Brief Integrative Case 2

The Last Rajah: Ratan Tata and Tata's Global Expansion

Among Asia's business titans, Ratan N. Tata stands out for his modesty. The chairman of the Tata Group—India's biggest conglomerate, with businesses ranging from software, cars, and steel to phone service, tea bags, and wristwatches—usually drives himself to the office in his $12,500 Tata Indigo Marina wagon. He prefers to spend weekends in solitude with his two dogs at a beachfront home he designed himself. And disdainful of pretense, he travels alone even on long business trips, eschewing the retinues of aides who typically coddle corporate chieftains. But the 69-year-old Tata also has a daredevil streak. An avid aviator, he often flies his own Falcon 2000 business jet around India. And in February he caused a sensation at the Aero India 2007 air show by co-piloting Lockheed F-16 and Boeing F-18 fighter jets.

Tata's business dealings reflect the bolder side of his personality. In the past four years he has embarked on an investment binge that is building his group from a once-stodgy regional player into a global heavyweight. Since 2003, Tata has bought the truck unit of South Korea's Daewoo Motors, a stake in one of Indonesia's biggest coal mines, and steel mills in Singapore, Thailand, and Vietnam. It has taken over a slew of tony hotels, including New York's Pierre, the Ritz-Carlton in Boston, and San Francisco's Camden Place. The 2004 purchase of Tyco International's undersea telecom cables for $130 million, a price that in hindsight looks like a steal, turned Tata into the world's biggest carrier of international phone calls. With its $91 million buyout of British engineering firm Incat International, Tata Technologies now is a major supplier of outsourced industrial design for American auto and aerospace companies, with 3,300 engineers in India, the United States, and Europe.

The crowning deal to date has been Tata Steel's $13 billion takeover in April of Dutch-British steel giant Corus Group, a target that would have been unthinkable just a few years ago. In one swoop, the move greatly expands Tata Steel's range of finished products, secures access to automakers across the United States and Europe, and boosts its capacity fivefold, with mills added in Pennsylvania and Ohio.

Now, a new gambit may catapult Tata into the big leagues of global auto manufacturing: The company is said to be weighing a bid for Jaguar Cars and Land Rover, which Ford Motor Co. wants to sell. On top of all this, the group plans $28 billion in capital investments at home over the next five years in steel, autos, telecom, power, chemicals, and more. "We rescaled our thinking in terms of growth," Tata says over tea at Bombay House, the group's headquarters since 1926, a tranquil oasis with well-worn marble floors, a vast collection of modern Indian art, and staffers who circulate with bowls of vanilla ice cream every day at 3 p.m. "We just forced and cajoled our businesses to make this happen."

Spiritual Cement

The forcing and cajoling have worked brilliantly. The market value of the 18 listed Tata companies has swelled to $62 billion, from $12 billion, since 2003. Group sales and profits have doubled, to $29 billion and $2.8 billion, respectively. The three big companies that account for 75 percent of sales—Tata Steel, Tata Motors, and Tata Consultancy Services—are enjoying some of their best years ever. And in May, Tata Tea netted $523 million in profit when Coca-Cola Co. (KO) paid $1.2 billion for its 30 percent stake in Energy Brands Inc., the maker of Glacéau Vitamin Water. Not bad for a purchase made just nine months earlier. "This is a transformed Tata," says Rajeev Gupta, managing director of private equity shop Carlyle Advisory Partners.

The global push began four years ago. After a rocky first decade as chairman, Tata commissioned a sweeping review to plot strategy, including a study comparing India with China. He was struck by the sheer audacity of Chinese projects. "Whether they built a port or a highway, they did it big, the kind of scale that caused skeptics to say, 'My God, this is over the top,'" he says. "But China always grew into it." India, he concluded, should also think big—and so should Tata Group. By leveraging India's vast potential, he thought, the company could shift into turbocharged expansion to become a global heavyweight.

Tata is arguably the most important among a new pack of multinationals charging out of big developing nations such as China, Brazil, and Russia. These emerging giants can tap into abundant low-cost labor, tech talent, and mineral resources, while cutting their teeth in the world's biggest growth markets. Brimming with cash and confidence, they also are starting to export innovative business models honed in some of the planet's most challenging places to operate.

