

# Tata at a Crossroads

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**Abstract** The case is about one of the leading business houses in India, the Tata Group, which is known for its ethical leadership and was well known for its corporate social responsibility. Under the leadership of Mr. Tata, this legacy passed to the next level and Tata's business flourished globally through acquisitions. When Mr. Mistry replaced Mr. Tata, he took a different approach of divestment. On October 24, 2016, Cyrus Mistry was removed as the chairman of the \$100- billion Tata Group unexpectedly and re-appointed Ratan Tata as the chairman for an interim term of four months. This case study is about Ratan Tata, Cyrus Mistry and the different leadership in the Tata Group. It discusses how Ratan Tata restructured the Tata Sons business and developed the company subsequently. Mr. Tata transformed Tata from a struggling unit into one of the most successful and profitable companies in the world by revamping the operations of Tata Steel and made it one of the lowest cost steel producers in the world. He retired at the age of 75 and Mr. Mistry became the chairman of Tata. Apart from being the Tata Sons chairman, Mr. Mistry had also become the chairman of Tata Steel, Tata Motors, TCS, Tata Power, Indian Hotels, and Tata Global Beverages, the verticals of Tata Sons. He was a hard decision maker, which puts Tata into the red. Tata Family was unhappy at Mr. Mistry's policy of looking to sell off parts of the business rather than holding on to assets and extending the firm's global reach. In 2016, Mr. Cyrus was asked to step down within four years.

**Keywords:** leadership, succession planning, long term sustainability, BCG matrix, inorganic growth

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## 1. Introduction

Ratan Tata (Mr. Tata) took over the reins of the Tata Group as a chairman in 1991, when the Indian market was opened up to foreign investments and multinational corporations (MNC) were fast-mushrooming in all sectors that Tata dominated. Mr. Tata was placed at the helm of INR 10,627 crore company. In almost 20 years, Mr. Tata has achieved almost everything on his 1991 agenda. Under the leadership of Mr. Tata, Tata Group not only withstood the attack of multinational corporations, but also came out as a formidable player in new business areas created brand India in other countries. By March 2002, Tata Group's turnover had reached to INR 49,456 crores. A distinguished philanthropist, who had invested 65% of his share in charitable trusts. He worked for raising the quality of life of Indians along with human development.<sup>i</sup> Mr. Tata got the legacy from his family and by working with the brain of the efficient Executives, by 2012, revenue of Tata group reached \$100.09<sup>ii</sup> billion. With combined revenue more than \$100 billion, the Tata Group comprised of more than 100 companies including 29 listed ones, ranging from software to steel<sup>iii</sup>.

In 2012, Mr. Cyrus Mistry (Mr. Mistry) became chairman of the Tata Group. During his tenure, the group's debt was rising, profitability was suffering (Refer Exhibit 2 & 3). According to the ET Bureau (Sachitanand and Layak, 2017), Mr. Mistry a hard decision maker,

which put Tata into the trouble. Tata Family was unhappy at Mr Mistry's policy of looking to sell off parts of the business rather than holding on to assets and extending the firm's global reach. In 2016, Mr. Cyrus was asked to step down within four years — the shortest of the Tata group on the grounds of non-performance. In the long term interest of the shareholders and Tata Group, Tata trust suggested to the board to remove Mr. Mistry and Mr. Tata became the Interim chairperson. Mr. Mistry leveled serious charges against members of the board, besides rightfully pointing out the harm to the group's credibility from this sudden removing. According to Mr. Mistry (Desk, 2016), "the decision was illegal as there is no prior notice and he never got a chance to defend himself". The step was taken against the Tata culture and value system.

## 2. Emergence of a Conglomerate

In 1868, Jamsetji Nusserwanji Tata (JN Tata) started a trading company in Mumbai, Maharashtra. Gradually the Tata group became one of India's largest business conglomerates. A visionary entrepreneur: JN Tata was known as an avowed nationalist and a committed philanthropist. (Singh, 2014) JN Tata seeded the path to industrialization in India by starting businesses in sectors such as steel, energy, textiles and hospitality. Soon the group started entering into new and high-tech industries during the early 1980s. In 1877, he set up Empress Mill in Nagpur. In 1892, as first philanthropic initiatives, JN Tata

established the JN Tata Endowment to encourage Indian scholars to take up higher studies (Soni, 2013).

Tatas preferred to set up their Steel Plant in an undeveloped area (Sakchi) in a Jamshedpura tribal area with poor tribal population, but rich in mineral resources (Inc, 2016). Tatas are the pioneer in the field of Corporate social responsibility (CSR) in India and CSR was one of its integral values and the group has made concerted efforts to link it with the group's overall strategy for achieving business excellence (Inc, 2016).

When JN Tata was not allowed to enter in of the premium hotel in Mumbai, he decided to venture into the hotel business. And in 1903, he opened the Taj Mahal Hotel in Bombay. He took 10,000 square yard land on a 99-year lease from the Bombay Port Trust.

After JN Tata's death, in Germany in 1904, the chairmanship passed to the elder son, Sir Dorab. Sir Dorab started the Tata Iron and Steel company in 1907 the plant started production in 1912<sup>iv</sup>. In 1915, the Tata group broke generated hydroelectric power from a site near Bombay. By 2007, Tata Steel the India's largest private steelmaker became the world's 6th largest steelmaker<sup>v</sup>. The Group managed to build its empire emphasizing the twin pillars of 'trust' and 'integrity'. By 2011, the Tata Group had an expansive network of 250 companies, yet many were performing poorly (*Tata finance limited*, 2016).

### 3. Mr. Tata's Leadership at Tata

After Jamsedji's death, the chair passed to Mr. Dorab Tata (1904-1932), Mr. Nowroji Saklatwala (1932-1938), Mr. Jehangir Ratanji Dadabhojy (1938-1991), and Mr. Tata (1991-2012 (Bennett, 2017)). To survive and succeed in the dynamic environment, businessmen have to be a creator and master of change like Mr. Tata. Tata group was run by family members for five generations. When Mr. Tata became chairman in 1991, he faced the toughest time for the initial couple of years as the power was centered with Russi Mody, Darbari Seth and Ajit Kerkar<sup>vi</sup>. He struggled to bring things and to get his team in place. When Mr. Tata took charge from J.R.D. Tata, the share of Tata Sons in the group of Tata companies was 3% in TELCO, 12% in Indian Hotels. Under his leadership the share of Tata Sons grew up to 26%. It is the result of his vision towards exercising the control by increasing the shares in the companies. With a strong personal character and a passion to do right, Mr. Tata put in all efforts to make Tata group global. He was not only proactive but he always considered stakeholders' interests.

Mr. Tata, during his entire tenure, worked together with a world class team and gained cooperation from his team members. He restructured the corporate culture of Tata Group. Mr. Tata could bring the rise by using unity of command and unity of direction. He extended CEO's community philanthropy concept to be included in the workplace. Under his leadership, being the Tata group pioneered to introduce the concept of an eight-hour workday.

Prior to Mr. Tata regime, there were different brands under the Tata Group of Companies and various companies under the Tata Group were competing among themselves (TELCO, TISCO, TOMCO, etc.). Then Mr.

Tata decided to follow the umbrella branding strategy<sup>vii</sup> for all the companies and as a result, TELCO transformed in Tata Motors, TISCO transformed into Tata Steel and TOMCO transformed into Tata Oils. Mr. Tata also revamped the operations of Tata Steel and made it one of the lowest cost steel producers in the world. With a vision to give brand identity, he brought the peculiar monogram of 'T' letter. With his timely leadership styles such as transformational, transactional, Mr. Tata recognized and provided what people need and in various ways (automobile, tea, power, health, fundamental research). The visionary personality got many awards and recognition across the world. Mr. Tata integrated the group into one cohesive whole, to make it move in a common direction and in this process; he has not abandoned the traditional Tata group values of ethical business. 63% of Equity capital of Tata Sons were held by Tata Trust, which were philanthropic in nature. Mr. Tata was always interested in cars since his childhood. In 1998, Tata launched its first passenger car Tata Indica, The car went on to become the No. 1 brand in its segment within two years.

