DIAGNOSES

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Reinventing a Giant Corporation: The Case of Tata Steel

D V R Seshadri and Arabinda Tripathy

Case Analysis I

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The case on Tata Steel captures the success story of Tata Steel very effectively-as to how a giant corporation, led by a world-class management team, re-invents itself and sets out on a growth path when faced with dramatic challenges from the environment.

This analysis is aimed at summarizing some of the issues and the challenges Tata Steel is likely to face in the years ahead. An attempt has also been made to arrive at some broad strategies and initiatives that the company can implement. Since this analysis is based only on information provided in the case study and additional data available in the public domain – including the Tata Steel website itself—it is very likely that many of the recommended strategies have already received the attention of the company management.

KEY REINVENTION STRATEGIES AND RESULTS

From the case study, it is evident that Mr B Muthuraman, MD, Tata Steel, and his management team have pulled off an astounding 'turnaround' victory by

- focussing on operational excellence
- moving from 'price' to 'value to customer'
- showing unwavering personal commitment
- aligning everyone—from worker to senior manager—with the 'greater cause' of survival and growth.

The results are evident in terms of financials, business growth, operational excellence, company morale, and international recognition. In 2004-'05, the top line has registered a growth of 32 per cent to reach Rs. 160 billion. Profit-before-tax and

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profit-after-tax have virtually doubled. Borrowings are down. Reserves and surplus are at an all-time high.

Tata Steel is also achieving international recognition in the steel industry. Ratings by World Steel Dynamics, an independent rating agency, show that Tata Steel is one of the lowest cost steel producers in the world. This is a remarkable achievement by a company that was in mortal danger of being overrun by globalization just a few years back.

THE ROAD AHEAD: ISSUES, CHALLENGES, AND GROWTH STRATEGIES

On the face of it, Tata Steel seems poised for growth. The company has successfully overcome the 'first wave' of challenges thrown at it by the opening up of the Indian economy. The market is growing, and demand for the company's products should be robust in the next 5-10 years. The company has drawn up aggressive plans for capacity expansion. It has also launched ASPIRE, the umbrella programme aimed at retaining organizational excellence.

The website of Tata Steel features (as on April 26, 2006) a powerpoint presentation entitled 'Presentation to fund managers and analysts on 12 Sep '05,' which is apparently what the company had presented to the financial community late last year in terms of future plans and strategies. This presentation highlights the following:

- Tata Steel's FY06 plan which covers steel production and productivity, improving raw material quality, and improving product mix.
- Tata Steel's future plan which essentially has two themes: "global leader and world-class," and "maintain low cost advantage."
- Medium-term growth plan which talks about expansions and new projects in Jamshedpur, Orissa, Jharkand, and Chattisgarh; operational footprint in international locations such as Iran, Bangladesh, and South Africa; and creating port infrastructure.
- Tata Steel's future strategy—the key elements of this strategy being
  - > strong base in India
  - > facilities in select geographies
  - > ownership and development of raw material sources
  - > captive ports and dedicated logistics
  - > reaching 20-25 mtpa by the year 2015
  - > branding.

As can be readily seen, the key flavour or the recurrent theme in the above presentation is 'operational excellence' with a global reach.

While it is readily conceded that too much meaning cannot (and should not) be read into just one meeting with analysts, it is reasonable to assume that the presentation material broadly conveys the essence of the top management's strategic thinking at that point in time —subject to their having applied the 'filter' of confidentiality as to what can be made public.

In view of this limitation (of the outsider not being privy to top management thinking), one is unable to get a clear idea of what Tata Steel intends to do in critical areas other than that of operations—such as 'customer,' 'people,' and 'culture.' We explore these important areas next.

CUSTOMER, PEOPLE, AND CULTURE

What are the likely challenges the company would face in the coming years in these areas? What proactive strategies can Tata Steel follow? We look at a few of them from the perspective of the top management:

- *Moving from 'operational excellence,' which has been the pivotal strategy in the past, to 'customer focus' as the theme for the future*: The company has been able to show dramatic improvement in operational parameters such as productivity, specific consumption, raw material quality, and product mix in recent years. However, by the very nature of these processes, future improvement is unlikely to be as dramatic as in the past since all the low-hanging fruit would have been plucked. That being the case, further increases in profitability can mostly be achieved only from realization of greater 'value' from the customer.

Inevitably, Tata Steel's current position as the lowest cost producer of steel compared to global competition will be challenged by other manufacturers in countries such as China and Korea; at that time, the company will need a superior 'menu' of products and services and value addition to retain its customers.

- *Creating a balanced portfolio of key global customers from different end-user industries and different geographies*: This is required in order to buffer the company (to a reasonable extent) against the cyclical nature of the steel business. This entails:
  - > a detailed analysis of the global market-place

and mapping the competition

> a good understanding of the customer needs in different countries
> deciding on the 'global manufacturing footprint' for Tata Steel
> understanding the global availability / reserves of raw material
> setting up a smooth, well-oiled logistics operation
> putting in place dedicated customer-facing teams in various geographies.

- *Evolving a formal process to keep track of the changing needs—both products and services — of these customers, and linking them to R&D/product/service development initiatives*: In effect, this means:
  > working in *collaboration* with the customer, to provide *solutions*—as against reacting to the customer needs for products
  > moving from 'transactions' to 'continuous relationship'
  > investing heavily in R &D and product development to keep up with the best in the world and become the leader one day.
- *Developing an organizational culture, which is predominantly 'local' today, to one that is 'global'*: This transformation is likely to impose tremendous challenges such as:
  > overcoming a sense of complacency that can creep into the organizational mindset owing to visible recent successes (something the management team has already identified as a risk)
  > being alive to the dramatically faster pace at which global competition moves, and recognizing that there are only two kinds of companies in the global arena — the quick and the dead
  > ensuring that the Tata code of ethics and governance is held sacrosanct when faced with the relentless pressures for results in an increasingly hostile competitive environment
  > learning to deal with different nationalities, cultures, and business practices in a manner that makes the customer (and the supplier) say, "Tata Steel is a good company to deal with"
  > carrying the union leaders and workforce along on this journey, when the threat of survival is apparently no longer looming so large, at least in the short term.
- *Meeting the organizational need for a large number of committed, motivated, world-class managers and leaders, i.e., developing a 'leadership talent pool'*: This is likely to be the biggest challenge facing the organization. While Tata Steel is justifiably held in great esteem in India for its solid, result-oriented leadership and management, the aggressive growth plans of the company will require a much larger pool of leadership talent to be developed continuously in the coming years. Bench strength will become critical. Individual career design programmes for 'hi-pot' managers need to be drawn up.

