

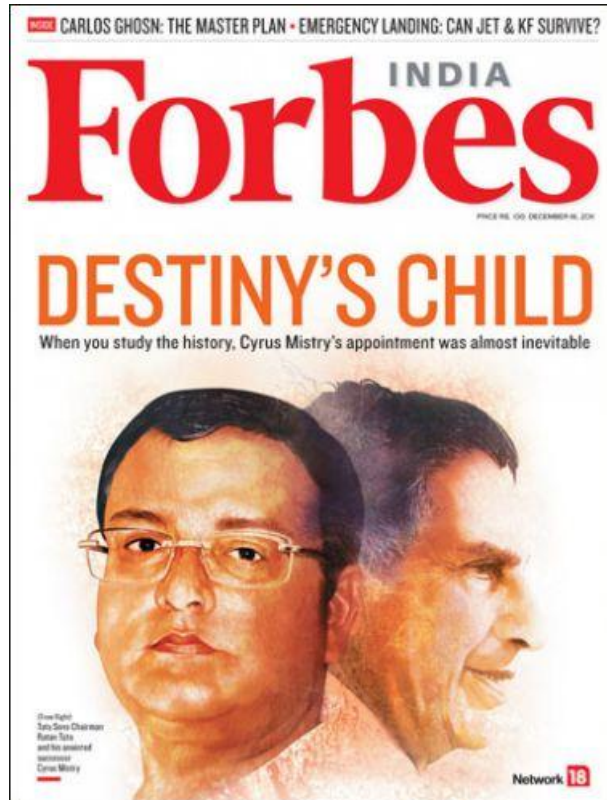
# Forbes<sup>INDIA</sup>

## TATA SONS: PASSING THE BATON

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<http://forbesindia.com/article/boardroom/tata-sons-passing-the-baton/31052/0#ixzz1k4cATEGO>

*There's a continuing thread of history in Cyrus Mistry's appointment as Ratan Tata's successor. But the move is also testimony to Tata's professionalism and sincerity.*

The passing of a crown is always a delicate affair. In 1991, when J.R.D. Tata handed his to Ratan Naval Tata, his courtiers had rebelled. It took time for RNT to subdue the satraps and prove JRD's decision on his successor was perhaps his finest. But then JRD was always renowned for his ability to pick men. The circumstances around anointing RNT's successor exactly two decades later were rather different. The world and the Tata's had changed.

It would take more than an arbitrary announcement from RNT to achieve a smooth succession in what is now one of the world's largest conglomerates. So, if Cyrus P. Mistry is the first Tata head to have been crowned by a committee rather than a King, and the first from outside India Inc.'s first family, it is a testament to Tatas' ability to move with the times. Yet, to those who know Tatas and its history, there is also no doubt that there is a continuing thread of history in Mistry's appointment.

Ties between the Mistry and Tata families have been close — and contentious — ever since 1936 when Cyrus's grandfather Shapoorji Pallonji Mistry bought 17.5% of Tatas' main holding company, Tata Sons. Shapoorji's frugal and industrious father Pallonji was a builder, but construction then was

not the lucrative business it is today. The family lived in a cramped tenement near Grant Road in Mumbai and built their future stone by stone.

At around the same time, the 1860s, Nussurwanji Tata and his cousin and brother-in-law Dadabhoy Tata were just entering 'the China trade', a euphemism for the ships that ran from India to China, carrying opium on the way in and tea, silks and pearls on the way out.

Both Tatas made a fortune in the business. But unlike other traders, there lurked an industrialist's soul in both Nussurwanji's and Dadabhoy's sons, Jamsetji and Ratanji (RD).

While other traders spent their wealth building sumptuous homes that still grace Mumbai's streets, in 1874, Jamsetji and RD ploughed their profits into building the Empress Mills in Nagpur. The US civil war had taken American cotton off the market and Indian textile companies like Empress Mills made a killing.

Even as the Tatas prospered, the Mistrys struggled. But Shapoorji was tenacious and formed an eponymous company Shapoorji Pallonji & Co., whose flawless execution of several contracts impressed architects and clients. But the real turn in Shapoorji's fortunes came when he began building homes for the city's elite.

