ITC Limited: The Strategic Transformation

A Case Study

“Sometimes, not taking a risk is the biggest risk” - Padma Bhushan Yogesh C. Deveshwar

1. Background

ITC Limited is a diversified Indian conglomerate headquartered in Kolkata that has a meaningful presence in all the three sectors of the national economy - agriculture, services and manufacturing. With significant interests in the Fast-Moving Consumer Goods (FMCG), Hotels, Paperboards & Packaging, Agri Business & Information Technology sectors, the company presently employs over 31,000 people across India. During FY 2016, ITC clocked annual revenues of US$ 8.31 billion and enjoyed a market capitalization of US$45 billion.

ITC is rooted in the philosophy of congruence of business and social purpose. The company is engaged in continuously refining business models that support competitiveness across the larger value chain. At the turn of the millennium, ITC redefined its corporate vision to put sustainability and inclusive growth at the top of its agenda. Supported by the bedrock of solid financial performance, the company crafted innovative business models that generated sustainable livelihood opportunities and simultaneously helped to renew ecological resources.

To foster sustainable and inclusive growth, ITC has spearheaded an Integrated Rural Development Program with four distinct objectives: (i) the dissemination of information and knowledge (ii) access to quality inputs and markets (iii) generating supplementary incomes, and (iv) the augmentation of natural resources. This intervention has enabled a comprehensive development of the rural ecosystem, empowered farmers and raised rural incomes.

To address the challenges of environmental degradation, ITC constantly strives to minimize its environmental impact – from leading-edge manufacturing processes in its factories to building the largest, greenest hotels in India, and making it a priority to clean up the eco-footprint of all aspects of its operations as far as possible as well as expanding its renewable energy portfolio. ITC is today the only company in world to be carbon positive, water positive, and solid waste recycling positive. Almost 47% of the energy consumed across ITC is from renewable sources.
2. The Genesis of the Institution

ITC Limited’s parent organization British American Tobacco (BAT) owes its origins to Mr. James Buchanan “Buck” Duke, who was in charge of a granulated tobacco factory in the United States in 1881. Buck Duke invested early into cigarette machinery, and his company captured 38% share of the US cigarette market by 1889. He then facilitated the amalgamation of four other companies with his own to form the American Tobacco Company (ATC).

Soon thereafter, ATC acquired a foothold in the British market. To counter the impending threat of competition, W.D. & H.O. Wills gathered all the major tobacco businesses in Britain to form the Imperial Tobacco Company (of Great Britain and Ireland).

This consolidation led to intense competition and internecine price wars in both the US and the UK markets. Dwindling profits finally brought the two companies to the negotiation table.

In September 1902, the two giants eventually consented to pull out from each other’s home markets. They also jointly established the British American Tobacco (BAT) Company in an effort to establish a presence and trade their products in territories outside of the US and UK.

At that time, these two partners in BAT held separate interests with respect to the manufacturing and selling of cigarettes in India, as also the purchasing of tobacco leaf. The American Tobacco Company had invested into a cigarette manufacturing facility at Munger in 1907 through Peninsular Tobacco, while the Imperial Tobacco Company was selling branded cigarettes in India through Dominion Tobacco and other companies.

The presence of British American Tobacco (BAT) in India was formally established in 1906 when two of its employees (Jellicoe and Page) landed in the country in search of an agent to distribute their Wills and Scissors brand of cigarettes. The duo began to educate people on the “pleasures of smoking cigarettes”, and advertised their products through moving musical trucks. Sales soared very soon, and an extensive distribution network came into being.

The Imperial Tobacco Company of India came into being in August 1910 when the British American Tobacco (BAT) decided to set up a full-fledged sales operation in the country. To cope with the growing demand, BAT set up another cigarette manufacturing unit in Bangalore in 1912.

In July 1912, BAT also established the Indian Leaf Tobacco Company (ILTC) to focus upon the local sourcing and processing of tobacco. To meet with the packaging and printing requirements of the cigarette business, BAT set up a packaging and printing facility in 1925. In 1939, ITC invested in duplex board while it entered the paper business in 1944. By the time ITC moved its headquarters to “Virginia House” in Kolkata in 1928, it was managing the entire gamut of BAT’s operations in India- consolidated under a single umbrella.
2.1 The Post-Independence Era

The years after Indian independence were rather challenging for the company. The Government of India levied excise duty on cigarettes in 1948, and the states levied other taxes. Taxation soon became the single largest component of the cost of cigarettes in the country. In order to sustain profits, the Imperial Tobacco Company raised the prices. As a result, the company’s brands lost market share to local rivals such as Golden Tobacco and National Tobacco. Between 1947 and 1961, ITC’s market share slipped from over 70% to below 40%.

