The Internationalization of Indian Companies: The Case of Tata

Andrea Goldstein

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Multinational Companies from Emerging Economies
Composition, Conceptualization and Direction in the Global Economy

Andrea Goldstein
Why Tata?

- Turnover > US$28 bn, equivalent to over 2.5% of India’s GDP
- Traditionally the biggest market capitalization (now Reliance)
- India’s largest employer in the private sector (222,000+, 85 companies)
- many firsts/largest for India:
  - first private sector steel mill (TISCO 1907)
  - first private sector power utility
  - first luxury hotel (Taj)
  - first airline (now Air-India)
  - India’s largest software company (TCS)
  - India’s largest watch & jewellery firm (Titan)
  - India’s largest cross-border M&As (Tetley, Corus)
- Some unique characteristics
  - Family
  - Philanthropy
  - Outward orientation
<table>
<thead>
<tr>
<th>Industry</th>
<th>Indian operations</th>
<th>Foreign operations</th>
<th>Tata stake</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1992</td>
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<tr>
<td>Textiles</td>
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<tr>
<td>Hospitality</td>
<td>1902</td>
<td>1982</td>
<td>41</td>
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<tr>
<td>Steel</td>
<td>1907</td>
<td>2005</td>
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<tr>
<td>Power</td>
<td>1910</td>
<td></td>
<td>17</td>
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<tr>
<td>Soaps and toiletries</td>
<td>1917-1983 ^2</td>
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<td>Insurance</td>
<td>1919-1956 ^3 and 2001</td>
<td>1920</td>
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<tr>
<td>Printing and publishing</td>
<td>1931-2003</td>
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<tr>
<td>Aviation</td>
<td>1932-1953 ^4</td>
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<td>Chemicals</td>
<td>1939</td>
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<td>Consumer electronics</td>
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<td>Cosmetics</td>
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<td>Tea and coffee</td>
<td>1962</td>
<td>2000</td>
<td>30</td>
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<td>ICT</td>
<td>1968</td>
<td>2005</td>
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<tr>
<td>Locomotives</td>
<td>1970</td>
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<td></td>
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<tr>
<td>Watches</td>
<td>1984</td>
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<td>Management consulting</td>
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<tr>
<td>Auto components</td>
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<td></td>
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<tr>
<td>Telecom services</td>
<td>1994</td>
<td>2005</td>
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<tr>
<td>Motor vehicles</td>
<td>1998</td>
<td>2004</td>
<td>n.a.</td>
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<tr>
<td>Retail (general)</td>
<td>1999</td>
<td></td>
<td>n.a.</td>
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<tr>
<td>Car components</td>
<td>2005</td>
<td></td>
<td>n.a.</td>
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<tr>
<td>Retail (electronics)</td>
<td>2006</td>
<td></td>
<td>n.a.</td>
</tr>
<tr>
<td>Fresh Produce</td>
<td>2007</td>
<td></td>
<td>n.a.</td>
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<tr>
<td>Real estate</td>
<td>2007</td>
<td></td>
<td>n.a.</td>
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</tbody>
</table>

^1 Including Tata Sons (24.08) and Tata Motors (4.45)
Source: Tata
Group holding structure

Sir Dorabji Tata Trust | Sir Ratan Tata Trust | Other Tata trusts

Tata Sons

- Tata Consultancy Services
- Tata Steel
- Tata Motors
- Tata Power
- VSNL
- Tata Chemicals
- Tata Tea
- Indian Hotels
- Tata Infotech
- Titan
- Voltas
- Tata Elxsi
- Trent
- Rallis
- Tata Investment Corporation
- Tata Teleservices
- Tata International

65.89% shareholding

Tata Industries

- Tata Advanced Materials
- Idea Cellular
- Tata Teleservices
- Information Technology Park
- Tata AutoComp Systems

28.62% shareholding

(major holdings)
“We think we started on sound and straightforward business principles, considering the interests of the shareholders our own and the health and welfare of the employees, the sure foundation of our success.”

