

Ratan Tata vs Cyrus Mistry

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Introduction

With N Chandrasekaran finally taking over as the Chairman of Tata Sons, it is time to reflect on the events over the past 4 months, associated with a dark chapter in India's largest business house. What went wrong? Was Cyrus Mistry an underperformer? Did he not understand fully the Tata ethos? Did he not have the required experience to manage such a large business empire?

Performance

Mistry's predecessor, Ratan Tata had built up a large business empire but most of the constituents were bleeding. Only a few of them like Tata Consultancy Services and Jaguar Land Rover (acquired from Ford in 2008) were profitable. In fact, these two businesses generated about 80% of the Tata group's profits last year. Many of the big bets that Tata had made during his stint had clearly backfired and it was left to Mistry to clean up the mess. Did Mistry not move fast enough? Or did he move too quickly? This is where it gets grey. There will be many who will argue that he was too slow. Equally, some will criticize him for moving too fast at the expense of the group's core values. And I do not think Mr. Ratan Tata has explained clearly where he stands in this regard. In contrast, Mistry has made it clear that he did not have the required autonomy and powers to drive change.

Understanding the group ethos

It is difficult to imagine that Mistry did not understand the Tata ethos, which prefers long term thinking to short term quick wins. Mistry might not have been from the Tata family. But he was certainly close to the Tatas. His father is the biggest shareholder in Tata Sons. It was in the 1930s that Mistry's grandfather, Shapoorji Mistry, first acquired a stake in Tata Sons. The stake, which now stand at 18.5%, is presently held by Mistry's father, and comprises the largest block of shares held by a single party. Mistry had been a director on the board of Tata Sons since 2006.

And while Mistry was trying to cut the losses in some of the non performing units, he was hardly operating at breakneck speed like a Jack Welch. He was proceeding far more cautiously, compared to a typical hard charging CEO. Moreover, Mistry's decisions had sound business logic. As my young friend, former colleague and now Associate Professor of IIM Kozhikode, S Subramanian has written in Businessworld, Jan 23, 2017, the Nano considered one of Ratan Tata's pet projects, did not offer the two things that it promised: safety and comfort. People found they could get better value at the same price by buying a second hand Maruti Alto. With such a poor value proposition, the Nano was never going to make money. If Mistry wanted to pull the plug on the Nano, he cannot be blamed. Certainly, long term thinking is not the same as ignoring losses and allowing them to pile up with gay abandon.

Even though the Tata group has several companies, just five of them TCS, Tata Motors, Tata Steel, Titan and Tata Power contribute 90% of the group's total market capitalization. A clear sign that the group needs a major restructuring and weeding out of unhealthy constituents. If Mistry made an attempt in this direction, he can hardly be said to be violating the group's ethos. More so, as one of the accusations made by Tata Sons against Mistry is that the deteriorating performance of various companies made the group heavily dependent on TCS for cash flows.

Mistry had written to his directors that the group might face a write down of \$18 billion due to 5 unprofitable businesses. Instead of being praised for being candid and transparent, it is obvious that the old guard felt threatened that skeletons were emerging from the cupboard. So going by the events which have taken place, it would seem the problem was less about violating the group ethos and more about hurting the ego of the patriarch who felt his legacy was under threat.

Experience

Some intellectuals have written that Mistry who came from a construction business did not have the stature or experience to run the Tata group. It is true that Mistry had not been the CEO of such a large business house. But that hardly made him less qualified or unsuitable for the job. To put things in perspective, few believed that Ratan Tata was a better candidate than Russi Mody, when JRD Tata was

finalizing his successor in the early 1990s. Indeed Tata's only qualification seemed to be proximity to JRD. Tata quickly built up the image of a person closing down enterprises where ever he was deputed by JRD. It was under his watch that the Empress Mills, a very important part of the Tata legacy, wound up. Nelco too met with the same fate. Moreover, there are not too many groups in the world like the Tatas and there will only be that many "CVs" that will be available.

