

EXCELLENCE IN INDUSTRY THROUGH LEADERSHIP

Dr. J. J. IRANI



FORUM OF FREE ENTERPRISE

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"Free Enterprise was born with man and shall survive as long as man survives".

— **A. D. Shroff**

1899-1965

Founder-President

Forum of Free Enterprise

EXCELLENCE IN INDUSTRY THROUGH LEADERSHIP*

By Dr. J. J. IRANI

It is an honour and a privilege to have been asked to deliver this prestigious lecture. Growing up as I did in Nagpur, where A. D. Shroff paid occasional visits, it would never have crossed my mind that one day I would be privileged enough to deliver a lecture in the memory of a visionary like him.

I am not sure that I deserve this honour. I have spent my life in the mundane world of metals, materials, men and management, lived my life by a few old-fashioned principles and derived a few simple, rudimentary lessons from my four decades in the business of creating value. Can what I say illuminate any of the weighty issues and doubts that assail all of us today in this era, where an information overdose coexists with more uncertainty than ever before?

Let me just give you a sample of the doubts and uncertainties that, I am sure, plague all thinking individuals:

* This is the text of the 35th A. D. Shroff Memorial Lecture delivered by the author under the auspices of the Forum of Free Enterprise in Mumbai on 1st November 2001. The author is Director, Tata Sons Ltd., and is a former Managing Director of Tata Iron & Steel Co. Ltd. (TISCO)

- Ever since the Renaissance and the Reformation in Europe put the individual at the centre of the Universe and Adam Smith followed up with the Wealth of Nations, the “unseen hand” has increasingly come to be regarded as the best allocator of society’s resources, and profit as the best indicator of those resources being allocated most efficiently. But can the single-minded pursuit of profit truly make anybody happy?
- Urbanisation and technology are leading to the increasing atomisation of society, creating growing alienation and powerlessness. Simultaneously, economic value creation is getting more and more concentrated in what we know as corporations. In such a situation can corporations be said to be discharging their social responsibility if they focus on maximisation of returns to their shareholders, or do they have larger and broader social responsibilities?
- Advances in technology has made globalisation a reality, but is globalisation good for all mankind or is it, as its critics say, making the rich richer and the poor poorer?

These are not just a few random doubts I have plucked from the vast universe of doubts that assail man today: these are issues that are germane to the topic that I have been asked to speak on: Excellence in Industry through Leadership.

As I understand the topic, at the core of it is the question: what is the purpose of being in business? The answer to that question defines what I understand by Leadership. And once we define Leadership, we can get into the semantic of what is excellence.

To be sure, the questions I have raised are not new issues for leaders in business. Years ago, David Rockefeller, reflecting on the challenges confronting US business, in a speech to the American Bar in 1972, had said:

“A typical executive may be picketed on Monday by a group denouncing big business for trying to run the country. On Tuesday he may be urged by minority group leaders to take over and operate the public school system. On Wednesday a delegation of environmentalists may seek to close one of his major plants. On Thursday community representatives may arrive to press for the creation of more jobs and training in the plant’s area. By Friday he may speak in understandable desperation to his company’s lawyers for help in dealing with Monday, Tuesday, Wednesday and Thursday.”

Rockefeller’s words remind me of the days when I used to be the Managing Director of Tata Steel, wrestling with the manifold issues of managing a work staff which earlier was more than 70,000, a city of nearly a million people and dealing with a state government of more than 80 million! And, of course, a series of actual or self appointed leaders, of various hues and dispositions.

As I said in the beginning, I have lived my life by a few principles and derived a few lessons, and it is these principles and lessons that form the web and weave of what I am going to say.

Let me outline the five basic tenets that I have believed in and tried to live my life by:

1. The primary aim of industry should not be to make money. The aim should be to serve customers and other stakeholders-the result would be to make money. And pursuing excellence would enable it to create even more wealth.
2. The wealth thus created should be made available for the benefit of the community and the Nation.
3. In the creation of wealth, care must be taken to not only protect the environment but enhance it so that this world, which, as they say, we have borrowed from our children, is left in better shape for them.
4. Leadership in business is living by these ideals and leading by example.
5. In today's world the only constant is Change. Leaders must, therefore, anticipate Change, drive it, make it acceptable to all stakeholders, and turn threats into opportunities through their Vision and their Action.

Put like this, it all sounds very simple and very doable but I assure you, and I speak from experience, a life

lived by these precepts is a life full of striving and learning and occasionally, fulfillment and satisfaction.