Mr. Tata believes in inorganic growth and expanded the Tata's business by acquiring Tetley by Tata Tea for \$450 million (2000). Next year, Tata AIG marked the re-entry<sup>viii</sup> of the Tata group into the insurance sector by entering into a joint venture with American International Group Inc (AIG). Very next year, Tata could manage to have a controlling stake in Videsh Sanchar Nigam Ltd<sup>ix</sup>. Under the leadership of Mr. Tata, Tata Consultancy Services became the first Indian software company to cross \$1 billion in revenue in 2013. The company went public in the following year.

Tata acquired the heavy vehicles unit of Daewoo Motors (2004), steelmaker Corus by Tata Steel (2007) for \$13-billion, and the landmark Jaguar Land Rover (2008) for \$2.3 billion (Fintech, A. 2012) [25]. With the acquisition of Corus, Tata Steel becomes the fifth largest global steel producer (Anonymous, 2007, May/June; www.tatasteel.com, 2007, April 3). In 2008, when European steel demand suffered a nasty slump, the Corus acquisition, in hindsight, was as part of the great Indian rollback of overseas acquisitions. Tata Steel Europe announced 900 job cuts in the first year, which totaled up over 3,000 in just three years. The European operations reported Rs. 40 crore operating loss in the third quarter.

He fulfilled his promise through words and actions by introducing Nano at just Rs. 1 lakh and transformed the people into followers in 2008. He led the Tata Group with the qualities such as courage, creativity; risk bearing ability, social sense, sense of employee training and development and ultimately having a quality concern about the product. However, Nano had consistently lost money, peaking at Rs 1000 crores. According to Mr. Mistry, Tata kept Nano alive due to emotional reasons despite recurring losses. However, according to the board member of Tata it was not an emotional decision as it is not easy to shut down project of that magnitude.

In the year 2012, Tata Global Beverages and Starbucks form a joint venture, Tata Starbucks Ltd, and open their first store in Mumbai. With his impeccable leadership skills, the Tata Group revenue went up 40 times and net profit gone up four times in 2012. He built and nurtured

Tata Brand with his clear strategy, vision and commitment. During Mr. Tata's tenure, the group's market cap rose from Rs 8,000 crore to over Rs 4.62 lakh crore from 1991 to December 2012. This was a mighty 57-fold increase. There were 100 companies in operation globally under Tata banner.

When he turned 75 in the year 2012, Mr. Tata decided to step down. He started looking for his successor. He formed a panel to choose his successor for Tata Group and Mr. Mistry was a part of the selection panel. However, he stepped out of the panel; and had himself become a surprise selection -the second non-Tata to take charge of the group after Nowroji Saklatvala in 1932. Mistry was only the sixth chairman of the group, at the age of 44. When Mistry took over, the Tata Group had revenue of \$100.09 billion in 2011-12<sup>8</sup>.

#### 4. Tata under Mr. Mistry

Like his predecessor, Mr. Mistry was also passionate about cars and attended Auto Shows across the world and take feedback from people about his company's cars. In 2013, Mr. Mistry revived Tata Motors brand. After the death of Karl Slym, he passed the joystick of the company to Guenter Butschek, who had a lot of experience from Airbus and Daimler. Mr. Mistry had to face new challenges like corruption and slow government decision making in economically challenging times and post 9/11 volatile global business scenario. Commercial vehicles business was always the cash cow for segment leader Tata Motors, however the time since Mr. Mistry took over the commercial automobile segment declining by over 25% year-over-year from 2012 to 2014. At the same time, Mr. Mistry was also instrumental in taking decisions. He decided to move mass manufacturing out for the JLR group out of the United Kingdom to countries like Brazil, China and Slovakia, which was against the directive set by Mr. Tata at the time of the JLR acquisition. He appointed a much younger team in place at the top of each Tata company as the old guard retired. A new group's executive council with a number of new members such as NS Rajan, Nirmalya Kumar, Mukund Rajan were appointed to play a bigger role in the Tata group companies. After Mistry took over, Tata envisioned launching two new passenger vehicles every year. Mistry seemed to have failed miserably. Even, in 2013, it closed soda ash and calcium chlorine plant in UK.

To boost growth in a sluggish economy, Mr. Mistry was more proactive in targeting the group's cash rich companies such as Tata Consultancy Services (TCS) by way of higher equity dividend to strengthen Tata Sons' balance sheet. On April 2014, TCS created a joint venture with Mitsubishi to form a \$600-million unit, the biggest for an Indian company. TCS, the group's most profitable company, was the biggest source of equity dividend. TCS continued to expand geographically In 2015-16, TCS posted a revenue growth of 7.1%.

In contrast to Mr. Tata, under Mr. Mistry's tenure the entire group was dependent on only two companies - Tata Consultancy Services and JLR (Jaguar Land Rover). When Tata faced many challenges in both domestic and global markets, Mr. Mistry undertook a strategy of

divesting assets opposite to what his successor did. Mr. Mistry failed to turn around Tata steel. Tata steel business suffered because of reduced demand and influx of cheap Chinese imports. After Tata Steel incurred losses for three consecutive years, Mr. Mistry sold off the European long products business along with the three units the UK as well as a mill in France to Greybull Capital. The jobs of more than 10, 0000 of Tata's UK employees and supply chain workers were at stake. This move had come in for heavy criticism in Britain. Even Tata wanted Mr. Mistry to turn around the business instead of selling it. State-owned Life Insurance Corporation of India (LIC) reduced its holding significantly in many of the frontline Tata Group stocks since Mr. Mistry took over as the chairman of Tata Sons.

When e-commerce was booming, Tata invested in eight different startups in the sector in the 18 months. Three of India's eight unicorn startups were Ola, Paytm and Snapdeal. Mr. Mistry also invested in startups working for social causes, like Ampere and Swasth India (Rs two crore) in 2014. In the next year, the company invested in 25 startups.

He applied same disinvestment strategy in Tata group's hospitality as well. He sold Taj Boston hotel, which runs Taj Group of hotels for \$125 million (about Rs 839 crore). The hospitality firm had also sold off 12.7 lakh shares of Belmond (earlier known as the Orient Express, which the Tata Group tried unsuccessfully to acquire in Mr. Tata 's time) for a \$11.96 million. IHCL had also sold BLUE Sydney, a Taj Hotel, to Australia Hotels & Properties Ltd for AUD 32 million (nearly Rs 179 crore) in 2014.

Even telecom sector went into trouble under Mr. Mistry's tenure. The Tata group had to face a legal battle with Japan's Docomo over the split of their telecom joint venture Tata Docomo where the legal battle cost Tata \$1.17bn as penalty. Under Mr. Mistry's watch, the Tata's found themselves against their telecom partner, DoCoMo. It is a battle the Tatas eventually lost. According to the company's experts, it didn't fit with the philosophy and ethos of Tatas and the issues could have handled in a better way.

With his aggressive strategy, he disposed off the non-profitable businesses and was keener to build new businesses--- e-commerce, defense and infrastructure -- rather than consolidating existing businesses. When competitors like Reliance entered to manufacture of air defense systems for India's defense forces, caused big losses to Tatas. Again the group had rejected the \$1.2-billion bid for Bermuda-based luxury hotel chain Orient-Express, which has 45 properties across 22 countries. He also sold off the urea business of Tata Chemicals. He entered into an airline joint venture - with Singapore Airlines (SIA) and Air Asia in the interests of Tata. Mr. Mistry was not very happy with the joint venture. He did highlight the fraudulent transactions worth Rs 22 crore in AirAsia. But his words were not considered.