Holistic HR strategies to attract, motivate and retain talent will be needed in order to supplement current strengths. The Indian economy is on a roll, and quality people are at a premium — be it the worker, graduate engineer or the manager. Global players like Posco and Mittal are moving in. Tata Steel needs to compete for talent with the rest of the industry. What are its USP's in the 'talent market,' which will make talented people prefer Tata Steel over other potential employers? Money alone is unlikely to be sufficient—though significant pressures will be faced on this front also. This entire issue needs an internal discussion, followed by clear articulation of the HR strategy and policy to the existing and potential/new employees.

Given Tata Steel's global ambitions, the management team would very soon need to grapple with the need for cultural diversity in its own ranks. Would all senior managers continue to be Indians, or would the team be a healthy cocktail of different nationalities and cultures? The experience of global corporations shows that the latter is the preferred model. 'Diversity' is a difficult subject which requires clarity of vision and persistence for success.

Tata Steel has been blessed with charismatic world-class leaders such as J J Irani and B Muthuraman. They have been able to make a lot of headway by the sheer force of their leadership capabilities. If a realistic assumption is made that such leaders are rare and difficult to replicate, Tata Steel would have to transition to a different leadership model—where there would be a solid team of senior leadership talent always in place, led by a global-minded CEO who is possibly the 'first amongst equals.' This requires tremendous investment in hiring, training, and retention as also a change in culture.

CONCLUSION

Tata Steel is a success story exemplifying organizational reinvention in its most basic form. The company now finds itself in a position to leverage its inherent strengths and become a global leader in the steel industry. From 'survival,' the theme has changed to 'managing global growth.' While technology and operational processes will continue to be important factors in this new and exciting phase in the company's journey, the 'people factor' will be the single most critical input for success.

Case Analysis II

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The case starts with Tata Steel top management's satisfaction about the remarkable progress that the company had made in the past decade and ends with fears about facing 'boom and bust cycles' and downward pressure of prices. This raises the question: Has the top management just found solutions to its problems it started with or a system to find solutions to its problems? A related question is regarding the extent of the institutionalization of its `search and seize' adaptive problem solving processes. We can make a guess here that it should have built in seeds of 'self-renewing system,' as the company's reinvention story is one of sustained initiatives over a long duration. The company has initiated a system performance audit which can help to find out if its processes can help ride the future waves. The framework of balanced scorecard (BSC) which it has adopted can itself provide them the pointers towards likely areas for interventions.

THE SETTING

The change that took place in the environment of Tata Steel is quite paradigmic. The threat was not just about the business cycle or about the 'wisdom of the Tata Group continuing in steel business' or about 'being relegated into the annals of Indian steel making it as an also ran' company. The changes were happening in many ways and their combined effect in a short spell would have had traumatic effect, leading to self doubts. The paradigmic shifts were about moving from:

- A regulated environment to liberalized environment (The onus for performance shifted to concerned players than the government. The scene of action shifted to the market from the ministries).
- Selling in domestic market to global market (as a corollary sellers' market to buyers' market).
- Being a commodity player to value added product player (consequently the need to shift the focus from cost minimization to value realization focus. Cost minimization is more easily achieved than value creation and value appropriation).
- Raising funds from national capital market to global market (It brings their financials and operations under greater scrutiny of the analysts and investors).

With so many changes happening in a short spell, the agendas could not have been the same. It would have required revisiting all their existing and time-tested assumptions, strategies, and processes. The triggers for changes were there and the company responded innovatively and adequately. It is in this context that the achievements of Tata Steel should be viewed. Its achievements in the past decade have been all-round and impressive. In the areas of production and engineering, some of the salient success factors were:

- achieving a record profit of Rs.34.74 billion in the recent year
- emerging as one of the lowest cost steel producers in the world
- ramping up of capacity from 5 million tpa to 30 million tpa
- achieving global benchmarks on performance
- better and innovative usage of raw materials

- attaining higher capacity utilization and productivity
- modernizing the plants.

Successful turnaround strategies should include both economic and organizational changes and a majority of change initiatives fail because of failure to achieve right balance of these two (Beer and Nehru, 2000). The case says that, until 2000, the focus has been on "operations excellence, cost cutting, productivity, and quality." But, the launch of Tata Business Excellence Model helped the company refocus on such diverse areas as "visionary leadership, focus on future, focus on results, organizational agility, customer-driven excellence, valuing employees and partners, management by fact, managing innovation, systems perspective, and public responsibility." It is easier to travel the terrain of efficiency than effectiveness and it is here that the refocusing through Business Excellence Model needs to be appreciated as it directly address concerns of effectiveness.

The salient features of turnaround initiatives in organizational and soft skill areas that are worth appreciating for their strategic value and impact are:

- intense focus on 3 Cs: change, cost, and customers
- new customer focus: CVM and RVM
- quality to centre-stage
- managing downsizing
- delayering of its structures
- ushering in new entrepreneurial culture
- introducing better governance and transparency.

The competencies gained in these areas should stand by the company in good stead to tide over future shocks. But, once in a way (say, a decade), organizations do get into introspection mode like in this case when Tata Steel's MD started raising concerns about complacency setting in and about gearing-up for growth on the face of huge over-capacity and structural problems. All initiatives in the armory of management have been used which is to be expected given the size of the company. The question is whether the strategies that delivered in the last round will deliver in the next round also as downturn and global over-capacity can shake up any giant's confidence.

CONTEXTUAL PROPERTIES

The scaling up of reinvention initiatives and its replication in another time and other locations depend upon their contextual properties. According to Osborne and Plastrik "Reinvention is about … creating public organizations and systems that habitually innovate, that continually improve their quality, without having to be pushed from outside. It is about creating a public sector that has a built-in drive to improve — what some call `self renewing system.'" This gives some important indications about where to look for solutions. How much of these initiatives are externally-driven, habit-forming, and self-driven? We can infer something from the case. The trigger for change has been external. The liberalization wave and globalization move made the company to think both inwardly and outwardly. Since the economy was just opening up, it afforded some time but the subsequent waves will be short with the promise of immediate impact as companies are directly exposed to global economies now.

The leadership role is an important contributory factor which adds weight to the contextual property. The leadership roles of Tata Steel's MD as well as other key players in the rejuvenation effort have been significant. Continuous reinforcements would be required in this area by the top management. This can be one area where slackening can blunt the successes achieved. According to Seshadri and Tripathy (2006), "Top management's inconsistent, intermittent or sporadic enthusiasm or lack of commitment of the top management to the growth of the company as perceived by the employees can kill the intrapreneurial spirit in employees." This is true for the overall context as much as for intrapreneurship.