In one sense, I was lucky: I was born into the Tatas and early on was made familiar with the philosophy of doing business the Tata way. Therefore, I hope you will bear with me as I dip liberally into the heritage of the Tatas as I fill in the theme of my talk-I really have no choice, because it is the only business house I have any personal experience of.

The life and times of the founder of the Group, Jamshetjee Nusserwanjee Tata, still continues to inspire and guide us. I don't wish to give you a condensed biography of our Group's founder, but allow me to highlight a few key aspects of his character which encapsulate how he saw business in holistic terms, lived his philosophy of business, and left behind a rich heritage of ideals which still light our way.

First of all, there was his patriotism. Before he was anything else, he was a patriot. He was, as Russi Lala has put it so well in his excellent book on the Tatas, "The Creation of Wealth", "a nationalist long before this word had any significance".

But he was a nationalist with a difference: he was perhaps the country's first business patriot. He realised that true freedom would come not just with political freedom, but with harnessing the forces of science and technology into the economy of the country to improve the life of the people of India. As The Times of India wrote in his obituary: "The advancement of India and her myriad peoples was with him an abiding passion."

Most of us love our country as much: Jamshetjee Tata was different because he was also a visionary and a pioneer. He was clear that if India was to realise the potential of its resources, human and material, it must use the latest in science and modern methods for its businesses.

Hence, when he wanted to go into steel, he went to the then home of steel, Pittsburgh, to get the best experts. When it was argued that India was doomed to be a producer of raw cotton and only Lancashire had the climate to produce yarn and cloth from cotton, he searched India high and low for the best site where he could duplicate Lancashire's conditions. Finally he chose Nagpur for his first manufacturing venture, the Empress Mills, because it was close to the cotton growing region and installed sprinklers in the factory to simulate Lancashire's humidity! He took every opportunity to visit industrial exhibitions the world over to personally see the latest inventions in industry and gadgetry, which he would then bring home to show his countrymen.

He was perhaps among the first few entrepreneurs worldwide to realise that empathy for the needs of the workers is sound business practice. Time does not permit me to detail the many firsts in labour welfare he established in the textile mills that he owned and managed or, in following on this philosophy, the firsts that the Tatas created in industrial relations in Tata Steel. Suffice it to say that Jamshetjee Tata had envisaged provident fund and pension schemes for workers at a time when such concepts were alien even in the west.

But perhaps the best illustration of his vision is in the letter that he wrote to his son, Dorab, about what the city around the steel plant should look like. He wrote:

“Be sure to lay wide streets planted with shady trees, every other of a quick-growing variety. Be sure there is plenty of space for lawns and gardens. Reserve large areas for football, hockey and parks. Earmark areas for Hindu temples, Mohammedan mosques and Christian churches.”

As can be expected, the founder’s successors had absorbed the lessons well. In the early 1920s, Tata Steel was, not for the first or only time, faced with a crippling cash crunch. Speaking then to the shareholders, R. D. Tata, father of JRD and a relative of Jamshetjee and co-founder of Tata Sons along with him, said: “We are constantly accused by people of wasting money in the town of Jamshedpur. We are asked why it should be necessary to spend so much on housing, sanitation, roads, hospitals and on welfare. Gentlemen, people who ask these questions are sadly lacking in imagination. We are not putting up a row of workmen’s huts in Jamshedpur—we are building a city.”

Almost 80 years after those words were spoken, these ideals still inspire us in Tata Steel. I do not exaggerate when I say that the quality of life in Jamshedpur is perhaps the best anywhere in the country and not a small part of that is due to the fact that, irrespective of how the company’s business is doing, Tata Steel spends Rs. 100 crore annually on the township’s maintenance and other services.

It was again the founder who established one of the other hallmarks of the Tata Group: absolute insistence on standards of integrity. Luckily for him, he lived at a time when integrity was not seen as a virtue fast going out of fashion. So, for him, having honest and straightforward principles underlying all his business dealings was a fairly uncomplicated matter.

But for JRD Tata, who lived in a less straightforward era, the principle carried a business cost, and he was aware of it. But did that ever pose a dilemma for him as he presided over the Group's destiny for over half of the last century? He was asked what would have happened if the Tata philosophy was like that of some other companies which do not stop at any means to attain their ends. His reply: "I have often thought of that, and I have come to the conclusion that if we were like other groups, we would be twice as big as we are today. What we have sacrificed is 100 per cent growth. But we wouldn't want it any other way."