- Jamsetji N Tata, Founder
Jamshedpur Utilities and Services Company Limited (JUSCO), a wholly owned subsidiary of Tata Steel, is dedicated for comprehensive and sustainable development and management of Civic Infrastructure and Allied services. It is committed towards accomplishment of the national vision 2020 of making infrastructure available for growth and development.
Growth (over the last 15 years)

Revenue CAGR 15%
Profit CAGR 20%

CAGR → 13%

15% 22% 26%

$5 bn $10 bn $28 bn

Source: Tata
Table C. Evolution of Tata Group main business segments since 2000

<table>
<thead>
<tr>
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<td>25</td>
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<td>9</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>6</td>
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<tr>
<td>Consumer Goods</td>
<td>11</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
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<td>Chemicals</td>
<td>6</td>
<td>5</td>
<td>5</td>
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<td>22</td>
<td>19</td>
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<tr>
<td>Services</td>
<td>11</td>
<td>9</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>9</td>
<td>7</td>
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<td>Total</td>
<td>100</td>
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<td>3 largest</td>
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<td>69</td>
<td>73</td>
<td>71</td>
<td>75</td>
<td>78</td>
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<tr>
<td>5 largest</td>
<td>75</td>
<td>77</td>
<td>88</td>
<td>90</td>
<td>89</td>
<td>91</td>
<td>91</td>
</tr>
</tbody>
</table>
Tata Steel

- Established in 1907, Asia’s first and India’s largest integrated private sector steel company.
- Steel making and finishing facilities at Jamshedpur in eastern India are one of the world’s most modern.
- Captive iron ore and coal mines.
- Tops *World Steel Dynamics* ranking chart.
- Capacity to raise to 15 million tonnes per annum by 2010 through organic growth and acquisitions:
  - NatSteel
  - Corus
Internationalisation Strategy

• Driven by operating companies
• Geographically selective
• Greenfield, JVs, acquisitions
• Partner development of select countries

Most Tata companies have internationalised

- TATA Consultancy Services
- TATA MOTORS
- TATA CHEMICALS LIMITED
- TATA STEEL
- TATA TEA
- VSNL
Revenue from Overseas Geographies

CAGR 44%

Source: Tata
Country Prioritization

• **Priority countries (mostly OECD, mostly inorganic growth)**
  - USA
  - UK
  - Germany
  - China

• **Emerging economies (mostly organic growth)**
  - South Africa
  - GCC
  - Thailand, Indonesia, Vietnam
  - Brazil, Chile, Mexico, Uruguay

• **Neighboring countries**
  - Sri Lanka
  - Bangladesh
Growth (Geography)

Source: Tata
M&As, mostly in higher-income countries

Deal Value ($ mn)

2007 Data - from Jan to April

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal Value ($ mn)</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>407</td>
</tr>
<tr>
<td>2004</td>
<td>232</td>
</tr>
<tr>
<td>2005</td>
<td>1007</td>
</tr>
<tr>
<td>2006</td>
<td>1551</td>
</tr>
<tr>
<td>2007</td>
<td>13260</td>
</tr>
</tbody>
</table>

Source: Tata
Organic Growth

Exports ($ bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>'03</td>
<td>2.50</td>
</tr>
<tr>
<td>'04</td>
<td>3.08</td>
</tr>
<tr>
<td>'05</td>
<td>4.59</td>
</tr>
<tr>
<td>'06</td>
<td>4.95</td>
</tr>
</tbody>
</table>

CAGR 25%

South Africa

Tata Steel

Latin America

TCS

Delivery centres - Uruguay, Brazil, Chile
More than 5,000 employees, growing rapidly