One of them was the eminent landowner-lawyer-financier Framroze Edulji Dinshaw. The scion of a landed family, he grew his inheritance to include some 2,200 acres of land and even today his estate is one of Mumbai's biggest landowners.



***ALL IN THE HOUSE : Tata HQ Bombay House, which was designed by George Wittet. F.E. Dinshaw, a close Tata associate, got Wittet to design his Pune house, which Cyrus Mistry's grandfather Shapoorji Pallonji built.***

Dinshaw was a close associate of the Tatas and in the 1920s asked famed architect George Wittet, who'd designed Tatas' HQ, Bombay House and Victoria Terminus, to build him a house in Poona. When Dinshaw showed Wittet's drawings to his friend Sir Sorabji Pochkhanawala, the banker insisted that the only contractor who would do it justice was the man who had just built his own home, Shapoorji Pallonji Mistry. Dinshaw and Shapoorji got along famously.

When the Tatas began executing their vision of industrialising India, Dinshaw was instrumental in financing them.

This was crucial to Tatas' success. While Jamsetji's vision of building India's first steel mill and hydro power plant transformed industry in India, the projects almost bankrupted the Tatas. If they persevered it was because of a sense of mission.

After Jamsetji's death in 1904, the onus of executing his grand vision fell to his sons, Sir Dorabji and Sir Ratanji. They were joined by Jamsetji's old partner R.D. Tata. The three merged RD's family firm Tata & Company with Jamsetji's family firm Tata & Sons to create the company that eventually brought the Tatas and Mistrys together — Tata Sons.

It remains Tatas' main holding company to this day.

Tatas' suffered another setback when Sir Ratanji died prematurely in England at the age of 47. He was a sensitive and artistic man who initiated many of Tatas' social works.

Sir Ratanji was childless, and after setting aside the Tata Palace opposite the Bombay Gymkhana and a small portion of his approximately 40% stake in Tata Sons for his widow, Lady Navajbai Tata, he bequeathed his assets worth about Rs. 80 lakh to the Sir Ratan Tata Trust.

The move transformed Tatas. Not only did Sir Ratanji's endowment establish Tatas' trusteeship principle, as one of the oldest charitable institutions in India, it pioneered modern ideas of secular, social services-oriented philanthropy.

Now, the hand of God is always present in the fortunes of men. When Sir Ratanji died, the Tatas, all observant Zoroastrians from a priestly family, were unsure of how to perform his Uthamna, or death ceremony, as it is traditionally conducted by a son.

Sir Dorabji decided the solution lay in Lady Navajbai adopting one of four young orphans he was sheltering in an orphanage. The boys were the children of Ratanbai Rao, the niece of Sir Jamsetji Tata's wife Hirabai and the boys' father, Hormusji, was also a Tata.

Lady Navajbai agreed and chose the one "with the nicest eyes." His name was Naval Hormusji Tata. At the time, Lady Tata probably had no inkling of how her decision was destined to echo through history.

Sir Dorabji also remained childless. The Tatas, as business chronicler Gita Piramal put it, "are not a fecund family."

But R.D. Tata's branch of the clan had no such reproductive problems. He married a French lady, Suzanne Briere, and they had five children, Sylla, Jehangir (JRD), Rodabeh, Darab and Jimmy.

In an interesting footnote to history, RD christened his wife Sooni and tried to have her converted to

Zoroastrianism. But the Parsi community, which bases its identity on its Persian origins and ancient faith, objected and RD lost what became the community's first court case on conversion.

Through all this, RD and Sir Dorabji soldiered on, often risking their personal wealth and doubtless their health, to build Tata Steel and Tata Hydro. Dinshaw continued to fund and advise them and his role and importance in the group grew.

When Tata Steel fell into serious financial trouble in 1924, Sir Dorabji pledged his entire fortune worth about Rs. 1 crore (including his wife's jewellery and Tatas' renowned family home Esplanade House) to bail out the company. This was despite the fact that Sir Dorabji now owned less than 25% in Tata Steel.

