Leadership for India Inc: Practical Concepts and Constructs

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Week - 07
Leadership Development and Succession
Lecture - 33
CEO Succession

Hi Friends, welcome to the NPTEL course Leadership for India Inc: Practical Concepts and Constructs. We are in week 7 discussing Leadership Development and Succession. In this lecture, we will discuss CEO Succession. I take the examples of several groups in India and abroad and also Tata Group in particular and discuss this very important topic.

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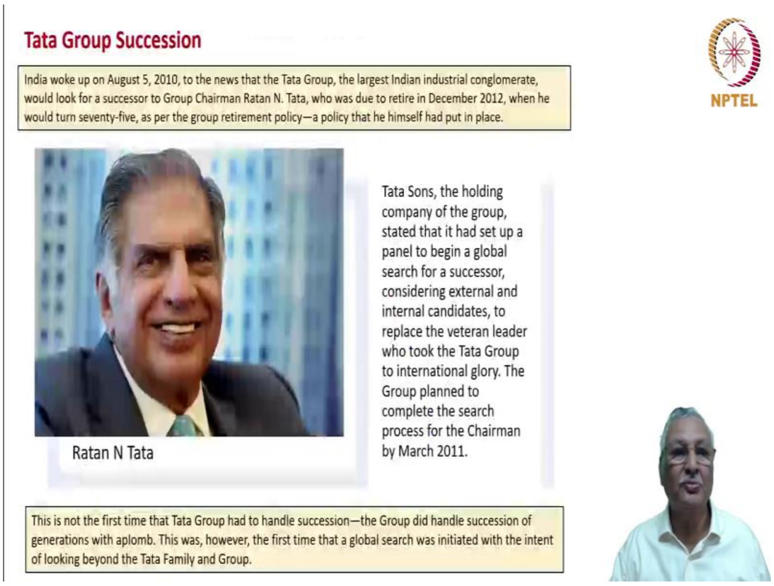

India woke up on August 5, 2010, to the news that the Tata Group the largest Indian industrial conglomerate would look for a successor to group chairman Ratan. N. Tata who was due to retire in December 2012 when he would turn 75. This was as per the group retirement policy, a policy that Ratan Tata himself had put in place.

Tata Sons, the holding company of the group stated that it had set up a panel to begin a global search for a successor considering external and internal candidates and to replace the veteran leader who took the Tata Group to international glory. The group plan to complete the search process for the chairman by March 2011.

This is not the first time the Tata Group had to handle succession. The group did handle succession of generations of leaders with aplomb. This was however, the first time that a global search was initiated with the intent of looking beyond the Tata family and Tata Group.

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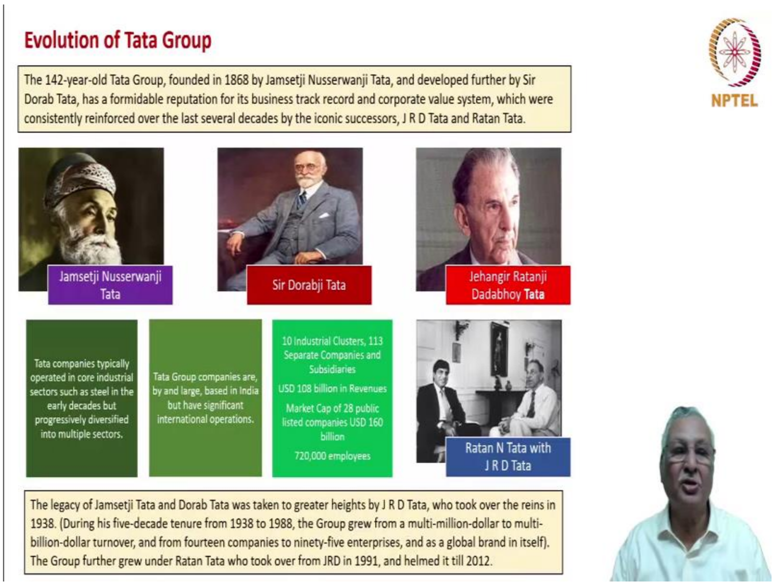

The 142-year-old Tata Group founded in 1868 by Jamsetji Nusserwanji Tata and developed further by Sir Dorab Tata has a formidable reputation for its business track record and corporate value system which were consistently reinforced over the last several decades by the iconic successors J. R. D Tata and Ratan Tata. We have the images of these illustrious leaders here.

Tata companies typically operated in core industrial sectors such as steel in the early decades, but progressively diversified into multiple sectors. Tata Group companies are by and large based in India, but have significant international operations.

Today Tata Group has 10 industrial clusters, 113 separate companies and subsidiaries. The group has a turnover of 108 billion US dollars in revenue. It has a market cap of USD 160 billion looking at only the 28 public listed companies.

The group has 7,20,000 employees employed all over the word. The legacy of Jamsetji Tata and Dorab Tata was taken to greater heights by J R D Tata, who took over the reins in 1938. During his 5-decade tenure from 1938 to 1988 the group grew from a multimillion-dollar turnover to a multi-billion dollar turn over and from 14 companies to 95 enterprises and as a global brand in itself.

The group further grew under Ratan Tata who took over from J R D in 1991 and helmed it till 2012.

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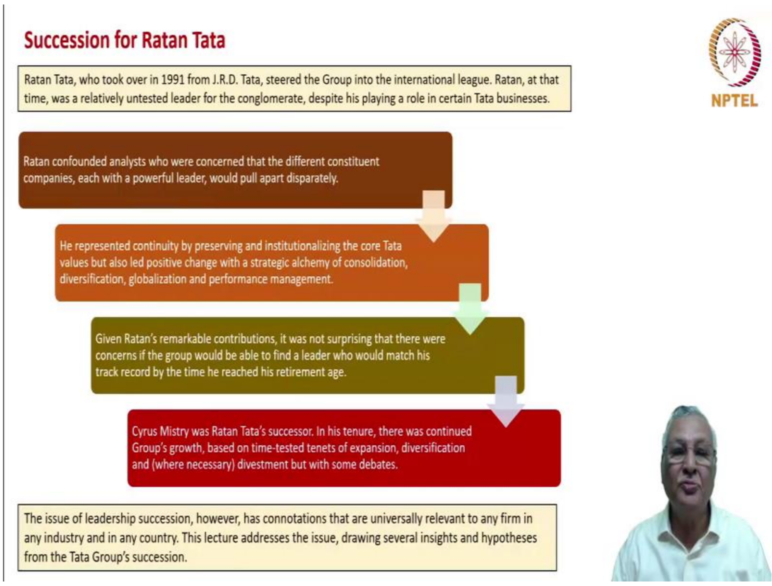

Ratan Tata when he took over in 1991 from J R D Tata had the opportunity to steer the group into the international league. This was the strategy which he singularly developed and adopted. Ratan at that time was a relatively untested leader for the conglomerate, despite he is playing a role in certain Tata businesses.

Ratan Tata confounded analysts who are concern that the different constituent companies each with a powerful leader would pull apart disparately. He represented continuity by preserving and institutionalizing the core Tata values, but also led a positive change within the group with a strategic alchemy of consultation, diversification, globalization and performance management.

Given Ratan's remarkable contributions, it was not surprising that there were concerns if the group would be able to find a leader who would match his track record by the time he reached his retirement age. Cyrus Mistry was Ratan Tata's successor in his tenure there was continued growth of the group based on time tested tenets of expansion diversification and where necessary divestment, but there have been enough number of debates during the tenure of Cyrus Mistry.

As to what he represented and whether the group was going in the right direction. The issue of leadership succession has connotations that are universally relevant to any firm, in any industry and in any country. This lecture addresses the issue drawing several insights and hypothesis from the Tata group's succession and as also various other successions that happened in the Indian industrial structure.

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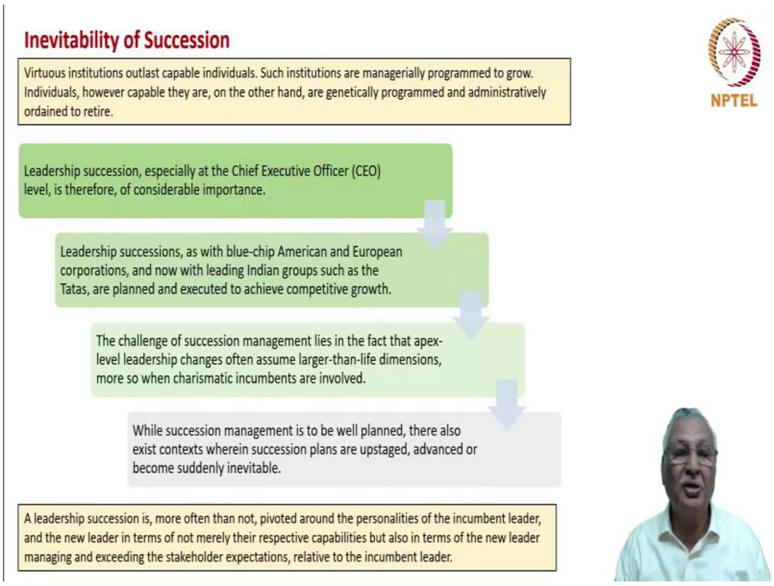

Virtuous institutions as we saw in an earlier lecture would certainly outlast capable individuals such institutions are managerially programmed to grow. Individuals however, capable they are on the other hand are genetically programmed and administratively ordained to retire. Leadership succession especially at the chief executive level is an extremely important aspect of leadership development and leadership continuity.