In the first round of turnaround, a company has the luxury of reaping several low hanging fruits in its search for operational improvements. There are capacities to be increased, bottlenecks to be released, benchmarks/bars that can be raised, overheads/flabs that can be squeezed, etc., which are easily achieved. In the regulatory days, Tata Steel could take pride in itself saying they were ahead of SAIL in costs and operational parameters, and SAIL could console itself saying it was not far from Tata Steel or vice versa. Collectively, there was underperformance and the pressure to improve is less, as the benchmarks are only national. But, today, the benchmarks are global as the case points out. What can be the focus of next level of strategic interventions? What can be lower than "one of the lowest cost producers in the world?"

Another important contextual property is the thrust on mindsets. This, in fact, is not only an important area of intervention but also becomes the significant part of contextual property because of its idiosyncratic features.

This area is less amenable for scaling up. For example, in the context of CVM, the case says, the task was akin to that of "turning around an oil tanker on the high seas." The mindset changes run through several domains like quality to centre-stage, customer focus, transparency and governance, retail focus, new operations culture, etc. For example, we do not know how successful the company was in transplanting the new culture to older plants though the case says that there were demands for it.

STRATEGIC INTERVENTIONS

Tata Steel was successful in both operational and organizational areas, but in operational areas, it made tremendous progress. The case says that, "a variety of initiatives like total operational performance (TOP), total productivity maintenance (TPM), knowledge management (KM), operation research and decision support systems (OR and DSS), and Six Sigma were launched." Through various initiatives, it found a way towards better utilization of raw materials like coal with high ash content and blue dust, which was converted into a by-product. It benchmarked its norms against the best plants in the world and the authors make an interesting observation in the case: "the production of sinter plant was increased by 60 per cent which was as good as having one sinter plant free." It set up integrated manufacturing system to save costs. It managed downsizing without major upheaval and drove quality to centre-stage. It introduced customer value management and retail value management which "redefined the way steel is marketed and sold in the country and have placed the company firmly on a trajectory of profitable growth." The new initiatives of the company's covered a wide range making it that much more difficult given the prospects of diminishing returns. Where can it look for new initiatives, which can lead to dramatic improvements and help sustain the pace?

WAY FORWARD

Reconfigure Value Chain

The case mentions that the company tried 'to craft competitive value chain' so that "the value chain is free of value drains and every meaningful opportunity to create value is exploited." It also says, "an equally formidable challenge was to obtain equitable return for the value created" which was also focused upon. It will be interesting to know the share of the extent of incremental revenue realization that resulted from reengineering the value chain. Writing on value chain analysis, Shank and Govindarajan (1992) cite an example from paper manufacturing industry. Stationery manufacturers make paper rolls of large diameter which have to be slit into smaller diameter by user industries like envelope manufacturers. While it costs $10 per roll for paper manufacturers to slit it, it can cost as much as $100 for envelope units as they have to get it done outside. But the industry norm is just to charge $11 for slitting. For the paper manufacturing company with an investment of $300 million, slitting machines just mean investing another $2 million. They point out that "An external value chain perspective would look at the savings from narrow rolls for the customer and the extra costs to the paper mill and set a price differential somewhere in between. An internal mill costing perspective, however, sees no cost issue at all" (Shank and Govindarajan, 1992). There should be many such possibilities in steel industry. Companies are increasingly realizing that it is easier to succeed in value creation than in value appropriation, as appropriation is market driven. The company needs to map the entire value chain and probably look at reconfiguring the value chain itself. This leads to the question of becoming a `lean organization.'

Become a Lean Organization

In the current juncture, the central question will be: How 'lean' is the organization? In moving away from being commodity players to product differentiators, companies build on overhead in other areas like logistics, sales and marketing, administration, etc. These costs get hidden and are generally ignored when several decisions are taken incrementally. The authors have mentioned an instance in another article about how the company rather dramatically turned around a unit which was slated for selling. It is quite appreciable and it shows commitment to the organization and leadership capabilities. But, the question is: Was it slated for selling because it was thought to be inefficient or non-core? It says "The top management of the company justifiably saw no merit in making any further capital investments in a run down plant like MM" (Seshadri and Tripathy, 2006). If it is a non-core line, even if it is efficiently managed, it has no business to be there. Overheads have a tendency to build flabs and these have tendency to build on their own. On the down side, variable cost may decline but flabs do not disappear so easily. Outsourcing helps to manage cycles better as the risk is shared with the vendor. How open are they to outsourcing? It is important to decide what is to be manufactured internally and what is to be outsourced. Emotional attachments can rule the decisions here.

Reframe the Questions

A critical dimension of strategies at different stages of organizational cycle is the questions that they seek to raise and the issues that they seek to resolve. Tats Steel is in a different stage now from what it was in the 90s. They need to revisit and reframe their questions. The questions in the 90s might have been about survival on the face of liberalization and globalization, achieving efficiency, managing capacity building, etc. Today, it is about aggressive global plans including M&As and managing them, developing global management perspectives and capabilities, reconfiguring and reaping the value chain, becoming a lean organization rather than just downsizing, exploiting the organizational capital created, etc. Reframing will help refocusing the initiatives and judging the relevance of all the initiatives in the present day context.

Rejig the Balanced Scorecard

It has been mentioned in the case that Tata Steel makes extensive use of BSC. It can be observed that the company has adequately addressed all the four perspectives including learning and innovation. Probably it can build more on the learning and innovation perspective, especially in the areas of organizational capital. The strength of their organizational capital depends upon the strategy it followed during the turnaround process towards human capital. BSC doubles up as consensus building exercise and its continued success depends upon how many were part of it and how many felt involved in the process. It depends upon the community of adopters generated in the process. On the contrary, if it had been highly top leadership centric, then the replicability and sustenance of the processes would have become difficult. If the reinvention network had been widely spread, it would have unleashed the professional energy which would be on the look-out for opportunities to be exploited.

In the context of the discussion on reframing questions, it should be mentioned here that the BSC matrix and metrics itself would undergo considerable change. One important aspect of performance management system is regarding the dovetailing of incentive system to performance metrics. In many organizations, it has been observed that in spite of all the initiatives about reinvention, the incentives regime still supports old beliefs and values and is hardly supportive of new initiatives. It has to be taken care that this does not happen. For example, the new culture may seek to promote entrepreneurial approach rather than managerial culture but the organization on the whole may still be risk averse. It may be recognizing and rewarding people who are governed by a traditional risk-averse culture. The thrust may be value creation and value appropriation but the systems may be tuned towards cost management and cost control. These send contradictory signals. Possibly, the organization has to be ambidextrous. But, how many are versatile enough to handle contradictions in an even way?