Dinshaw also stepped up to lend Tata Sons another crore, a fabulous sum at the time. In 1926, Dinshaw agreed to loan Tata Sons another crore, this time to rescue the flailing Tata Hydro. In return, Dinshaw was to get 25% of the money Tata Sons made from Tata Steel and 12.5% of the money it made from Tata Hydro in its then capacity of managing agent.

But Tata Sons never managed to repay Dinshaw in full and over the years his outstanding loans got converted into equity. The exact size of Dinshaw's take in Tata Sons has never been formally disclosed but it has been estimated to be 12.5%.

Initially, this didn't bother anyone because Dinshaw had such close financial and social ties with the group and family.

In fact, JRD considered Dinshaw to be "the most brilliant man" he'd ever met and was grateful for his seasoned advice and presence on the board. If JRD could have seen the future, he'd have felt differently. But in 1926, the young Tata was dealing with another crisis. His father died in Paris at the age of 70.

RD left his entire estate to JRD, his eldest son, making him the second-largest shareholder in Tata Sons after Sir Dorabji.

But JRD was a modernist and his father's patriarchal decision didn't sit well with him. So, he divided his inheritance equally between his siblings. It was a decision that would come back to haunt him and Tatas.

At the time, JRD was too busy battling demons of a more immediate nature.

RD died owing large sums of money to Sir Dorabji. By this time, Sir Dorabji had become a cantankerous old man, often at odds with his brother's and JRD's family.

It rankled JRD all his life that the dying and childless Dorabji made him repay all his father's debts, even forcing him to sell his family's much-loved Malabar Hill house, named Sunita (for Sooni Tata) after his mother.

Dorabji finally died in 1932, leaving his entire fortune, including some 40% in Tata Sons, to the Sir Dorabji Tata Trust.

So, it was now estimated that about 80% of Tata Sons was owned by the trusts. Dinshaw was believed to own about 12.5% and JRD's and Naval's family the rest.

In a final snub to JRD and Naval, Dorabji gladly carried out his father's will by ensuring his ageing cousin Nowroji Saklatvala headed Tatas instead of them.

Saklatvala was the son of Jamsetji's sister Virbaiji Tata and Bapuji Saklatvala. He'd served in Tatas' Swadeshi Mills and had proved to be a reliable insider.

Saklatvala's short and unexceptional reign at Tatas turned out to be crucial for one man — Shapoorji Pallonji, and by extension his grandson, Cyrus, who might otherwise have never come to head Tatas.

Imagine the world of 1932 when Saklatvala took over. All the 'four greats' who had established Tatas — Jamsetji, Dorabji, Ratanji and RD — were gone. Lady Navajbai Tata was the only surviving link to the old days.

The intense and driven JRD was a natural leader but too young to be Chairman. The gregarious and non-confrontational Naval Tata appears to have reconciled early to playing a supportive role in the group.

Globally, the Great Depression and fascism were consuming America and Europe. In India, the freedom movement was promising liberty but also threatening instability. The British Empire seemed like it was falling into complacent decay.

So, it was in the keeping of things that ancients like Saklatvala and Dinshaw ruled Tatas. They met every noon but the old energy was gone and the group tread water.

When Dinshaw died in 1936, his estate fragmented. His land went to the F.E. Dinshaw Estate, which is now administered by Nusli Wadia. The bungalow Shapoorji built for Dinshaw in Poona ended up becoming the Tata Management Training Centre.

Old timers say Dinshaw's stake in Tata Sons was also poised to transfer to a trust. But one man saw the opportunity in acquiring it, and he did.

Shapoorji Pallonji had by then become one of Bombay's pre-imminent builders. He had also become very close to Dinshaw. He saw the value of buying Dinshaw's stake in Tata Sons when few others had the foresight, gumption or cash to do the same.

How exactly Shapoorji got Dinshaw's heirs and trustees to sell him the Tata Sons stake is still unclear. No conclusive account of what happened has ever been issued.