Leadership successions as with blue chip American and European corporations and also now with leading Indian groups such as the Tata's are planned and executed to achieve competitive growth. The challenge of succession management lies in the fact that apex-level leadership changes often assume larger than life dimensions. More so, when charismatic incumbents are involved and new leaders need to step into their shoes.

While succession management is to be well planned, there also exist contexts wherein succession plans are upstaged, advanced or becomes suddenly inevitable. A leadership succession is more often than not pivoted around the personalities of the incumbent leader and the new leader in terms of not merely their respective capabilities, but also in terms of the new leader managing and exceeding the stakeholder expectations relative to the incumbent leader.

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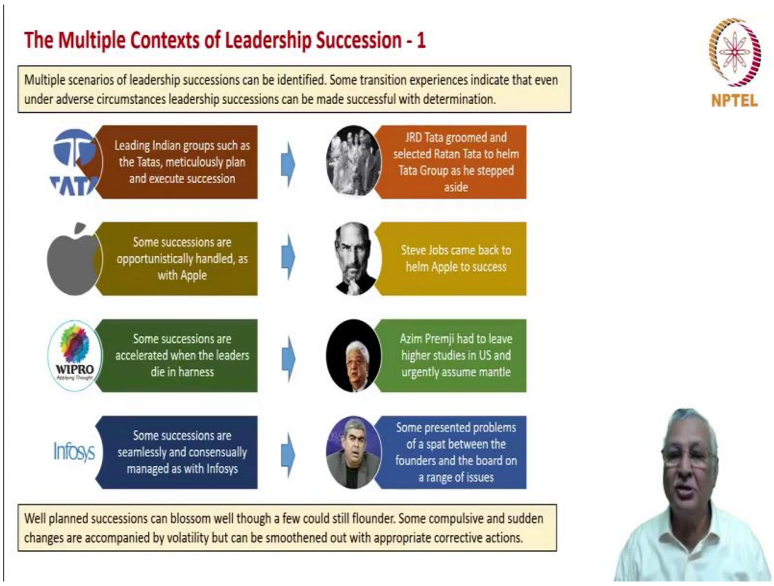

The multiple contexts of leadership succession are demonstrated here. Some transition experiences indicate that even under adverse circumstances leadership successions can be made successful with determination. Leading Indian groups such as the Tata’s meticulously plan and execute succession. J R D Tata groomed and selected Ratan Tata to helm Tata Group as he stepped aside, some successions are opportunistically handled as with Apple.

Steve Jobs came back to help Apple to success when the company was not able to work efficiently and effectively under Sculley. Some successions are accelerated when the leaders die in harness, it happened with respect of Wipro and Azim Premji had to leave higher studies in US and urgently assume mantle.

In respect of certain successions, seamless and continuous management of the succession paradigm takes place, Infosys is one such example. However, when the founders wanted to move out completely and an external member outside the founder group had to be brought in the succession presented some problems.

There was even a spat between the founders and the board on a range of issues. The lesson that comes to us is that well planned successions can blossom well though a few could still flounder. Some compulsive and sudden changes are accompanied by volatility, but can be smoothened out with appropriate corrective actions.

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We will consider a few more leadership successions. Reliance presents an important success factor that is the right leadership. The change in respect of reliance was all too sudden yet after the patriarch passed away, Reliance group tried to remain one with Mukesh Ambani and Anil Ambani and trying to share the responsibilities.

However, because of sibling rivalry or whatever other factor known and unknown. There was split in the empire and eventually only Mukesh Ambani truly succeeded Dhirubhai Ambani group. Anil Ambani group is having the issues of several companies going under bankruptcy.

In respect of BP, there was a demonstration of Cataclysmical succession induction. BP had to find a new CEO in the wake of a major safety incident in Gulf. Robert Dudley took over from Tony Hayward on board direction in the wake of the oil spill although he came in extremely suddenly, he proved to be a very successful CEO.

HP had to scamper around to find a new CEO, when the existing CEO was discharged based on allegations and board review. Leo Apotheker from SAP was hastily drawn into the CEO role, but could not last long. There is another company Berkshire Hathaway where warren Buffett continues to hold the reigns for over 5 decades and it was for long expected that he would name his successors.

Although two successors are visible in terms of their potential, he still has kept the counsel to himself. Looking at these successions, we can conclude that leadership successions come with a variety of context, constraints and opportunities each would be different from the other. These successions even if sudden may succeed as in the case of BP and in case of certain well grown families' setups as well there could be issues.

As proved by the reliance succession wherein only one son could make it big because of the right leadership and the other part of the empire had to kind of get into difficulties.

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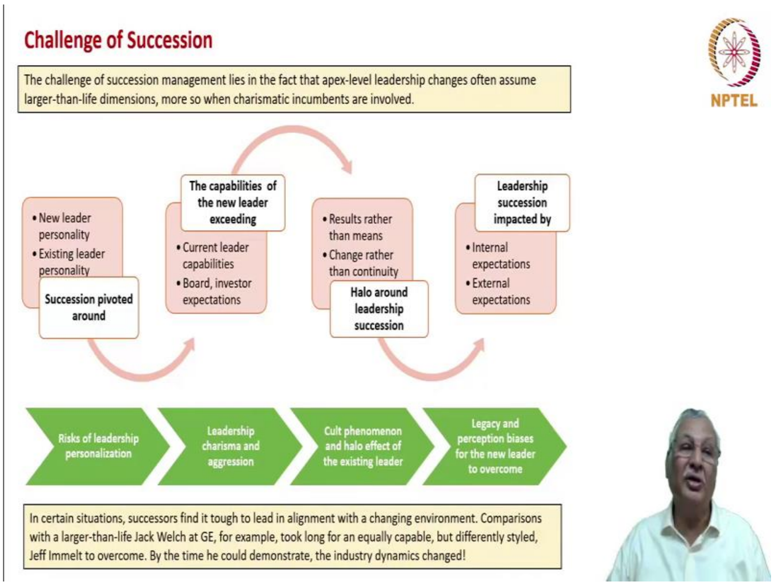

So, the challenge of succession lies in the fact that apex level leadership changes often assume larger than life dimensions more so, when charismatic incumbents are involved. Succession is pivoted around the new leader personality and also the existing leader personality. So, there is a strong risk of leadership succession getting personalized.

Secondly, the capabilities of the new leaders must exceed the current leader capabilities and also meet or exceed the board investor expectations. Therefore, there is an inherently higher level of challenge in the succession. So, leadership charisma and aggression count a lot. There is halo around leadership succession as an event or as a process.

Results rather than means become very important, change rather than continuity is often times the expectations. But at the same time, the cult phenomenon and the halo effect of the existing leader prevent any radical change in the leadership succession process. Leadership succession also is impacted by internal expectations and external expectations.

Legacy and perception biases for the new leader need to be overcome. In certain situations, successors find it tough to lead in alignment with the changing environment. Jack Welch definitely was larger than life leader at GE. He named Jeff Immelt as his successor, he took a while for Jeff Immelt to come on to his own leadership stature and start guiding the affairs of GE moving away from the shadow of Jack Welch.

By the time he could do that, the environmental conditions dramatically changed and GE started getting buffeted by those changes. So, there are certain elements which are involved in terms of the phase in phase out period and also the environmental conditions that could take place while the phase in is happening.

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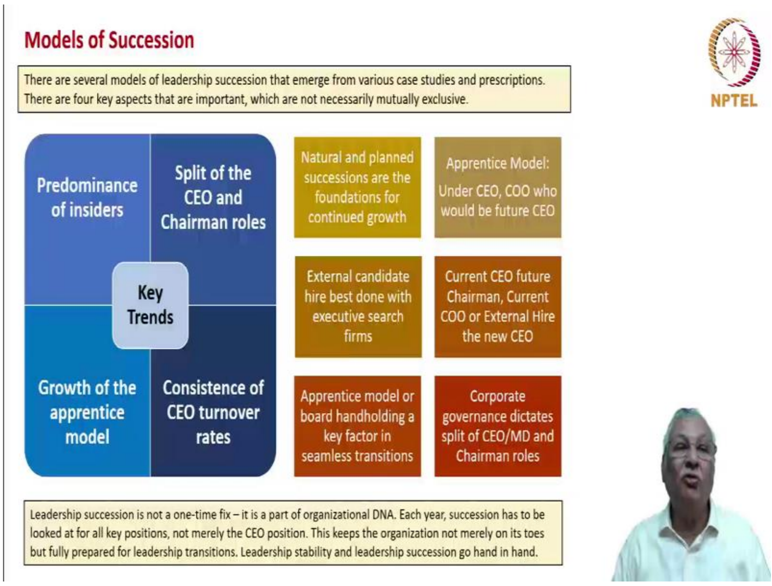

What are the four models of succession? The first model of succession is the predominant potential for the insiders to move into the leadership roles. The other way of managing succession is to split the CEO and the chairman roles. So, that at any point of time one of the two senior leaders is available to handle the management and leadership of the company.

In another model we can have the new leader work as an apprentice under the existing CEO. For example, you can create the position of a chief operating officer, recruit a person and then train him while the CEO is going to take some time to move out of the company.