A civil engineer by profession, Mr. Mistry intended to create an infrastructure and real estate company in the Tata Group. With all his initiatives, in December 2012, Tata Group enjoyed a listed market capitalisation of over \$125 billion (close to Rs 8.5 lakh crore from Rs 4.6 lakh crore in 2012). The means the market cap doubled while Mistry was in-charge.

Conversely, on internal customer management, he was not fair with all the employees and had combating mood with some of the executives at the group companies. Likewise leader who uses the force from within to inspire and motivate his people, he was partial in roping rope in his team in group companies and on its boards, changing the existing practice and implemented a group level mechanism to track the performance of executives and employees at companies. He removed the two empowered bodies of old-guards - Group Executive Office (GEO) and Group Corporate Centre (GCC). He had either reduced or cancelled dividend at group companies. In June 2016, Mr. Mistry acquires Welspun Solar for \$1.4 billion without seeking approval either from Tata or other key stakeholders. Tata Power was generating very little profits. In 2016, the group enjoyed the cash flows come largely from two companies - TCS and Tata Motors (mostly Jaguar Land Rover). Tata Steel, Tata Motors, Tata Power, Tata Communications and Tata Teleservices held major portion of group's debts.

Mr. Mistry was not having any grand vision, or clear roadmap of the path ahead. Mr. Mistry never spoke to the press. All these initiatives were against Tata's value and Ethics. Although, Tata Motors grew 5% in the 2015-16, whatever Tata entities had done over the last four years under Mr. Mistry, the result was below average. Even when Mr. Mistry was asked to give his vision, the next five years, his reply was very vague. Mr. Mistry was given complete autonomy to manage opportunities and challenges at Tata group. However, the tenure Mr. Mistry was marked by repeated departures from the culture and ethos of the group.

Mr. Mistry tenure coincided with headwinds to growth, global political and economic uncertainty and volatility in commodity demand and prices, which meant he was fighting too many fires at the operating company level. Mr. Mistry had to pay heavily for his decision in shutting down new verticals or reversing business decisions taken by Mr. Tata. There was disconnect in terms of ethos, values, vision and direction that the group was headed in. According to the industry experts, discussion happened with Board and Mr. Mistry over a couple of months. Mr. Mistry was offered an opportunity to resign and walk out gracefully, which he refused.

Though, it doesn't fall in Tata's style to sack anybody all of a sudden, in the long-term interest of the Tata Group and the principal shareholders, the Tata board decided to sack Mr. Mistry for the conglomerate's sluggish performance (Refer Exhibit 2, 3, 4) over the last four years. According to the industry experts, Out of the nine biggest listed Tata group firms earnings before interest and tax are below their overall cost of capital (Economist, T. 2016) [26]. Mr. Mistry's family and his family's business empire had reportedly opposed the move who claimed Mr. Mistry's removal is illegal and that minimum 15 days notice is needed. Even Mr. Mistry claimed that he alone cannot be blamed and cannot be removed on ground of non performance. Hence can we say that Mr. Mistry's appointment not considered carefully? Now when Tata is looking for its new chairperson, it there any guarantee success of Mistry's successors, although choosing an internal candidate over an external one (and vice versa) will say a lot about how the Tata Group views itself. Is the step taken to maintain the Tata culture and value system?

**Exhibit 1. Cyrus Mistry, in full Mr. Cyrus Pallonji Mistry**

1. Educated in Mumbai and London, Cyrus Mistry joined the board of his family's engineering company, Shapoorji Pallonji & Co Ltd, aged 23 and became its managing director three years later.
2. Cyrus Mistry is actually an Irish citizen. His family had to give up their Indian citizenship and become Irish citizens in 2003, because the Indian government doesn't approve of dual citizenship.
3. Like the Tatas, the Mistris are part of Mumbai's tight-knit Parsi community. He's the younger son of billionaire construction magnate Pallonji Mistry, an Irish citizen, whose 18.4 per cent stake in Tata Sons makes him its biggest shareholder. This holding accounts for a substantial chunk of Pallonji Mistry's \$7.6 billion fortune.
4. Cyrus has two sisters: Laila and Aloo. His sister, Aloo, is married to Noel Tata, the half-brother of Ratan Tata.
5. Mistry belongs to Shapoorji Pallonji, which is the single largest shareholder in Tata Sons, with 18.4 percent stake.
6. Tata Sons noted that Mistry had been on the company board from as far back as 2006, was appointed deputy chairman in 2011 and chairman a year later. "He would be fully familiar with the culture, ethos, governance structure, financial and operational imperatives of the Tata Group as well as various group companies,

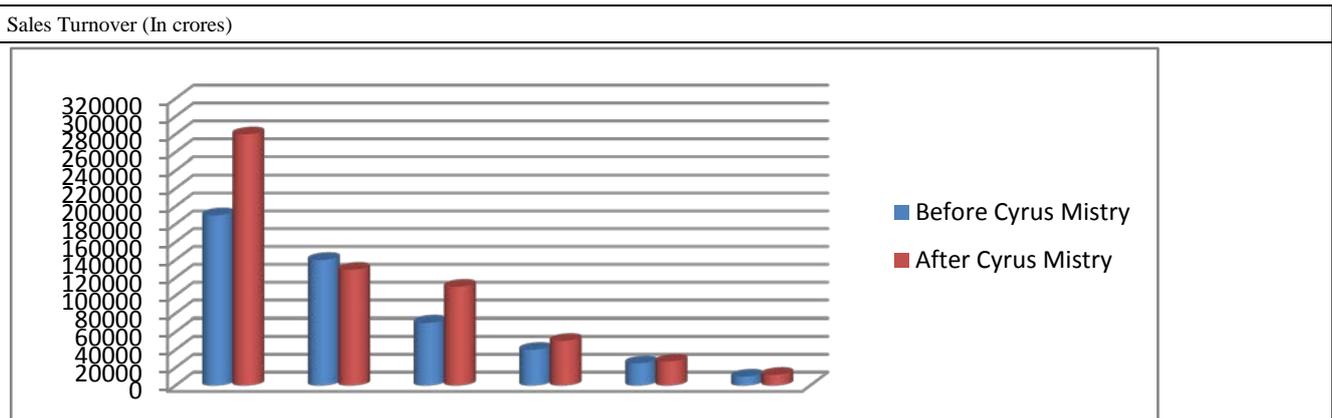
Source: Compiled by Author from different sources