Those well-disposed to Shapoorji say it was a simple, straightforward sale. Those less well inclined to the master builder say he used a unique blend of sophistry, charm, pressure and cajoling to get what he wanted out of family members and trustees who were aging, ignorant and trusting. The truth, as always, probably lies somewhere in between.

What is clear is that Saklatvala knew Shapoorji — he had built Saklatvala's grand new home. But why Saklatvala did nothing to prevent Shapoorji's entry into Tata Sons is a matter no one from the Tata group or family has ever discussed.

But JRD was incensed at Shapoorji's "intrusion" into Tatas. He got even more infuriated when Shapoorji proceeded to buy further stakes in Tata Sons from his siblings, Sylla and Darab Tata.

The young Darab had always envied his older brother and was given to emotional outbursts. He reportedly sold out to Shapoorji in a fit of rage, just to spite JRD.

All in all, Shapoorji came to own about 17.5% in Tata Sons by the time Saklatvala died in 1938. The trusts held just under 80%, and JRD and Naval's family the balance.

Bombay House old timers liked to sit over a beer and muse that if JRD had been Chairman of Tata Sons instead of Saklatvala he would have fought Pallonji off. But as a Director he didn't have the muscle, and as a son who'd just paid his father's debts, he didn't have the money to bid for Dinshaw's stake himself.

In many ways, the story echoed the experience of countless Parsi families, where eccentric individuals often fought excessively over trifles, losing themselves and their wealth in a maze of litigation, accusation and resentment.

JRD himself never spoke publicly about Shapoorji, Darab or Sylla, as was the norm in the days when grace mattered and linen was never washed in public. But he did say in his later years that Shapoorji took advantage of people who were "weak-willed and credulous."

JRD liked to joke that the Tata Sons board made him Chairman in a moment of mental aberration. He surrounded himself with exceptional managers and threw the somnolent group into expansion mode. Tata Chemicals was incorporated in 1939 and became India's first soda-ash supplier under Darbari Seth. Tata Motors was established in 1945 and nurtured by Sumant Moolgaokar. Tata Steel grew under Homi, and then, Russi Mody. JRD himself was the steward of Air India's growth, even after its nationalisation in 1953. Naval Tata led the Tata electric companies, and the group's textile and oil mills.

It is a testament to JRD's values that despite his miniscule holdings and shrinking personal wealth, he gave the bulk of his estate to the JRD Tata Trust in 1944, when he was just 40.

With JRD and Naval now holding miniscule stakes in Tata Sons, they controlled the group through three means. Their family trusts controlled about 80% of Tata Sons. Secondly, India still had the managing agency system and Tata Sons and other holding companies, such as Tata Industries, were the management agents for all Tata companies. Lastly, both Tatas carried the natural authority of their surnames, and, though this was more so in JRD's case, their personalities.

Shapoorji was smart enough to see his 17.5% stake was no match for this. His family was limited to having just one seat on the Tata Sons board, which is the case even today. His shares also gave him no authority to nominate board members and the company's existing Directors were all loyal to JRD.

Shapoorji was also smart enough to see there was more value in him letting JRD's team grow Tatas than in trying to do so himself.

"He was practical, he was not aggressive," a Tata insider says. "He committed to JRD that he would never vote against Tatas."

So Shapoorji channelled his ambitions through his own firm, which quickly became India's premier construction company.

Name almost any landmark in Mumbai and it has probably been built by Shapoorji Pallonji & Co., be it Brabourne Stadium, Bombay Central station, Breach Candy Hospital, State Bank of India's HQ, or