We also have to look at the consistence after CEO turnover rates. Generally corporate governance requires the separation of the CEO and chairman roles that is one part and the scale and scope of the company also dictate the need not only the CEO, but also the COO to be in place for a company to run well.

Leadership succession is not a onetime fix; it does not occur every 5 years or every 10 years, it should be a part of an organization DNA. Each year succession has to be looked at for all key positions even 2 levels below the CXO positions not merely the CEO position.

This keeps the organization not merely on its toes, but fully prepared for leadership transitions. Leadership stability and leadership succession go hand in hand.

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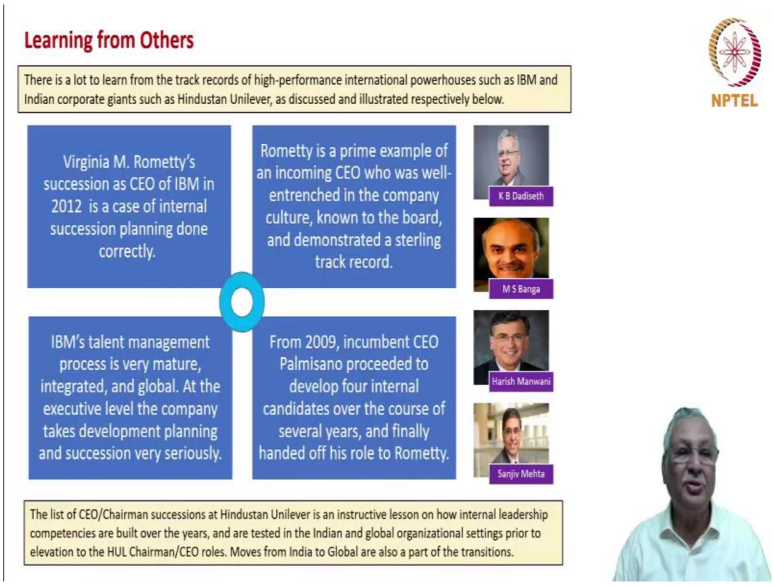

Let us learn from various other happenings the world over. There is a lot to learn from the track records of high performance international powerhouses such as IBM and Indian corporate giants such as Hindustan Unilever.

Virginia M Rometty succeeded as the CEO of IBM in 2012. It is a great case of internal succession planning done astutely and correctly. It is the prime example of an incoming CEO who was well entrenched in the company culture who is well known to the board and has demonstrated a sterling track record. IBM’s talent management process is very mature integrated and global.

At the executive level the company takes development planning and succession very seriously. From 2009 itself incumbent CEO Palmisano proceeded to develop four internal candidates over the course of several years and finally, handed off his role to Rometty.

In the case of Hindustan Unilever, we had a series of successions that happened K.B Dadiseth to M S Banga, M S Banga to Harish Manwani and Harish Manwani to Sanjiv Metha. The moves from India to global are also a part of the leadership transitions at Hindustan Unilever.

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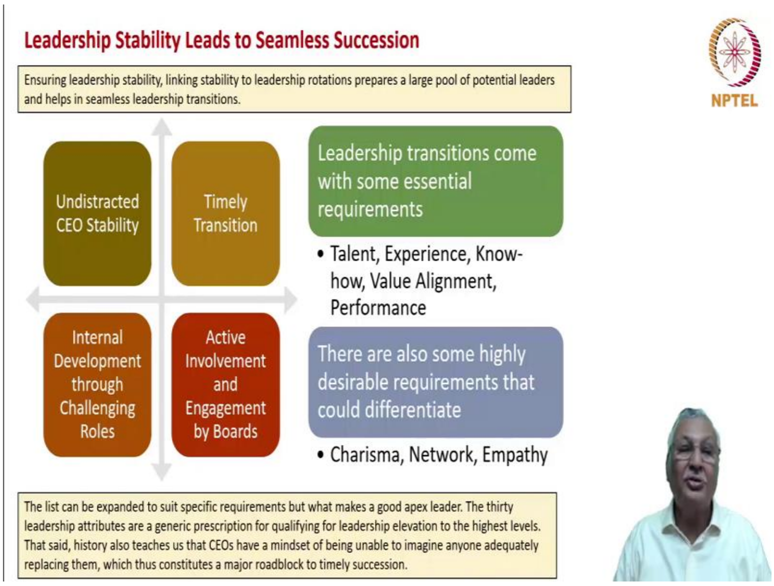

By and large leaderships stability leads to similar succession. Ensuring leadership stability, linking stability to leadership rotations prepares a large pool of potential leaders and helps in seamless leadership transitions. If the CEO is stable in his tenure and he is not distracted in the discharge of his duties, there is much greater opportunity for him to develop his successes and that would help timely transitions.

And also helps internal development through challenging roles and boards themselves can participate actively in terms of engagement not only with the CEO, but also with the various potential candidates. There are some essential requirements for leadership transitions. Talent, experience know how, value alignment and performance these are absolute musts.

There are also some highly desirable requirements that could differentiate charisma, network and empathy and in today's conditions environmental empathies, social responsibility, and corporate governance would be three other overarching requirements which any CEO transition must aim at.

The thirty leadership attributes which we have discussed earlier as part of the apex leadership traits are a generic prescription for qualifying for leadership elevation to the highest levels, that tells us that if a leader is developed both on development and performance parameters and also has the capability to be an apex leader or a leader of leaders the time is ripe for the leader to move into the apex leadership positions.

That said, history also teaches us that CEO's have a mindset of being unable to imagine anyone adequately replacing them which does constitutes a major road block to timely succession. I am in the know of several companies which are by and large promoter laid where the promoter is in total control of the company and the promoter has not enabled an environment where a successor could be shown up and that is really a serious gap in the leadership development of that type of company.

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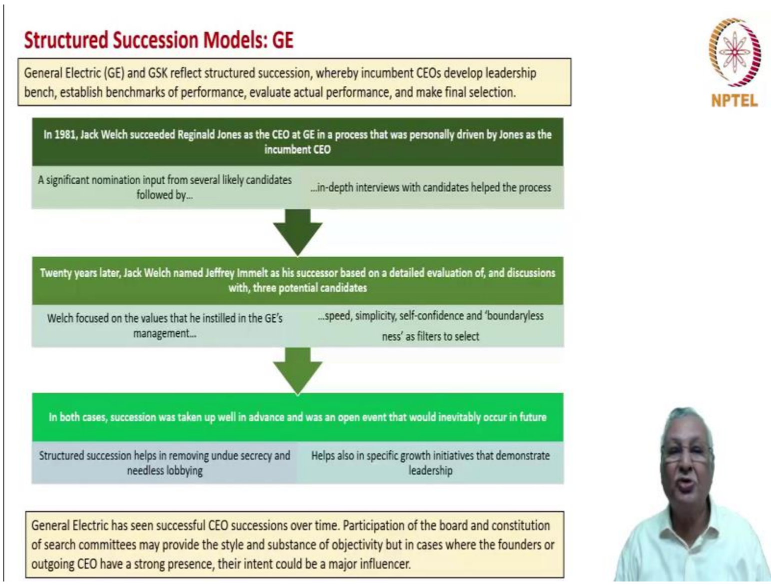

Let us look at the structured succession models which various companies have adopted. General Electric and GSK reflect structured succession whereby incumbency was developed leadership bench, established benchmarks of performance, evaluate actual performance and make final selection.

In 1981, Jack Welch succeeded Reginald Jones as the CEO at GE in a process that was personally driven by Jones as the incumbent CEO. There was also a significant nomination input from several likely candidates followed by in depth interviews with candidates which help the process.

Jack Welch when the time was coming up for his retirement twenty years later, he named Jeffrey Immelt as his successor again based on a detailed evaluation of and discussions with three potential candidates. Welch focused on the values that he instilled in the GE’s management as the parameters for selecting the successor speed, simplicity, self-confidence and boundarylessness were the filters he has used.

In both cases of Jack Welch moving into Reginald Jones position and Jeffrey Immelt moving into Jack Welch’s position, succession was taken up well in advance and was an open event that would inevitably occur in future the organization had visibility to the succession sagas.

Structural succession helps in removing undue secrecy and needless lobbying, it also helps in rolling out specific growth initiative that demonstrate leadership. General Electric a century plus old company has been successful in its CEO successions over time, participations of the board and constitution of search communities may provide style and substance of objectivity.

But in cases where the founders are outgoing CEO's have a strong presence, their intent could be a major influencer. GE's experience demonstrates the strong influence the incumbent CEO's have in leadership selection.

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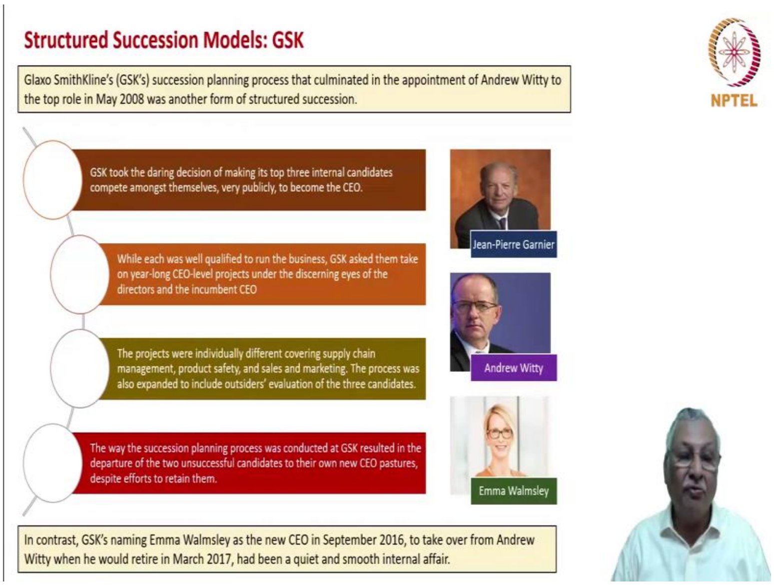

This approach continued in GSK as well. GSK succession planning process that culminated in the appointment of Andrew Witty to the top rolling in may 2008 was another form of structured succession. He took the daring decision of making his top three internal candidates compete among themselves very publicly to become the CEO.