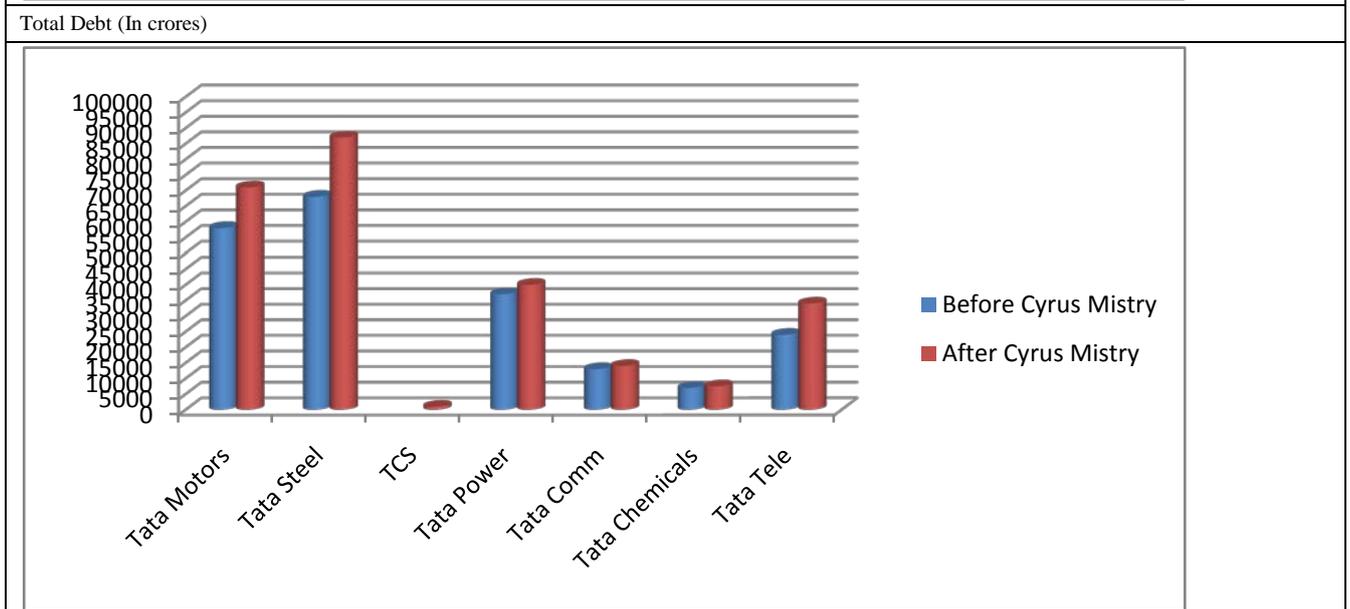
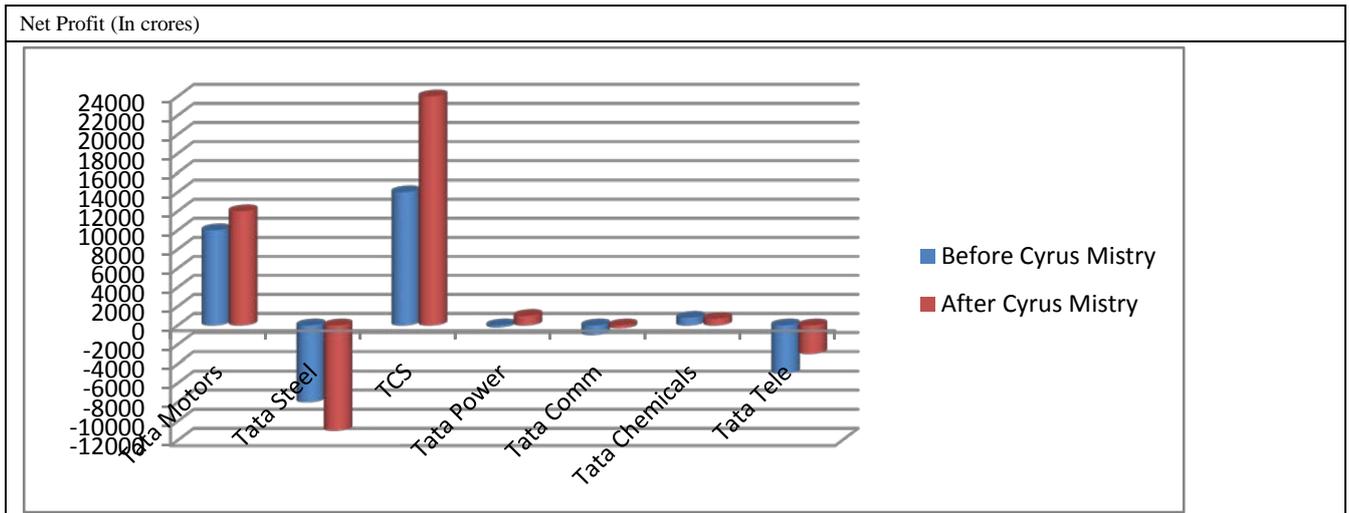
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<http://www.indiatvnews.com/business/india/11-interesting-facts-about-tata-group-chairman-cyrus-pallonji-mi-6542.html>

[www.thehindu.com](http://www.thehindu.com) > Business > Industry

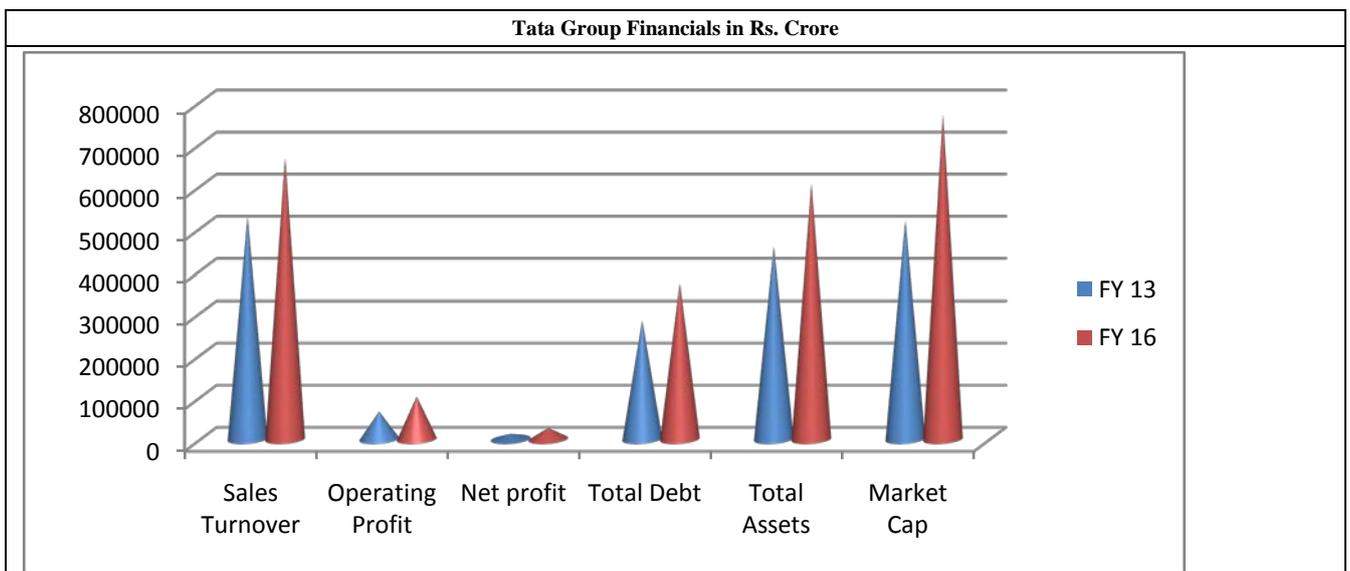
**Exhibit 2.**





Compiled by Author from the source: Non-performance under Mistry? What the Tata figures say (2016, October 28). Rediffbusiness, <http://www.rediff.com/business/report/non-performance-under-mistry-what-the-tata-figures-say/20161027.htm>

Exhibit 3.