CONCLUDING REMARKS

The size of the company, range, and scale of strategic initiatives attempted, the long tenure of the reinvention, and finally the actual performance on the ground make it a rich case to appreciate the complexities of organizational reinvention.

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Case Analysis III

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Tata Steel is presently an EVA + steel company and has a vision to become a dominant player in the global steel industry by entering new markets and developing new enhanced applications of steel. Mr. B Muthuraman, Managing Director of Tata Steel, reviewed the strategic initiatives and performance of the company during the last 15 years in the post-liberalization and globalized Indian environment. During the period 1991-92 to 2004-05, Tata Steel faced many challenges in respect of quality, global cost competitiveness, capacity expansion and modernization, overstaffing, change management and transformation into customer-driven culture, and shift in focus from steel commodity business to Tata Steel brand products. Tata Steel responded proactively to these challenges by way of process innovation, continuous improvement in business processes, employee-friendly HR management practices, creating and spreading new performance-driven culture, and creating value for customers and shareholders. Muthuraman faced the following dilemmas to sustain this high level of growth and identify new value drivers:

- Can the company break out of global competition?
- Can it consistently be a winner in terms of EVA positive company?
- How can it create a blue ocean (Kim and Mauborgne, 2005) and achieve sustained high performance?
- What are the strategic options to achieve this and thereby sustain high performance? What are the analytical tools and frameworks that are essential for creating and capturing blue oceans? What are the different paths available before Tata Steel to create blue oceans? How should it build a robust business model to ensure that it makes a healthy profit on its blue ocean idea? What are the organizational hurdles to blue ocean strategy execution and how to break them?

Tata Steel's vision is to seize the future growth opportunities by having first-mover advantage and make it an EVA positive company: Its endeavour is to continuously improve the quality of life of its employees and the communities it serves. The company's aspirational initiatives aim to reduce costs and enhance revenues coupled with financial prudence to galvanize the core business into an attractive investment option. By making the core business EVA positive, Tata Steel wishes to ensure its long-term sustainability. By the year 2007, it plans to enter into at least one major new business that would have grown comparable in size to the core business. Tata Steel also expects to continuously evaluate and expand the new businesses to complement the cyclical nature of the steel business.

GLOBAL STEEL INDUSTRY

The global steel demand in the 20th century has evolved in phases as a result of a series of global events and discontinuities. The early years from 1900 to 1914 recorded a CAGR of 5 per cent in the steel demand and during the period of World War I and World War II (1914 to 1942), the first plateau was observed as CAGR stagnated at 2 per cent. The first surge in the steel demand (CAGR of 7%) was witnessed during the period 1942 to 1972. The second plateau was observed during the period 1972 to 2000 because of the fall of USSR and Asian financial crisis as CAGR of 1 per cent was achieved in the steel demand. The second surge has been observed during the period 2000 to 2006 with a CAGR of 5 per cent.

The world crude steel output during the year 2005 was 1129.4 MMT with China continuing to be the leader with production of 349.4 MMT followed by Japan (112.47 MMT), USA (93.89 MMT), Russia (66.1 MMT), South Korea (47.8 MMT), and Germany (44.5 MMT). India occupies the eighth position with steel production of 38.08 MMT. The world's top steel producing companies in the year 2005 are Mittal Steel (63 MMT), Arcelor (46.7 MMT), Nippon Steel (32 MMT), POSCO (30.5 MMT), and JFE (29.9 MMT). The Indian steel major SAIL occupies 17th position (13.4 MMT) and Tata Steel occupies the

56th position (4.4 MMT). The steel demand forecast for the year 2005-06 is 7 per cent in Asia Pacific, Middle East, Central and South America followed by 5 per cent growth in Africa and CIS countries. However, China will be driving the growth (10%) in Asia Pacific.[1] The raw material and power cost continues to be critical issues for cost management in the steel industry.

The financial data of the top 12 global steel majors figuring in Fortune Global 500 Companies 2006 list is as shown in Table 1.

SWOT ANALYSIS

There is a strong demand for growth and move for consolidation through mergers and acquisitions in the global steel industry. The per capita steel consumption in India (32 kgs.) *vis-à-vis* China is very low and requires additional 260 million tonnes of consumption to have the parity. The Government of India is coming up with a large number of public-private partnership infrastructure projects which will further increase the demand for steel. Tata Steel has plans to set up three greenfield projects in Orissa, Chhatisgarh, and Jharkhand with an aggregate capacity of 23 million tonnes and go in for strategic acquisitions and thus attain the output level exceeding 30 million tonnes in the next decade which requires the investment of Rs. 700 billion[2]. Thus, there is a need to do a SWOT analysis of Tata Steel to evaluate its degree of preparedness for meeting the challenge of becoming one of the most cost-efficient steel manufacturers worldwide and achieving a global scale with the same production efficiency[3].

Strengths

- Tata Steel's production in volume terms has grown at the CAGR of 5.92 per cent during the period 1990-91 to 2004-05 with production level of 4.07 million tonnes in 2004-05. The company achieved a low growth of 2.52 per cent during the period 1955-56 to 2004-05 because it had a negative growth of 2.35 per cent during the period 1964-65 to 1973-74.
- Tata Steel's revenues have grown at CAGR of 18.2 per cent during the period 2000-01 to 2004-05 as a result of an enriched product-mix and branding with sales of Rs 160.53 billion.
- Tata Steel's export revenues in 2004-05 are Rs. 21.84 billion as against Rs. 13.13 billion in 2002-03.
- In February 2005, Tata Steel has acquired the dominant steel producer of Singapore, NatSteel Limited, which had its presence in China, Thailand, Vietnam, the Philippines, and Australia for an enterprise value of Singapore $ 486.4 million to have a global presence.
- Tata Steel continues to be the lowest cost producer of steel in the world. It also continues to reduce material consumption per tonne of saleable steel (3.04 tonnes in 2004-05 *vis-à-vis* 3.12 tonnes in 2003-04), energy consumption per tonne of crude steel (6.97 Gcal in 2004-05 *vis-à-vis* 7.07 Gcal), and ash content in clean coal (15% *vis-à-vis* 16%).

[1] International Iron and Steel Institute Report, *World Steel in Figures,* 2006, 2-3.

[2] *Tata Steel Annual Report* 2005-06, Chairman's statement, 2-3.