And unlike Ratan Tata who had actually sought and indeed lobbied for the job, Mistry was a reluctant candidate. In fact, his humility had been one of the talking points at the time of taking charge from Ratan Tata. Humility and willingness to learn can more than compensate for lack of experience in many senior level positions. What relevant experience did Lou Gerstner have when he came and turned around IBM in the mid-1990s? There is also nothing to suggest that N Chandrasekaran (Chandra), the new chairman of Tata Sons has all the relevant experience. A highly successful and driven executive, Chandra is widely considered to be an excellent choice. But we must remember that he has worked only in one company in an industry that has been very profitable and not faced any serious challenges to date. In contrast, the Tata group is full of hot spots whose profile is very different from that of TCS. These are loss making or low margin, capital intensive businesses, the very opposite of the software business. This is not to say that Chandra cannot succeed in his new role.

In short, posts such as the Chairman of Tata sons are not filled, on the basis of experience. They are based on potential. There is little to suggest that Mistry did not meet the requirement. Or for that matter, there is no case to argue that the various other candidates who have been considered for the role at different points of time, like Indira Nooyi, Noel Tata and Harish Manwani had the relevant experience. Indeed, none of them have led such a large and diversified business group like the Tatas.

Concluding notes

The three reasons cited by Tata Sons in their 9 page letter splashed across the media, for sacking Mistry are:

- Mistry did not implement the strategic plan he had presented to the board before his appointment.
- The deteriorating performance of various companies made the group heavily dependent on TCS for cash flows.
- Mistry had sought control of group operating companies to the exclusion of Tata sons.

Let us examine each of these reasons. Plans evolve over time and to say that Mistry did not implement the strategic plan he had presented to the board before his appointment, is an argument of convenience. If the Tata group is heavily dependent on TCS for cash flows, Ratan Tata is squarely to blame. After all, he had enough time to correct the situation. And as the Executive Chairman of Tata Sons, Mistry was well within his right to get into more details about how the different units were functioning.

So the actual reason for sacking Mistry is quite different. In addition to feeling that some of his decisions were being reversed or challenged, Ratan Tata also seems to have taken the counsel of outsiders, who have had a disproportionate influence on him. Indeed, during his time as Chairman of Tata Sons, Tata had been known to bring in outsiders in key positions. They included C. Sivasankaran and Niira Radia. Sivasankaran certainly has played an important role in the battle between the Ratan Tata camp and the Mistry camp. He was outspoken in his criticism of Mistry. And all that Mistry was doing was trying to recover some pending dues.

The so called independent directors of Tata Sons have also not covered themselves in glory. Quite a few of them owed their allegiance to Ratan Tata. It seems one of them was beholden to Ratan Tata for making a generous contribution to his BSchool. So where is the question of their being truly independent? During a Tata Sons board meeting on June 29, it is rumored that some board members had excused themselves and returned an hour later, after consulting Ratan Tata. Among the directors who voted out Mistry were people who had joined the Board just 2 months before.

We belong to the most spiritually advanced civilization in the world. What our holy books tell us is that nothing in this world belongs to us. We have to let go and move on. Ratan Tata's unwillingness to let go, his big ego and his unwillingness to leave a young leader free to run the show in the manner he thought fit, precipitated the crisis. In the process, Tata has tarnished his reputation significantly. In the court of law, and within his fiefdom, Tata might have emerged victor. But in the court of public opinion, he has lost badly.

A very sad point to note is that very few of our corporate leaders came out in the open and criticized Ratan Tata for his actions. Among the few who did so are Mohandas Pai former Infosys CFO and Anil Singhvi. My senior from IIMC and McKinsey partner, Irena Vittal was another person who came out in support of Mistry. Otherwise, what we saw was quite predictable. In our society, people always find it convenient to support the powerful. The underdog does not have much of a chance! Mistry was clearly the underdog.