" had been used to describe the unique organizational form of a business group².

Tata Sons

Tata Sons was the primary promoter/ holding company of the Tata group. Established as a trading firm in 1868, Tata Sons had the majority promoter holding in all the major Tata companies. The Chairman of Tata Sons, by tradition, also served as Chairman of the Tata group. In the 140 years of its existence, the Tata group had only five chairmen. In 2012, it was witnessing the leadership transition from its fifth Chairman, Ratan Tata to the new Chairman-designate, Cyrus Mistry.

In line with the Tata group's core philosophy of "What comes from the people must go back to the people many times over,"³ two-thirds of the equity of Tata Sons was held by philanthropic trusts, namely the Sir Dorabji Tata Trust, the Sir Ratan Tata Trust, and other Tata trusts endowed by members of the Tata family⁴ (see Exhibit 3 for a brief history of the group and Exhibit 4 for the group structure and a list of the companies owned by the Tata group). The remaining one-third stake of the

¹Some well known examples of diversified global corporations (with a structure that is different from business groups) are GE, Philips and P&G; and among Indian companies, ITC Limited, which has businesses such as cigarettes, hotels, paper products and apparel retailing as fully owned divisions within a single listed company.

²In an interview published in the Harvard Business Review (2008), Anand Mahindra, head of the Mahindra & Mahindra group, referred to the BG structure as a "federal structure".

³In the words of the founder of the Tata Group, Jamsetji Tata (1868-1931).

⁴It was reported that the Tata trusts together disbursed INR 500 crores (about US\$80 million) in 2010 and were considered among the 10 most generous foundations in the world. See <http://forbesindia.com/article/boardroom/ratan-tatas-audacious-philanthropic-retirement-plans/33526/1>, last accessed on July 28, 2012

equity of Tata Sons was distributed among a few Tata companies, other corporates and individuals. Tata Sons was not listed on the stock exchange. The Tata name and trademark, which was registered in India and several other countries, was owned by Tata Sons. The terms of use of the Tata mark and logo by Tata companies were governed by the Brand Equity Business Promotion (BEBP) Agreement, which was signed between Tata Sons and individual group companies. In addition to subsidiary companies operating various businesses, Tata Sons, together with Tata Industries and Tata Services, operated several fully owned divisions that provided a set of centralized services to group companies to facilitate their business activities and derive some synergies. These were Tata Quality Management Services (TQMS — under Tata Sons), Group Legal, Group HR, Tata Management Training Centre, Group Corporate Affairs, Public Affairs Department, Department of Economics and Statistics, and Tata Strategic Management Group (TSMG - under Tata Industries).

Tata Industries

The other promoter/ holding company in the Tata group was Tata Industries Limited. Tata Industries was initially set up by Tata Sons in 1945 as a managing agency for businesses promoted by Tata Sons. After the managing agency system was abolished, its mandate was recast in the early 1980s to being a vehicle for the group's entry into new and high-tech businesses. Tata Sons held a majority equity stake in Tata Industries, and several Tata companies held minority stakes in the company (see Exhibit 4 for a list of businesses promoted by Tata Industries). Tata Industries also had two operating divisions that functioned as independent profit centres, namely, Tata Strategic Management Group (an in-house strategy consulting arm of the Tata group) and Tata Interactive Systems (a company dealing in learning solutions). Tata Industries approached existing group companies if it saw business opportunities that would be beneficial for them. Kishore Chaukar, former Managing Director, Tata Industries, explained:

We got interested in the logistics business eight or nine years ago. Some of the group companies, such as Tata AutoComp Systems Limited, Tata Steel and Forbes, showed an interest in getting into this business, so Tata Industries stayed away. However, when nothing much was done, Tata Industries jointly invested INR 37.5 lakhs with Tata Interactive in a logistics company, three years ago. Today the company generates INR 300 crores of revenue.

Traditionally, the Chairman of Tata Sons was also the Chairman of the Tata group and assumed the chairmanship of Tata Industries and other major Tata companies, each of which had their own executive boards. The directors of Tata Sons and Tata Industries were nominated as directors on the boards of some Tata group companies, which also had executive directors from the company as well as outside experts, who acted as independent directors. The executive board of each of the companies was supreme and enjoyed complete freedom. Ishaat Hussain, Finance Director, Tata Sons Ltd., explained that the relationship between Tata Sons and the group companies was akin to Tata Sons being a strategic investor in the respective companies. It periodically examined and evaluated whether, 1) the company was strategically relevant to the group; 2) the company was earning returns above the cost of capital; and 3) the company was significant in its industry.

GROUP SERVICES

Evolution of the Corporate Services

The holding structure and relationship between the group and its companies was very different before the Tata Group was restructured in 1997-98 under the chairmanship of Ratan Tata. For example, Tata Motors was created by Tata Steel, and, until the mid-nineties, Tata Steel, not Tata Sons, was the major shareholder in Tata Motors. When Ratan Tata became the Chairman of the Tata group in 1991-92, he found that in the absence of a synergistic force, Tata companies were not taking a unified look at the future and were possibly missing out on opportunities. One of the first tasks taken

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up by Tata Sons under his leadership was disentangling the group companies' cross-holdings in other Tata companies by acquiring (for instance, Tata Steel's shares in Tata Motors) and consolidating controlling stakes under Tata Sons.

In the nineties, Tata Sons began a series of initiatives at the corporate level to develop a more cohesive group. The group headquarters contributed substantially to each of the companies by helping them define their vision and future strategies. These group-level initiatives were defined and directed by two main decision-making bodies — the Group Executive Office (GEO) and the Group Corporate Centre (GCC), which comprised of members from Tata Sons, Tata Industries and Tata Services (see Exhibit 4 for a list of members). The four-member GEO charted out and assessed the business activities of the Tata group. It strived to strengthen the relationship between the group and its companies in order to achieve greater synergy in the Tata group. The GEO identified seven business sectors (information technology and communications, engineering products and services, materials, services, energy, consumer products and chemicals) in which the group operated and assessed the unique value a company added to a particular business sector and also the unique value the group brought to that company.

The GCC oversaw the protection and promotion of the Tata brand across geographies and provided advisory services to affiliate companies in several areas. The GCC steered the decision to exit a business or enter a new business through an existing group company along with the board of directors of the concerned company. In addition, GCC initiated a number of corporate-level services that were offered to group companies on a completely discretionary basis.

Brand Equity Business Promotion (BEBP)

In 1992-93, when Ratan Tata took over as Chairman, the Tata group was a loose confederation of companies with a weak common identity. The first step in developing a common identity for the group was the creation and nurturance of a unified Tata brand in 1997. The Tata brand was managed at the group level and the power of the brand opened doors at all levels for group companies.

