

Please take part in our 2016 Readership Survey.

It takes about 10—15 mins to complete.

Your answers will help us improve **The Conversation**.

Take the survey ✕

## THE CONVERSATION

Academic rigour, journalistic flair

# Tata succession battle is an omen for family firms in Asia

November 8, 2016 3.06pm GMT



Cyrus Mistry pictured leaves after a meeting in Mumbai, Oct 26. EPA/DIVYAKANT SOLANKI

### Author



#### Swapnesh Masrani

Lecturer in International Business,  
University of Stirling

A trip to India by the British prime minister, **Theresa May**, has been dominated by discussion around visa conditions and trade, and frequent appearances alongside her counterpart Narendra Modi. One meeting that has failed to take place, however, is with the leadership of Indian conglomerate Tata. It may have less to do with the sensitivities of Tata's strategy for its UK steel business, and more to do with a brutal succession battle at the group.

On October 24, the chairman of Tata Sons – the holding company at the heart of the business – was abruptly removed from his role. The manner of Cyrus Mistry's dismissal was so dramatic that it shocked corporate India and made news across the world. One director said the process was like marching him to the “guillotine”.

Despite the upheaval, it was hoped that May would be able to meet Ratan Tata – who was chairman for more than twenty years before Mistry and who has now resumed the leadership role – to discuss

the future of Tata's UK steel operation. Under Mistry, the steel business, in addition to other high profile projects such as the Nano car, was under review, with a sale or shutdown both possible. The situation is still deeply complicated. While Cyrus Mistry is no longer chairman of Tata Sons, he remains chairman of the subsidiaries. There was speculation that he would be part of May's CEO summit during her trip.



Theresa May and Narendra Modi. Number 10/Flickr, CC BY-NC-ND

A lot has been said about these events from a corporate governance point of view. Perhaps more interesting is the lessons they hold for a potentially messy wave of succession management in issues family firms around Asia.

## Family ties

Globally, an astonishing 43% of family businesses do not have any succession plan in place. In Asia, it's even worse: only 17% have any systematic plan in place to manage the transition.

The issue of succession planning in such companies is an important one. Family firms consist of 33% of US companies and 40% of French and German and more than 50% of Asia. Family firms remain some of the most famous and powerful names across sectors from electronics, fashion, media, finance and industrials.

So, what are the critical factors that help in managing this transition process? Planning ahead and strengthening the role of board is often touted as essential to success. But surely it must be more than that? It must be about selecting the right person, whether they are internal or external candidates.



Passing the baton. soo hee kim/Flickr

It stands to reason that family firms seek out successors who show high levels of personal integrity and commitment to the business. In India, though, another major criteria appears to be that the candidate is trusted by family members and able to get along with them. In short, talent only goes so far; you have to fit in.

## Outsider

What is perplexing in the Tata case is that if anyone was going to be trusted by the Tatas or understand the Tata culture enough it would have been Cyrus Mistry. His family has held a major stake in Tata Sons since the 1930s. It currently stands at around 18%. His sister is married to Ratan Tata's half-brother. Mistry joined the Tata Sons board in 2006 after his father vacated his seat. He had, it seemed, the perfect balance of insider and outsider.

The board made its decision to oust Mistry "on recommendation of the principle shareholder", which is the Tata Trusts charitable foundation headed by Ratan. So what went wrong between the incumbent and the successor.

According to Cyrus Mistry, he was left as a "lame duck" chairman due to constant interference of the previous chairman. Just before Mistry took over, the board passed key resolutions that would give Tata Trusts greater control of the board at Tata Sons. According to Mistry, as chairman of Tata Trusts, Ratan Tata was able to maintain an invisible presence on the board of Tata Sons.

It is not an uncommon problem at family firms. It can be hard to give a successor free rein; the chance to operate without interference from the owner. Ratan Tata himself had underlined the importance of giving enough room to Mistry when making his appointment, but that path does not seem to have been followed.

A look at Ratan Tata's own career since the 1980s would underline the importance of this issue. Without strong backing from JRD Tata, then chairman of Tata Sons and a distant relation, a young Ratan Tata would have found it difficult to implement his modernisation plan in the midst of opposition from the old guard at the helm.



Ratan Tata visits the University of Warwick. WMG Warwick/Flickr, CC BY-NC-ND

There is, of course, a case for any majority shareholder to be able to express their opinion when they feel the need, but there is a delicate balance to strike. The Mistry affair will leave any person considered for the top job at Tata deeply concerned about whether the role will enjoy the fundamental management principles of responsibility and authority.

### **Uncommon decency**

A director at Tata, Dinshah Malegamvala, was once asked how he would define his company's philosophy. He came up with a one word answer: decency. The way the firm has blundered through weeks of succession conflicts has displayed anything but.

The ongoing war of words does no favours for that avowed culture of decency, so painstakingly cultivated and envied by so many. It is commendable that Ratan Tata moved to replace himself in the first place as he sought to ensure the company's longevity – that in itself is a useful nudge to Asia's other family firms. But now Tata needs to lead the way again as another transition looms.

With 85% of family firms around Asia expected to see succession taking place in their businesses in the next decade, Tata's experience, for good or ill, will set a benchmark for others preparing for a similarly fraught journey.

 Politics UK Economics Corporate governance Steel India Business Narendra Modi Tata