Meanwhile, ITC began to reduce the number of expatriates on its rolls. Abdul Rub Sardar Hussain became the first person to be inducted as a covenanted Indian Assistant in September 1934. By 1947, there were 121 Indian managers comprising 44% of the management cadre of ITC. Tonny Drayton was ITC’s last expatriate to leave for home shores in September 1979.

Post-independence, ITC continued to invest in all the complementary businesses associated with cigarettes in India. In 1954, it entered the aluminium foils business. The company commenced the manufacture of cigarette making machinery in 1960, entered the fibreboard containers business in 1963, and began to manufacture cigarette filter rods in 1969.

That was also the year in which ITC appointed Mr. Ajit Narain Haksar as its Chairman. The company then began a journey that would make it a rare business enterprise with significant foreign ownership that wedded its own developmental goals with those of its host country.

2.2 The AN Haksar Era (1969 - 1983)

Born at Gwalior in 1925, Mr. Ajit Narain Haksar joined the Imperial Tobacco Company of India as a “management pupil” in 1948. Armed with a faith in market research that was acquired during his MBA at the Harvard Business School, he institutionalized the marketing function at ITC. Mr. Haksar was appointed as ITC’s Marketing Director in 1966 and Deputy Chairman in 1968, before being appointed as the company’s Chairman in September 1969.

Prior to accepting the responsibility, he is reputed to have asked the following three questions of the BAT senior management:

a) Which comes first – your company or my country?

b) Who runs the Company - BAT, or the Chairman and the Board of Directors in India?

c) Will ITC be required to do what BAT wants, or what its Chairman and the Board of Directors in India consider to be more appropriate investments with relevance to India?

Upon receiving suitable answers that helped to clear his conscience, he consented to become the first “Indian” to be placed at the helm of that flabby, foreign-owned organization with a colonial
mindset. Valuing style over substance, the company was struggling to maintain its market share. To his credit, Mr. Haksar led ITC’s metamorphosis into an aggressive, outward-looking corporation that was quick to spot and capitalize upon emerging opportunities.

In the early seventies, a strong nationalist undercurrent swept India. It resulted in much turbulence in the economic, political and regulatory environment of the country. Taking advantage of the prevailing sentiment, Golden Tobacco launched a tirade against ITC that sought to position the latter as a “foreign” enterprise that endangered indigenous firms.

The company responded by changing its name to I.T.C. Ltd in 1974, in order to symbolize the move beyond tobacco. It also drew up plans to enter the core industry sectors where the Government found it difficult to attract investment by big industrial undertakings.

After careful deliberation, ITC decided to diversify into Hotels, Paperboards and Marine Foods. While paperboards had linkages to the cigarette business, hotels and marine foods were potential foreign exchange earners. Being employment-intensive, the hotel business served the larger social needs of the country even as it utilized the company’s marketing expertise and consumer service skills in an industry environment where the competition was nearly absent.

However, the parent company held strong reservations about ITC’s ability to manage its diversification forays. For instance, when AN Haksar and his deputy Ramesh Sarin presented the plans for a paper mill to BAT, they were dissuaded from the endeavor. Nevertheless, ITC persisted in its endeavour. In July 1979, Sarin wrote the following lines to BAT in London:

“This letter is written on the first sheet of paper produced at Bhadrachalam Paperboards Limited (BPL). It is not indicative of quality, but it does signify human endeavor and enterprise. The project has been completed before time, and within the agreed budgeted cost.”

The diversification of ITC’s businesses was largely successful, except for marine foods. The company managed to hold on to its leadership in tobacco, while its hotels division quickly outstripped much older rival chains. The move into paperboard broke new ground in an area where no one had cared to invest for a decade. All this was accomplished with frugal resources during the “license permit raj” era, with the purchasing power of consumers being limited.