In 1998, a corporate identity program, Brand Equity Business Promotion (BEBP) was instituted after gaining consent from boards of the companies. Its purpose was to sustain the power of the Tata brand and streamline the use of the Tata name by the group companies. Though BEBP was not mandated, companies that wished to use the Tata brand had to participate in the program and run their businesses as per the guidelines of the Tata Business Excellence Model (TBEM) and Tata Code of Conduct (TCoC), which were a part of the adoption of the BEBP agreement.

Companies were charged for their subscription to BEBP on the basis of the specific version of the BEBP agreement that they signed. The first version allowed signatories to include the Tata name in the company name and use the Tata logo. Examples of such companies included Tata Steel, Tata Motors and Tata Chemicals. The second version was for companies that chose to be referred to as, "A Tata enterprise," but did not use the Tata name or logo. Companies in this category included Titan Industries (watches and jewellery), Voltas (air-conditioning and refrigeration) and Indian Hotels, which had strong brands of their own. The third version was for companies that were joint ventures (like Tata Sky, a joint venture between the Tata group and Star TV, owned by News Corporation). Companies that directly used the Tata name were required to pay 0.25 per cent of their net annual turnover from operations, subject to a limit of five per cent of profit before tax, whereas, companies that did not use the Tata name directly (the second version of the agreement) had to pay 0.15 per cent of their net annual turnover from operations, with a similar cap on profits. The third category of signatories did not need to pay a subscription charge. Senior executives of the group felt that BEBP was probably the most significant mechanism that bound the group together.

Tata Business Excellence Model (TBEM)

The Tata Business Excellence Model (TBEM) was a critical part of the Tata group's BEBP agreement. Once companies signed the BEBP agreement, they were required to show scalable

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improvement, as per the TBEM performance standard, within three years. TBEM was a business excellence model, which had been adapted from the renowned Malcolm Baldrige National Quality Award program of the United States government. The essence of this framework was adopting a proactive attitude rather than a reactive one. The TBEM assessment covered 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 (see Exhibit 5 for the TBEM framework). The model worked under the aegis of Tata Quality Management Services (TQMS), an in-house organization, formed as a division of Tata Sons and mandated to help different Tata companies achieve their business excellence and improvement goals. According to Sunil Sinha, CEO, TQMS, “Nobody would thump the table and say that TBEM was mandatory, but no company was allowed to bypass it. Mr. Ratan Tata once remarked, ‘I hope there is no company that is not following it.’ Now what else could be mandatory?”

TBEM went through three phases in its implementation. In Phase I (1994 to 2000), very few companies engaged with TBEM and signed the BEBP; they adopted the framework for quality management, but the adoption of the excellence model was variable in depth and intensity, and was considered an unnecessary evil in many cases. During Phase II (2000 to 2005), companies understood the importance of TBEM and used it to improve performance. In the first five years (Phase I), no company won the JRD QV award, instituted as a part of TBEM, since no organization reached a TBEM assessment score of 600. Most people felt that the award was far too aspirational. To push non-performers, TQMS prepared red, green and yellow lists based on the TBEM scores of companies. Sinha reminisced:

In 2002 when we presented the first list to Mr. Tata, 70 per cent of the companies were in the red list. In a very non-threatening way, he questioned whether the time had come to review the BEBP agreement with companies and withdraw the Tata name from some of those who were not meeting the standards. He remarked that we need to be more circumspect when we invite our companies to sign the BEBP agreement. Within three years the compliance shot up.

Tata Steel won the first JRD QV award in 2000 and was also rated as the world’s best steel company.⁵ By Phase III (2005 to 2010), the group was rapidly expanding globally. Initially, companies located outside the shores of India resisted learning quality management from what they perceived as a “third world” company. Convincing them to sign the BEBP agreement was a challenge for TQMS, but once they experienced the process, they became much more receptive. From 1995 to 2011, companies adopting the TBEM increased from 12 to 44, and the average score band shifted from 150-250 to 450-550. TQMS aimed to make all group companies that were at least three years old a part of BEBP by 2014. TQMS was seized with the task of facilitating Tata companies to institutionalize the TBEM, and assumed the role of internal consultants for the group companies. The 30-people TQMS team was distributed across functional and industry verticals.

The total cost outlay of the excellence program was approximately INR 25 crores per annum, 50 per cent of which was paid by the group and the rest earned by TQMS through fee based consulting interventions and other offerings. TQMS had also created forums and platforms, such as Tata Network Forum, Tata Group Innovation Forum and Innovista, through which companies connected with one another and shared knowledge.

Group Strategic Sourcing

The Group Strategic Sourcing function was initiated in 2001-02 when RG was considering group-level media buying. Though media buying at the group level did not work out as expected, it was felt

⁵By World Steel Dynamics

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that substantial savings could be realized by extending the concept to the procurement of other materials which were common across Tata companies. Indriyajit Sethi, Vice President, Group Strategic Sourcing (GSS), along with his three-people team, ran the group's cost-saving procurement endeavour, *Project Prune*, with the aim of creating commercial value for group companies.

Once the larger group companies negotiated the best price for themselves, the GSS team tried to get similar prices for the entire group. They worked on the logic of achieving a win-win for the client as well as the group. Sethi provided an example, "After much negotiation with Jet Airways, which already gave TCS a six per cent discount, we were able to convince them to give the entire group a discount of 10 per cent. After this, their business from the group increased from INR 27 crores per annum to INR 120 crores."

Sethi explained that since they offered a centralized service, they could tap into different group companies to help a company out of a particular problem that it may be facing. He illustrated his point with the following example:

One of the most satisfying experiences that we had was with the transportation of the Nano car, which was manufactured in Singur, West Bengal. The key challenge was that while the selling price of the car was very low, the transportation cost was the same as any other car. So we worked on a project with Tata Motors and we brought together 10-15 different Tata companies to explore transportation options. We were finally able to come up with a low cost model for Nano's transportation, which would otherwise have been a very big barrier to its profitability.

Some of the commodities and services where they effected significant group-level cost savings were, fuel (INR 15 crores a year), air tickets (INR 20-25 crores a year), IT software and hardware, and other materials (cement, luminaires and lamps, stationery, workstations, paints, packaging, cables, etc.). Sethi estimated that the group savings achieved by his team ranged between INR 50-160 crores per year.