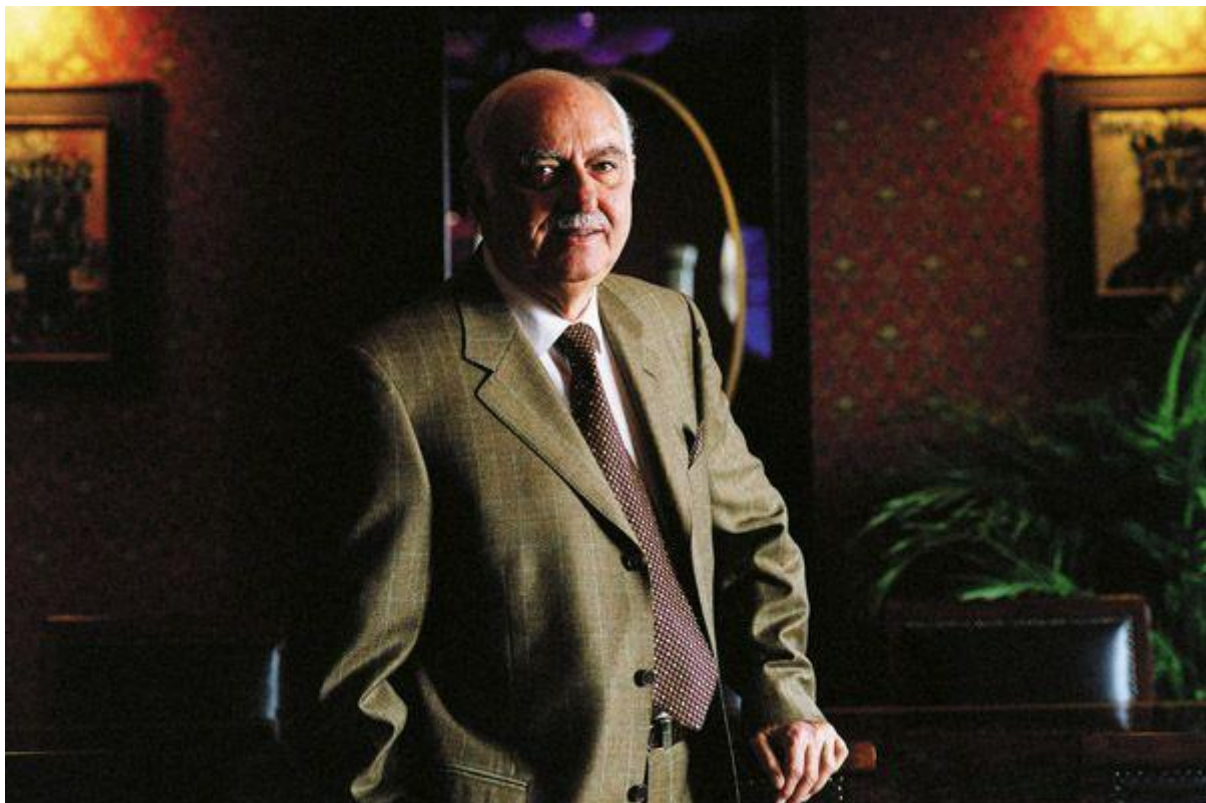
the World Trade Centre. Shapoorji also expanded into industrial construction and foreign markets, building power plants and palaces for oil sheiks with equal success.

Despite becoming far wealthier than the Tatas, Shapoorji remained invisible to the world. He loathed publicity, ignored the social circuit and spent most of his free time with family. "He was fairly religious. He did his kusti (prayers said holding the sacred thread) every day and even slapped himself for his sins," one old-timer says.

When a Tata executive once described Shapoorji as "a shadowy figure in Bombay House," the label stuck.

After Shapoorji's death in 1975, his son Pallonji took his place in Tata Sons. The Mistrys' tradition of naming their sons after the father has created a good deal of confusion. Since Parsis use their father's name as their middle name, people often thought the first Pallonji Shapoorji Mistry, Shapoorji Pallonji Mistry and Pallonji Shapoorji Mistry were the same person.

In reality, father and son were very different. "Pallonji established a much better relationship with JRD. They got to being cordial," a Tata insider said. "Pallon never interfered, never challenged and never sought any power."