While each was well qualified to run the business, GSK ask them to take one-year long CEO level projects under the discerning eyes of the directors and the incumbent CEO. The projects were individually different covering supply chain management, product safety and sales and marketing.

The process was also expanded to include outsider's evaluation of the three candidates. The way the succession planning process was conducted GSK resulted in the departure of two unsuccessful candidates to their own new CEO pastures in other companies despite the efforts to retain them.

So, Jean Pierre Garnier to Andrew Witty to Emma Walmsley there were two different types of succession sagas that unfolded at GSK. In contrast to what happened when Andrew Witty came in, GSK naming Emma Walmsley as the new CEO in September 2016 had been a quiet and smooth internal affair.

So, the same company can have two different succession planning and succession execution models.

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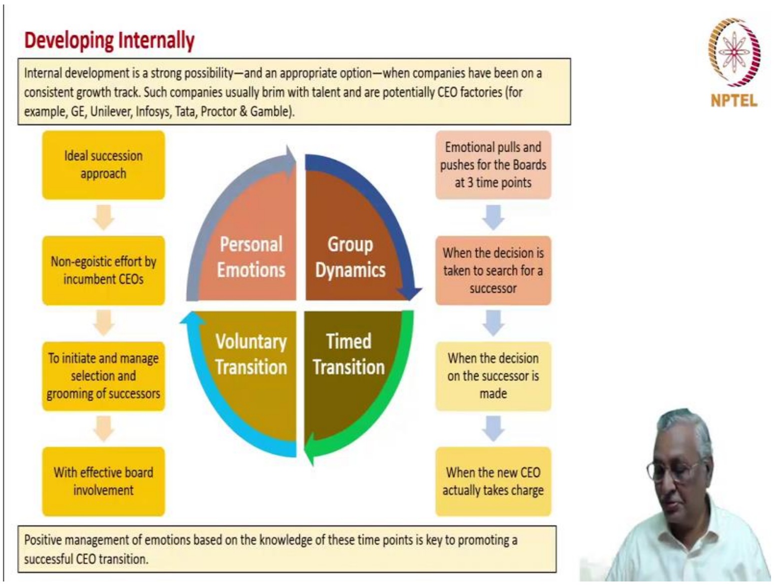

If a company wants to develop the internal candidates which is a strong possibility and an appropriate action, we need to ensure that the group or the company is on a growth track. Any group or any company which is on growth track usually brims with talent and there would be many CEO candidates in such companies.

For example, GE, Unilever, Infosys Tata, proctor and gamble, but when we look for internal development, there are four aspects which are at play personal emotions, group dynamics, voluntary transition and time transition. There would also be emotional pulls and pushes for the boards at three time points.

1, when the decision is taken to search for a successor. 2, when the decision on the successor is made and 3 when the new CEO actually takes charge. The existing CEO as well as the board of directors has to engage themselves very seriously at these three time points and to be able to do that appropriately and successfully. There should be an ideal succession approach which comprises a non-egoistic effort by incumbent CEO's to find the right candidate.

To initiate and manage selection and grooming of successors with transparency and ownership and very effective involvement by the board in the succession processes. Positive management of emotions based on the knowledge of these time points is key to promoting a successful CEO transition.

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It is also possible to hire senior leaders from outside the industry and they could be very successful too. We have three examples here Allen Mullally was hired from Boeing to become the CEO of Ford, he came in, turned around the company and grow the ford automobile business substantially.

Sergio Marchionne head of Fiat, he was a lawyer and accountant by qualification and practice with a prior background in the chemicals and banking sectors. He came into Fiat and engineered a stunning turnaround of Fiat Group and also ensured that Chrysler under Fiat was highly successful.

Paul Otellini CEO of Intel despite lacking a degree in science or engineering, was chosen to lead Intel which is the leading semiconductor technology firm. He could lead intel on path of technological and business growth despite the non-engineering background. So, people can come from outside the industry fold with different backgrounds, but could leave their stamp of growth on the companies.

There are certain advantages of hiring externally, deeper and broader core competences could become available to the company and new core competencies that are futuristic could be brought into the company. Given all the cases we have studied so, far the models of CEO succession does defy easy classification on any fixed templates irrespective of the scale and scope of the firm and the industrial and business context.

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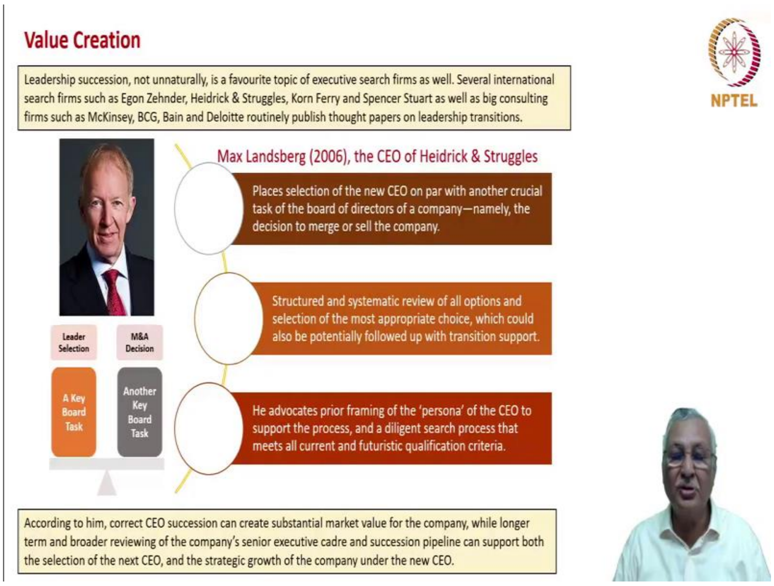

As a result of the importance of this topic, several highly rated search firms talk about leadership succession as an important tool for value creation. Leading search firms such as Egon Zehnder, Heidrick and struggles, Korn Ferry and Spencer Stuart as well as big consulting firms such as McKinney, BCG, Bain and Deloitte routinely published thought papers on leadership transitions.

Max Landsberg 2006 the CEO of Heidrick and struggles said, selection of the new CEO is on par with another crucial task of the board of directors of company namely the decision to merge or sell the company, it is as important as that, Heidrick and struggle said.

Structured and systematic review of all options and selection of the most appropriate choice should also be potentially followed up with transition support. He advocated prior framing of the persona of the CEO to support the process and a diligent such process that meets all current and futuristic qualification criteria.

So, leader selection is considered as a key board task which is as weighty as the M&A decision which is also another key board task. According to him, correct CEO succession can create substantial market value for the company while longer term and broader reviewing of the company senior executive cadre and succession pipeline can support both the selection of the next CEO and the strategic growth of the company under the new CEO.

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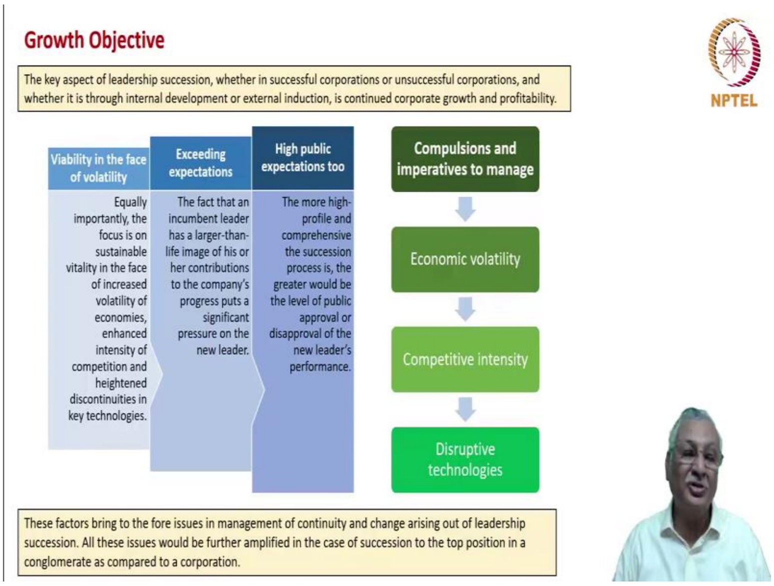

Any aspect of leadership succession has to finally, come around to the key objective of growth whether in successful corporations or unsuccessful corporations and whether it is through internal development or external induction. An emphasis on continued corporate growth and profitability is the sin qua non of leadership transition.

There could be viability issues in the face of volatility, there would be pressures to exceed expectations, there would be high expectations from the public as well particularly in the case of high profile transitions such as Ratan Tata’s and there would be compulsions and imperatives to manage various disparate forces that act on the company.