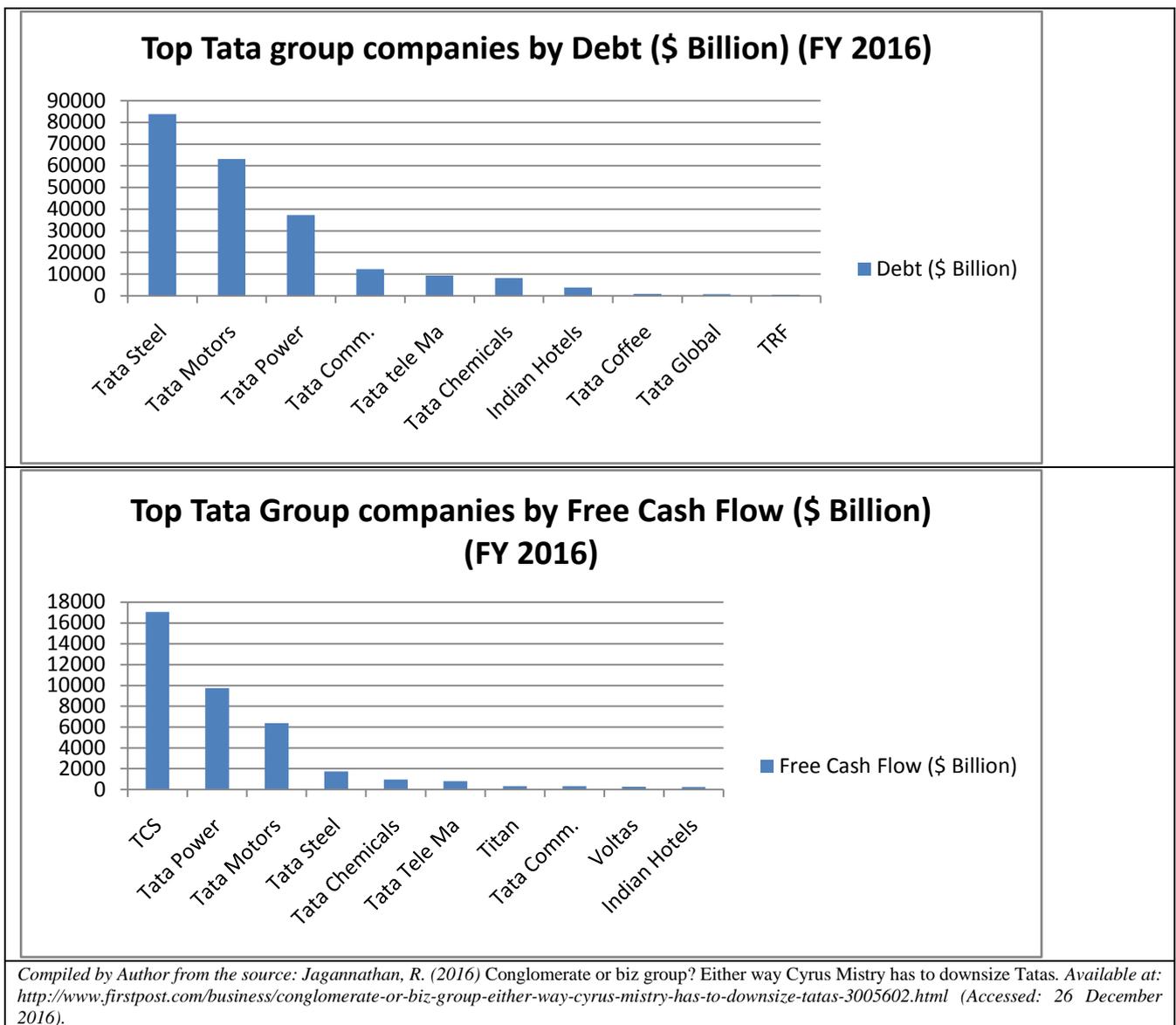


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Exhibit 4.

Individual Company Analysis
<b>TATA Motors</b>
New product launches and the recent takeovers are the mantra of the success for the company. With TATA Nano in the pipeline, future looks great and promising to the investors
• <b>TCS</b>
TCS has been involved in Acquisitions since long. In the past 7 years the company has acquired 13 companies worldwide which is obviously explains their financial graph
• <b>TATA Power</b>
The company is able to earn a stable growth trajectory with the help of joint ventures and acquisitions.
• <b>TATA Steel</b>
Inorganic growth seems to be the key for the company's success.
• <b>TATA Tea</b>
This company has not seen any major acquisition after it acquired Tetlay in the year 2002 and after that the revenues are ever increasing. But as now the competition is increasing the company shall look out for new hangouts to for leverage.
• <b>TATA Chemicals</b>
Looking at the above factors this can be clearly concluded that TATA Chemicals Ltd. has got leverage through inorganic route. This is depicted in their financial performance also.
• <b>TATA Communication</b>
In spite of taking full advantage of the globalization the company is not able to take full leverage from that and its declining gradually. However, their business suggests that they should definitely acquire companies so as to achieve more penetration in the world market. Keeping in mind investments and the planning of the company, they are expected to shine in future.
Source: Dheeraj (2012), <i>The Tata Way. The CEO Insights</i> .

Exhibit 5.



## 5. Supplementary Files

### Synopsis

On October 24, 2016, Cyrus Mistry was removed as the chairman of the \$100- billion Tata Group unexpectedly and re-appointed Ratan Tata as the chairman for an interim term of four months.

The case study is about Ratan Tata, Cyrus Mistry and their different leadership in the Tata Group. It discusses how Ratan Tata restructured the Tata's business and developed the company subsequently. Mr. Tata transformed Tata from a struggling unit into one of the most successful and profitable companies in the world. Mr. Tata revamped the operations of Tata Steel and made it one of the lowest cost steel producers in the world. He retired at the age of 75 and Mr. Mistry became the chairman of Tata. Apart from being the Tata Sons chairman, Mistry had also become the chairman of Tata Steel, Tata Motors, TCS, Tata Power, Indian Hotels, and Tata Global Beverages among others. He was a hard decision maker, which puts Tata into the red. Tata Family was unhappy at Mr. Mistry's policy of looking to sell off parts of the business rather than holding on to assets and extending the firm's global reach. In 2016, Mr. Cyrus was sacked within four years.

The case is about one of the leading business houses in India, the Tata Group, which is known for its ethical leadership and was well known for its corporate social responsibility. Under the leadership of Ratan Tata, this legacy passed to the next level and Tata's business flourished globally through acquisitions. When Mr. Mistry replaced Mr. Tata, he took a different approach of divestment.

### Learning Objective

The learning / teaching objectives are:

- To analyze the contribution made by Ratan Tata of the Tata Group
- To analyze the leadership style of Ratan Tata and Cyrus Mistry
- To analyze the succession dilemma at the Tata Group
- To analyze what kind of leadership is required for a conglomerate for long term sustainability
- To understand the importance of BCG Matrix in an organization
- To discuss the concept of organic and inorganic growth

### Position in Course

The Tata case has been taught in MBA: Strategy courses; MBA: Regional Industry Analysis; and an Executive Education session focusing on Leadership and role of Strategic decision in Business. This case provides a platform for analysis from multiple perspectives:

The case documents the challenges experienced by Ratan Tata, Inc. since it chaired in 1991 in business expansion that captured world attention. It enables identification and analysis of leadership, trust, culture, and values required to successfully grow a conglomerate. It calls into question the concept of disinvestment verses Inorganic growth, and facilitates an in-depth discussion of different leadership styles of Mr. Tata and Mr. Mistry.

### Relevant readings and references

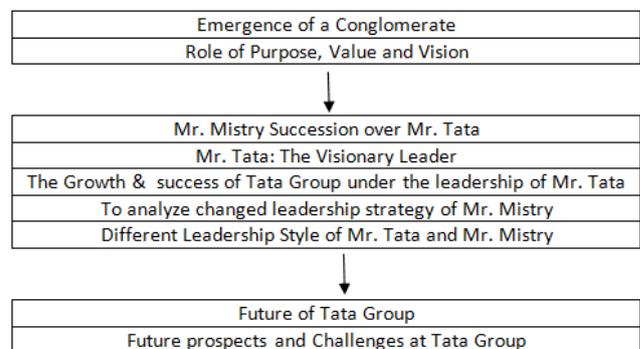
Some recommended readings, apart from those referenced in the case, are listed below:

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### Assignment Questions

1. What is the Tata Group's purpose and core values?
2. Discuss the features of Mr. Tata as an Ethical Leader.
3. Distinguish between a business and a conglomerate.
4. Discuss the Emergence of Tata as a conglomerate chronologically till 1991.
5. Analyze the strategies and decisions undertaken by Mr. Tata for Tata group after he became the chairman.
6. Discuss Mr. Mistry's leadership style. Evaluate critically the strategies he adopted for Tata Group?
7. What were the Mr. Tata expectations from Mr. Mistry, which he failed to fulfill?
8. What were the differences between Ratan Tata and Cyrus Mistry's Leaderships?
9. Evaluate the benefits & Risks of Growth-Through-Acquisition
10. Was Mistry's appointment not considered carefully? Why Mr. Mistry was removed?