*Image: Vikas Khot*

***THE MISTRY CONNECTION*** *Cyrus Mistry's father, Pallonji Shapoorji Mistry, served on Tata Sons' Board till 2005. He was obsessively private, earning him the sobriquet, 'the Phantom of Bombay House.'*

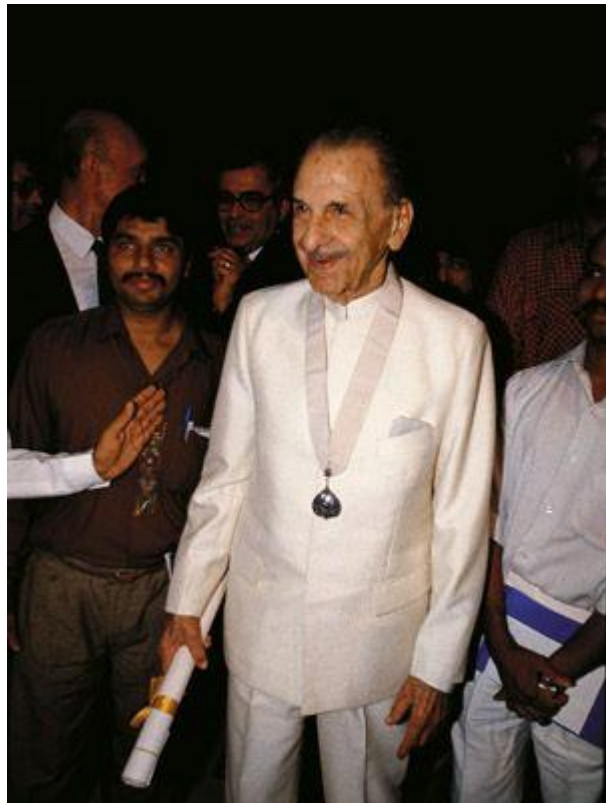
Pallonji was as obsessively private as his father, earning him the sobriquet, 'the Phantom of Bombay House'. He was also as shrewd and patient as his father. The Mistry's fortune crossed a billion

dollars under Pallonji and one reason was his better ties with Tatas. This allowed the Mistrys to gain several Tata agencies and win lucrative contracts from Tata companies such as Tata Power. Pallonji also appeared to have the Right of First Refusal on Tata businesses, buying companies such as Forbes & Company when Tatas exited them.

*Image: Indiatodayimages.com*

***Pallonji established a much better relationship with JRD Tata than his own father had done. The Mistrys' fortune crossed a billion dollars under Pallonji, and one reason was his better ties with Tatas.***

Since JRD and his wife Thelma were childless, it began to be reasoned that Tata Sons' next Chairman would either be a professional, a Mistry, or one of the three sons Naval Tata had from his two marriages. The first, to Soonoo Commissariat, had produced Ratan and Jimmy Tata. Their half-brother, Noel, was born after Naval's second marriage to Simone Dunoyer.



The marriage of Pallonji's daughter, Aloo, to Noel, helped ease tensions between the Tatas and Mistrys. But it also created new ones. "It became natural to look at Noel as a future Tata Chairman. But Tatas have never worked this way and it annoyed people," the same Tata insider said.

When JRD finally chose Ratan Tata (RNT) as his successor in 1991 he was motivated by two things. "Ratan is young and modern, others are old," JRD told an interviewer. Later, he told his biographer Russi Lala, "I chose Ratan because of his memory. Ratan will be more like me."

As someone basically brought up by his grandmother, Lady Navajbai Tata, JRD realised Ratan possessed very strong ethics, integrity and feeling for the group. Also, Ratan hadn't parachuted into his position but had spent 16 long years working in Tata Steel's furnaces and another decade turning around Tata companies and starting new ones in sunrise sectors like IT and biotechnology. JRD liked that and Pallonji accepted his decision.

"Pallon liked Ratan," the insider says. "They grew more and more cordial."

Their one common mission was to improve financial controls in a group seeing a fair bit of financial misappropriation and to rid Tatas of satraps like Russi Mody and Darbari Seth who were overstepping their authority. After intense corporate battles, RNT accomplished this by simply enforcing a forgotten rule that set 75 as the retirement age for Tata Directors.

There were face-offs. RNT was worried about Tatas fragmenting and set about shoring up stakes in group companies and building interlocking holdings between them. To finance this, Tata Sons issued rights shares in 1996. The trusts didn't subscribe to their rights but signed them over to Tata companies like Tata Steel. As a result, the trusts' holding in Tata Sons fell to 66% and Tata companies came to own 13% in the holding company. Controversially, the companies paid for their stakes by issuing rights shares to their shareholders.