[3] The SWOT analysis has been carried out based on data provided in the case and in the *Annual Reports* of Tata Steel for the period 2000-01 to 2005-06.

Table 1: Fortune Global 500 Companies 2006 – Metal Industry

Rank	Company	500 Rank	Revenues (Million US$)	Profits (Million US$)	Assets (Million US$)	Shareholders' Equity (Million US$)	Employees (Number)
1	Arcelor	137	40,521	4,779	42,366	17,822	96,256
2	Nippon Steel	168	34,502	3,038	38,501	14,220	46,143
3	Mittal Steel	208	28,132	3,365	31,402	10,150	224,286
4	JFE Holdings	218	27,366	2,879	30,768	11,106	53,111
5	Norsk Hydro	222	27,033	2,427	32,553	14,103	32,765
6	Alcoa	225	26,601	1,233	33,696	13,373	129,000
7	POSCO	236	25,678	3,916	27,212	19,271	22,170
8	Baosteel Group	296	21,501	1,395	26,523	14,881	92,682
9	Alcan	313	20,659	129	26,638	9,644	65,000
10	Corus Group	352	18,429	822	13,634	5,755	48,200
11	Kobe Steel	461	14,726	747	17,580	4,492	29,068
12	United States Steel	490	14,039	910	9,822	3,324	46,000

Source: *Fortune*, July 24, 2006. http://money.cnn.com/magazines/fortune/global500/2006/snapshots/2285.html

- Tata Steel continues to thrive for technological innovation of their business processes. Presently, 24 cumulative intellectual property rights (IPRs) and another 174 IPRs in the pipeline.
- Tata Steel's receivables management has improved substantially with prudent credit standards and channel financing. As a result, the average collection period has been reduced to 14 days in 2004-05 from 25 days in the previous year.
- Tata Steel's operating profits have grown at a 5-year CAGR of 37.4 per cent with an EBIT of Rs. 60.45 billion in the year 2004-2005.
- Tata Steel's return on invested capital (ROIC) has increased from 5.6 per cent in 2000-01 to 36.5 per cent in 2004-2005.
- Tata Steel has substantially reduced its debt-to-equity ratio from 1.92 x in 2001-02 to 0.40x in 2004-2005.
- Tata Steel's profits-after-tax have grown at a 5-year CAGR of 52.5 per cent, with PAT of Rs. 34.74 billion in 2004-05. During this period, its ROE has increased from 14.4 per cent to 62 per cent.
- Tata Steel created shareholder value in 2004-05 of Rs. 23.29 billion as against first reported positive EVA of Rs. 3.31 billion in 2002-03.

Weaknesses

- Tata Steel has consolidated its position in the domestic steel industry with minor focus on export sales. It has not adopted the mergers and acquisitions route aggressively to have a global reach.
- Critics argue that Tata Steel could not capitalize fully the opportunities provided in the changed liberalized and global Indian environment.
- Tata Steel has achieved managerial approach-led slow growth rather than having entrepreneurship approach across the organization.
- Tata Steel has addressed the problem of overstaffing by adopting employee-friendly separation scheme. As a result, the manpower has been brought down to below 40,000 in 2004-2005 from 85,000 in 1990-91. The profit-per-employee in the company is US$20,198 in 2004-05 which is much below when compared with global steel majors. For example, POSCO has profits per employee of US$176,135 and NIPPON has US$ 65,839.
- Tata Steel has funded its modernization and expansion plans through internally generated funds and in the process repaid the debt and reduced debt-to-equity ratio. Still, it enjoys just investment grade credit rating as Standard & Poor has assigned 'BBB' rating for local currency corporate rating and 'BB+' with a stable outlook for foreign currency loans.
- Tata Steel has contracted a US$400 million loan through the International Finance Corporation, US$500 million loan from commercial banks, and US$74 million loan through two Export Credit Agencies (Italian and German) for capital imports during the year 2005-06 for future expansion though it did not require these funds immediately. It has investments in mutual funds worth Rs. 202.66 billion as on March 31, 2006.

Opportunities

- Tata Steel can go in for inorganic growth aggressively through mergers and acquisitions at a global level. Mittal Steel has already made efforts in this direction by acquiring Arcelor in 2006 and has become the producer in the world. Tata Steel's acquisition of NatSteel in 2005 has provided access to manufacturing facilities in six countries in South-east Asia and China. It has further acquired 67.11 per cent equity stake by investing Rs. 7.8 billion in Millennium Steel, Thailand during the year 2005-06.
- Tata Steel has adopted the organic growth route by setting up 2.4 MT steel plant in Bangladesh and plans to develop 6.4 MT coal mines. The company has made an investment of US$ 375 million in three steel projects in Iran and in exploration and mining of unexplored iron ore mines.
- Tata Steel faces a challenge of managing the rich reservoir of knowledge base which it has created over a period of time. It has won the most admired Knowledge Enterprise Asia Award for 2003.
- Tata Steel needs to develop its supply chain and distribution networks in order to be a globally competitive steel industry value chain rather than merely a low cost steel producer. The company has acquired 5 per cent equity stake in Carborough Downs Coal Project, Australia. It is an underground coking coal project which provides low-ash coking coal and PCI coal to Tata Steel.
- Tata Steel's vision is to enhance value by having global aspirations, Indian values, and world-class capabilities. The challenge before the company is

to be a best managed global company by having sustainable growth rate. This would be possible by ensuring safety, community development, and environmental sustainability. Tata Steel's Corporate Sustainability Report for 2004-05 has been adjudged as the best report amongst those filed by the corporate sector from the emerging economies.
- The global steel industry suffered from structural deficiencies such as large unutilized capacity, high degree of fragmentation, and cyclical ups and downs in steel demand and prices. The consolidation in the steel industry is happening with many mergers and acquisitions transactions taking place. The industry provides an opportunity for rapid inorganic growth since the top ten world's steel producers are controlling less than 30 per cent of the world's steel output.

Threats

- The cyclical nature of steel industry makes Tata Steel vulnerable to demand and financial risks. As a response to this, the company has made an endeavour to be multi-locational by setting up a plant in Kalinganagar, Orrisa and making an acquisition of NatSteel and Millennium Steel, Thailand.
- There is likely to be a huge over-capacity in steel production worldwide leading to stiff global competition. The world crude steel production in 1950 was 189 MMT and has grown to 752 MMT in 1995 and 1132 MMT in 2005. The value of world steel production in 1995 was US$460 billion and in 2005, US$790 billion.
- There is continuous downward pressure on steel prices and the steel industry demand is cyclical in nature.
- Tata Steel faces a threat of being taken over by the big steel giants such as Mittal since it has a low P/E ratio (6.39x), moderate debt ratio (35%), profitable operations (EBITDA/Turnover = 42.48%; ROCE = 49.69%; and ROE = 62.01%), adequate liquidity position (current ratio = 1.1 and interest coverage ratio = 29.36).