### Teaching Plan



Source: Compiled by the author.

### Analysis

After stating, the revenue which was \$3 billion in 1991 reached to \$103 billion in 2012 under the leadership of Mr. Tata, Faculty can initiate discussion by asking questions about

#### (1) What is the Tata Group's purpose and core values?

Having operations in around 85 countries across six continents and its companies export products and services to 80 nations. The Tata Group is known for its good business ethics and corporate governance. The purpose and core value of the group is discussed below:

#### Purpose

The Tata group is committed to improving the quality of life of the communities. In order to deliver it, they try hard for leadership and global competitiveness in the

business sectors. They believe in returning to society what they earn which evokes trust among consumers, employees, shareholders and the community towards the group.

Core values

Tata has always been valued-driven. These values continue to direct the growth and business of Tata companies. The five core Tata values underpinning the way we do business are:

- **Pioneering:** We will be bold and agile, courageously taking on challenges, using deep customer insight to develop innovative solutions. By initiating the new venture in sectors such as steel, energy, research, higher studies, textiles and hospitality.
- **Integrity:** The group is fair, honest, transparent and ethical in its conduct; everything in order stands out the test of public scrutiny.
- **Excellence:** The group is passionate about achieving the highest standards of quality, always promoting meritocracy.
- **Unity:** The group invests in our people and partners, enable continuous learning, and build caring and collaborative relationships based on trust and mutual respect.
- **Responsibility:** The group has integrated environmental and social principles in its businesses.

The group has a vision that by 2025, 25% of the world's population will experience the Tata commitment to improving the quality of life of customers and communities.

#### **(2) Discuss the features of Mr. Tata as an Ethical Leader.**

Ethical leaders have a strong personal character and vision. With a vision to give brand identity, he brought the peculiar monogram of 'T' letter. With his timely leadership styles such as transformational, transactional, Mr. Tata recognized and provided what people need and in various ways (automobile, tea, power, health, fundamental research). The visionary personality got many awards and recognition across the world. Mr. Tata integrated the group into one cohesive whole, to make it move in a common direction and in this process; he has not abandoned the traditional Tata group values of ethical business. He was very proactive and had a passion. He believes in inorganic growth and expanded Tata's business globally. He took a decision by keeping stakeholders' interests in mind He believes in business diversification, transparency, no bribery and CSR.

#### **(3) Distinguish between a business and a conglomerate.**

A business is a single legal entity which has all businesses of diversified portfolios such as GE. A conglomerate is a collection of business entities with each having a relatively focused portfolio. In a conglomerate, unlike a business a chairman is to look for strategies and creating an identity for the group. A conglomerate flourishes on trust.

#### **(4) Discuss the Emergence of Tata as a conglomerate chronologically till 1991.**

It was 1868, Jamsetji Nusserwanji Tata (JN Tata) started a trading company in Mumbai, Maharashtra. The Tata group had become one of India's largest business conglomerates. JN Tata was known as a visionary entrepreneur, an avowed nationalist and a committed

philanthropist. Jamsetji Tata seeded the path to industrialization in India by starting businesses in sectors such as steel, energy, textiles and hospitality. Soon the group started entering into new and high-tech industries during the early 1980s. In 1877, he set up Empress Mill in Nagpur. In 1892, as first philanthropic initiatives, JN Tata established the JN Tata Endowment to encourage Indian scholars to take up higher studies.

TATAs preferred to set up their Steel Plant in an undeveloped area (Sakchi) in Jamshedpur, in a tribal area with poor tribal population but rich in mineral resources. TATAs are the pioneer in the field of CSR in India and CSR was one of its integral values and the group has made concerted efforts to link it with the group's overall strategy for achieving business excellence.

When JN Tata was not allowed to enter in of the premium hotel in Mumbai, he decided to venture into the hotel business. And in 1903, he opened the Taj Mahal Hotel in Bombay.

After JN Tata's death, in Germany in 1904, the chairmanship passed to the elder of his two sons, Sir Dorab. Sir Dorab started the Tata Iron and Steel company in 1907 the plant started production in 1912. In 1911, The Indian Institute of Science, set up in Bangalore, would nurture some of the brightest minds in India. In 1915, the Tata group broke generated hydroelectric power from a site near Bombay. By 2007, Tata Steel the India's largest private steel maker became the world's 6th largest steelmaker. The Group managed to build its empire emphasizing the twin pillars of 'trust' and 'integrity'. By 2011, the Tata Group had an expansive network of 250 companies, yet many were performing poorly.

#### **(5) Analyze the strategies and decisions undertaken by Mr. Tata for Tata group after he became the chairman.**

To survive and succeed in the dynamic environment, businessmen have to be a creator and master of change like Mr. Tata. When Mr. Tata became chairman in 1991, he faced the toughest time for 3-4 years as the power was centered with Russi Mody, Darbari Seth and Ajit Kerkar. He struggled to bring things and to get his team in place. When Mr. Tata took charge from J.R.D. Tata, the share of Tata Sons in the group of Tata companies was very low. It was 3% in TELCO, 12% in Indian Hotels. In all the share of the Tata family in all the companies under the Tata Group came down to 1.5%. Under his leadership the share of Tata Sons grew up to 26%. It is the result of his vision towards exercising the control by increasing the share in the companies. With a strong personal character and a passion to do right, Mr. Tata put in all efforts to make Tata group global. He was not only proactive but he always considered stakeholders' interests.

He was surrounded by a world class team. During his entire tenure, he worked together with all officers and gained cooperation from his team members. He restructured the corporate culture of Tata Group. Mr. Tata could bring the rise by using unity of command and unity of direction. He expanded CEO's community philanthropy concept to be included in the workplace. Under his leadership, the Tata group was pioneered to introduce the concept of an eight-hour workday.

Prior to Mr. Tata regime, there were different brands under the Tata Group of Companies and various

companies under the Tata Group were competing among themselves (TELCO, TISCO, TOMCO, etc.). Then Mr. Tata decided to follow the umbrella branding strategy for all the companies and as a result, TELCO transformed into Tata Motors, TISCO transformed into Tata Steel and TOMCO transformed into Tata Oils. Mr. Tata also revamped the operations of Tata Steel and made it one of the lowest cost steel producers in the world. With a vision to give brand identity, he brought the peculiar monogram of 'T' letter. With his timely leadership styles such as transformational, transactional, Mr. Tata recognized and provided what people need and in various ways (automobile, tea, power, health, fundamental research). The visionary personality got many awards and recognition across the world. Mr. Tata integrated the group into one cohesive whole, to make it move in a common direction and in this process; he has not abandoned the traditional Tata group values of ethical business. 63% of Equity capital of Tata Sons was held by Tata Trust, which were philanthropic in nature. Mr. Tata was always interested in cars since his childhood. In 1998, Tata launched its first passenger car Tata Indica, The car went on to become the No. 1 brand in its segment within two years.

He stepped up activity on the inorganic growth<sup>xi</sup> front and expanded the Tata's business by acquiring Tetley by Tata Tea for \$450 million (2000). Next year, Tata AIG marked the re-entry<sup>xii</sup> of the Tata group into the insurance sector by entering into a joint venture with American International Group Inc (AIG). Very next year, Tata could manage to have a controlling stake in Videsh Sanchar Nigam Ltd. Under the leadership of Mr. Tata, Tata Consultancy Services became the first Indian software company to cross \$1 billion in revenue in 20013. The company went public in the following year.