Mistry spent Rs. 60 crore maintaining his stake, which had now inched up to 18.5%.

Then, during the 1990s IT boom, the Mistrys wanted to list TCS, a wholly-owned subsidiary of Tata Sons valued at a stupendous \$ 50 billion.

But RNT demurred. TCS was a cash cow Tata Sons used to up stakes in other companies. Taking TCS public would have restricted the manner in which its huge profits could be used.

When RNT finally agreed to selling 10% of TCS to the public in 2003, he cut a deal with the Mistrys that gave the Tata companies and trusts greater say in Tata Sons. RNT did this by getting Tata Sons to announce a buyback of up to 20% of its shares.

The trusts announced they would not participate in the buyback and hold onto their shares. This resulted in their shareholding in Tata Sons going up to 68%. The Mistrys agreed to participate in the buyback, which brought their shareholding in Tata Sons down to 18%

In return for not participating in the buyback, the trusts and Tata companies got TCS shares that yielded them huge profits when the company listed. The deal enhanced the trusts' say in Tata Sons and ensured that Tata shareholders who participated in the controversial 1996 rights issue were rewarded.



**Image: Vikas Khot**

***THE OTHER MISTRY Pallonji Mistry with his elder son Shapoor. While he was still around at the SP Group, Pallonji did his best to 'corporatize' Shapoor, but none of that has helped.***

Pallonji stepped down from the Tata Sons board in 2005, shortly after turning 75 and chose Cyrus to take his place. To his elder son Shapoor, Pallonji gave management of his eponymous construction company.

His succession done, Pallonji acquired Irish citizenship and retired to a mansion overlooking a spot where Ireland's rolling hills sweep down to meet the sea.

In 2005, RNT had just pulled off a coup. Earlier, the Tata trusts' control over their assets was subject to oversight by the Charity Commissioner. RNT convinced the government to allow trust boards full control over their decisions. With this he, and all future Tata trust chairmen, were once again in real control of the trusts and company their forefathers had founded. JRD must have smiled.

Power and privilege are never easy to give up. Yet, when in 2007, I had asked RNT if he would retire when he turned 75 in 2012 he had said with some feeling that he didn't "want to go out in a wheelchair." Many had waved off the comment, cynically assuming that RNT would ignore the retirement age he'd enforced for others and would stay in office until the very end, just like Jamsetji, Dorabji, Saklatvala and JRD.

That in November 2011 Tatas announced RNT's successor to be Cyrus Mistry and that the two would work together for a year to enable the transition, is a testimony to RNT's precision, professionalism and sincerity.