From the foregoing, it emerges that Tata Steel's journey in the last 15 years towards reinvention and business excellence with relentless focus on quality, productivity, cost, and customer value management has paid rich dividends and the company is now prepared to face the future challenges.

Tata Steel has used an innovative and multi-dimensional corporate performance scorecard popularly known as balanced scorecard (Kaplan and Norton, 2000) as a vehicle to bring about change in the organization. The use of balanced scorecard provided the company a framework for selecting multiple key result area (KRAs) that supplement traditional financial measures with operating measures of customer satisfaction, internal business processes, and learning and growth opportunities. The use of balanced scorecard is a step towards linking 'short-term operational controls' to the 'long-term vision and strategy' of Tata Steel's business. It has got the support of the top management. The focus is on the strategy and vision. It compels Tata Steel to align its performance measurement and controls with the customers' internal business processes and learning and growth perspectives and investigate their impact on the financial indicators.

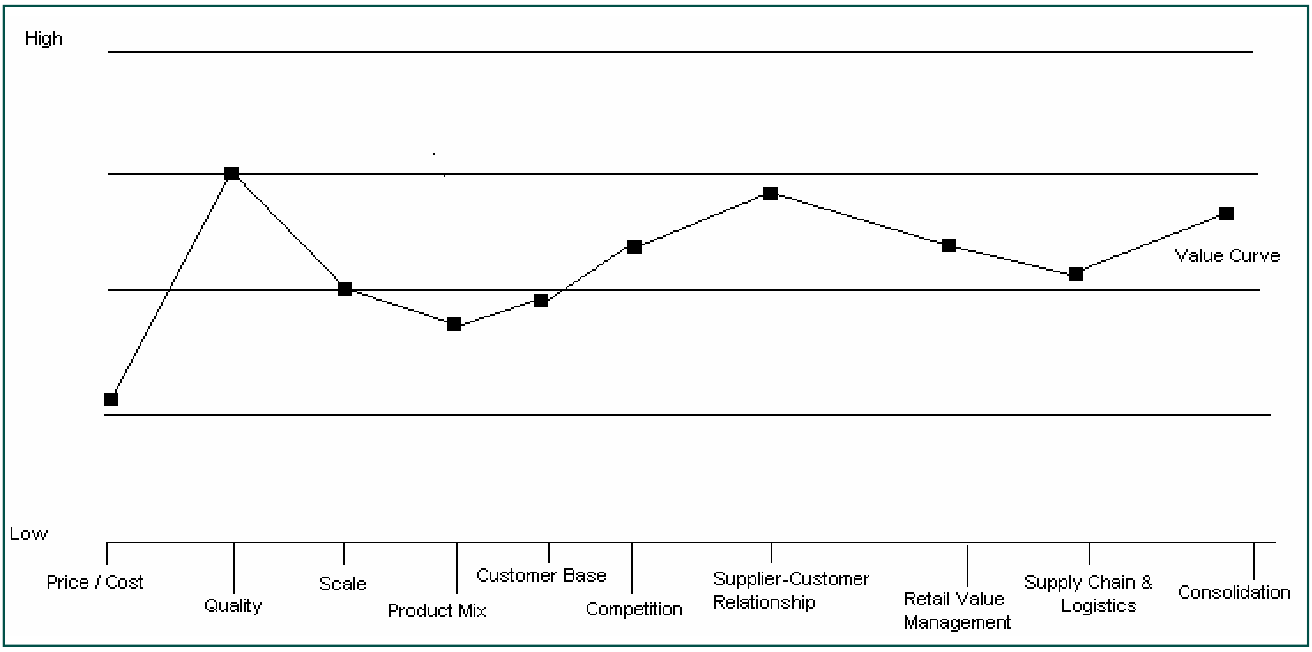
The value curve of Tata Steel in the strategy canvas framework (Figure 1) of Kim and Mauborgne (2005) clearly illustrates that the company's strategy profile is of blue ocean strategy. It has a focus on its relationships with customers and suppliers, quality, cost, and customer value management. The relationship with customers is not merely transactional but more of trust, support, stretch, and discipline.

The value curve of Tata Steel stands apart as they pioneered in making 'brands' out of its 'products' and 'products' out of 'commodities.' Tata Steel has identified value drivers such as brand, customer, technology, costs and quality, profits, consolidation, and image. Tata Steel has the mindset of customer lifetime value rather than that of one-time transaction with customer profitability. It has necessitated the use of activity-based costing in life-cycle costing framework.

Tata Steel has restructured itself around 'Flat Products' profit centre and 'Long Products' profit centre. It has rationalized its business market customers into three categories based on their off-take agreements to mange them profitably. The customer value management (CVM) initiatives for business markets and retail value management (RVM) for the retail segment at Tata Steel has brought their sales and marketing practices at par with the best in the world in global steel industry.

Tata Steel's strategy has clear-cut and compelling tagline — green operations and improve the quality of life of its employees and communities it serves. There has been a reversal of role-responsibility at Tata Steel.

Figure 1: The Strategy Canvas of Tata Steel



In the new contract, it provides competitive environment and growth opportunities to the employees. The empowered employees of Tata Steel are responsible for the company's competitiveness and their own learning. The top management supports employees' entrepreneurial initiatives and ensure their employability.

Tata Steel's success is attributed to values such as innovation, openness, flexibility, empowerment, customer orientation, risk taking, and willingness to take tough decisions. The company's Tata Steel's leadership has been effective, inspiring, visionary, and future-oriented. It has been successful due to strategy formulation and its effective implementation.

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Case Analysis IV

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Tata Steel came into existence in the year 1907 to fulfill the dream of Jamshetji Nusserwanji Tata. It is the largest private sector steel company in India. It has manufacturing facilities at Jamshedpur with a capacity of producing 5 million tonnes of steel products per annum. It has a range of products — hot-rolled coils, cold-rolled coils and sheets, construction bars and wire rods, tubes, bearings, etc.

The pre-liberalization period saw a high level of complacency that was amply reflected in the performance of the company. Post-liberalization and globalization brought with it intense competition, lower import tariff, market-determined prices, and a shift from a seller's market to a buyer's market. In order to cope with the competitive situation, the company analysed its strengths and weaknesses and diligently took steps to restore its performance and past glory.