Mr. Haksar also sowed the seeds of ITC’s transformation into a vibrant company that not only enhanced shareholder value, but also contributed to the Indian nation at the same time. Combining corporate objectives with social responsibility, ITC moved into carpet exports in an effort to boost the income of weavers in Shahjahanpur. The company gave training to the artisans, improved the quality of the product, provided the weavers with wool, and sold the carpets abroad. The monthly income of the weavers rose ten-fold from Rs. 200 to Rs. 2,000.
Meanwhile, the Foreign Exchange Regulation Act was enacted in 1973. It restricted foreign equity ownership in any company to 40%. BAT was thus forced to dilute its stake in ITC.

Mr. Haksar built a robust and professional leadership team at ITC through significant investment into human capital. Training, coaching and mentoring and the development of long-term relationships became a part of the ITC’s DNA. High-potential managers were fast-tracked, and groomed for leadership roles through rotation across businesses and functions.

Mr. Haksar combined professional excellence with outstanding entrepreneurial qualities. His leadership philosophy was anchored in the following beliefs:

- Putting the interest of the nation ahead of the business pays in the long run;
- Putting the interests of the people ahead of your own interests helps build institutions;
- The building of sustainable businesses and happy teams helps in turn to build careers.

2.3 The JN Sapru Era (1983 – 1991)

After 14 years at the helm, Mr. AN Haksar passed on the leadership baton in January 1983 to his brother-in-law Mr. Jagdish Narain Sapru – overlooking the arguably more talented Mr. Ramesh Sarin. ITC’s diversification agenda progressed under Mr. Sapru’s watch, even though the company ceded some market share in its flagship cigarette business to nimble competitors.

ITC Classic Finance was set up in 1986 as a non-banking finance company. An Agri-Business Division was set up at Hyderabad in 1988, with the mandate to produce hybrid seeds, market edible oil and export agricultural products. In 1989, ITC acquired a 51% stake in Tribeni Tissues Limited. The company also opened Bukhara restaurants in the United States.

In the February 1987, the Union Government replaced the ad-valorem excise duty structure that was based upon the printed price of the cigarettes with a new frame work whereby excise was levied as a function of the cigarette length. With its strong portfolio of high-priced brands, ITC benefited the most from this change. The robust performance of Surya Nepal Private Limited (ITC’s Nepalese subsidiary set up in 1985) also helped to shore up its profitability.

However, in a deeply embarrassing development, the Anti-Evasion Directorate of Central Excise Department issued a show-cause notice to the company in March 1987. It charged ITC with tax evasion to the tune of Rs. 803 crores during a four-year period beginning in March 1983, shortly after Mr. Sapru had assumed charge as Chairman. It was alleged that ITC’s cigarettes were being sold in the market at a price higher than the printed maximum retail price. The company contested the claim, and a long-drawn legal battle ensued. Nevertheless, ITC’s professional and image reputation was significantly tarnished due to these charges.

The relations between BAT & ITC remained cordial and peaceful during Mr. Sapru’s tenure.
2.3.1 The KL Chugh Era

Mr. Krishan Lal Chugh joined ITC as an engineer at its Munger factory in 1971, after a ten-year stint at the Heavy Engineering Corporation, Ranchi. He made rapid progress up the corporate ladder. Under his stewardship, ITC’s Bhadrachalam project was commissioned within budget and ahead of time. On the strength of an impressive track record, Mr. Chugh became ITC’s Vice-Chairman in 1989 and was elevated as Chairman in November 1991.

Under Mr. Chugh’s leadership, ITC re-positioned each one of its seven major cigarette brands: India Kings, Classic, Wills, Scissors, Bristol, Gold Flake, and Capstan. The company also identified “financial services” and “global trading” as its new engines of growth.

ITC partnered with Peregrine Investment Holdings, and also tied up with BAT’s subsidiary Eagle Star Insurance. In international trade, Mr. Chugh’s aspiration was for ITC to emerge as a leading trading house along the lines of a Japanese sogosoha. He thus carved out the export business into ITC Global—a fully owned subsidiary company that was based at Singapore.

In 1993, the British Prime Minister John Major visited India as the chief guest at the Republic Day Parade. The BAT officials in his entourage broached the proposal of increasing the parent company’s stake in ITC from 31.5% to 51%. At the time, they are reported to have received positive signals from the Indian Government as well as ITC itself. However, when the BAT Managing Director visited India in March 1994 to progress the matter, neither of the two parties supported this move. This led to a souring of relations between BAT and Mr. Chugh.