It could be economic volatility, it could be competitive intensity and disruptive technologies could as well be the huge factor for the company. These factors bring to fore the importance of bringing management of continuity along with change as an important aspect of leadership succession. All these issues would be further amplified in the case of succession to the topmost position in a conglomerate as compared to a corporation.

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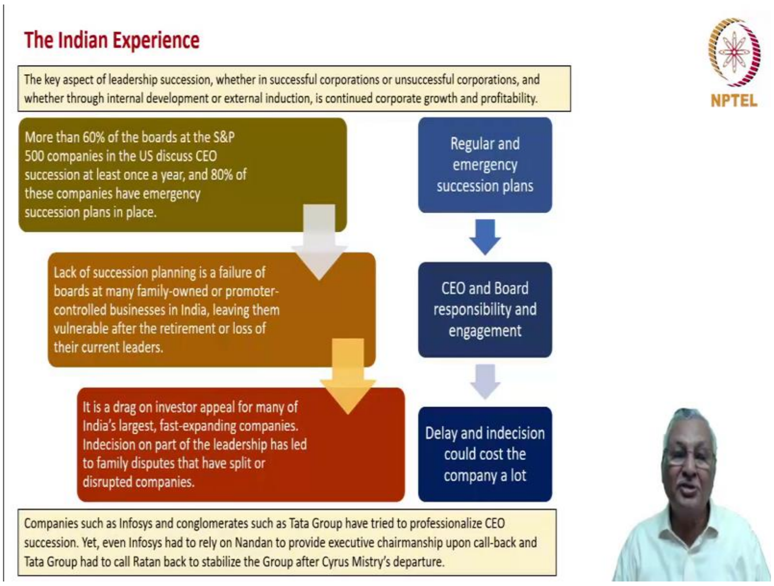

In India, the experience in respect of leadership succession is patchy. Many conglomerates and Indian corporations try to do that, but not very successfully the experience in the US itself is not completely 100 percent. Certainly more than 60 percent of the boards at the S&P 500 companies in the US discuss CEO succession at least once a year. And 80 percent of these companies have emergency succession plans in place, but certainly not 100 percent.

Lack of succession planning is a failure of boards at many family owned or promoter controlled businesses in India without doubt. Leaving them vulnerable after the retirement or loss of their current leaders and when the companies are promoter controlled and family owned the family patriarch fails to understand at times that the next generation of leaders does not have the same level of commitment and enthusiasm for the business as the original founder had.

Yet they would like to have the progeny, manage the companies and therein lies a huge leadership gap between the original founders and their successors. These things are not addressed effectively in family owned companies. It is also a drag on the investor appeal for many of India's largest fast expanding companies because indecision on the part of leadership in terms of succession has led to family disputes that have split or disrupted companies.

So, we need to have whether a company is family owned company or a professionally managed company regular and emergency succession plans. It is to be considered as an essential CEO and board responsibility and engagement. Delay and indecision in leadership succession could cause the company a lot.

Companies such as Infosys and conglomerates such as Tata Group have tried to professionalize CEO succession. Yet even Infosys had to call back Nandhan to provide executive chairmanship for some time and non-executive chairmanship thereafter. Tata group had to call back Ratan Tata to stabilize the group after Cyrus Mistry's sudden departure.

These are the examples that show us that even if there are specific moves to have regular succession planning all that is not a path of roses.

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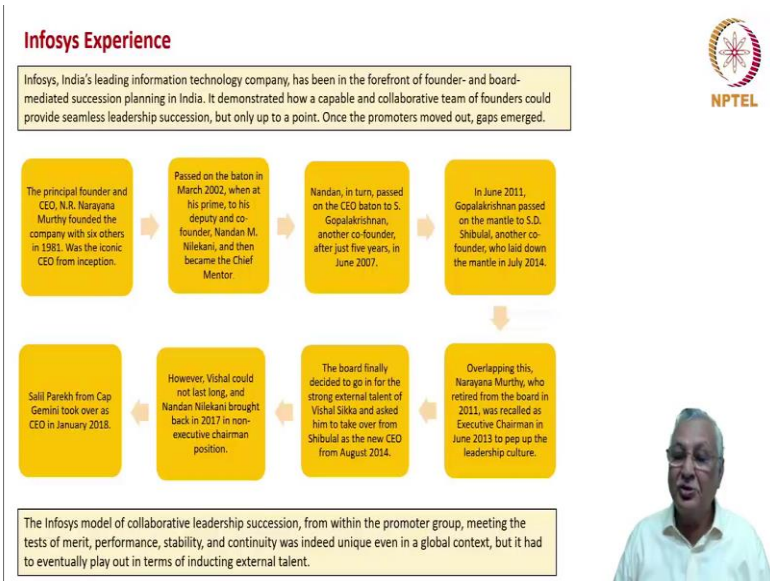

Infosys experience which many of you would have been aware is as follows. As long as the founders were ready and capable of taking the CEO chair, it was possible for N.R. Narayana Murthy to pass on the batten from one co-founder to another co-founder after he moved out. So, between 1981 to 2002 N.R. Narayana Murthy was the CEO and he grew the company to an astounding position.

In 2002, he handed over the batten to his deputy and co-founder Nandan Nilekani and became the chief mentor. After 5 years Nandan turned over to S Gopala Krishnan another co-founder. And in June 2011, Gopala Krishnan passed on the mantel to S.D. Shibulal another co-founder.

Overlapping this Narayana Murthy was recalled as executive chairman in June 2013 to pep up the leadership culture. Finally, in August 2014 Vishal Sikka was brought in from SAP with the objective of leading a new product led growth and growth based on the newer technologies such as artificial intelligence and he took over in August 2014.

However, Vishal could not last long and Nandan Nilekani was brought back in 2017 as non-executive chairman. Salil Parekh from Capgemini took over as CEO in January 2018 and he continues to manage Infosys over the last 2 years plus successfully. Now, this experience of Infosys arguably one of the best managed and one of the best structured organizations in India points to the issues that could arise in leadership succession.

The Infosys model of collaborative leadership succession was good as long as it was confined to the promoter group, but the moment it had to moved out from the promoter group to the external professional group there were chinks in the armor in terms of the stability and the durability of the succession processes.

So, therefore, it is very important to define the persona of the successor in very clear terms, it is very important for the founder group as also the board to be completely involved in the selection of the successor and handhold the successor while going through the transition. Probably, in the case of Infosys some of these aspects did not happen as they should have happened.

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Apart from the Tata Group experience which I have mentioned there are many other groups which have been very successful in having planned succession. Mahindra Group had succession from Keshub Mahindra to Anand Mahindra and more recently Anand Mahindra has announced a large scale restructuring of the group.

Apollo Group Chief Prathap Reddy has announced how his four daughters could would take over different aspects of the business going forward. There is clear succession planning in Bharati Group which heads the Airtel Telecom Company, Aditya Birla Group has its structured planning, Murugappa Group has dabbled with different kinds of succession planning with family and without family and current needle positioning is for the family to come back in select companies.

GMR Group is trying to create a new tomorrow without the family leadership being at the helm. Godrej Group has initially plumped for external leadership, but has brought back a family member in recent times to head the consumer products division. So, the experiences of Indian companies and groups with reference to CEO succession have been mixed.

Certainly, companies are trying to put in place governance structures and processes to plan for successor whether from the promoter group or non-promoter group, but the role out of these structures and processes has not been completely fool proof. As a result of this, the CEO succession still remains a hot topic and still remains a topic that needs to be studied with care and diligence.

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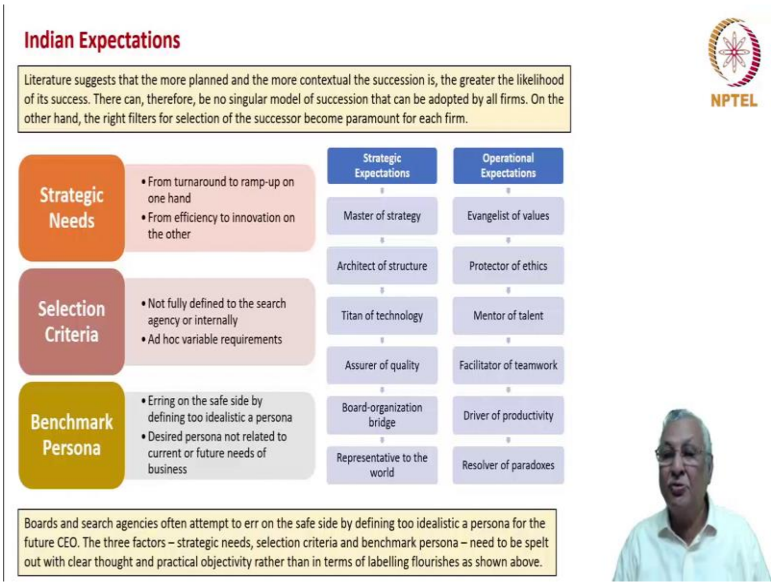

There are few Indian expectations as far as the succession is concerned, one: one must meet the strategic needs, it could be turn around to ramp upon one hand or from efficiency to innovation on the other. It could have selection criteria which are properly defined or improperly defined. It is counterproductive to have ad hoc variable requirements while trying to select a CEO successor and it also is important to draw the line in terms of bench marking the persona.