Jamshetjee Tata was also a pioneer in yet another respect and this, I believe, was the most far-reaching of his beliefs. At a time when Karl Marx was exhorting the workers of the world to unite because they had nothing else to lose but their chains; decades before the more enlightened among the industrialists in the US and England devoted any serious thought to the social responsibility of business, Jamshetjee Tata had worked out the purpose of business: he was clear that for free enterprise to prosper it must serve the needs of society. Society, he believed, has merely invested

Business with its trust for creating value most efficiently; Business is thus no more than a trustee and what comes from the people must go back to the people.

To us in India this proposition may not seem so unusual because this is what Gandhiji exhorted to the best and brightest from our business community who were associated with the struggle for independence. But if for a moment you step back and think of how capitalism was regarded globally through the better part of the last century and, indeed, even now is regarded by many, you would realise that for somebody to work out the umbilical link between business and the needs of society a whole century ago – when capitalism in its home was in the clutches of the robber barons and barely out of the horrors so graphically depicted in the books of Charles Dickens—I believe that needed extraordinary vision.

Am I saying, therefore, that profits do not matter? Am I saying that business has only a social purpose? As you are undoubtedly aware, there is a very large and influential body of thought, mainly represented by the US and UK business, financial and academic community, which believes passionately that business should focus only on maximising profits. As the economist Milton Friedman famously said, “the business of business is business”. The underlying logic of this argument is that pursuing the objective of profit maximisation ensures the most efficient use of resources, and if everybody in business does that, society is most benefited because it means its resources are being optimally utilised.

I can honestly say that in my many years as a senior member of the Tata Steel management, and then nearly a decade as its Managing Director, and now at Tata Sons, there has never been a dilemma in my mind on this score. Let me make one thing clear: it is not that I have ever had any doubts about the importance of profits as a motive for doing business. Whatever the shortcomings of the profit motive, it continues to be the best proven method to spur the efficient production of necessary goods and services.

Jamshetjee Tata was never diffident about making profits. He would pay the greatest attention to the minutest of details wherever he spotted a business opportunity, and then he would ensure that his offerings had the highest quality for which he would charge commensurately high prices. Were his business philosophy to be expressed in today's jargon it would be: Delight the customer with services and products so that he stays with you and is happy to pay a premium for them.

But an obsession with maximising returns to the shareholder to the exclusion of the interests of all stakeholders is, in my view, taking a very short-term view and, in the long term, a recipe for disaster.

Now, decades after the Tatas established their way of doing business with social responsibility as the central focus, more and more major companies in the US and UK are incorporating corporate social responsibility into their very business strategy. To quote Rockefeller yet again: "The history of the free market system amply

demonstrates that if any business resists the changing standards of society for any length of time, it will have little business to conduct.”

Perhaps nobody has done more in this area than Stephan Schmidheiny, the Swiss entrepreneur who founded the World Business Council for Sustainable Development and was the main business consultant for the first Earth Summit in 1992. Today, the World Business Council for Sustainable Development has more than 150 members in over 30 countries who share its business philosophy that the only sustainable business philosophy is one that does not mortgage the ability of future generations to meet their needs in fulfilling the needs of today's generation.

The lead in this movement in the West for what goes by various other nomenclatures like Responsible Business or Corporate Social Responsibility, not surprisingly, has been taken by companies whose businesses have had a major bearing on the environment. Shell and British Petroleum were among the companies which saw the light early. Today, they and companies like Du Pont, Norsk Hydro, Unilever, Hewlett-Packard and Ford are in the forefront of this movement.

Their business philosophy is perhaps best summed up in the words of Carly Fiorina, the chairperson of H-P, in a stirring speech she recently gave on the new demands on business leaders in the wake of the September 11 attacks in the US: “The winning companies of this century will be those who prove with their actions that

they can be profitable and increase social values—companies that both do well and do good. In fact, business leaders will no longer view doing well and doing good as separate pursuits, but as one unified pursuit.”

In fact, the shifting between the winners and losers is already happening. As the World Business Council for Sustainable Development points out, returns to investors in the last five years to August 2001 from companies which believe in sustainable development outstrips returns from the general basket of companies. The Dow Jones Sustainability Index, which consists of the top 10 per cent of companies in 68 industry groups across 21 countries, has provided annualised returns of 15.8% against returns of 12.5% from companies in the Dow Jones Global Index.

In our own country, companies like Godrej, under the inspired leadership of the late S. P. Godrej, have had a sterling record in combining entrepreneurship with concern for the environment. Earlier this year we had the company which is perhaps No 1 in the list of every Indian, Infosys, walking away with awards for providing the best business leadership and for being the best corporate citizen. This is not a coincidence.