TATA SERVICES LIMITED

In 1957, the group incorporated Tata Services Limited (TSL) to provide all the Tata group companies access to a set of centralized services. Tata Services operated on a no-profit-no-loss basis. These services were either fully or partially funded through BEBP, based on whether they benefited the entire group or only catered to the needs or activities of specific companies. Services that were company-specific were charged to the concerned company. Tata Services had specialized divisions and departments that handled different areas of services. These included, Group Human Resources (HR), the Department of Economics and Statistics, Group Corporate Affairs (GCA) Department, Public Affairs Department, Tata Management Training Centre (TMTC), Group Legal, Labour Relations Bureau, Tata Central Archives, and the Network/ IT department. They helped provide significant synergistic advantages across the group. Though these services were available to all of the Tata companies, the companies had complete discretion over whether to use them or not. The group services had to sell themselves to group companies as there was no mandate on their use from the group headquarters. This was a unique facet of the structure — an owner/ shareholder providing central services to companies and treating those companies as customers. One of the major benefits of such a group structure was that it kept everybody at the group level on their toes as they had to prove their functional utility and excellence to financially sustain their units. The following paragraphs describe some of the key services provided by Tata Services.

Group Legal

Tata Services launched a central legal function at the group level in 2000 with the appointment of Bharat Vasani as the Chief Legal and Group General Counsel of Tata Sons. Till then, each of the group companies had its own legal setup and negligible interaction with the group headquarters.

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Group Legal was started under the aegis of Tata Services Limited, but technically was on the payroll of Tata Sons. Vasani explained:

I was told that I could not depend on the group's resources but would have to generate my own revenues to cover my costs. I was told that anything which was provided free had no value. So I billed my costs to my clients, i.e., Tata companies. Companies didn't mind this because our charges were still lower than those that the outsiders in the market charged for similar quality of service. Any surplus that my team generated went to Tata Sons.

Companies sought the services of Group Legal for matters related to corporate law, tax and M&A. For example, Group Legal's involvement was very high in the acquisition of Corus, UK, by Tata Steel. Before Group Legal's establishment, company secretaries of group companies barely knew each other. Vasani recalled, "When I joined the group I found that four Tata companies — Tata Power, Tata Steel, Tata Motors and Tata Chemicals — had offices in the same building and they went separately to the same law firm for interpretation of a section of the Companies Act. Each paid the law firm for the same opinion!"

Consequently, to prevent such duplication, one of the first steps that Group Legal took was to connect the group's 450-odd in-house lawyers and company secretaries. It held an Annual Conference of Tata Company Secretaries and In-House Lawyers, and a study sub-committee where lawyers from different group companies met every two months to discuss legal issues of common interest. Group Legal also launched a group Intranet to share interpretations and implications of new legislations with the group. Within a day of an important judicial pronouncement, they sent an executive summary to concerned companies, which could revert to them for further details. They also oversaw the formulation of group policies on legal matters and managed group-wide compliance with those policies. Group Legal charged for its advisory services, but at nearly half the market rates. Though no company was forced to use Group Legal, most did so because of its expertise in internal matters, consistent high-quality service, response speed and efficient post-project follow through.

Group HR

When Ratan Tata took over as Chairman in 1992, he made intra-group communication a major focus area. The 22-people Group HR provided the platform for that at the group level, but it was not a substitute for a company's HR department. Satish Pradhan, Executive Vice President, Group HR, stated that each of the group companies had a strong HR function, which reported to its respective CEO, and not to Group HR at the headquarters.

Group HR managed recruitment and talent development initiatives at the group level. Tata Administrative Service (TAS), a managerial development program conceived by JRD Tata in the 1950s, was one such initiative. Its goal was to select and groom young managers, provide them opportunities for professional growth, and add them to a talent pool that could be tapped by group companies. TAS was unique in providing recruits the opportunity for lifelong mobility across the group.⁶ Another group-level activity was a two-phased integrated talent mechanism, People Planning Meeting (PPM), which was introduced in 2003. Different talent planning teams carried out PPM for group companies and reviewed their people, using pre-determined metrics. Its main purpose was to help companies and the group recognize, and place, people according to their potential. Group HR undertook similar activities under four broad themes: building a culture of achievement, learning, innovation, and organizational structure for people development.

⁶<http://www.tata.com/careers/articles/inside.aspx?artid=teU3Hb/7cYo=>, last accessed on March 17, 2012.

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Group HR charged companies for some services and absorbed the costs themselves for others. They amortized the development cost of recruits, and charged companies accordingly, before deploying them. Thus, services rendered by TAS were chargeable. PPM, on the other hand, was free.

Tata Management Training Centre (TMTC)

JRD Tata started the Tata Management Training Centre (TMTC) in 1959 with a mission of creating and grooming future leaders for the Tata group. TMTC was conceived as a platform for providing collaborative and dynamic learning.

Since its inception, the TMTC had been regularly conducting various senior-level management training programs with faculty drawn from some of the world's premier institutions and universities and its own internal faculty members who were called "Practice Consultants". To engage with companies, a team of TMTC faculty members served as Key Account Managers (KAM) for various Tata group companies. In order to design the type of training programs that would help their client companies, KAMs worked closely with them to gain a deeper insight into their business challenges and objectives. According to Chetan Tolia, former Head of TMTC, "This role is comparable to the role of a general physician or a family doctor. KAM teams understand the history, business challenges and growth aspirations of each of the group companies, like a family doctor, and bring in 'specialists' to help them." TMTC had no agenda in terms of course curriculum; its teaching was subject-agnostic as it catered only to the customer's requirements. It also offered a three-tier leadership program, Tata Group Strategic Leadership Seminar (TGSLs), Tata Group Executive Leadership Seminar (TGELS) and Tata Group Emerging Leaders Seminar (TGELS).

Another important role that TMTC played within the Tata group was disseminating the best practices and learning experiences of a particular Tata company across the group through applied research, popularly known as AR@T (Applied research at TMTC). Faculty members, along with a team of researchers, wrote cases, research papers and management briefs that were published in AR@T. AR@T reached more than 750 senior managers within the Tata group.

Over the years, 40,000 executives from Tata and non-Tata companies had participated in TMTC's Executive Development Programs. Like most other group services, TMTC too had to fend for itself. Tolia explained, "The reason we charge for our services is that we ourselves remain extremely conscious about the value of our services. We realize that we need to be competitive as there is a customer, and the customer has choices. It keeps us on our toes, it keeps us agile, and that is very important; otherwise, it is easy to go into a comfort zone."

Group Corporate Affairs

The Group Corporate Affairs department, according to Christabelle Noronha, Chief, Group Corporate Affairs, was the custodian of the Tata brand.⁷ Brand protection meant keeping the brand image consistent and maintaining a uniform corporate identity across the group. The brand was promoted through various events, sponsorships and publications. "We have a corporate campaign to promote the Tata brand. All the group companies benefit from it. Only a few people outside India may know Tata Steel or Tata Motors, but they all know Tata," Noronha observed.

