

Guest blog

What OpenAI can learn from the robustness of the Tata Group structures

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Noam Wasserman recently published an article in the Harvard Business Review headlined '*OpenAI's Failed Experiment in Governance*', going through a list of reasons for OpenAI's recent and very public debacle of ousting their CEO¹. He makes a case that novel governance models like the one adopted by OpenAI is inherently less predictable and "weird". But on the other side of the world, there exists a similar foundation owned company model which has not only survived the test of time but also grown stronger as its evolved. The Tata Group.

There are several entities that have run very successful foundation led company structure that are usually established when the founders wish to devote their wealth to charity over an indefinite period after their death. These include several Nordic examples like Ikea, Carlsberg, Rolex and others such as Bosch and Bertelsmann. Even more recent examples exist, like the Patagonia group, whose founder Yvon Chouinard irrevocably transferred his ownership of the company, valued at \$3bn, completely to a Trust last year². While merits of such a structure elicit debate, the financial performance of such companies have been shown to be at par with investor-owned companies while having lower risk³. This is counter intuitive with general economic theories of agency that suggests that they should underperform due to a lack of economic incentives of the firm⁴.

Even among all of these companies, the Tata Group stands out. Its trust led corporate structure is one of the oldest, resilient and financially sound – with a market cap of over \$300B today. The Tata Trusts today hold 66% of the equity share capital of Tata Sons, the principal investment holding company of the Tata

¹ <https://hbr.org/2023/11/openais-failed-experiment-in-governance>

² <https://www.nytimes.com/2022/09/14/climate/patagonia-climate-philanthropy-chouinard.html>

³ https://edisciplinas.usp.br/pluginfile.php/200280/mod_resource/content/1/paper-thomsen-and-hansmann---performance-v11---amsterdam.pdf

⁴ Fama, Eugene F., and Michael C. Jensen. "Separation of Ownership and Control." *The Journal of Law & Economics*, vol. 26, no. 2, 1983, pp. 301–25. *JSTOR*, <http://www.jstor.org/stable/725104>. Accessed 2 Dec. 2023.

companies. These Trusts' support philanthropic activities like education, health, livelihood generation, art and culture. Primarily established in the first half of the 1900s by Sir Ratan Tata and Sir Dorabji Tata after their deaths, these Trusts (- 13 today) have seen a shift in recent years from passive charity to a more active philanthropic role involving operations. The Trusts have also made institution building a priority, with several leading institutions of today - including the Tata Memorial Hospital, Tata Institute of Social Sciences and National Centre for the Performing - all set up by them.

The governance relationship between the Tata Trusts, the Tata Sons and the Tata Group companies ensure that a managerial distance is maintained between each of them while providing the ability for the Tata Sons to look at more long-term growth given less ownership pressures on profits⁵. The Trusts are not active owners and only nominate only up to a third of the directors to the Tata Sons board. The Trustees themselves are also do not have any major economic incentives with research into the overlap between the Trustees at the Trusts and the Directors at the Boards of the Group companies shown to be consistently less than 30%⁶ on average, further indicating a clear separation of roles. The Tata Sons' relationship with the Group companies is also at an arm's length distance, governed through its shareholding, Code of Conduct and Business Excellence Models. This ensures clear accountability, resilience at each level and a Chinese wall for good governance practices.

The Trusts' historically have been characterized by a limited representation of the Tata family where the Chairman of the Trusts was the same as the Chairman of the Tata Sons. However, post the tenure of Ratan Tata, these roles have been decoupled, ensuring better governance and focus on separate goals, following models established in industrial foundations in Europe⁷. While the Cyrus Mistry episode was a sour point in the long history of the group, the Supreme Court clearly adjudicated in favour of the legitimacy of the affirmative voting rights for the Tata Trusts nominees and the ability of the nominated Directors to legitimately hold dual fiduciary relationship both with the company and the Trusts, given the Trusts strong allegiance to philanthropic causes as opposed to commercial motives⁸.

⁵ Thomsen, Steen, Trust Ownership of the Tata Group (December 22, 2011). Available at SSRN: <https://ssrn.com/abstract=1976958> or <http://dx.doi.org/10.2139/ssrn.1976958>

⁶ Ibid

⁷ <https://timesofindia.indiatimes.com/business/india-business/tata-sons-tata-trusts-cant-have-same-head/articleshow/89554340.cms>

⁸ <https://www.klaw.in/tata-mistry-conflict-the-continuing-corporate-schism/>

The structure of the Trusts' and the Tata Sons' over nearly a century, has been a bedrock for sustainable growth with visionary leadership. With a strong value system and their origins in a Parsi community that valued philanthropy⁹, the Tata structure has shown to be fundamentally viable, that can focus on doing well while doing good – something that Open AI can do well to learn from.



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⁹ <https://www.cambridge.org/core/journals/modern-asian-studies/article/abs/good-deeds-parsi-trusts-from-the-womb-to-the-tomb/CC013640F68CF8BB882015452CB5A3E8>

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