Vietnam
Tata Steel

China
TCS
TACO

Source: Tata
<table>
<thead>
<tr>
<th></th>
<th>Bangladesh</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Steel</td>
<td>Discussion underway for setting up a greenfield gas based 2.4 mtpa plant and develop a 6-7 mtpa coal mine in the Dinajpur district.</td>
<td>US$103-million ferro-chrome plant in Richards Bay to be commissioned by the end of 2007 or the beginning of 2008. Also expressed an interest in buying a controlling stake in Highveld Steel and Vanadium</td>
</tr>
<tr>
<td>Tata Power</td>
<td>Exploring setting up a 1000MW gas-based power plant.</td>
<td>Plans to set up a 300 MW power plant</td>
</tr>
<tr>
<td>Tata Chemicals</td>
<td>Will invest over $450 million in a one million tonne fertiliser plant.</td>
<td>Brunner Mond Group distribution facility at Durban</td>
</tr>
<tr>
<td>Indian Hotels</td>
<td></td>
<td>Has teamed up with Tata Africa to form a joint venture called Taj International to invest around US$180m to develop three Taj branded hotels in Johannesburg, Durban and Cape Town, adding a further 550 rooms to the IHC portfolio.</td>
</tr>
<tr>
<td>VSNL</td>
<td></td>
<td>The Tata/VSNL Consortium controls the Strategic Equity Partner Company, which in turn has a 51% stake in Neotel, the country’s second fixed line operator. Neotel launched services on 31 August 2006.</td>
</tr>
</tbody>
</table>
Employee Mix

2006

246,000

87%

13%

Indian Operations

2007 (P)

292,000

70%

30%

Overseas Operations

Data includes Corus

(P): Projections

Source: Tata
TATA Brand in Overseas Geographies

• Be known for the same values in all geographies
• Reach out to opinion makers
• University Sponsorships
• Event Sponsorships
• PR: US, UK, South Africa, China in Phase 1
Group synergies

- a diverse and decentralized Group, but a number of ways to gain Group advantage:
  - Thanks to reputation, the Tata name opens doors.
  - Availability of finance
  - Procurement savings
  - Joint customer pitches (e.g. TCS and VSNL)
  - Group corporate relations with key customers
  - Joint business development (e.g. Bangladesh)
Intra-group knowledge sharing

• Group expertise in the Centre
• The GCC team interacting with companies
• international intranet and other communication
• HR
  – i. Moving people
  – ii. Training people
  – iii. Workshops
  – iv. Hiring people
  – v. Spreading best practice
• Group offices in key complex geographies (US, UK, RSA, China)
Tata Steel’s internationalization

• cost advantage
  1. low mining cost compared to international prices and its existing reserves
  2. in-house manufacturing process refinements, energy efficient technologies, and optimum utilization of raw materials

• Integrated supply chain
  – Upstream: chrome ore, ferro chrome, and ferro manganese
  – Downstream: specialty steel for auto and construction industries
Post-merger integration: the Tata Tea case

• What happens when previously autonomous firms from different countries, each with its own identity, routines and capabilities, come together inside a single multinational corporation?

• In the 1990s Tata Tea made a number of strategic decisions
  – Marketing, packaging
  – Vertical disintegration
  – Acquisition of a brand with global appeal

• PMI initially difficult

• Tata Tetley a subsidiary of Tata Tea in December 2005.
  – buying bases in London, Kolkata and Mombasa to leverage economies of scale.
  – R&D, IT, finance and communication infrastructure
  – refinancing of high-cost Tetley debt
  – Brand leveraging

• acquisitions are successful when they are additive rather than substitutive (as in Jones and Miskell 2007)
Conclusions

• accelerated internationalization (Matthews 2002).
• multiple factors
  – the need to access new markets (e.g., in BPO services)
  – the opportunity to integrate the value chain (e.g., in steel)
  – the quest for brand control (e.g., in tea).
• strategy proved feasible because Tata
  – possesses strong leadership combined with vision
  – can exploit the possibility of leveraging increasingly developed financial markets in India, a large domestic market, and global liquidity
  – reacted fast to the opening of opportunities
Conclusions (ct’d)

• DNA is resilient

• organizational solutions aimed at fostering mutual recognition and knowledge exchange within the multinational conglomerate
  – Group structure
  – Parsee minority → “gentle approach”

• Future research
  – case studies to analyze management practices, industrial relations, the organization of R&D function and innovation.
  – hybridization – i.e. the process whereby corporate models take multiple and diverging roads to innovate and become increasingly open to the global economy