Case Analysis

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INTRODUCTION

The case discusses the unceremonious dismissal of Cyrus Mistry from the position of the chairman of the Tata group, an Indian business conglomerate. Mistry served the position from December 2012 to October 2016. It also presents an opportunity to look at the complexities arising due to the corporate governance issues in typical Indian business groups.

The case highlights the governance structure, shareholding pattern, and functioning of the directors at the Tata group. Further, it deliberates on Tata group’s governance issues and the factors that may have influenced the ousting of Cyrus Mistry. The performance of Cyrus Mistry as a leader, the promoters’ need for control, hasty decisions, and politics at different levels may be a few probable and debatable reasons for the whole episode. The case provides a glimpse of entangled events and boardroom politics which were somewhere associated with poor succession planning, loosely structured board processes, the role of independent directors, and other governance issues.

COMPANY BACKGROUND

After completing graduation, Jamsetji Tata, in 1858, laid the foundation of the Tata group. Starting from establishing cotton manufacturing mills at various cities in India, the group gradually expanded its operations over a range of products and services such as ironworks, power generation, cement, chemicals, locomotives, watches, and even financial services. The group has various laurels to its name. It was the Tata...
group that introduced the hydroelectric powerplant in India, launched the first fully indigenous passenger car, and established one of the largest IT service providers, Tata Consultancy Services (TCS), in 1968. Comprising of about hundred operating companies, functioning across six continents, the Tatas are the most prominent private business group in India. They are known for the importance they attach to their values and good governance.

TATA AND CYRUS MISTRY

In November 2011, the search for Ratan Tata’s successor came to an end after appointing Cyrus Mistry as deputy chairman of Tata Sons. Mistry had a background in engineering and management. After Ratan Tata’s retirement in December 2012, Cyrus Mistry was chosen as the sixth chairperson of Tata Sons by a selection panel. Before him, every chairperson was a member of the Tata family. Quite incidentally, Mistry came from a family that holds 18.4 per cent equity in Tata sons. The committee perceived him as ‘responsible and qualified to take on the responsibility’ and ‘bright and selfless’ at the time of his appointment. However, he was unceremoniously removed just after four years, in October 2016, through a common consensus among the same members who selected him for the position. The sudden sacking attracted much controversy, primarily because before Mistry, every elected chairperson was from the Tata family, and once appointed, the person had remained in the position until retirement.

CASE: CONTEXT AND CHALLENGES

The case brings out the context of a family-run business, board room conflicts, and associated challenges. The case brings up several pertinent issues and questions both the decisions of appointing as well as ousting Mistry as the chairperson. Was he appointed the chairperson because of his credibility or by virtue of his family holding in the group? Was he dismissed because of his poor performance or due to some other deep-rooted issues? These questions haunt the readers and make them dwell into further deeply ingrained issues.

It remained conflicted if Mistry was chosen due to his family relationship with the Tata family. Once he was appointed as a chairman, he was given a pay raise, but it again had a conflicted view that he has not contributed towards Tata’s overall performance. The author notes that the stakeholders argued that the profit was majorly shown by TCS and Jaguar Land Rover, for which Cyrus did not have a significant role to play. It highlights that the family-run businesses lack a proper framework for the stakeholders to enable them to assess a chairman for their contribution. An effective framework would be helpful to remove such anomalies and conflict of opinions more specifically for such important positions.

The case also highlights that the processes are overrun in family-run business by those in power for serving their self-interests. The relationship of Mistry with the Tata was miffed after he disinvested the UK-based Corus company and replaced many CEOs who were appointed by Tata. The acquisition of Corus was said to have sentimental value for Ratan Tata. However, many in the Tata group were happy with these changes; this seems to have not struck the right chord with the Tatas. Another decision to stop the Nano car for valid reasons also proved to be wrong for him as it was Tata’s dream. Later Mistry did not show much interest in other dream projects: the aviation business and deal with Docomo. After this, Mistry was declared to be ‘youth was perceived as insolent, precocious and out to destroy the core values that the group stood for, for close to 148 years’. It shows that Ratan Tata and the board stood for Tata’s dreams more than what was needed at the time for the business. A straightforward process and the diversification of decision-making power is much needed in the organization, which is not there in the family-run businesses. For example, in this case, most of the decisions were heavily impacted by the will of Ratan Tata, as he is the major stakeholder and owner of the family-run business.

INSIGHTS AND INFERENCES

The case brings out the clash of two different business mindsets and values. The clash led to the formation of two camps: the old and established camp of Tata and another camp with progressive ideas of Mistry. However, due to a larger hold of Tata’s, the board gave in their decision in favour of the Tatas, which was critiqued and questioned by many. The whole episode raises many questions on the working styles and leadership of the family-run businesses in India.

The first issue is the role of family dynamics to choose the leaders irrespective of their capabilities or absence of a defined process to choose the leaders in the family-run business. Next comes the power struggles between the owner and appointed managers. The case highlights
how much centralized the decision-making power remains in the family-run business. It is in striking contrast with the progressive business ideas of having a decentralized decision-making capacity for the overall growth of the business and incorporating the young minds into the decision-making process. The question of putting ‘family’s survival’ over the ‘group’s survival’ has been debated for a long time in the context of a family-run business where the promoter always puts the family in priority and is often impacted by sentiments. The family orientation affecting decision making also impacts succession planning. The promoter still wants the position should be in the family to secure the future of the family, rather than the future of the group. This also has been highlighted and debated in the case.

The second issue is the interest of the group versus subsidiary companies. This is a long-drawn issue of conflict whether the group’s interest should impose on the subsidiary companies even if they are at a loss or to hold the subsidiary’s interest to have each one of them growing at their own capabilities. In this case, quite a few examples have been quoted, which shows the decision of Tata has impacted other subsidiaries in a negative way, and many people were not happy about such investments at their cost. On the other hand, the association with the larger group provides a cushion to the subsidiaries for having a ‘brand value’ and interdependence of resources, which is beneficial for them.

The third issue is the role of independent directors, non-promoted shareholders, and corporate ethics. Though the guidelines give freedom to the independent directors to decide to protect the minority (Mistry in this case), they again get impacted by their self-interest. As the case highlights, Tata could have pulled back their support, which could have impacted the business and thus impacting the investment values of independent directors as well. Therefore, the laws could be made more precise and stringent for the protection of their investment values so that they could make decisions that are free of their self-interest. The role of inactive shareholders is dubious in this case. Though 80 per cent of them did not vote, still their voice and opinions were not taken, or they were assured that they would not be heard. Here again, a matter of self-interest seems to have played. Later Mistry was removed without any show-cause notice, which reflects the lack of proper processes at the family-run businesses.

CONCLUSION

The repeated and blatant impact of self-interest in most parts of the case raises the question of the corporate ethics of the leaders. It also presents a question on the authenticity and if it is appropriate to have the decision-making power in one hand for the whole group. The entire episode was seen as a sore in the eyes of the larger corporate community as it remained suspicious for many events such as Tata informing the Prime Minister and Finance Minister. This case raises questions on the governance structure and its appropriateness for the family-run business in the long run.