The changes initiated at Tata Steel were at the operational as well as the strategic level. As a result of the changes, it became the lowest cost steel producer of the world. The company has adopted some of the world's best practices in operations, business processes, and marketing and, over the years, it has sought the best benchmarks for management, manufacturing excellence, operating practices, training, branding, customer, and retail value with the help of several leading consultants. It has also set a benchmark in corporate social responsibility and corporate governance, by improving the quality of life of its employees and the communities it serves.

Today, Tata Steel desires to increase its capacity from 5 million tonnes to 30 million tonnes per annum and has an ambition of making a mark in the global market and be among the top steel manufacturers of the world. But, many key questions arise: How would it be able to tackle the emerging competition in the domestic as well as the international market? How should it manage global prices that are enviably low? Where would it get the human resource from? How should it tackle the structural problem? In other words, what should the company do in the current scenario and sustain the momentum?

The following issues would need to be addressed by the company:

- Expanding the capacity and operations through acquisitions in the domestic market
- Entering new market segments hitherto unexplored
- Exploring opportunities in international markets
- Gaining control over logistics
- Managing reverse logistics effectively
- Adopting new approach to marketing
- Focusing on the customer
- Envisaging the role of a leader
- Managing the partners (acquisitions and joint ventures)
- Managing HR (expatriation and localization)
- Managing global knowledge
- Changing organization design.

Capacity expansion: Demand for steel is on the increase as infrastructure development has taken a central place in the economy and this will provide the push that this industry needs. There is a clear increase in fund allocations for the infrastructure sector in the tenth plan (2002-2007) by the Planning Commission most of which are to be spent in the construction sector. The CII report states that besides the direct impact of this spending on the construction sector, this would also have a cascading effect boosting the demand in other core sectors such as cement and steel thereby having a positive impact on the Indian economy as a whole.

Further, as Indian steel consumption is increasing at the rate of 5-6 per cent every year, the company should cash in on this opportunity. Passenger car sales and consumer durable sales, are also on the increase. Therefore, Tata Steel should expand its production capacity at the existing plant in Jamshedpur and also set up greenfield steel plants at appropriate locations. Also, it should look at opportunities for acquisitions in the domestic market to increase its foothold in the domestic market and market share and also broaden the market segments covered.

Entering new market segments: Tata Steel should enter new market segments in India and also focus on improving its product mix. A considerable growth has been observed in the construction (30-100%, *TOI*), capital goods (24.9%, June 13, 2006, *TOI*), automobile (29.6%, June 10, 2006, *TOI*), consumer durables (10.6%, June 13, 2006, *TOI*), and the manufacturing sectors (10.4%, June 13, 2006, *TOI*). These are the segments it should concentrate on. Also, the construction industry opens up new opportunities that should be tapped. The developed countries have for long been using steel instead of concrete structures in the construction industry. It would provide ample benefits like less time in construction, life-cycle cost benefits, earthquake resistance, and more acceptance because of ease of customization. Tata Steel should promote this concept.

To increase its product mix, Tata Steel could enter into joint ventures or acquire other existing companies which are in different product segments.

Exploring opportunities in international markets: Even though Tata Steel can meet its growth aspiration in the domestic market itself, it should look at the world market as a strategic option. This is because the steel industry is increasingly becoming global. Over 25 per cent of the world's steel production is being traded globally. The minerals business is also conducted globally. While iron ore has been traded for almost over a century, ferro alloys have been traded for decades now. Also, in the steel industry, the regional prices are increasingly being set by the global trends.

Though Tata Steel has been exporting its products for more than 25 years now, to fulfil its ambition of expanding in the global arena and becoming one of the top steel manufacturers in the world, it is important *how* Tata Steel positions itself in the globalizing steel industry.

Strategically, Tata Steel is advantageously placed to dominate the world market. This is because natural resources like iron ore and ferro alloys are not available in plenty in too many countries (unlike India) and Tata Steel has its own captive resources of iron ore, coal, and limestone. This is one of the biggest strengths of Tata Steel. This helps the company keep the costs low as against the high cost of fuel and power.

Secondly, not many steel plants can adapt to market conditions as well as Tata Steel. It has created benchmarks in production, operations, and marketing and it can use its business and management prowess to replicate its success all over the world.

Further, business cycles are an inherent feature of any industry and by going global, the company will be able to hedge against the impact of business cycles wisely by moving and expanding the markets beyond the shores of India.

At this juncture, the first key question that arises is which are the markets to enter. Tata Steel could enter new geographical territories by analysing the markets/demand for steel in the world market. It could further capitalize on those countries that are net importers of steel, for instance, China. The Indian sub-continent, South East Asia, and other developing countries are the other markets where opportunities can be explored. The US is also a large market with a population of 300 million people where the demand for steel is high.

The need of the hour is to evaluate each one of these markets in terms of its characteristics and decide how to serve them. This involves a decision of critical importance — how best to serve these markets and where should steel be manufactured taking the cost and logistics for service and delivery into account.

Tata Steel could enter these new markets through joint ventures or acquisition of the other company. It can enter even *by establishing new entities* in those countries. For instance, South American countries provide an ideal environment for such a venture. This is because it is rich in iron ore and other non ferrous metal deposits and its proximity to the US market would help in servicing the US markets (which is a high steel consuming country but would be costly to set up and operate a plant there.). South Africa provides the benefit of low cost power and low labour cost and thus helps to create a transnational value chain which is further supplemented by a logistics solution model to maximize returns on delivery to the customer.

A joint venture/acquisition could be initiated with global leaders in different product segments. This would combine the strengths of both in steel production, offer a comprehensive range of steel products for different sectors, and help in achieving wider global presence. The acquisition/joint venture, however, should have a strong fit with the strategic expansion plans of Tata Steel and should bring in significant strategic benefit in the future. Further, Tata Steel has to manage these alliances and post-acquisitions scenario very intelligently.

Another option would be to create production base at home and value addition in different countries which are close to markets. India has an abundant supply of raw materials like iron ore of very high quality and Tata Steel owns iron ore mines, collieries, and chromite mines. It would, therefore, make tremendous sense to make steel making facilities in India and finishing facilities in the consuming countries.

Gaining control over logistics: Logistics plays a very critical role in the domestic as well as in the international scenario. Domestic demand as well as global demand for steel is increasing and, therefore, there is a need to create a strong base for industry-specific investment in infrastructure. Matching infrastructure facilities is needed in power, surface transport, and port handling.