Group companies ran their own publicity campaigns and worked with Corporate Affairs around group events.⁸ Corporate Affairs intervened in company activities only if the Tata brand was at stake or if companies approached them for help during any media crisis. To avoid miscommunication during crises, they worked closely with companies, acting as a two-way bridge between them and the media. They juggled their time and involvement based on their estimation of the size of the problem, not the size of the company. Noronha noted, "We always close a loop to the satisfaction of the journalists."

⁷In 2011, the value of the Tata brand was estimated at US\$17 billion by Brand Finance, London.

⁸These included such events as the Tata Crucible quiz contest, Tata Jagriti Yatra and Tata Building-India Essay Competition.

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At the group level, Corporate Affairs handled all communications, including that of top executives, the group website, intranet and publications.⁹ Given the growing importance of Intellectual Property Rights (IPR), they organized IPR training seminars for the group companies. The Corporate Affairs department was a cost centre with a staff size of about 30, whose costs were absorbed through the BEBP. Though their service to companies was free, most company promotions involving the Tata brand were managed by Corporate Affairs. Thus, among the group services, Corporate Affairs had the largest budget and spending.

Public Affairs Department (PAD)

The Indian economy underwent significant reforms and liberalization from 1991 onwards, but there remained substantial ambiguity with regard to many policy changes. According to Bharat Wakhlu, President of the Public Affairs Department (PAD), a considerable amount of PAD's time was spent on obtaining clarity on government policies for the Tata group, both before and after liberalization. PAD was based in Delhi, India's capital, though the group was headquartered in Mumbai.

PAD advised group companies on matters related to the government - regulatory compliance, processes, clearances and approvals. Their advice on economic policies helped group companies make appropriate investments. They fostered international goodwill by engaging with multinational companies, foreign ambassadors and commercial attachés. This function was considered valuable by group companies with global operations as it generated a lot of good will with international governments. Sanjay Singh, Vice President, PAD, provided the following example, "Since the Tata group was the second largest employer in the UK, UK's Immigration Minister engaged with PAD before UK formulated and declared its new visa policy."

On behalf of the group PAD organized and participated in strategic events, which would be expensive for each individual company, but were important for the group. Some of these events were carried out in collaboration with the Corporate Affairs department. Examples of such events were national-level annual events, like the Defence Expo and the Aero Show in Delhi.

PAD had a usage based charging system till 2010, which made planning very difficult. In 2011, PAD developed a subscription-based model whereby companies paid a fixed membership fee to be a part of the newly created Tata PAD Alliance. There were five categories of membership based on a company's ability to pay, its turnover, geographical footprint and the number of subsidiaries it had. The five categories, whose annual subscription fees ranged from INR 5-55 lakhs, were platinum, alpha platinum, beta gold, alpha gold and beta silver. Singh explained, "We see Tata companies as our own. Even if some of them cannot pay us just now, we serve them if we see potential in them."

PAD had five Client Service Executives (CSEs) and nine area experts spread across China, America, Singapore, Africa and the United Kingdom. In 2011, 50 per cent of PAD's revenue budget came from BEBP, 8-12 per cent from Tata Industries, and the balance was covered by the subscriptions to the Tata PAD alliance of about 24 companies. Wakhlu proudly summed up, "Had we not been providing value, we would not have been able to pull off this alliance to which companies have been enthusiastically subscribing."

Department of Economics and Statistics (DES)

The Department of Economics and Statistics (DES) was established under JRD Tata and was arguably the oldest service arm at the headquarters, dating back to India's independence. Initially, DES had minimal engagement with group companies, only providing them with data for press and

⁹These included the Tata Review and Tata Sphere.

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investor conferences. This changed with the onset of economic liberalization in India and the international expansion of the Tata group.

DES monitored different sectors of the Indian economy and advised companies on strategies for new markets. They offered paid services such as the Client Servicing Desk where companies were allotted DES analysts, who were dedicated to monitoring the company's business domain. Siddhartha Roy, Head, DES said, "Our job is similar to that of a consultancy company, but our fees are not. At the end of the day, we are told that we are a Tata company, so we have to just cover our cost. Any surplus will go to Tata Sons."

Though conducting research for companies outside the group was financially lucrative, DES could not pursue it, except with special permission. The 11-member DES team made a surplus of INR 84 lakhs in 2010 and strove to become financially strong in the future so that they could help smaller group companies. Roy elaborated, "If we see that a particular segment is likely to get into trouble, we would like to have the time and resources to analyze that and forewarn the concerned company before the actual problem occurs."

Tata Strategic Management Group (TSMG)

Founded with five people in 1991 as a division of Tata Industries, TSMG scanned business opportunities for Tata Industries and other group companies. They offered services in strategy formulation, organization effectiveness, competitiveness enhancement and business analytics in several industries.

Raju Bhinge, Chief Executive, TSMG, pointed out that in 1991-92 the group's shareholding in many affiliate companies was through cross-holdings and in single digits. TSMG's first exercise was to consolidate these holdings. It also led several initiatives around that time to meld the different Tata group companies into a unified entity. In 1998, TSMG set up a Business Review Committee (BRC). The BRC met twice a year, and its main purpose was to review the future plans of group companies. Instead of measuring company performance on the broad measure of profit or loss, TSMG introduced finer metrics such as Return on Capital Employed (ROCE) and Economic Value Added (EVA). TSMG also initiated the Annual Group Managers' Meeting (AGMM), which brought together the Group Chairman and the top 300 group executives. The Group Corporate Centre (GCC) announced its expectations for affiliate companies at the first AGMM. **The BRC, the AGMM, and other interlocking mechanisms facilitated the alignment of individual company strategies and activities with the group's vision. Over the years, the group systematically decentralized, and business review and strategy-making shifted to individual companies and their boards.**

After the group's restructuring in 1998, and its strategic initiatives to strengthen the Tata group in the early years, TSMG began undertaking strategy assignments from group companies and external consulting work as well. Bhinge explained:

Group companies have the freedom and the sanction to hire any consultant they want. They are under no compulsion to use us. Similarly, we run as a consulting firm in the group, but also do work for non-group companies. We charge for all our services. However, some of the group's competitors feel uneasy doing business with us as we are a Tata service and they think our loyalties will lean towards a Tata company. However, we have always maintained very high professional and ethical standards.

Many Tata companies preferred to use TSMG over external consultants for several reasons, including reliability, confidentiality, pricing and TSMG's ability to tap into the knowledge and experience of other group companies. The 70-member TSMG team was organized along two focused consulting service streams: Industry Practices and Functional Practices. By 2011, TSMG had completed over 500 engagements with more than 100 clients across different countries and industry sectors. Bhinge stated, "Our future growth will most likely come from outside the Tata group. At

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present, the contribution of non-Tata clients to our revenue is about 55 per cent, which is likely to go up to 70 per cent in the coming years.”