In November 1994, Mr. Chugh unveiled ITC’s plans to diversify into core sectors such as power. This did not fit into BAT’s global portfolio, and was thus vehemently opposed by the parent company. A stormy Extraordinary General Meeting (EGM) held in March 1995 to seek the permission of the shareholders for further business diversification ended up in chaos.

On the eve of the EGM, BAT had issued a press statement that alleged “culpable financial irregularities” by the top management of ITC. It specifically called for the Chairman’s resignation. In turn, Mr. Chugh accused BAT of being interested in stripping ITC of its assets in order to further its own business interests. In his own defence, Mr. Chugh cited ITC’s impressive performance under his stewardship. Indeed, the company’s revenues had doubled and its profits nearly quadrupled during the four years that Mr. Chugh was at its helm.

The company’s auditors were tasked with investigating the financial irregularities alleged by BAT. Their report was a damning indictment of the way that ITC Global was managed. It held the Chairman and top management of ITC Limited responsible for the wrongdoings.
These financial irregularities were confirmed by an audit committee of the Board, which later concluded that ITC’s involvement in certain questionable deals had led to a drop in profits of Rs 261 crores for 1995-96. However, Mr. Chugh was personally cleared of all charges.

The political parties in India swerved to support Mr. KL Chugh against what was perceived as a hostile takeover attempt. What started as a battle between an MNC parent and its subsidiary eventually became a war between an individual person (Chugh) and a faceless corporation.

In a surprising anti-climax in September 1995, Mr. KL Chugh announced his decision to step down by the end of the year in the “best interests” of the company’s growth. He also took responsibility for the losses suffered by ITC Global. Soon, the Enforcement Directorate served a notice on ITC for alleged foreign exchange violations in its export deals.

In December 1995, after much jockeying between BAT and Indian Financial Institutions that were the two major shareholders of the troubled company, Mr. Yogesh Deveshwar was named as the next Executive Chairman of ITC. An eminently forgettable chapter in the company’s history thus came to a close, even as a positively memorable one was about to begin.

2.4 The YC Deveshwar Era (1996 – present)

Mr. Yogesh Chander Deveshwar was born in February 1947 at Lahore. He joined ITC as a “management pupil” in 1968, after graduating as a Mechanical Engineer from the Indian Institute of Technology, Delhi. In an early career break, he was invited to serve at the ITC Corporate Headquarters in Kolkata in 1972 as a “Management by Objectives” Advisor. In 1974, he was appointed as the Factory Manager of ITC’s Packaging and Printing facility at Chennai. He was promoted as the General Manager of this division in 1978. At merely 37 years of age, Mr. Deveshwar was appointed to the board of ITC in 1984 as the Director-in-charge of the Hotels Division. In 1991, he moved on lien from ITC to serve the Government of India as the Chairman and Managing Director of the national carrier Air India for three years.

Upon returning to ITC in 1994 as Vice-Chairman, Mr. Deveshwar’s mettle was tested in many ways. For instance, Godfrey Philips had launched the Four Square Specials brand of filter cigarettes that was making deep inroads into Gold Flake’s territory. In order to stop the intruder, a feasible option was for ITC to introduce a similar variant of Gold Flake. However, this ran the risk of downgrading its precious Gold Flake franchise. Nevertheless, against the advice of his entire divisional team, Mr. Deveshwar proceeded with the launch of Gold Flake Filter. Simultaneously, Gold Flake Kings was promoted to circumvent and possibility of brand dilution. The strategy worked splendidly, and Gold Flake’s volumes grew manifold over time.
Mr. Deveshwar became the ITC Chairman on the New Year’s Day in 1996, at a very precarious juncture. A public battle for the control of the company had ensued, amidst a huge smear campaign that battered ITC’s reputation. Its weak diversification performance over a period of two decades was facing severe criticism too. The company was also being probed by the government for large-scale evasion of excise duty, and for the violation of foreign exchange regulations too. He thus inherited a fractured organization, characterized by very low morale.

In an unprecedented move in October 1996, the Enforcement Directorate arrested former ITC Chairmen JN Sapru and KL Chugh as well as 12 top ITC executives. They were charged with under-invoicing ITC’s export deals so as to illegally retain foreign exchange abroad. This appeared to be a sinister attempt by the parent company BAT to discredit the local ITC management team, in an endeavour to take control of the company through the backdoor.