Logistics has emerged as an important area of management for Tata Steel. This could involve development of ports, ease transportation to and from ports, rationalization of inland freight rates charges, higher road movement facilities, etc. Therefore, it needs to concentrate on developing rail connectivity from the port to the nearest station, acquire corridor land to establish rail track, connect port by road and upgrade roads, develop ports by building capacity to accommodate large ships of great depth, and also upgrade technology to handle cargo in a more efficient manner. The basic aim would be to have an excellent logistic network developed to add to the efficiency of operations.

Tata Steel could also enter the shipping business and manage chartering, freight forwarding, clearing business, and also maintain its own fleet. Gujarat Ambuja is already following this strategy of maintaining its own fleet.

Managing reverse logistics: Tata Steel could focus on reverse logistics by using roadways within the country and by its fleets of ships in the export markets and thus save on logistics costs (logistic cost is a very high component of total cost of a product). It would be able to do so better if it develops a private port of its own and maintain its own fleet of ships as suggested earlier. It could tackle the pressure on prices by keeping logistics cost low and making efficient use of reverse logistics.

***New approach to marketing*:** The old mindset of selling steel has to change. Being market savvy is very essential to succeed in a competitive environment and, therefore, revamping the marketing and other related departments within the company is the need of the hour. Tata Steel has rightly put in efforts for branding steel products that were traditionally considered a commodity industry. Further, the company should increase the number of brands and also propose sub-branding of its products. Since the Tata brand value exists in the export markets, it should also sell steel as a branded product in international markets too. Further, it should treat its steel product like any other FMCG product and distribute it based on the FMCG model. Therefore, it should concentrate on developing the retail network to reach its customer better.

This would involve a total revamp of the distribution set-up as well as development of selling and distribution skills among its personnel.

Focusing on the customer: As it is true for any FMCG and branded product, selling steel also brings focus on customer orientation in a big way. In order to enhance customer service, Tata Steel should initiate CRM exercise to improve relationship with its customers, develop loyalty, and ensure long-term contracts and commitments. Suppliers upstream and customers downstream have to work hand in hand with the manufacturer to bring down cost, be responsive, and add value at each channel and bring benefit to the supply chain.

Role of a leader: The traditional mindset of starting a business in the domestic market and then gradually expanding to other countries has become completely obsolete. There has emerged a new wave of managers and leaders who can quickly build a company and take that company global. They start up in many countries at once so that, within a year or so, the company has a business in various parts of the world. Such leaders believe that success depends on serving clients worldwide. At this juncture, the Tata leadership needs to ask this question: How can we best reconfigure the business system on a global basis?

This would lead to a dispersed business model with different activities (operations, marketing, procurement, research and development, customer service, etc.) spread around the world rather than a series of local clones. They also lead to an emphasis on rapid growth, since a dispersed business model only works when all the pieces are in place. To conclude, Tata Steel needs to grasp opportunities on a global basis in order to achieve rapid international growth.

Acquisitions and joint ventures: Acquisitions are the fastest way to growth. However, finding an attractive takeover candidate is not enough—Tata Steel will have to manage the integration process, capture operational advantages, and cultivate the skills and expertise of a new workforce.

Joint ventures are another way of building a global position rapidly. Such partners bring expertise about the local market, have an established base of customers, and have connections with local stakeholders including government authorities, schools, etc. Such ventures also help share costs and reduce the risk of foreign investment. Yet, various firms have discovered that making alliances work is tough. Successful alliances are based on effective relationship building among partners. They call for skillful negotiation and preparation; communication, trust building, and conflict resolution; staffing and resource sharing during the alliance's formative stages; and the ability to secure resources at later stages. Tata Steel has to manage these relationships diligently and intelligently.

Managing human resources: The scarcest resource for a company expanding internationally is human resources. A strong global position demands excellent local staff. In the present times, attracting and retaining outstanding talent has been found to be a difficult proposition for a domestic company and the challenges multiply when expanding abroad. The best companies have built two capabilities—expatriation and localization.

Expatriation means sending managers abroad on a long-term assignment. This approach is slow, wasteful, and expensive. Tata Steel can take a more pragmatic approach. The human resource department could determine the staffing needs in each new market and meet those needs with a combination of short-term technical visits, six-month secondments, and a handful of two-year assignments. Or, it can create a special pool of employees who are hired and trained with the expectation of going abroad. In this way, the company's domestic operation would not find its employees being poached.

Localization means quickly bringing local citizens into responsible positions, making full use of their talent, and also reducing the need for expatriates. Historically, firms are poor at localization. They are stuck in a cycle of sending expatriates abroad and then replacing them with new expatriates. Several years after entry, they still have expatriates in key slots who turn out to be expensive to maintain, demotivated, detached, and out-of-touch. Companies like Motorola and BOC Gas make a deliberate effort to localize management either by hiring local managers from the outset or by insisting that expatriates replace themselves with local managers.

Tata Steel being a Tata Group company, it could resort to localization by pulling employees from its own group company. These employees would already be familiar with the culture of the Tata Group companies. This way it could meet the localization needs in an effective manner.

Global knowledge management: The best global companies excel at sharing knowledge. Knowledge management and organizational learning are not new concepts but rapid international growth calls for these two skills. Entering many countries simultaneously means one cannot rely on individuals posted in one country and then moving to another to transfer expertise. Rapid entry means a systematic approach to start-ups. After entry, companies have to apply the experience of one market to others. New countries are sites of knowledge creation and become sources of expertise for use elsewhere. Each new action must benefit from acquired learning elsewhere in the world. The key to reaping a big return is to leverage that knowledge by replicating it throughout the company so that each unit is not learning in isolation and reinventing the wheel again and again.

Tata Steel started the knowledge management (KM) initiative in the late 90s. It was the only manufacturing company in India to have implemented KM. Its management expects KM to play a key role in establishing intellectual assets, rather than physical assets, as the growth driver of the company. It could extend this on a global platform.

Changing organization design: As companies expand abroad, their organizations may have to adapt its structure, system, and culture continuously. Therefore, Tata Steel will have to monitor its strategic needs continuously and change its design to match with the changing needs of the organization. The organization structure, system, and culture should have a fit with the emerging environment.

CONCLUSION

Globalization is the order of the day. Post-globalization, Tata Steel took this as an opportunity for restructuring its business portfolios and seriously took up an exercise of effective cost-cutting bringing about substantial techno-economic improvements and making efforts towards becoming a lean and an efficient organizations. In order to become globally competitive, it took steps towards becoming the 'lowest cost producer.' Also, the product mix shifted focus from targeting low-end commodity steel to high-end specialized products. A realization has dawned that the company can prosper in the domestic as well as international markets by selecting the right strategy and improving efficiencies across the entire value chain in an integrated manner.

Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives.

—William A. Foster