

DECODING THE DUAL GOVERNANCE SYSTEMS AT TATA GROUP

Airing unresolved differences in public is typical of a family business set-up. It is important to determine whether the Tata-Mistry feud is a role- or personality-based feud

By [Tatwamasi Dixit](#). Last Updated: Nov 29, 2016, 06:49 IST5 min

<https://www.forbesindia.com/article/battle-at-bombay-house/decoding-the-dual-governance-systems-at-tata-group/44937/1>

Nobody expected it—surely not the Indian public. The abrupt ouster of Cyrus Mistry as chairman of Tata Sons in October this year has dominated media and societal discussions, leaving the public perplexed regarding the DNA of the institution which determines its identity.

The concept of identity, according to Indian scriptures, rests in *triputi*: *Kartha* (who I am), *Karma* (what I do), and these two, in turn, determine *Kriya* (how I do). These three aspects must be in sync to produce optimum results.

The Tata group started out as a family business and, with the professionalisation of the business over the years, possibly wanted to acquire the identity of a professionally-managed non-family business. However, the appointment of Mistry, an extended family member and shareholder, as chairman of the holding company as well as operating companies is indicative of adopting the family business governance model where the powers are vested in one individual. In contrast, the manner in which Mistry, the “family chairman”, was fired is typical of a professionally managed non-family business. Therefore, the perceived identity is ambiguous.

The learning here for family businesses in general is that it is essential for a company to have a clear *Kartha* identity, which must be in harmony with *Karma* (in this case, all the businesses of the Tata group) and *Kriya* (governance).

The governance framework of a family business differs drastically from that of a non-family business. In my view, Tatas adopted a two-dimensional governance design—a family business governance model for Tata Trusts and Tata Sons, and a non-family business governance model between Tata Sons and the operating companies. This dual governance framework has the potential to create confusion across the boards and professionals, due to ambiguity in the mixed identity of the institution.

In a family business set-up, when a single family member is managing the business, it is a good idea to appoint that family member as chairman of the holding board as well as of operating companies in order to exercise control and authority. In a non-family business set-up, having the same member as chairman of the holding company as well as the operating companies is not the ideal scenario, as this does not provide for checks and balances and objective performance review.

Periodical review forms an essential pillar of the family business governance system. It is imperative to have a review architecture in place to periodically evaluate the business performance, board functioning, performance of the chairman and independent directors. In a robust family business governance framework, the working family member is accountable to the non-working family shareholders and is periodically subjected to a rigorous review process. If this process was in place, the overnight fallout of Cyrus Mistry would most likely not have happened.

A strong governance framework must have a written contingency succession plan in place to fill in the interim gap in an emergency. If the Tata Sons’ board had such a plan in place, it would not have necessitated a situation where Ratan Tata had to take over the responsibility as interim chairman.

In a family business set-up, where more than one family member is involved, it is always a good idea to have a pilot and co-pilot model. The two may complement each other’s roles depending on the situation. It would have been ideal if the chairman of Tata Trusts, Ratan Tata, and the chairman of Tata Sons, Cyrus Mistry, had adopted this model when they decided to co-work. Further, Tata Trusts should have ensured adherence of reserved items by Tata Sons, and the latter should have ensured the same by the operating companies as per good governance practice.

Had the relationship between Tata Trusts and Tata Sons been managed appropriately, and the powers of the trustees vis-à-vis Tata Sons and the operating companies been well-defined with the reserved items under their purview, an incident of such nature might not have happened.

Family feuds are typical of any family business. Unresolved differences become conflicts. Unmanaged conflicts result in incompatibility. Incompatibility, when unmanaged, leads to separation.

Airing unresolved differences in public is typical of a family business set-up. It is important to classify whether the Tata-Mistry feud is role or personality based. It is also not clear whether it is a family business conflict, corporate conflict or a power struggle.

While identifying a successor, apart from competence, it is of utmost importance to ensure that the values, vision and mission of the incumbent are compatible with the family business ethos. It is not clear if the Tata-Mistry case was a result of personal or cultural incompatibility. The Asian family business world is governed by hierarchy. Whether Mistry accepted the hierarchy of Tata Trusts and Tata Sons remains unknown.

The role of independent directors is crucial at this juncture as they have to truly practice objectivity and not be swayed by personal associations and taking sides, bearing in mind that, in such circumstances, they are the true custodians of the stakeholders. It may also be a good idea for all the independent directors of the Tata group companies to come together under an informal forum to act with one voice across the boards.

It will be interesting to see how the Tata-Mistry dispute pans out in the future. Is it going to create value for the stakeholders or erode it? Will this saga continue or is a rapprochement possible?

While the use of mediation in family-owned businesses is not new, it does appear that this option is not well-known nor leveraged as often as it could be. If there are persistent differences between two family members or between a family member and a professional, a facilitator must intervene to resolve the issue before resorting to legal aid.

An intervention can help align the *triputi*—*Kartha* (identity), *Karma* (business), and *Kriya* (governance) —to arrive at an amicable solution to the imbroglio in order to protect the interest of the stakeholders and carry forward the illustrious Tata legacy.

Tatwamasi Dixit is a family business advisor and coach, and co-author of the book Indian Family Business Mantras.

Website: www.fabricadvisory.com

Email: founder@ojasgroup.in