Provision of Financial Services to Group Companies

Though each company managed its day-to-day financial operations, decision-making, related to capital raising and structuring, was always linked to the centre. No individual Tata company could take a decision independent of the group when it came to issues, such as creating the necessary liquidity for an acquisition, need for investment by Tata Sons, and so on. In cases where the equity structure was likely to change, the company’s management was required to make the recommendation to the shareholders of the company and wait until all the shareholders responded. Tata Sons was involved in major financial decisions by group companies to ensure that the interest or reputation of the Tata group was not diluted. Ishaat Hussain, Finance Director, Tata Sons, said, “We are involved in all the financial decisions that companies undertake at the strategic level. As a centralized function, we have certain skills like fundraising, treasury, taxation and mergers and acquisitions (M&A). During M&As, the group plays a very important role.”

With the help of Tata Sons, group companies were able to leverage the financial strength of the group. An illustrative example was the acquisition of Jaguar Land Rover (JLR) by Tata Motors. In 2008, when the company was going through a financial crunch, Tata Sons funded Tata Motors and helped it raise money for the acquisition. Hussain noted:

Whenever the rating agencies rate a company, they come to us for their final check as they want an assurance that we will stand behind them. I tell them, ‘I have no authority to give you that assurance, but you look at our past behaviour and you can see for yourself. If you want specific support, please ask for it and we will consider it.’¹⁰

USAGE OF THE SERVICES BY GROUP COMPANIES

Group companies were the users and recipients of these centrally offered services. The following paragraphs capture the perspectives of a few group companies, both large and small — those that used the Tata name and those that didn’t. In addition to the perceived value of the service, their reasons for choosing a certain service varied from simple convenience and physical proximity to equations and prior experiences at the individual or organizational level. Companies cited confidentiality as one of the most important reasons for choosing to use the group services over those of external agencies. Summarizing the overall manner in which group services were offered, Kishore Chaukar said, “I never got a letter or instruction from group management asking me to choose a group service. It was my business and group services had to sell themselves to me.”

Tata Steel

Established in 1907, Tata Steel, with its acquisition of Corus (now Tata Steel Europe) in 2007, was among the top ten steel manufacturers in the world.¹¹ With a turnover of US\$26.6 billion in 2011, it had over 80,000 employees across five continents and was a Fortune 500 company. Tata Steel was considered the Tata group’s flagship company.

B. Muthuraman, Vice Chairman, Tata Steel, felt that group services played a key role in binding companies together. He felt that there were some functions which the companies could manage on their own, while there were others where the centre could clearly add value. He counted TBEM as one such important group service where the centre added significant value. A study done by Tata

¹⁰When a parental guarantee was demanded from Tata Sons for any company by financial institutions, a decision on whether to give it or not was taken based on the merits of the business and the gravity of the problem.

¹¹<http://www.tatasteel.com/about-us/index.asp>; last accessed on March 25, 2012.

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Steel found that 75 per cent of the premium that customers were willing to pay for its products was because of the Tata brand. While each company had earned a certain credibility that got attached to its products, a large part of the reliability, credibility and perception of quality came from the Tata name.

Muthuraman felt that the Tata group culture and organizational structure was unique and was very different from the command and control environment prevalent in most business groups in India. Talking of his experience as the CEO of Tata Steel for over 10 years, he said, "I had never ever felt a lack of freedom to do what I wanted to. At the same time, whenever I needed help, it was available. I believe that the multi-business organizational structure of the Tata group is quite unique and is something the world needs to take notice of and carefully study."

Tata Chemicals

Established in 1939, Tata Chemicals Limited (TCL) had three broad segments: living essentials (consumer products), industry essentials (chemicals) and farm essentials (crop nutrition and protection). Operating in four continents, it had an annual turnover of about US\$2.7 billion in 2010-11. According to B. Sudhakar, Chief Human Resources Officer, Tata Chemicals, the Tata group adopted a non-intrusive, but value-adding approach while engaging with group companies. He felt that the loose control culture of the Tata group worked reasonably well to build long-term value, but it resulted in short-term losses of opportunity. Sudhakar elucidated:

At times an aggressive banker may offer a much better rate, but we have to consider the larger picture at the group level before we can accept it. We also feel that certain things should be mandated because they are clearly beneficial for all, but the group never does that. At times we feel restless with this approach.

In terms of specific services, Tata Chemicals worked closely with TQMS and Group HR. Group HR helped Tata Chemicals in organizational transformation and integration processes when the company globalized and moved into many new geographies. Group HR worked as a facilitator, while the actual implementation was done by the company.

Sudhakar emphasized that the large size of the group never hindered the speed with which companies struck and closed business deals. Tata Chemicals acquired General Chemical Industrial Products for US\$1.05 billion in 2008. It was a big deal for a company like Tata Chemicals. "From the time we got to the discussion table to the time we closed the deal, it took only 40 days. Closing a US\$1.05 billion acquisition in 40 days is not easy. The board met as many times as we wanted, and gave us all the support we needed," Sudhakar recalled.

Voltas

Founded in 1954, Voltas Limited offered engineering solutions across a wide spectrum of industries, including areas such as heating, ventilation, air conditioning and refrigeration. In 2011, Voltas had an annual turnover of US\$1.02 billion. Voltas called itself, "A Tata enterprise", and continued to use its own name, which, over the last 50 years, had become synonymous with cooling in India. The power of the Voltas brand could be gauged from this fact: when the German KION Group set up a majority-stake JV in India with Voltas, they insisted that the joint venture be called Voltas Material Handling.

Sanjay Johri, Managing Director, Voltas, explained that the Tata group emphasized the long-term sustainability of the company and business and believed that this ultimately drove profits. The group also emphasized that companies had to contribute to society as well as make profit. Describing the advantage of their association with the group, he said, "Everyone knows that we enjoy the backing of Tata Sons, which is perceived to be financially very strong. One can even count on financial support from other group companies."

Group services too were useful. Johri pointed out, "Though we have our own legal teams, we refer to Group Legal for complex legal matters. It is one of the advantages of being a part of the group and a part of the overall BEBP agreement. We also consult Group HR for inputs in areas such as compensation benchmarking." Johri believed that many benefits stemmed from interactions with other group companies, and offered the following example:

In 2011, as a part of its tie-up with the Japanese Mizuho Bank, Tata Capital organized a summit in Tokyo, where they took a delegation of 40 CEOs from the Tata group to meet with the 800 Japanese companies present there. We got many inquiries and many of these are fructifying into relationships of different kinds. This is a great group advantage.