If we try to define two idealistic a personality for succession, probably the company would be well off the mark. On the other hand, if the desired persona is not related to the current and future needs of the business then also the succession could falter. And it is not important and also it is not appropriate to make a long list of some superlative qualities that are required for managing the succession or for searching for a successor.

Suppose you draw up a list of strategic expectations, that say that the incoming person should be a master of strategy, he should be able to structure the organization in an imitable way, he should be technologically extremely competent, he should be committed to quality of the higher standards, he should be a bridge between the board and organization and he should be represent to the world.

But at the same time operationally. He should have good operational value, he should protect ethics, he should be mentor talent, he should facilitate teamwork, he should drive the productivity, he should resolve all the paradoxes these are all great expectations from the successor.

But these expectations have to be clearly spelt out in terms of the role definition and discussed openly with the candidate and the candidate also needs to openly discuss with the board of directors as well as the CEO, his own strengths and not so, strong points and then see how together they can make success of the succession.

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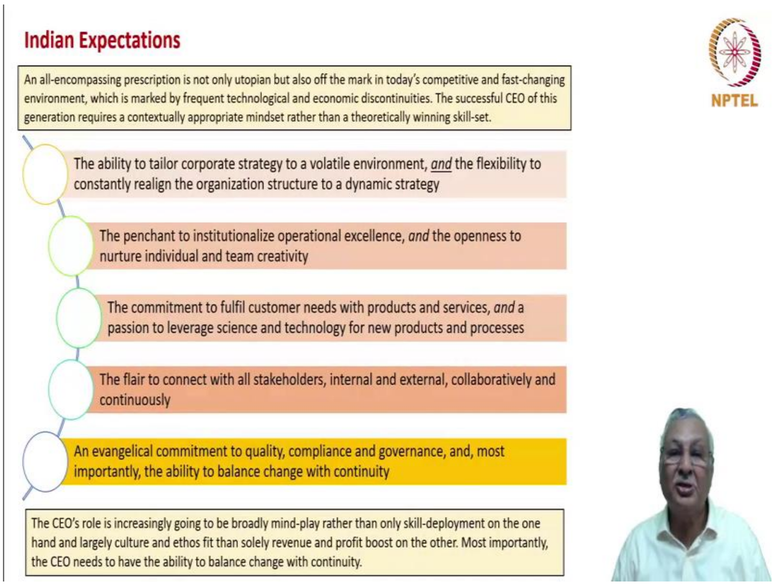

And also in respect of Indian situation, there are certain specific mindset requirements. The ability to tailor corporate strategy to a volatile environment that is very essential. The flexibility to constantly realign the organizations structure to a dynamic strategy that is also another requirement.

The penchant to institutionalize operational excellence and the openness to nurture individual and team creativity that also is extremely important. The commitment to fulfill customer needs with products and services, as also a passion to leverage science and technology for new products and services that is also important. The flair to connect with all stakeholders both internal and external collaboratively and continuously is extremely important.

Above all the successor should have an evangelical commitment to quality, compliance and governance and most importantly should have the ability to balance change with continuity. The CEO's role is increasingly going to be broadly mind play rather than only skill deployment on the one hand. It also is going to be largely culture and ethos fit then solely revenue and profit boost on the other.

Most importantly the CEO needs to have the ability to balance change with continuity, this is also the lesson which comes from the Tata groups experience in two successions between J R D Tata and Ratan Tata, and Ratan Tata and Cyrus Mistry.

In this lecture, we will consider the transition in the Tata Group from J R D Tata to Ratan Tata which has been highly successful for certain reasons.

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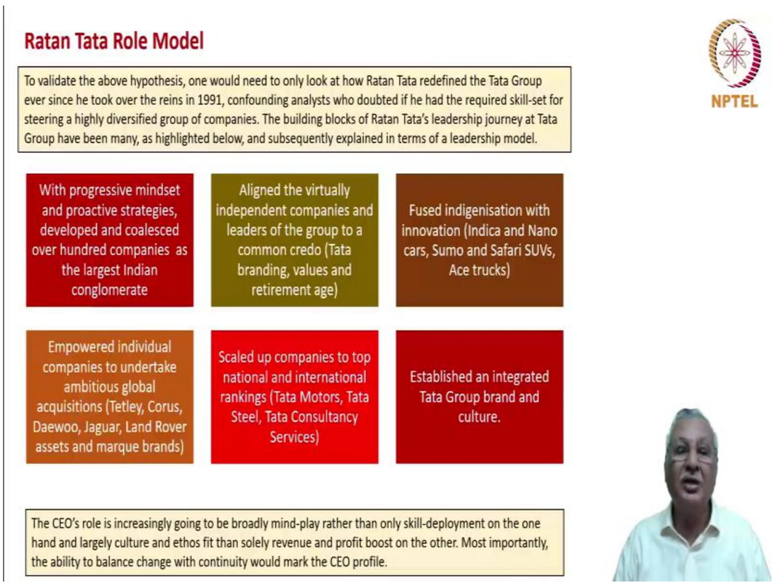

Let us look at how Ratan Tata redefined the Tata Group. Ever since he took over the reins in 1991. He confound that the analysts go doubted if we had the required skill set for steering a highly diversified group of companies such as Tata's. The building blocks of Ratan Tata's leadership journey at Tata Group have been many as highlighted below and these are also subsequently explained in terms of a leadership model which is going to be applicable for high level successions of conglomerates.

First of all, with progressive mindset and proactive strategies Ratan developed and coalesced over 100 companies of his Tata Group into the largest Indian conglomerate.

He aligned the virtually independent companies and leaders of the group to a common credo.

It could be called Tata branding, Tata values and also a retirement age and retirement age has to be looked at from the viewpoint of ensuring continuous leadership succession. He fused indigenous skills with innovation Indica, Nano cars, Sumo and Safari SUVs and Ace trucks are examples of this.

Ratan Tata empowered individual companies to undertake ambitious global acquisitions Tetley, Corus, Daewoo, Jaguar, Land Rover and their assets and marque brands are proven of this. He scaled up companies to top national and international rankings Tata motors Tata steel Tata consultancy services shine as the top three global companies in the Tata group.

He also established an integrated Tata Group brand and culture. The CEO’s role is increasingly going to be as I said broadly mind play rather than only skill deployment. It is going to be culture play rather than just operational excellence and the ability to balance change with continuity would mark the CEO profile as happened with Ratan Tata.

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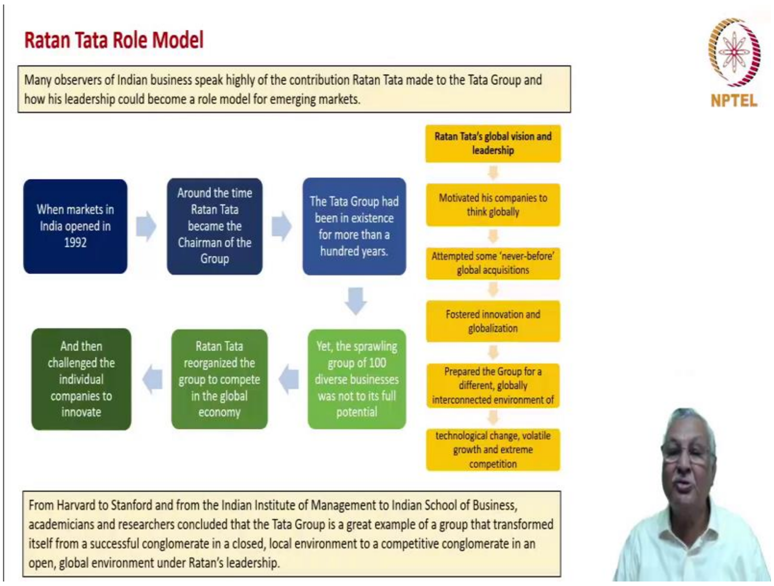

When Ratan Tata entered the Tata Group, markets opened for liberalization in 1992, that was the time he became the chairman of the group. The Tata Group had been in existence for more than a 100 years, yet this sprawling group of 100 diverse businesses was not running to its full potential.

The first recognition which Tata brought to the group was that the group needed to compete in the global economy and the group cannot be satisfied the perch they have occupied until then, he then challenged the individual companies to innovate. So, for that he created a global vision and provided leadership model.

He motivated his companies to think globally, he attempted some never before global acquisitions to spark the ambition and aspiration in the companies. He fostered innovation as well as globalization simultaneously. Innovation in respect of certain companies such as Tata motors, TCS and Tata Steel. He prepared the group for a different globally interconnected environment of technological change, volatile growth and extreme competition.

From Harvard and Stanford to Indian institute of management and Indian school of business academicians and researchers have concluded the Tata Group is a great example of a group that transformed itself from a successful conglomerate in a closed local environment to a competitive position in an open global environment under Ratan Tatas leadership there is no doubt about it.