Building an organization with a coherent vision and capable of succeeding in so many industries and so many markets, though, is a daunting task. Asia has witnessed the rise of many soup-to-nuts behemoths that thrived when economic tides were high, such as Korea's Daewoo, Thailand's Charoen Pokphand, and Indonesia's Salim Group. Most eventually fell apart. The real test for Tata, too, is likely to come when India's boom abates and battles for talent and market share involving both aggressive Indian rivals and deep-pocketed multinationals intensify. But unlike most other Asian groups, "Tata already has proved it can survive turmoil and constantly reinvent itself," says Harvard Business School professor Tarun Khanna, who has closely studied the group for a decade.

At the center of the empire is Tata himself. An architecture graduate from Cornell University in 1962, he serves as the group's chief dealmaker, visionary, and spiritual cement. He joined the company after college, then steadily rose through the ranks. He took over 16 years ago—after the death of his gregarious uncle, J. R. D. Tata—just as India began dismantling decades of socialist-style business controls. Tata has overseen sharp downsizing, risky plunges into auto manufacturing and telecom, and a transformation of the conglomerate's insular and lethargic management culture. Now he wants to prove Tata companies can compete in the rich West as well as in the unpredictable but hugely promising markets of the developing world. What's more, Tata wants to set the group solidly on a path to achieving all this before he retires.

The barrel-chested tycoon hasn't named a successor or said when he plans to step down. He'll turn 70 in December, but he still has a vicelike handshake, and associates are amazed at his command of numbers and technical details of the various Tata companies. That makes his failure to designate a successor all the more disconcerting. Some even question whether his departure might spur the group's breakup. "Who will be the glue?" worries one veteran insider. "Will there even be a central leader?"

Ratan could even be the last Tata to oversee the group. The Tata family tree, on display at a company museum, stretches back 800 years through generations of Parsi priests, an Indian minority descended from Persians. It ends with Ratan—single and childless—and his siblings. Younger brother Jimmy and three half-sisters aren't involved in Tata businesses. His reclusive half-brother, Noel, runs a Tata-owned retail chain, but it's unclear whether he's tycoon timber. Succession "is a problem," Ratan acknowledges. "I am involved in more issues than I think I should be." When he does step down, Ratan Tata will leave a big void. Even though he and other family members own just 3 percent of shares in Tata Sons, the private holding company with controlling stakes in its businesses, Tata himself chairs key units including Tata Motors and Tata Steel. He is intimately involved in all major deals and pushed for acquisitions such as Corus. The ventures into passenger cars and telecom are his babies. And Tata is instrumental in hatching new businesses, bouncing ideas gleaned from his travels to managers for follow-up.

Ratan Tata serves another vital function: While at ease with lawyers and investment bankers, he remains firmly planted in the developing world. He is a passionate promoter of corporate social responsibility, a mission that dates to the group's founding in the 1870s by Tata's great-grandfather, Jamsetji Tata. The founder was a pioneering industrialist, philanthropist, and fervent nationalist who traveled to the United States with a swami, meeting the tycoons of the day. He opened India's first textile mill, in large part to wean Indians from their industrial dependence on Britain, which until then had milled much of the subcontinent's cotton and then shipped the high-cost cloth back to the colonies. Tata offered worker benefits such as child care and pensions long before most companies in the West, and later one of Jamsetji's sons helped bankroll a young Mahatma Gandhi while he agitated in South Africa for the rights of immigrant Indians.

To this day, the Tata Group remains devoted to good works: Charitable trusts own 66 percent of the shares in parent Tata Sons, and many of its companies fund grass-roots antipoverty projects that seem far removed from their core businesses. Ask the chairman to name the group's biggest challenges and he quickly cites two: "Talent, and retaining our value system as we get bigger and more diverse. We have to increase the management bandwidth, and with the same ethical standards."

He also concedes that the group is much less focused than he envisioned back in 1991, when he pledged to pare it from scores of companies to just a dozen or so. Tata did dump marginal businesses—cosmetics, paints, and cement—but entered retail, telecom, biotech, and others. Today, Tata Group comprises nearly 100 companies with 300 subsidiaries in 40 businesses. Slimming the group down "is one area where I have not succeeded in what I set out to do," he admits.

"I'm Not Moving"

His hope is that Tata's unorthodox structure will give individual companies the agility to respond to new opportunities and threats. "The organization is a lot lighter than a Western conglomerate," says Alan Rosling, a Briton who spearheads international expansion for Tata. "There is no central strategy. We don't even have consolidated financial statements." The group is bound together by the small staffs of Tata Sons and another holding company, Tata Industries. These two, chaired by Ratan, provide strategic vision, control the Tata brand, and lend a hand on big deals. And Tata Sons can raise cash to launch new businesses or help fund purchases such as Corus. In 2004 it pulled in $1.3 billion by floating a 10 percent share in Tata Consultancy Services.