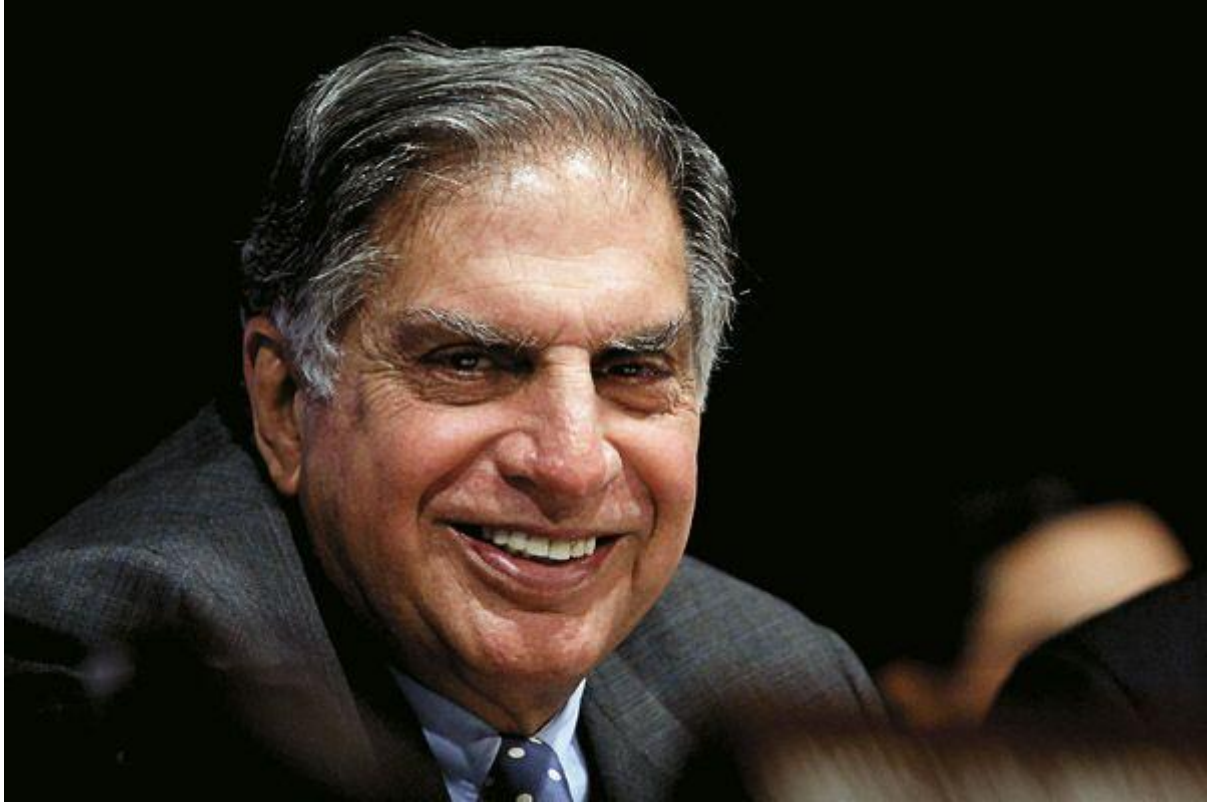
Perhaps no one has done as much to nurture Tatas' legacy, and most importantly to institutionalise and imbed it in the DNA of the group's 82 companies and 425,000 employees. For RNT, Tatas is life; the companies, the family, the trusts and the employees all deeply intertwined into his very being. How else could he have written his first strategic plan for the group from the bedside of his dying mother, almost as a testament and tribute to her?

If despite this strength of feeling, RNT was able to step away from a position others would have died, or killed for, it's because he was never consumed by hubris or swept away by his own press. Though he grew up like royalty, he was always embarrassed by it, perhaps because he internalised his father's own experience of poverty and the capriciousness of fate. It was the innate sense of decency and rectitude that RNT learnt from his grandmother and father that led him to carry his own bags, handwrite his letters, and expect more from himself than anyone else. As the son of the man JRD eclipsed, he never fully expected to head the group and remains grateful enough to have just had the honour.

Also childless, like so many Tatas, if RNT resisted the urge to try and preserve his life's work by handpicking his own successor, it is because he is believing and sincere in his desire to do — and be seen to do — the right and professional thing. Rather than have someone beholden to him, RNT wanted someone who would forge his own path. All RNT felt it necessary for him to do was to ensure the committee tasked to find his successor represented every contending interest in Tatas and was empowered to express their choice.

How much did RNT influence the committee? It's hard to say. His comment that he'd like his successor to be in his 40s was a clear hint. His later comment that Noel was not adequately prepared for the job probably closed that option.

Has Cyrus been a wise choice? Would a professional have been able to hold the group together? Can a non-Parsi ever head a group founded by a Zoroastrian priestly family steeped in a culture of Gujarati jokes, and middle-class Parsi values?



*Image: Sameer Joshi / Fotocorp*

***In Exit Mode : How much did RNT influence the committee? It's hard to say. His comment that he'd like his successor to be in his 40s was a clear hint.***

Only time will tell. But as RNT and Cyrus sit back and reflect on the founding vision, the family squabbles, the twists of fate, the personal rivalries and friendships, the deeds of kindness and bravery and the acts of deceit and greed that have combined to bring them both to where they are, one realisation is bound to dawn — that Tatas has a heartbeat and power of its own. If they tap into it, and stay true to it, the rest will take care of itself.