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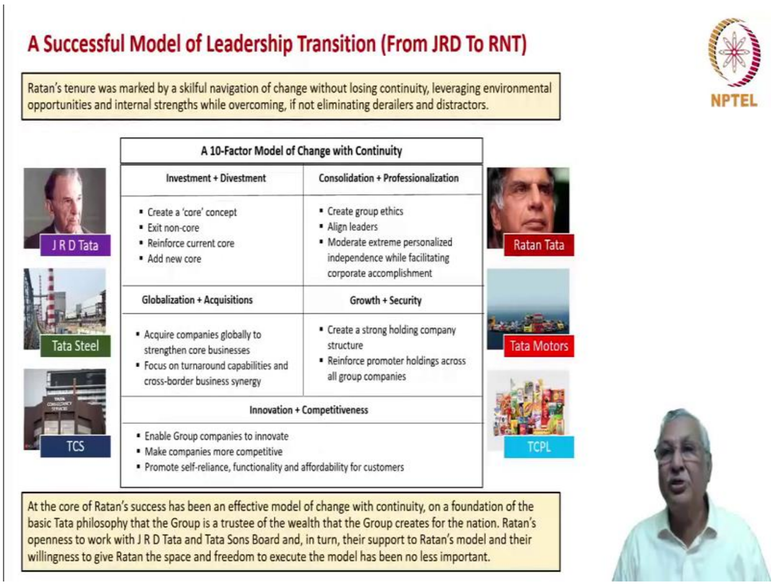

So, let us look at the model that Ratan Tata put in place. His tenure was marked by a skillful navigation of change without losing continuity. He leveraged environmental opportunities and internal strengths and also overcame if not eliminated the derailleurs and distracters.

So, you can consider Ratan Tata's leadership transition model as one of having 10 factors, these can be seen as investment along with divestment, consolidation along with professionalization, globalization along with acquisitions, growth along with security, innovation along with competitiveness.

Under investment and disinvestment, he has had certain concepts such as core business non-core business and he endeavored to reinforce the core and add a new core as well. Under consolidation professionalization, he created group ethics, he aligned the leaders and moderated the extreme personalized independence of certain leaders while facilitating corporate accomplishment.

Under globalizations plus acquisitions strategy he acquired companies globally to strengthen the core businesses. He positioned the companies through such globalization and acquisition strategies to attract global attention. He focused on turnaround capabilities and cross border business synergy. Under growth plus security strategy he created a strong holding company structure, he reinforced promoter holdings across all group companies.

Under innovation plus competitiveness strategy he enabled group companies to innovate, he made companies more competitive and he promoted self-reliance, functionality and affordability for customers as also the firm. At the core of Ratan Tatas success as a transiting leader has been the effective model of change with continuity on a foundation of the basic Tata philosophy that the group is a trustee of the wealth that the group creates for the nation.

Ratan's openness to work with J R D Tata and Tata sons board and intern their support to Ratan's model and their willingness to give Ratan the required space and freedom to execute the model has also been very important in the successful and seamless transition that happened from J R D Tata to Ratan Tata.

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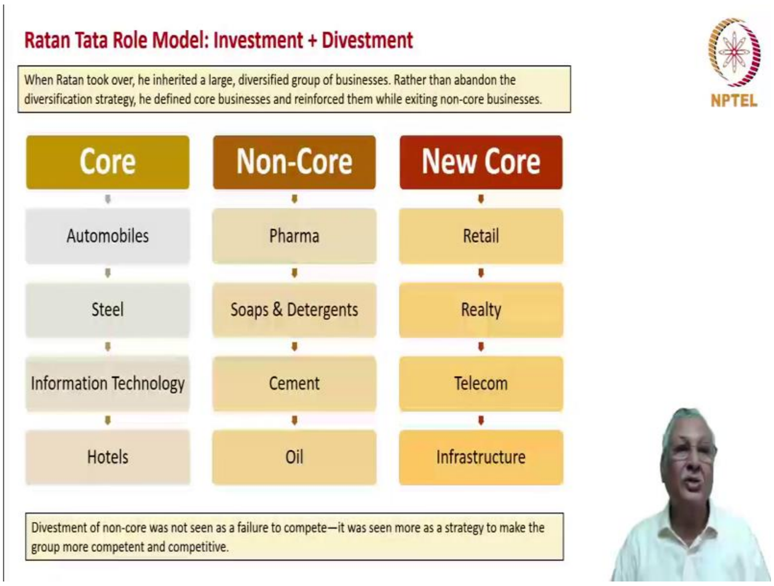

So, in Rattan Tata's role model of investment plus divestment, he looked at the large diversified group of companies and businesses he inherited. Rather than abandon the diversification strategy, he defined core businesses which the group should have and reinforce them while he exited non-core businesses. The core businesses as a matter of example where automobiles, steel, information, technology and hotels.

There were of course, several others including consumer products. Under non-core he listed industries such as pharma, soaps and detergents, cement, oil and a few others, he exited non-core progressively. He also focused on a new core which is retail, reality, telecom and infrastructure. Divestment of non-core was not seen as a failure to compete rather it was seen more as a strategy to make the group more competent and competitive.

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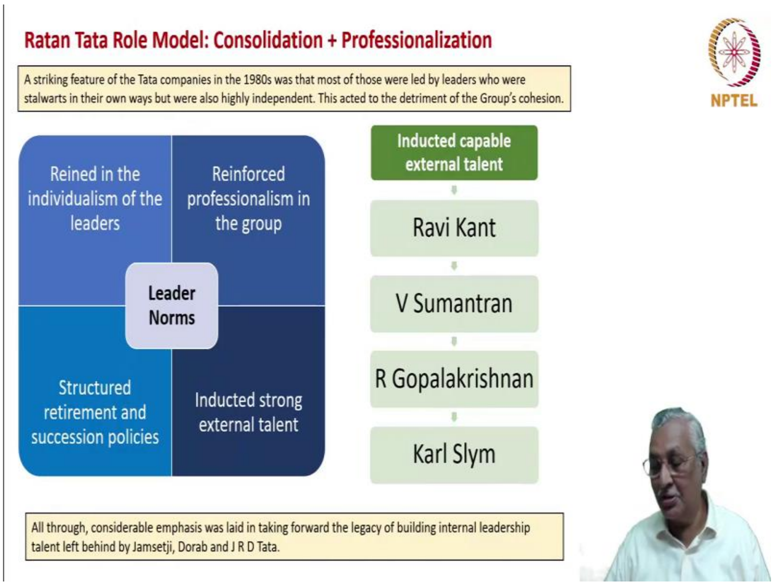

Under consolidation and professionalization strategy, he looked at strengthening the leadership bench. A striking feature of the Tata companies in the 1980s was that most of these were led by leaders who are stalwarts in their own ways, but were also highly independent.

So, much so, they were called satraps of various companies, this acted to the detriment of the groups cohesion. So, he brought in certain uniform leader norms. He reined in the individualism of the leaders, he reinforced professionalism in the group, he developed structured retirement and succession policies and he inducted strong external talent.

Some of the people he indicted were Ravi Kant for Tata motors, V Sumantran again for Tata motors, R Gopalakrishnan from Hindustan Unilever for corporate center and Karl Slym again for Tata motors. All through considerable emphasis was laid in taking forward the legacy of building internal leadership talent left behind by Jamsetji, Dorabji and J R D Tata.

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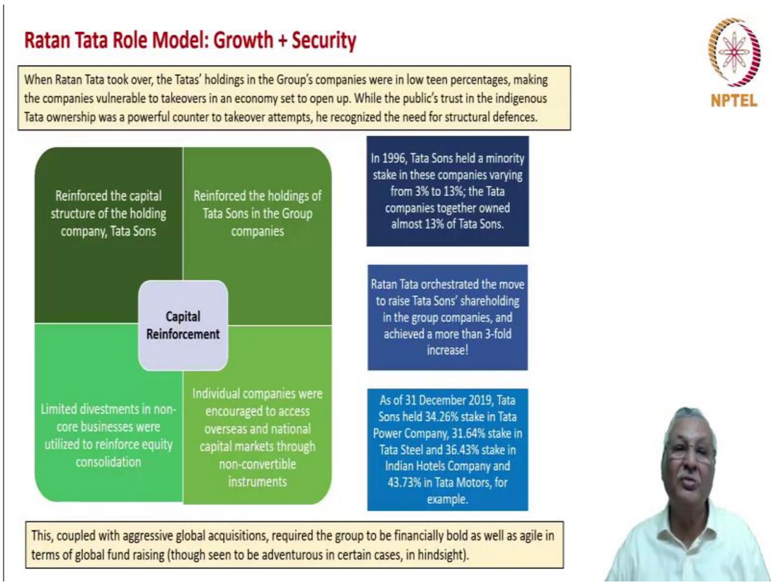

Ratan Tata's role model in respect of growth and security was as follows. He believed in capital reinforcement, he fell that as the economy opened up, Tata Group companies with their astounding infrastructure and the reach and the prestige they hold in the market could be vulnerable targets for takeovers.

Particularly, because the Tata family and Tata trust had weak shareholdings in various companies. While the public's trust in the indigenous Tata ownership was a powerful counter to take over attempts, he recognized the need for structural defenses. So, he developed a capital deployment strategy and capital reinforcement strategy.

He reinforced the capital structure of the holding company Tata sons. He also reinforced the holdings of Tata sons in the group companies. He undertook limited divestments in non-core businesses. So, that some cash could be generated and this was used to reinforce equity consolidation in other important core businesses.

Individual companies were encouraged to access overseas and national capital markets through non-convertible instruments. As a result of all these measures, Tata sons began to become a strong shareholder of various group companies and individual group companies became capable of serving their own cash needs through appropriate innovative financial instruments.

In 1996, Tata sons held a minority stake in these companies varying from 3 percent to 13 percent. The Tata companies together owned almost 13 percent of Tata sons that was the position when he took over. Ratan Tata orchestrated the move to raise Tata sons shareholding in the group companies and achieved a more than threefold increase.