Bombay House also exerts influence through the Group Corporate Office, another Ratan invention. The nine senior executives in this unit sit on the boards of Tata companies and act as "stewards," mentoring managers and promoting corporate responsibility values. For example, former Tata Tea and Indian Hotels chief R. K. Krishna Kumar helped incubate Ginger Hotels, a new chain of budget inns offering free Internet and cable TV for about $25 in India's most expensive business hubs—one-tenth of what most business hotels charge. R. Gopalakrishnan, who retired from Unilever's Indian affiliate in 1998, is chairman of a new Tata drug-research company and has advised fertilizer maker Tata Chemicals on an ambitious new strategy to market everything from seeds to low-cost insurance by setting up a network of stores and working with poor farmers to improve crop yields. Bombay House "offers guidance and sets perspective," says Satish Pradhan, who heads the Tata Group's sprawling management training center in Pune. "We hand-hold the businesses in a nonintrusive manner."

The chief steward, though, clearly is Ratan Tata. He negotiates major deals and steeps himself in the details of automaking, telecom, or steel. "He has a tremendous technological brain," says Tata Steel Managing Director B. Muthuraman. He's also not afraid of a fight. During a strike at Tata Motors' Pune plant, militant unionists assaulted Tata managers and occupied a section of the city. "If you put a gun to my head," Tata declared, "you had better take the gun away or pull the trigger, because I'm not moving." Tata signed a deal with a rival union and broke the strike after a confrontation between police and the militants. "While he doesn't look it," says Muthuraman, "he's one of the toughest people I've ever known."

The transformation of Tata Steel illustrates his impact. In the early 1990s, when India started opening to global competition, the 100-year-old company was saddled with antiquated plants, a bloated payroll, and "no market orientation . . . we were a good study in demise," recalls Muthuraman. Over the years, Tata cut the workforce from 78,000 to 38,000 and spent $2.5 billion on modernization. A decade later, Tata Steel had become one of the world's most efficient and profitable producers and began to acquire rivals. "Ratan was the chief architect" of the Corus deal, says Muthuraman. "I was worried about the magnitude and the amount of money. But he instilled confidence." The strategy: Because Tata is one of the few big steelmakers with its own abundant coal and iron ore reserves, it can produce raw steel at low cost in India and then ship it to Corus' first-rate mills in the West to make finished products.

But Tata Steel highlights the challenges of balancing Old World ways with New Economy realities. Jamshedpur, the company's home base in northern India, resembles a time capsule of a more paternalistic industrial age, a leafy city of genteel colonial-era structures and wide boulevards hacked from the jungle in 1908. Tata spends some $40 million a year supplying all civic services and schools, even though it employs just 20,000 of Jamshedpur's 700,000 residents. And in its downsizing program, workers who agreed to early retirement got full pay until age 60 and lifelong health care.

Tata Steel also spends millions annually on education, health, and agricultural development projects in 800 nearby villages. In Sidhma Kudhar, for instance, a dusty outpost of whitewashed stone houses with thatched roofs, the 32 families until two years ago subsisted on a single crop of low-grade rice and the $1 a day they could earn by stripping branches from nearby hills. Thanks to funds from Tata, they now have irrigation systems that allow them to grow rice crops and a variety of vegetables. The hillsides are now covered with thousands of mahogany and teak seedlings for future income, as well as jatropha bushes, whose seeds can be used for biofuel. Most children now attend classes in the refurbished school, and the village has three televisions, powered by Tata solar units that also supply enough juice for electric lights and clocks.

Such generosity will be put to the test now that Tata owns struggling Corus. The deal loads the Indian steelmaker with $7.4 billion in debt, and absorbing Corus' higher-cost operations will weaken margins. One key question is what to do with Corus mills such as the one at Port Talbot in Wales, which employs 3,000 workers. Tata says it will proceed with Corus' plans for the mill. But the union representing most Corus workers wants Tata Steel to invest an additional $600 million in Port Talbot to ensure it will remain competitive so it won't have to cut jobs. A delegation of 20 Corus labor reps visited Jamshedpur in April to meet the mill's new owners, but Tata executives declined to give guarantees. "We were extremely impressed by their workforce and commitment to social responsibility," says labor leader Michael Leahy. "But how will they be able to translate those principles into the British and European context? They couldn't answer that."