Group companies did business with each other only if they perceived mutual value addition. Other things being equal, they preferred working with group companies due to intangible factors such as trust and confidentiality. Another factor was that if there was any commercial dispute, it could be resolved without getting into a protracted legal battle. However, some of the disadvantages of being part of the Tata group manifested when there was a business overlap between two companies. Johri recalled, "We had a conflict with Telcon, Tata Motors' subsidiary, when they got into manufacturing mining and construction equipment, a business we are in. A Tata board member asked how two Tata companies could be competing like this, but this is a reality."

Rallis India

Rallis India manufactured and sold products for agriculture including pesticides, seeds and fertilizers. In 2011, it had a sales turnover of about US\$0.22 billion. The antecedents of Rallis India can be sketched back to the 19th century. However, the Tatas became one of the chief shareholders of Rallis India in 1962. The shareholding in Rallis was distributed among many Tata companies, but by 2009, this shareholding was consolidated and it became a subsidiary of Tata Chemicals. Rallis was an independent listed company with its own board of directors and an independent management team.

In 2002-03 when Rallis faced a severe financial crisis, it may have had shut shop had it not been a part of the Tata group. Given the long-term orientation of the Tata group, it provided timely and necessary funding to the company after assessing its business potential. By 2011, Rallis had not only turned around, it was ranked third by analysts among the list of Indian stocks predicted to outperform gold.¹²

V. Shankar, Managing Director and CEO, Rallis India, entered the Tata group in 2004 when Hind Lever Chemicals (part of Unilever) merged with Tata Chemicals. He reminisced:

Coming from an MNC, I had a biased view that I would probably be moving from a process-oriented environment to something which is less so. However, I saw that the group was actually much more process-oriented. In many companies, succession planning is always a big question mark and never done proactively. It is less of an issue for us with the systems orientation emphasized by the TBEM.

Rallis often used the services of Group Legal, TMTC and TQMS. From time to time, they also interacted with the DES, Group HR and Group Corporate Affairs. Describing the advantages of being associated with the Tata group, Shankar said, "When you launch a new product with a combination of the Tata and Rallis names, you can be sure that the farmer will at least pick it up and try it. That is a

¹²Dhanorkar, Sanket, "Stocks like VIP Industries, Supreme Industries, Rallis India, Bata India and More Can Deliver Higher Returns than Gold," *Economic Times*, August 22, 2011.
http://articles.economictimes.indiatimes.com/2011-08-22/news/29915202_1_gold-rally-gold-bars-gold-prices; last accessed on March 25, 2012.

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huge advantage over the competition, but along with this comes the responsibility of maintaining the group's image and reputation."

An important aspect of the group's association was the ethos of quiet community service that was embedded in the DNA of the group. Rallis worked with rural girls and women to impart broad-based education, including best agricultural practices. On the subject of further improvements that were needed, he listed resource sharing among group companies. Though the group was headed in that direction, he felt it could do a lot more as the size of the opportunity for synergies was considerable. However, in all these areas, there remained the overarching issue of how to strike the right balance between regimentation and flexibility.

TATA-NESS — THE TATA CULTURE

Common to all these services, and permeating the Tata group, was a common culture that could only be called *Tata-ness*. *Tata-ness* was never defined in specific terms and primarily existed in the minds of senior employees of the Tata group. It was more like a "way of life" in the Tata group. The group's structure evolved on the basis of the belief that too much control hindered the creativity of people in the organization. It attempted to strike a balance between the need for command and control in running the organization and the need to be creative, innovative and free-flowing. One of the reasons that a free-flowing approach was considered valuable was that only those processes and group services which added value, were retained.

An important aspect of *Tata-ness* was that group services were not limited to only the big fish among the group companies. Smaller or less profitable companies were not denied group services. The BEBP agreement had a provision whereby a company could pay a certain percentage of its turnover or a percentage of its profit, whichever was lower, to obtain group services. Thus, if a company did not make a profit, it paid nothing. RG observed, "In that way, it is a socialistic society. The prosperous ones earn and support those who are not so prosperous. There is a bit of socialistic capitalism built into this."

He added that most conglomerates, particularly those in the West, viewed their structure as a typical hierarchy with a holding company at the top and other companies below, with the smallest companies at the bottom — like a pyramid. RG described this as the "physics" view. By contrast, the Tata group, he explained, preferred a "botany view," which regarded the group as a tree, with the parent — Tata Sons and the trusts — forming the roots. The larger companies formed the tree's trunk and bigger branches, while the smaller companies were its smaller branches and leaves. The roots provided nourishment in the form of values, ethics and strategic guidance to the whole tree, while the topmost branches and leaves, though small, were important as they received the greatest exposure to the sun and oxygen.

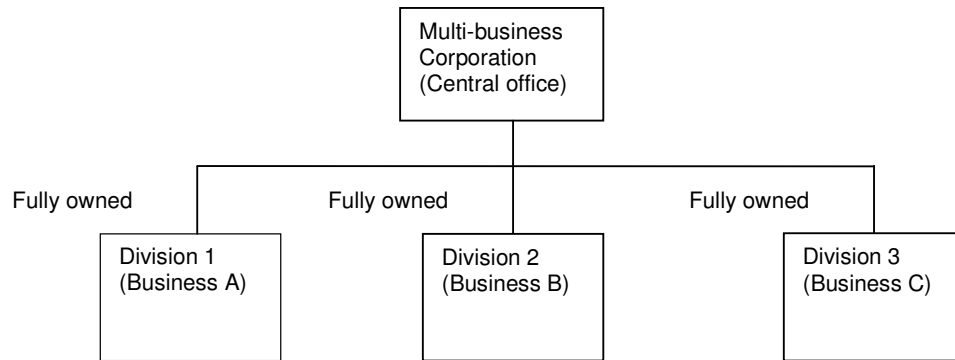
EPILOGUE

As RG reflected on the evolution of the Tata group, particularly the various group-level services and the discretionary spirit in which they were offered, he knew that the Tata group was on the cusp of a new era. The group would soon witness the succession of a new Chairman, only the sixth in the over 140-year illustrious history of the Tata group, who would take over the leadership of the group in December 2012.

While most of the senior managers in the Tata group believed that it's non-intrusive, value-adding approach, was ideally suited to manage the disparate businesses housed in independent companies, others felt that this policy resulted in a lot of money being left on the table. Opinions ranged from that of Muthuraman, who argued that this was probably the best structure to manage unrelated businesses, with the potential to be a role model for organizations in the Western world; to Sudhakar's, who questioned why activities with obvious synergistic potential were not simply mandated across the group. RG knew that this debate was not an easy one to settle, and he predicted that it would unfold with greater force and frequency within the group in the future.