As of 31 December 2019, Tata sons held 34.26 percent stake in Tata steel 36.43, percent stake in Indian Hotels Company and 43.73 percent in Tata motors as an example, see the kind of capital innovation the Tata could bring to the Tata Group and the group companies.

These coupled with aggressive global acquisitions required the group to be financially bold as well as agile in terms of global fundraising, those seem to be adventurous in certain cases in hindsight because certain discontinuities such as global melt down or Brexit were probably could not be envisaged when very ambitious globalization attempts were made.

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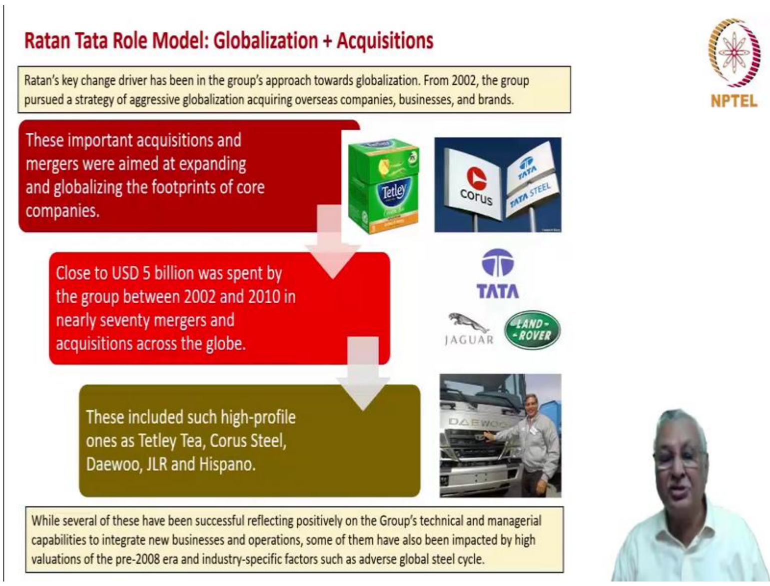

In terms of globalization and acquisitions, Ratan Tata has indeed been a change driver. He radically altered the groups approach towards globalization from an internally oriented group the group became externally oriented, it started pursuing a strategy of aggressive globalization, acquiring overseas companies', businesses and brands.

Some of the very notable acquisitions are as follows. Tata Tetley, Tata steel and Corus, Tata Jaguar Land Rover, Daewoo but there were several others including by hotels division in terms of acquiring overseas properties, close to US dollar 5 billion was spent by the group between 2002 and 2010 in nearly 70 mergers and acquisitions across the globe.

And this has added enormous firepower to the Tata Group. Many of them were notable big ticket acquisitions such as Tata Tetley, JLR or Corus, but some of them were bolt on acquisitions which added to the strengths of the companies in a very silent fashion. Many of these things have been successful reflecting positively on the groups technical and managerial capabilities to integrate new businesses and operations

However, as I said some of them had also to be seen in terms of the impact of the high valuations that had to be made in the pre-2008 era and the industry specific factors that happened thereafter such as adverse global steel cycle or the global liquidity. These were in escapable aftereffects.

But it is to the credit of the group that the group had such resilience and such fortitude that these surprising developments were taken in the stride and the companies were continued to be pushed ahead for reaching their global aspirations successfully.

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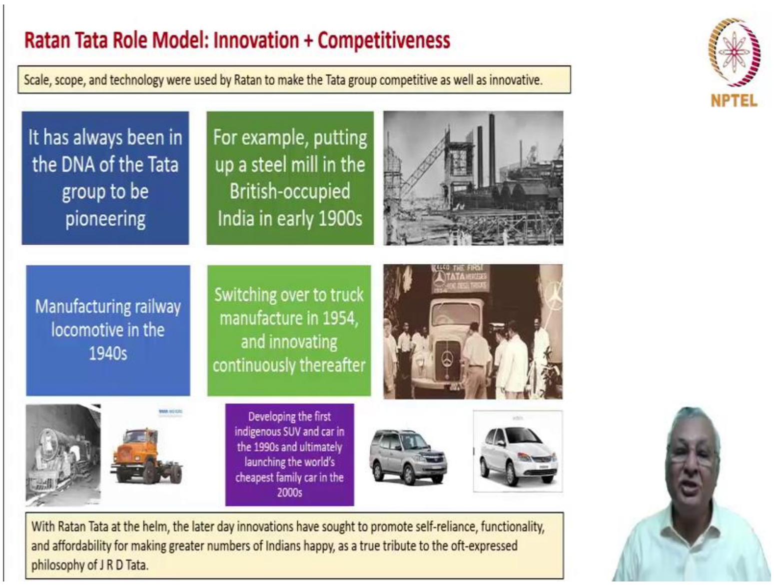

In terms of innovation and competitiveness, scale, scope and technology were used by Ratan Tata to make the Tata Group competitive as well as innovative. In fact, it was always the DNA of the Tata Group to be pioneering for example, putting up a steel mill in the British occupied Indian in the early 1900s, a feat beyond the ordinary at that point of time.

Manufacturing railway locomotive indigenously in the 1940s, switching over to truck manufacture in 1954 and innovating continuously thereafter. Developing the first SUV and car in the 1990s and ultimately launching the world's cheapest family car Nano in the 2000s and also starting several innovations in passenger car and light commercial vehicle and small commercial vehicle sectors all through indigenous developments.

With Ratan Tata at the helm all the later day innovations sought to promote self-reliance, functionality and affordability for making greater numbers of Indians happy. As a true tribute to the oft expressed philosophy of J R D Tata that is trusteeship of public wealth for the use or public.

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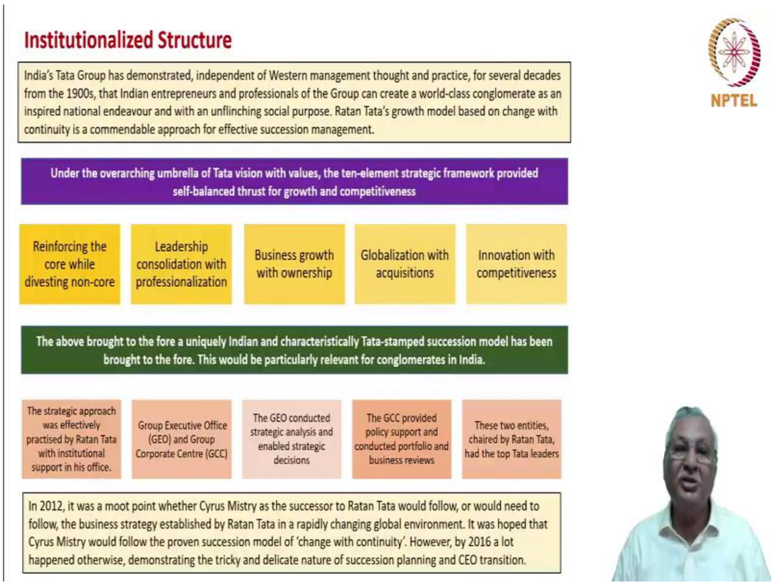

So, the institutionalized structure that happened under the Tata Group was that the group could demonstrate independent of western management thought and practice for several decades from the 1900s that Indian entrepreneurs and Indian professionals of the group can create a world class conglomerate as an inspired national endeavor and with an unflinching social purpose.

Ratan Tata’s growth model based on change with continuity is a commendable approach for effective succession management. Under the overarching umbrella of Tata vision with values, the 10 element strategic frame work provided self-balance thrust for growth and competitiveness. Let us review them reinforcing the core while divesting non-core, leadership consolidation with professionalization, business growth with ownership, globalization with acquisitions, innovation with competitiveness.

The above brought to the fore a uniquely Indian and a characteristically Tata stamped succession model and this model is before our eyes to see as a model which has performed exceedingly well during Ratan Tata’s tenure and it would be particularly relevant for conglomerates in India. There could be shades of difference depending upon the conglomerates businesses and industrial sectors and the position the companies are in.

But the broad direction and the broad framework Tata’s leadership model and the succession model reflects is extremely valuable and useful for a whole spectrum of Indian companies and conglomerates. This strategic approach was effectively practiced by Ratan Tata with institutional support in his office.

He created group executive office and group corporate center. The group executive office conducted strategic analysis and enabled strategic decisions while the group corporate center provided policy support and conducted portfolio and business reviews. These two entities chaired by Ratan Tata had the top leaders participating in these platforms.

In 2012, it was indeed a mood point whether Cyrus Mistry as the successor to Ratan Tata would follow or would need to follow the business strategy established by Ratan Tata so, admirably in a rapidly changing global environment. It was hoped by all Tata watchers that Cyrus Mistry would follow the proven succession model of change with continuity.

However, by 2016, a lot happened otherwise demonstrating the tricky and delegate nature of succession planning and CEO transition. We would of course, cover these aspects in another lecture later. So, we have gone through a very important topic of leadership which is leadership succession particularly at the CEO positions and there cannot be a greater canvas for demonstrating various concepts related to CEO succession than looking at the fame Tata Group.

And the illustrious Ratan Tata as the leader who moved into J R D Tata’s position admirably and also took the Tata Group further forward based on a very clear model of continuity with change or change with continuity and that has been the strategic success which Ratan Tata brought to the Tata Group with prestige all around for the Tata Group in the process. So, we will meet in the next lecture.