A bid for Jaguar and Land Rover might present an even more daunting challenge. The Ford assets would give Tata a luxury brand and a big boost in SUVs, but it would be an uphill climb to restore Jaguar's luxury cachet, which was damaged by sharing basic designs with Ford. Tata executives, who won't confirm their interest in Jaguar and Land Rover, have downplayed auto ambitions in the United States, citing the high cost of entry and their commitments in emerging markets. And an attempt to sell small cars under the Rover name in Britain lasted just two years amid complaints about quality. Tata Motors, which once made only trucks, surprised skeptics with the success of the Indica, an affordable passenger car developed from scratch and rolled out in the 1990s. The Indica is now India's number-two car and is selling well in South Africa, Spain, and Italy. Tata also will soon start exporting cars and trucks through a venture with Fiat (FIA) and is eyeing a similar project in South America. The company had another big hit in 2006 with the Ace, a bare-bones truck for less than $6,000. Tata already is boosting its output from 75,000 minitrucks to 250,000.

Inevitable Stumbles

Ratan's big passion, though, is the "one lakh" car. (One lakh is 100,000 rupees. And that many rupees equals about $2,500.) Since the mid-1990s, he has wanted to develop reliable but supercheap vehicles, a project he believes could ultimately revolutionize the auto industry and make India a major economic power. Tata personally supervised the project and traveled frequently to Tata Motors' development center in Pune to check on progress. Originally he envisioned a fundamentally new kind of vehicle—one made of plastics, for example, that didn't even resemble what we think of today as a car. He concedes that the spartan, oval-shaped model to be launched in early 2008 doesn't meet his lofty aims. It's made of steel. And it looks like, well, a car. To get the price to $2,500, engineers shrunk the size and stripped out frills such as reclining seats and a radio. "There is not a lot of innovation," he says. "We didn't reinvent the business."

Tata has similar ambitions to reinvent solar energy. Tata BP Solar Ltd., a $260 million venture with British energy giant British Petroleum (BP), supplies buildings in Germany with rooftop solar-electric systems. But in developing nations, the company sees a vast market in bringing affordable power to villages that are off the power grid. The company has introduced low-cost, solar-powered water pumps, refrigerators, and $30 lanterns that burn for two hours on a day's charge. And it has fitted 50,000 homes with $300 systems that can power two lights, a hot plate, a fan, and a 14-inch TV. "But this is a drop in the ocean," says Tata BP Solar CEO K. Subramanya. "We ought to be touching millions."

There is little question that the opportunities for Tata in India and abroad are staggering. But can the group succeed on all these fronts simultaneously? The interesting dilemmas will come when the Indian economy slows and some Tata affiliates inevitably stumble. Future managers could look at expensive burdens such as Jamshedpur and rural-development projects as tempting targets for cuts when times get tight. Tata companies could lose interest in low-cost goods for the masses without a passionate promoter as group chairman. And the group could take a tougher look at businesses to spin off.

For the foreseeable future, though, these are nonissues. Though Tata vows that he "won't carry this on endlessly," he says he will stay on at least two years beyond when he chooses a successor. So he seems likely to fulfill the last big item on his agenda: building a network of companies capable of thriving in 21st-century global competition while still adhering to traditional values long after the departure of Ratan Tata.

Go-Go Tata

Since beginning a global push four years ago, India's once-plodding Tata Group has expanded aggressively at home and abroad in a wide range of industries. Some of its major holdings:

TATA MOTORS	2007 REVENUES	2007 PROFITS
Building a new car plant and sharply boosting output of its small truck, the Ace. A new venture with Fiat will co-produce 150,000 cars and 250,000 trucks annually. The biggest gamble: a $2,500 people's car to be launched in 2008.	$7.2 BILLION (+36%)	$490 MILLION (+26%)
TATA STEEL		
Bought mills in Singapore, Thailand, and Vietnam, and is now expanding in India. With its $13 billion purchase of Corus, Europe's No. 2 steelmaker, capacity should reach 50 million tons by 2010, behind only Arcelor Mittal.	$6.6 BILLION (+99%)	$923 MILLION (+33%)
TATA CONSULTANCY SERVICES		
Riding the software and tech services outsourcing boom, TCS has grown explosively in the past five years. Now it's developing its own software for transportation, retail, finance, and other industries.	$4.2 BILLION (+41%)	$930 MILLION (+43%)

All figures for fiscal year ended Mar. 31, 2007

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Questions for Review

1. How do the Tata Group's strategies in its home market differ from its international ventures? Do you think joint ventures are essential for Tata's future success?
2. What have been Ratan Tata's most important strategic initiatives for the company? Should his successor follow in his footsteps or pursue new paths for growth?
3. What risks might Tata face in its global expansion? How might it manage their risks?