Mr. Deveshwar fought back valiantly. He appealed to the people as well as the authorities not to act on the basis of mere allegations and press campaigns, and made a public offer granting authorization for any “anybody to look at any bank account in the world”. People appreciated his sincerity. They began to see the truth, and swerved to support ITC and its leadership team.

Mr. Deveshwar thus managed to prevent BAT from taking control of ITC, and also ensured that BAT officials did not interfere in its operational management. On the portfolio side, he guided ITC’s exit from businesses that were not adding significant value. ITC Classic had reported huge operational losses that almost wiped out its net worth. The business was sold to ICICI at an “exit cost” of Rs. 800 crores. The company’s stakes in ITC Agro Tech and ITC Zeneca were sold to Conagra. ITC Global, the company’s trading arm, too faced liquidation.

On the other hand, significant investments were made in the company’s core businesses of cigarettes, hotels and paper board. ITC’s brand portfolio of cigarettes was rationalized to help the company emerge as a much stronger market leader, and its cigarette manufacturing facilities were significantly upgraded. The footprint of the hotels division was revitalized through a rebranding exercise, and expanded through the development of new properties as well as the enhancement of some existing ones. In the paperboards business, a state-of-the-art 100,000 tpa elemental chlorine-free fiber line was set up. To capture operational and strategic synergies, the paper and hotel divisions were folded back into ITC’s integrated structure.

ITC’s diversification activities resumed in the Millennium Year. It ventured into information technology through ITC Infotech, and also apparel retailing through the Wills Lifestyle stores. In 2002, ITC entered the packaged foods market under the “Kitchens of India” brand. Numerous launches in the confectionery, staples, snack foods and stationery areas followed.
However, ITC’s most significant innovation was to employ information and communication technology towards the establishment of the Choupal mechanism for the direct sourcing of agricultural commodities from the farmers. This Internet-based intervention selectively dis-intermediated the middlemen, who otherwise maintained a tight hold upon the agricultural value chain in rural India. It generated immense social capital for the company.

Mr. Deveshwar did a commendable job of bringing the organization back on the rails. Over his tenure, ITC significantly widened its engagement with the community through activities such as social and farm forestry, watershed development, women empowerment, livestock development and primary education in rural areas. The company also made significant and sustained progress with its ecology-oriented initiatives. It turned “water positive” in 2002, “carbon-positive” in 2006, and “solid waste recycling positive” in 2007.

Coupled with the company’s continued superior business performance by way of a CAGR of 23% in shareholder returns, these social and environmental achievements resulted in ITC becoming a global exemplar of Triple Bottom Line performance.

(Source: https://www.valueresearchonline.com/story/h2_storyView.asp?str=31390)

3. The Contours of the Transformation

Over a period of two decades starting in 1996, ITC has undergone a metamorphosis. Through its “Responsible Competitiveness” paradigm, the company built globally competitive capacity to create economic value whilst ensuring that the environment is nourished and sustainable livelihoods are created at the same time. The patriotic sense of ITC’s leadership also enabled the organization to become a National Champion that sought to actively serve the society.
ITC’s “commitment beyond the market” is evident in the range, scale and scope of its businesses, as also in its efforts towards creating multi-dimensional value for Indian society through sustainable and inclusive growth. This has led the company to innovate synergistic business models that build economic, ecological and social capital as a unified strategy.

While ITC continued to be the market leader in cigarettes, the company’s Paperboards business grew its capacity seven-fold in twenty years in order to sustain leadership in its segment as well as in environmental stewardship. The Packaging business has won global acclaim for excellence.

ITC’s hospitality business grew to over a 100 properties, with its signature luxury properties emerging as the greenest luxury hotel chain in the world and pioneering a new ethos of Responsible Luxury. ITC’s new FMCG businesses have crafted a vibrant portfolio of around 25 mother brands that collectively garnered a consumer spend of over Rs. 12,000 crores. These include the “Aashirvaad” brand of atta, “Sunfeast” brand of biscuits, “Bingo!” brand of snacks and the “Classmate” brand of stationery products.

As a result, ITC’s revenues have grown 10-fold over a period of twenty years to touch over Rs. 51,000 crores in 2016. During this period, the company’s Profit Before Tax grew 33 times to over Rs. 14,900 crores while the market capitalization grew 50-fold to touch Rs. 300,000 crores and the Total Shareholder Returns clocked a Compound Annual Growth Rate of 23%.