Tata acquired the heavy vehicles unit of Daewoo Motors (2004), steelmaker Corus by Tata Steel (2007) for \$13-billion, and the landmark Jaguar Land Rover (2008) for \$2.3 billion. In 2008, when European steel demand suffered a nasty slump, the Corus acquisition, in hindsight, was as part of the great Indian rollback of overseas acquisitions. Tata Steel Europe announced 900 job cuts in the first year, which totaled up over 3,000 in just three years. The European operations reported Rs. 40 crore operating loss in the September quarter.

He fulfilled his promise through words and actions by introducing Nano at just Rs. 1 lakh and transformed the people into followers in 2008. He led the Tata Group with the qualities such as courage, creativity; risk bearing ability, social sense, sense of employee training and development and ultimately having a quality concern about the product. However, Nano had consistently lost money, peaking at Rs 1000 crores. According to Mr. Mistry, Tata kept Nano alive due to emotional reasons, despite recurring losses. However, according to the board member of Tata it was not an emotional decision as it is not easy to shut down project of that magnitude. Trust is something on which Tata group is surviving.

In the year 2012, Tata Global Beverages and Starbucks form a joint venture, Tata Starbucks Ltd, and open their first store in Mumbai. With his impeccable leadership skills, the Tata Group revenue had gone up 40 times and net profit gone up four times in 2012. He built and nurtured Tata Brand with his clear strategy, vision and

commitment. During Mr. Tata's tenure, the group's market cap rose from Rs 8,000 crore to over Rs 4.62 lakh crore from 1991 to December 2012. This was a mighty 57-fold increase. There were 100 companies in operation globally under Tata banner.

When he turned 75 in the year 2012, Rata Tata decided to step down.

#### **(6) Discuss Mr. Mistry's leadership style. Evaluate critically the strategies he adopted for Tata Group?**

Under the leadership of Mr. Mistry, the result of largest publicly-listed Tata entities are below average. Out of the nine biggest listed Tata group firms earnings before interest and tax are below their overall cost of capital. Its performance was sluggish. (Refer Exhibit II & III)

Except, Jaguar Land Rover and Tata Consultancy Services, other group verticals such as hotels and chemicals have suffered. It was the expectation that Mr. Mistry brings revenue and restructuring for Tata but he failed to do so. Mr. Mistry was also passionate about cars and attended Auto Shows across the world and take feedback from people about his company's cars. In 2013, Mr. Mistry revived Tata Motors brand. Commercial vehicles business was always the cash cow for segment leader Tata Motors, however the time since Mr. Mistry took over the commercial automobile segment declining by over 25% year-over-year from 2012 to 2014. At the same time, Mr. Mistry was also instrumental in taking decisions. He decided to move mass manufacturing out for the JLR group out of the United Kingdom to countries like Brazil, China and Slovakia, which was against the directive set by Mr. Tata at the time of the JLR acquisition. He appointed a much younger team in place at the top of each Tata company as the older guard retired. A new group's executive council with a number of new members such as NS Rajan, Nirmalya Kumar, Mukund Rajan were appointed to play a bigger role in the Tata group companies.

Mistry was always questioned for his decisiveness in shutting down new verticals or reversing business decisions taken by Ratan Tata. For instance, in 2007, Mr. Tata acquired Anglo-Dutch firm Corus for \$13-billion. When European steel demand suffered, the acquisition was having a tough time. Instead of turnaround the crises, Mr. Mistry took a decision to put its UK steel plants up for sale.

To boost growth in a sluggish economy, Mr. Mistry was more proactive in targeting the group's cash rich companies such as Tata Consultancy Services (TCS) by way of higher equity dividend to strengthen Tata Sons' balance sheet. On April 2014, TCS created a joint venture with Mitsubishi to form a \$600-million unit, the biggest for an Indian company. TCS, the group's most profitable company, was the biggest source of equity dividend. TCS continued to expand geographically. In 2015-16, TCS posted a revenue growth of 7.1%.

The jobs of more than 10, 0000 of Tata's UK employees and supply chain workers were thrown out. This move had come in for heavy criticism in Britain. Even Tata wanted Mr. Mistry to turnaround the business instead of selling it. State-owned Life Insurance Corporation of India (LIC) reduced its holding significantly in many of the Frontline Tata Group stocks since Mr. Mistry took over as the chairman of Tata Sons.

When e-commerce was booming, Tata invested in eight different startups in the sector in the 18 months. Three of India's eight unicorn startups were Ola, Paytm and Snapdeal. Mr. Mistry also invested in startups working for social causes, like Ampere and Swasth India (Rs two crore) in 2014. During the following year, the company invested in 25 startups.

He applied same disinvestment strategy in Tata group's hospitality as well. He sold the Taj Boston hotel, which runs Taj Group of hotels for \$125 million (about Rs 839 crore). The hospitality firm had also sold off 12.7 lakh shares of Belmond (earlier known as the Orient Express, which the Tata Group tried unsuccessfully to acquire at Mr. Tata's time) for a \$11.96 million. IHCL had also sold BLUE Sydney, a Taj Hotel, to Australia Hotels & Properties Ltd for AUD 32 million (nearly Rs 179 crore) in 2014.

Even telecom sector went into trouble under Mr. Mistry's tenure. The Tata group had to face a legal battle with Japan's Docomo over the split of their telecom joint venture Tata Docomo where the legal battle cost Tata \$1.17bn as penalty. Under Mr. Mistry's watch, the Tata's found themselves against their telecom partner, DoCoMo. It is a battle the Tatas eventually lost. According to the company's experts, it didn't fit with the philosophy and ethos of Tatas and the issues could have handled in a better way.

With his aggressive strategy, he disposed off the non-profitable businesses and was keener to build new businesses--- e-commerce, defense and infrastructure--- rather than consolidating existing businesses. The group had rejected the \$1.2-billion bid for Bermuda-based luxury hotel chain Orient-Express, which has 45 properties across 22 countries. He also sold off the urea business of Tata Chemicals. On the inorganic growth front, Mr. Mistry acquired solar power assets of Welspun for Rs. 10,000 crores without taking proper consultation of the board. Tata trustees' were not kept informed about the Welspun Power transaction. He entered into an airline joint venture - with Singapore Airlines (SIA) and Air Asia in the interests of Tata. Mr. Mistry was not very happy with the joint venture. He did highlight the fraudulent transactions worth Rs 22 crore in AirAsia. But his words were not considered.

A civil engineer by profession, Mr. Mistry intended to create an infrastructure and real estate company in the Tata Group. With all his initiatives, in December 2012, Tata Group enjoyed a listed market capitalization of over \$125 billion (close to Rs 8.5 lakh crore from Rs 4.6 lakh crore in 2012). The means the market cap doubled while Mistry was in-charge.

Conversely, on internal customer management, he was not fair with all the employees and had combating mood with some of the executives at the group companies. Likewise leader who uses the force from within to inspire and motivate his people, he was biased in roping rope in his team in group companies and on its boards, changing the existing practice and implemented a group level mechanism to track the performance of executives and employees at companies. He removed the two empowered bodies of old-guards - Group Executive Office (GEO) and Group Corporate Centre (GCC). He had either reduced or cancelled dividend at group companies. In June 2016, Mr.

Mistry acquires Welspun Solar for \$1.4 billion without seeking approval either from Tata or other key stakeholders. Tata Power was generating very little profits.

Mr. Mistry was not having any grand vision, or clear roadmap of the path ahead. Mr. Mistry never spoke to the press. All these initiatives were against Tata's value and Ethics. Although, Tata Motors grew 5% in the 2015-16, whatever Tata entities had done over the last four years under Mr. Mistry, the result was below average. Even when Mr. Mistry was asked to give his vision, the next five years, his reply was very vague. Mr. Mistry was given complete autonomy to manage opportunities and challenges at Tata group. In contrast to Mr. Tata, under Mr Mistry's tenure the entire group was dependent on only two companies - Tata Consultancy Services and JLR (Jaguar Land Rover).