EXHIBIT 1

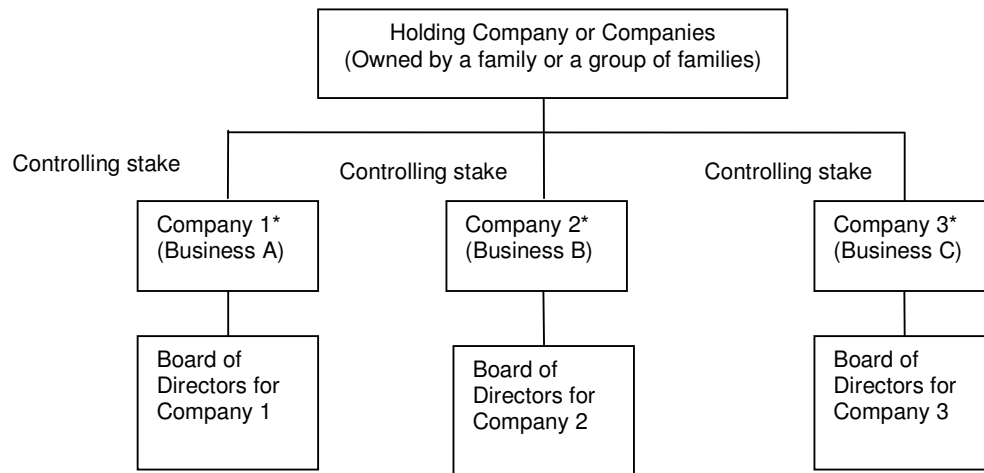
TYPICAL STRUCTURE (M-FORM) OF A MULTI-BUSINESS CORPORATION



Source: Created by authors

EXHIBIT 2

TYPICAL STRUCTURE OF AN INDIAN BUSINESS GROUP



*Companies 1, 2 and 3 can be private companies not listed in any stock exchange or public companies listed on a stock exchange

Source: Created by authors

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EXHIBIT 3

TATA GROUP HISTORY IN BRIEF (PAGE 1 OF 2)

Year	Event
1868	Jamsetji Nusserwanji Tata starts a private trading firm laying the foundation of the Tata group.
1874	The central India Spinning, Weaving and Manufacturing Company is set up, marking the Group's entry into textiles.
1902	The Indian Hotels Company is incorporated to set up the Taj Mahal Palace and Towers, India's first luxury hotel, which opened in 1903.
1907	The Tata Iron and Steel Company is established to set up India's first iron and steel plant in Jamshedpur, which started production in 1912.
1910	The first of the three Tata Electric Companies, the Tata Hydro-Electric Power Supply company, is set up to generate electricity.
1911	The Indian Institute of Science is established in Bengaluru to serve as a centre for advanced learning.
1912	Tata Steel introduces eight-hour working days, well before such a system was implemented by law even in most western countries.
1971	The Tatas enter the consumer goods segment as the Tata Oil Mills Company is established to make soaps, detergents and cooking oils.
1932	Tata Airlines, a division of Tata Sons, is established, opening up the aviation sector in India.
1939	Tata Chemicals is established
1945	Tata Engineering and Locomotives Company (renamed Tata Motors in 2003) is established to manufacture locomotive and engineering products. The company began manufacturing commercial vehicles in 1954 in a JV with Daimler Benz.
1952	Pandit Jawaharlal Nehru, India's first Prime Minister, requests the Group to manufacture cosmetics in India; and Lakme is established.
1968	Tata Consultancy Services (TCS) India's first software services company is established as a division of Tata Sons.
1984	Titan Industries — a joint venture between the Tata group and the Tamil Nadu Industrial Development Corporation (TIDCO) — is set up to manufacture watches.
1995	Tata Quality Management Services institutes the JRD QV Award, modeled on the Malcolm Baldrige Award, laying the foundation of the Tata Business Excellence Model.
1996	Tata Teleservices Limited (TTSL) is established to spearhead the group's foray into the telecom sector.
1998	Tata Indica — India's first indigenously designed, developed and manufactured car — is launched by Tata Motors, spearheading the Group's entry into the passenger car segment.
2000	Tata Tea (since named Tata Global Beverages) acquires the Tetley Group UK, in the first major acquisition of an international brand by an Indian group.

EXHIBIT 3 (CONTINUED)

Year	Event
2001	Tata-AIG, a joint venture between the Tata group and American International Group Inc. (AIG), marks the group's re-entry into insurance. The group's insurance company, New India Assurance, was nationalized in 1956.
2002	The Tata group acquires a controlling stake in Videsh Sanchar Nigam Limited (now Tata Communications), India's leading international telecommunications service provider.
	Tata Consultancy Services becomes the first Indian software company to cross one billion dollars in revenues.
2004	Tata Motors acquires the heavy vehicle unit of Daewoo Motors, South Korea.
	Tata Steel makes its first major overseas investment in NatSteel Asia, headquartered in Singapore.
2005	Indian Hotels adds New York's iconic hotel, the Pierre, to its portfolio as also its Ginger "Smart Basics" hotels in India.
	Tata Communications acquires Tyco Global Network, making it one of the world's largest providers of submarine cable bandwidth.
2007	Tata Steel acquires Corus, the UK-based steel company, for US\$12.1 billion, then the biggest overseas acquisition by an Indian company. Currently Tata Steel is among the top 10 global steel companies.
2008	Tata Motors acquires the Jaguar Land Rover business from Ford Motor company and unveils the Tata Nano, among the world's cheapest cars.

Source: Tata Group website

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EXHIBIT 4 TATA GROUP HOLDING STRUCTURE

