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GENERATING VALUE BY SELLING STEEL: TATA TISCON TRAVERSES THE LIBERALIZATION DISCONTINUITY (PART A)

INTRODUCTION

While the Indian subcontinent has evidence of a glorious tradition of steelmaking since medieval times, under its colonial masters, the local industry languished without investments into its modernization, even as technological advances were abound in Western economies. A bright spark in this gloom was the nationalistic vision of Shri Jamsetji Nusserwanji Tata (**Exhibit 1**) and related active evangelization, wherein he personally scouted for appropriate human resource, commissioned search for natural resources and appropriate site in the country for a modern steel manufacturing unit. In line with his durable vision, Tata Iron and Steel Company (TISCO) was established in 1907, a few years after his demise. For the initial three decades of TISCO's existence, the general managers were all sourced from Americas for their expertise before gradually Indians gained leadership positions in the steel plant (**Exhibit 2**).

India's industry was in fledgling state at the time of its independence. The planners of the time chose to protect and grow the industry through strong regulations and policy interventions. This helped build up capacity systematically in the economy and also sowed

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The authors would like to put on record the active contribution of Mr. P Anand, Mr. Somesh Biswas and Ms. Kavita Mahto of Tata Steel's marketing department towards the writing of the case.

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the seeds of inefficiency, which were finally addressed during liberalization of the Indian economy in early 1990s.

The economic reforms initiated by the Government since 1991 have added new dimensions to industrial growth in general and steel industry in particular. Licensing requirement for capacity creation has been abolished, except for certain locational restrictions. Steel industry has been removed from the list of industries reserved for the public sector. Automatic approval of foreign equity investment up to 100% is now available. Price and distribution controls have been removed from January 1992, with a view to make the steel industry efficient and competitive.¹

The dramatic removal of controls on the industry spurred expansion at Tata Steel, which required them to look for newer ways of selling their enhanced production. Since independence, Tata Steel had operated with a certain kind of manpower for its commercial function, best suited to navigate the regulatory framework. With the abolishment of this License Raj, logic including advent of deregulated pricing, the organization needed a new method of selling steel. But the old guard of traditional channel partners from the trade markets continued strong and steady, demanding increasing share of the value that was getting unlocked in the liberalized economy.

It is in this context that the executives at Tata Steel were looking for a new framework to capture appropriate value for their organization.

¹ Source: <https://steel.gov.in/sites/default/files/DEVELOPMENT.pdf>