Though, it doesn't fall in Tata's style to sack anybody all of a sudden, in the long-term interest of the Tata Group and the principal shareholders, the Tata board decided to sack Mr. Mistry for the conglomerate's sluggish performance.

#### **(7) What were the Mr. Tata expectations from Mr. Mistry, which he failed to fulfill?**

Mr. Tata had grand plans for five of his businesses for which he expected Cyrus Mistry to deliver.

The automotive business: Mr. Tata wanted Mr. Mistry to replicate the success surrounding the launch of the Nano in 2008. After Mistry took over, Tata envisioned launching two new passenger vehicles every year. Mistry seemed to have failed miserably. The Tatas' main launches included a sedan called the Zest in 2014. The Zest had an average sale of around 2,000 units a month, which was far below the sale of Maruti Suzuki Swift Dezire sedan and almost half the amount of its other competitor, the Honda Amaze.

The launch of the Bolt was also passive. The Bolt was not even at par with the revamped version of the Indica. The Tiago was having a miserable response from the start. Tata Motors had to tweak the launch of Zica despite launching an expensive ad campaign with Argentine football legend Lionel Messi. It failed to enthrall buyers despite its affordable price tag.

The defense business: In 2007, Tata started Tata Advanced Systems which was doing good business as an early private sector entrant in the defense industry. Then Reliance Defense Ltd entered the market in 2015 by signing a \$6 billion agreement for the manufacture of air defense systems for India's defense forces. Reliance Defense Ltd also took complete control over Pipavav Defense Ltd and got contract off to build warships and patrol boats for the Indian Navy. This made huge losses to Tata Group. Mr. Mistry did not do much about it.

The telecommunications business: In 2011, DoCoMo completed its stake purchase in Tata Teleservices, with this, Tata group was expecting high for a profitable run. However, a couple of years after Mistry took over, Docomo decided to call off its partnership with Tata Teleservices. The company's debt increased to over Rs 24,000 crore (Rs 240 billion), its losses exceeded Rs 6,000 crore (Rs 60 billion) and its net worth eroded. Going further, Docomo decided to exercise its pre-agreed put option to sell its 26 per cent stake back to the Tatas. The case turned ugly after Docomo won the case after going to

arbitration in London and want to sell group's foreign assets to make them pay up over \$1 billion for its stake sale. It has questioned and tested the trust quotient of Tata group.

European steel business: In 2012, The group was expecting Mistry along with his team to generate profit from Tatas' European steel business. Because of the slowdown, European steel business was facing severe losses and the prospect of job losses loomed large. Mistry failed to turn around the fortunes of the ailing steel business. Global steel prices plunged and the demand from China declined. Mistry tried to divest steel assets in Germany, France, New Zealand and other nations, but failed to get Tata Steel UK Holdings back on track.

The budget hotel business: Ratan Tata had entered into no-frills hotel business by launching Ginger brand and had great hopes for this hospitality business. However, the Ginger brand failed to live up to its reputation and posted a profit of just over Rs 2 crore (Rs 20 million) in 2014. The plan is to introduce more reasonable tariffs to increase occupancy. Those plans do not seem to have worked as well as expected under Mistry. Tata always believes in sticking to things and turn them into profitable. Mr. Mistry was always trying to avoid challenges and was not very much committed.

#### **(8) What were the differences between Ratan Tata and Cyrus Mistry's Leaderships?**

Mr. Tata is a man of strong ethics, vision and value and for him the reputation of Tata group and the social responsibility shared by the group comes first and foremost. On the other hand, Mr. Mistry is somewhat more business oriented and for his him profit making and strengthening the balance sheet of the company is the top priority.

Mr. Tata followed an inorganic growth strategy which included costly acquisitions like Jaguar and Landrover, Tata-Docomo merger and Tata's Corus acquisition. This is known as an expansion strategy. Mr. Mistry followed a divestment strategy by focusing on only profit making businesses.

Mr. Tata strategy thinks a lot, takes time before making a move, but once he made a decision to invest in some assets, it will be for the long term. Mr. Mistry takes decisions that have immediate impact, like closing operations of Tata Steel in UK, Tata-Docomo partnership.

Ratan Tata had done a lot for his employee welfare and ensured that the reputation of the group does not get tarnished by controversies, whereas; during Mr. Mistry's tenure, when it decided to shut its operations in the UK, there was a huge blow to Tata employees friendly reputation. Docomo had also sued the Tata group in the US and UK court.

Tata group had more than 100 companies and Mr. Tata gave equal importance to all, irrespective of the revenues they were generating. On the other hand, Mr. Mistry gave more importance to cash cows like TCS and Tata Motors while shrugging off the rest.

#### **(9) Evaluate the benefits & Risks of Growth-Through-Acquisition**

Acquisition can be a faster, cheaper, and a generally more efficient shortcut to growth for companies of any size. The risk is smaller, and the financing is easier. Finding the right company to acquire takes some effort. Further, acquisition offers a myriad of other advantages

such as easier financing and instant economies of scale. The competitive advantages too are formidable, ranging from catching one's competition off guard, to instant market penetration even in areas where you may currently be weak, to the elimination of a competitor(s) through its acquisition.

The risk in acquisition could be the expenses of an acquisition should be projected with reasonable accuracy. The expenses associated with more traditional growth strategies are far less predictable when measured against a clear objective. For Instance, acquisition of Chorus increases financial burden for Tata.

#### **(10) Was Mistry's appointment not considered carefully? Why Mr. Mistry was removed?**

In 2010, the panel was constituted to find a successor for Mr. Tata. It took over a year to come to its decision. In contrast, the panel appointed to find a successor for Mr. Mistry was being given only four months to come to a decision.

Mr. Mistry was the second person to chair out of Tata family and was seen as a part of a larger generational shift needed at Tata Sons. For the first time that a member of the Shapoorji Pallonji family (a construction company business family that is the biggest shareholder of Tata Sons) had exercised management control since they first started acquiring Tata Sons shares in the 1930s.

Mr. Mistry has a different style of functioning. There was a clash of ideologies. There was deep unhappiness within the Tata group over Mr. Mistry's style of functioning. He was working in silos and instrumental decision maker. All these went against him and could be the reason for his removal. According to Mr. Tata companies need to focus on their profit margins and their market positions vis-a-vis competition, and compare themselves to their own past The focus has to be on 'leading' rather than 'following'.

Mr. Mistry fell short of Mr. Tata's yardstick. He did not understand that there cannot be short cuts. It was all about the vision which symbolizes trust. As a result, Mr. Tata sacked Mr. Mistry without giving any notice period. Mr. Tata was known as legendary employer, could not handle HR issues properly. Again a good leader should plan for a smooth succession. A successor should be a strong candidate and have a proven business focus. He should have a blend of values. Power and politics should not replace the value. A successor has to understand to what extent the values of the conglomerate can be tweaked, modified or ignored. That's the challenge for a successor. Faculty can leave the class for open debate with whether the Mr. Mistry's strategy to divest was correct and whether Cyrus Mistry is the person solely responsible for the decision and to lead the organization, did Mr. Mistry needed be given a free hand? Will Mr. Mistry's successor will be more effective or work better with Mr. Tata?

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- vi Russi Mody, Darbari Seth, Ajit Kerkar and Nani Palkhivala are the chairman of Tata Steel, Tata Chemicals, Indian Hotels and ACC respectively
- vii Anumbrella branding strategy, is a marketing practice that involves marketing many related products under a single brand name.
- viii The group's insurance company, New India Assurance, founded by Dorab Tata in 1919, was nationalised in 1956.
- ix VSNL was founded in 1986 and was the first Indian PSU to be listed on the New York Stock Exchange.
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