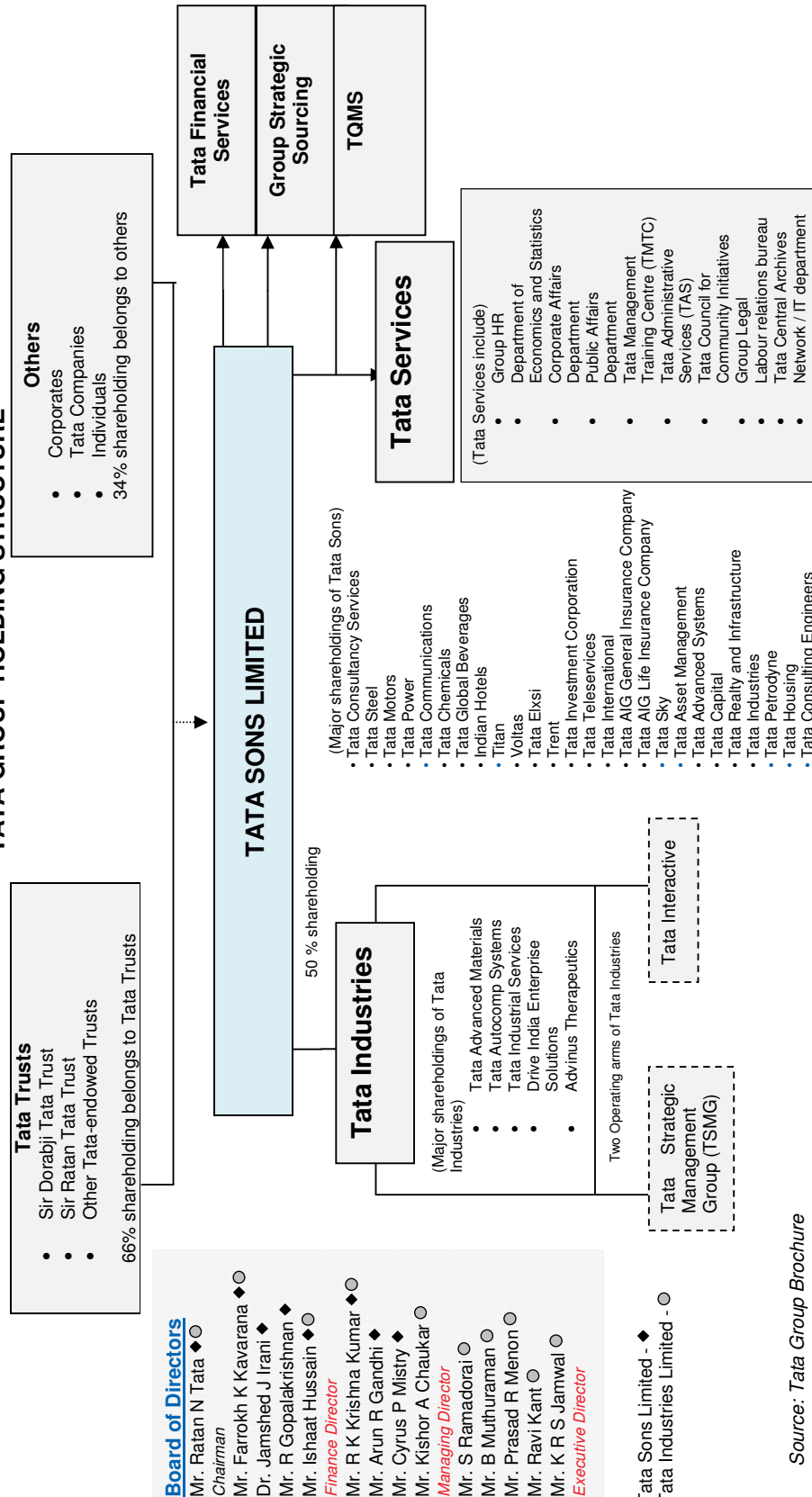
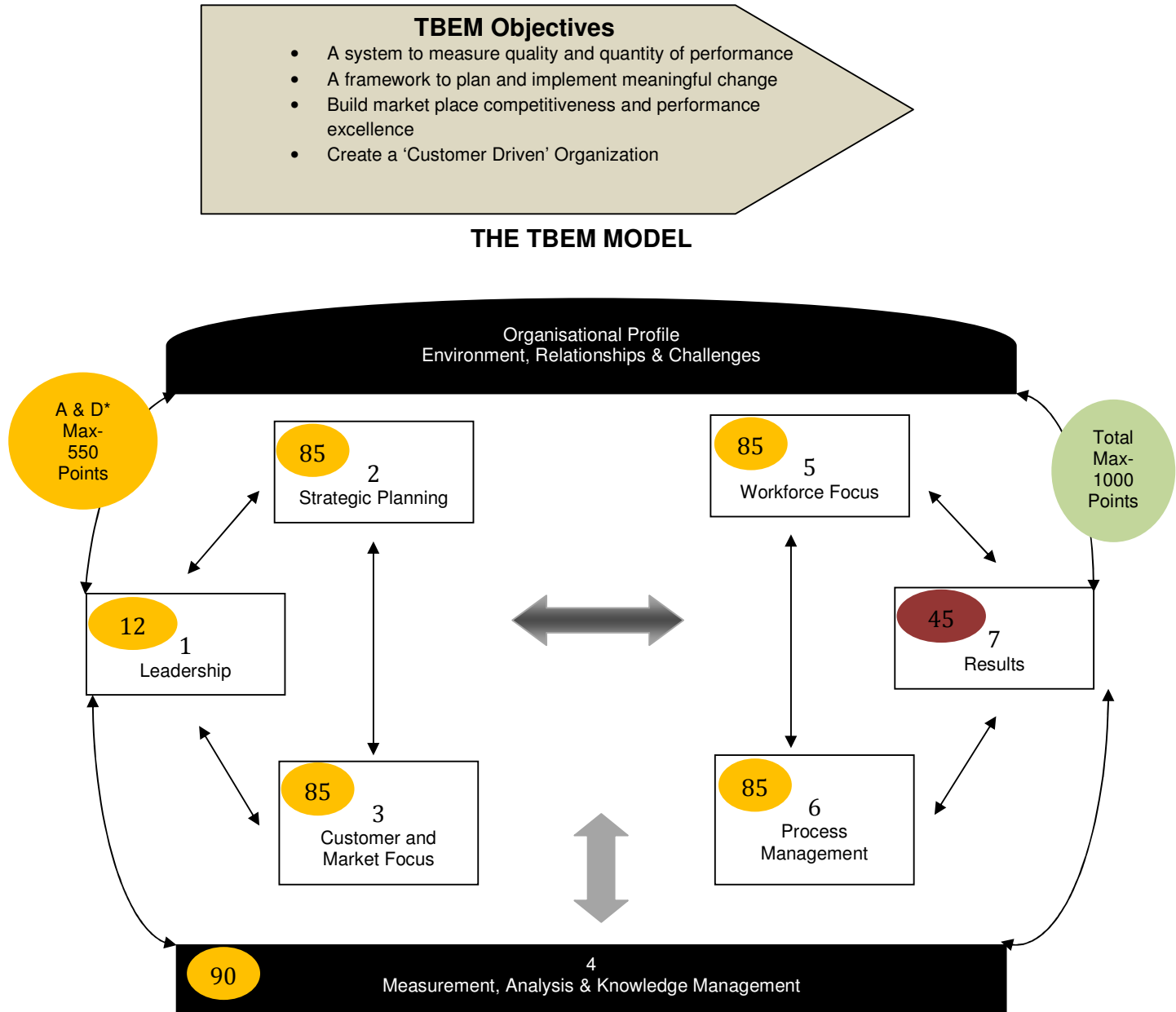


EXHIBIT 5

TATA BUSINESS EXCELLENCE MODEL



*A and D stand for Approach and Deployment

Source: Tata Quality Management Services