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Profit and purpose: The ongoing clash

The ideal situation for Tata Trusts is to let go of the controlling interest in Tata Sons, thereby unshackling the commercial arm from the charitable burden

Much has been written on governance in the Tata group in the context of the announcement of N Chandrasekaran's intent to step down as executive chairman of Tata Sons in February next year. This gives an opportunity to examine the complex relationships among businesses that have the sole purpose of maximising shareholder wealth and philanthropy carried out from the profits of the businesses.



REPROSPECT

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Unlike many foundations that have emerged out of profits made by the corporation, the house of the Tatas is differently structured. Here, charities directly hold the controlling share in the holding company — Tata Sons. The accountability frameworks of the philanthropic organisations and businesses are different and their incorporation is also under different statutes, making the structure work at cross-purposes and it is natural for cracks to appear. That it did not appear in the Tata group for more than a century is a miracle, but that miracle can possibly be explained by the convergence of leadership in both arms.

Things changed after Ratan Tata introduced a rule de-mutualising the leadership of the commercial and philanthropic arms, ensuring different persons headed these entities. With two strong personalities heading them, this design results in formal negotiations between the two arms. The relationship between a trust owning majority stakes and a commercial conglomerate is like the relationship between the government and Reserve Bank of India — symbiotic and adversarial at the same time.

From the perspective of Tata Sons, the commercial arm, the profits of the conglomerate should be applied only to grow the businesses in the long term. Therefore, it has to conserve capital for emerging opportunities, sustaining bleeding businesses with a turnaround plan, and for frontier businesses needing capital burn. The distribution of profits is a result of the strategic objective of the commercial arm.

Tata Trusts would want a continuous flow of resources to carry on their philanthropic activities at scale, particularly when they have committed large multi-year grants. It is possible that Tata Trusts fund activities that are inherently anti-business: Like environment or worker rights. Recall that some protestors against the Nano plant in Singur, West Bengal, were direct or indirect beneficiaries of Tata Trusts. If the Tata Trusts is autonomous, then there is only an occasional convergence with business interests.

An experiment of achieving a social objective using business as a tool is found in the case of United States-based company Patagonia, where the purpose of the business is to work for environmental causes. For years, Patagonia was family-owned and-controlled, helping it to easily put its cause above profit. Even now, the new structure of Patagonia is wholly owned by a trust dedicated to the cause. It is solely held by the trust and will not list. This design works so long as ownership is closely held and board meetings happen over dinner tables!

When two arms work at cross-purposes, the only way to resolve the contradiction is by having a common leadership or a high level of convergence. This helps in rationalising the purpose, taking a shifting position: Sometimes compromising cause in favour of profit; sometimes forgoing profit for the "purpose". A towering leader can manage dissent from either of the interested parties so long as she is not consistently favouring one cause over the other. Ratan Tata, who, in the first phase of his leadership, consolidated his position to be the undisputed leader of the group, had the aura and the authority to do this. The moment power demutualised between the corporation and Tata Trusts, stress came out. While stress is on priorities, it manifests itself in personalities. If the personalities are accommodative, it works; if they are not, it does not.

If we look at other philanthropic foundations, most of them were built out of distributed profit, or the stake sale in the commercial arm that formed the corpus, thereby demutualising the commercial and the philanthropic arms. New-age philanthropic organisations like the Gates Foundation, Nilekani Philanthropies, and Azim Premji Foundation have all set up their philanthropic initiatives from the profits that were distributed by the commercial arms or by stake sale. Going forward, that is the only route for the Tatas, irrespective of their resistance to pare the stake and avoid listing. The only other way is to have convergence between the charitable and the commercial arms through common leadership that has the moral authority. Noel Tata could have played the role that Ratan Tata played in his early days at the helm of the Tatas. However, given the changes brought about during Ratan Tata's time, this convergence looks difficult. With the Shapoorji Pallonji group wanting liquidity, any resistance is only postponing the inevitable.

The ideal situation for Tata Trusts is to let go of the controlling interest in Tata Sons, thereby unshackling the commercial arm from the charitable burden, while continuing to enjoy the profits from the residual stake. Listing Tata Sons would bring in diverse commercial interests on board. A significant minority stake of Tata Trusts may allow it to have some boiler-plate powers on exceptional decisions while the routine decisions should be dictated by commercial interests.

A stake sale by Tata Trusts will also help it to have a larger corpus that could be used to balance the unequal dividends that flow from Tata Sons on an ongoing basis. It will also avoid instances like the current stalemate of Tata Trusts not being able to find a nominee to represent it on the Tata Sons board because of an intervention of the charities commissioner with respect to one of the trusts. This negatively affects the interests of Tata Sons and the commercial arm. De-mutualising the substantial and material part of the relationship between Tata Trusts and Tata Sons is a lasting design solution. Obviously legacy, sentiment, traditions and egos come in the way of rational design arguments.

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