I could, at this point, turn smug and say that the world is now realising what the founder of our Group realised more than a hundred years ago. But I would be ingenious if I did that because, in fact, the founder and, for that matter, even Mr. J. R. D. Tata faced different challenges. The world then was not a global village; the

shareholder then was not as active, informed and demanding; technology then was not bursting on as many frontiers as it is today and, of course, the consumer was not yet king.

Today's business leaders have an unenviable task—perhaps one reason why many of them are being relieved of their responsibilities sooner than ever before by demanding shareholders. In their world, the only constant is Change. The world is not revolving any faster around its axis, but ask anybody in a leadership position and you will be told that it certainly seems to be spinning faster. The Internet achieved a penetration of 25% of all US households faster than any other technology in the past. China has doubled its national income in a phase of 11 years—and done this twice since it opened up in 1978—when Japan took double that time from 1950 and England took more than 75 years earlier in the last century and the USA took nearly all of the 19th century to do the same!

Today, Leadership is all about Anticipation, Communication, Motivation and Action. More than ever before, business leaders have to be ahead of the curve in anticipating threats and opportunities. Nike was among the first to see an opportunity in outsourcing manufacturing into low-wage countries, but it clearly did not anticipate the smear of “slave labour” from alert NGOs. Shell is not the same company it used to be before it got its reputation dragged in the mud because of Brent Sparr.

Back home, the Indian manufacturing industry is facing perhaps its greatest challenge ever. Ten years of

liberalisation have woken up everybody from the relative slumber of the days when marketing was not very different from rationing. And if there are pockets in Indian industry which have not still not seen the writing, India's full implementation of its WTO commitments, the certain expansion of the WTO umbrella to include services and agriculture, and the entry of China into the WTO fold will bring home to them, in the next two to three years, the "Full Monty", as they say.

Old people are always accused of being over nostalgic, of decrying the present in comparison to their "Golden Days" and envisaging nothing but Gloom and Doom in the future in the spirit of After Me the Deluge. Well, this Old Man, if ever I admit I am one, because age for me is an issue of the brain not the brawn, would like to be different. I wish I was 40-50 years younger because I believe that the youth of India have an opportunity not given to several centuries of generations before them to actually make the country matter on the world stage. Why do I say that?

One: For the first time in history wealth creation has become almost wholly dependent on what lies between the ears. Indian society has always valued learning, but Indian learning has not had the addendum of the benefits of industrialisation to turn that learning into wealth. In the age of the silicon chip, industrialisation is discounted in comparison to the intellect. This is an unprecedented opportunity to the land which

gave the world the “zero”, Aryabhata and C. V. Raman.

Two: Culturally, the very strong individualism, the abhorrence of discipline—all the qualities that are antithetical to the Confucian culture—that have been the bane of Indian society, could well be the strengths in tomorrow’s world, where, as they say, value will not be created by perfecting the known, but taking a correct call on the unknown. Few cultures are better placed to detect opportunity in that kind of world than the sub-anarchic Indian culture.

Three: Values will matter than ever before for any business entity. Investors we have already seen are getting more values driven and being rewarded. For customers and employees it will increasingly matter what do you stand for. Where every brand is rapidly becoming a commodity, a corporation’s record in sustainable development, in social responsibility will become more and more a differentiator for the customer. And for the talent pool, what a company stands for is increasingly going to be the differentiator. The Indian business community has a strong tradition in this regard; what is more, the new champions in value creation are fully committed to upholding values.

So, what should be the mantra for Indian business? Just one. Go Global in every respect: in your ambitions,

in your commitment to business ethics, in your corporate governance, in your benchmarks for value creation, in your communication practices– in everything. In the Tata Group, our current chairman Ratan Tata has been repeating this Mantra internally for the last decade that he has been the chairman– continuing the tradition of Tata Group chairmen setting the highest standards for the Group.

At the Tata Group, we realise we have a long way to go: in our internal benchmarking only one company has reached the grade where it can claim to be an emerging world class company. But we have no doubt that the way ahead is to continue steadfastly on the path envisioned nearly 150 years ago by a scion of a Parsi priestly family. It is a path full of challenges and obstacles around which the temptation to take short cuts can be strong. But as JRD said, we will not have it any other way.

As Longfellow said:

**“Lives of great men all remind us,
We can make our lives sublime,
And departing, leave behind us,
Footprints on the sands of time.”**

*The views expressed in this booklet are not necessarily those of
the Forum of Free Enterprise.*

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

— Eugene Black

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