Further, ITC has also emerged as a large exporter of goods and services, with aggregate foreign exchange earnings of nearly US$ 6.8 billion in the last 10 years. 57% of these earnings were contributed by the company’s agricultural exports, thus creating value for the rural economy by effectively linking the small farmer to international markets.

Even as such sterling economic performance was remarkable by itself, ITC has simultaneously become a global leader in Sustainability Performance. Its large-scale, multi-dimensional societal value creation initiatives have helped to create sustainable livelihoods, empower local communities, and led to the conservation and replenishment of a sustainable environment for future generations – besides transforming many a life. ITC has progressively sustained livelihoods for over 6 million people, embracing the weakest of the weak in Indian society.

The company’s e-Choupal eco-system has benefitted 4 million farmers, and has been acclaimed as one of the world’s most successful rural empowerment programs. Its Afforestation programme has resulted in the greening of over 2,25,000 hectares of land, and has generated more than a 100 million person-days of employment for poor tribals and farm workers.

ITC’s agro-forestry initiative covers 25,000 hectares, and has helped to multiply farmer income and farm outcomes. It has also demonstrated that competing demands for food, fodder, fibre, fuel
and forest on India’s finite land can be largely reconciled on a single farm. Further, its Soil and Moisture Conservation programme has promoted integrated watershed development in moisture-stressed areas - covering 2.6 lakh hectares in 42 districts across 10 States. And the Animal Husbandry program of the company has serviced 1.3 million milch animals over the course of a decade, leading to improved productivity and supplementary rural incomes.

Over the years, ITC’s Women Empowerment Program has made an impactful difference to the lives of over 50,000 rural women. Further, over 10,000 women are currently being trained in entrepreneurial skills and provided with assets for income generation. The extensive intervention of ITC in strengthening the reach and quality of primary education has benefitted over 4,60,000 disadvantaged children. In addition, a Skilling & Vocational Training Programme has trained over 31,000 youth towards making them more employable. A Health & Sanitation programme has also been in operation for promoting a hygienic environment through prevention of open defecation, thereby reducing incidence of water-borne diseases. So far, over 15,000 low-cost sanitary units have been constructed across 20 districts in 10 states.

ITC’s “Well-being out of Waste” (WOW) program promotes extensive segregation and recycling of waste. It has mobilized the support of numerous commercial and industrial establishments, households and schools comprising 5 million citizens - including 5,00,000 students. The company’s Social Investments Programme, under the umbrella of “Mission Sunehra Kal” has covered 166 districts in 26 states during the year 2016.

The appreciation of these outcomes becomes even more meaningful when seen in the context of the challenges facing the society. India is home to one-third of the world’s poor. Nearly 300 million people need critical support to move out of endemic poverty. Close to 12 million youth join the workforce every year, leading to a crying need for gainful employment opportunities. Given the fact that with 17% of the world's population, India has only 2.4 % of world's land, 4% of global water and 1% of forest resources means that environmental resources are already under huge stress. The need to replenish India’s ecological resources, and create sustainable livelihoods for its citizens is urgent. ITC’s dutiful response in this respect has been exemplary.

4. **The Three Pillars of Transformation**

When Mr. YC Deveshwar assumed charge as ITC’s Chairman, he was faced with challenging old burdens as well as exciting new opportunities. In order to alleviate the former and capitalize upon the latter, he embarked upon a purposeful journey to reinvent the company.
A blueprint was crafted around the triple bottom line framework in order to help ITC build economic, ecological and social capital for the nation. This strategy was executed under the umbrella of a transformational paradigm that rested upon three complementary pillars:

a) Vision,  b) Values,  and  c) Vitality.

The Vision provided the overarching inspiration, while the Values served to guide thought and action and Vitality enabled excellence in strategy formulation and execution. Built around a timeless core, these 3 elements manifested in actual practice as a mix of constantly evolving strategies and processes that needed to be regularly recharged through practice and insight.

4.1 Vision

The service of a larger societal purpose had been ITC’s hallmark ever since Mr. Haksar first articulated it. Mr. Deveshwar built upon that to articulate a clear vision for ITC to become an engine of growth for the Indian economy while simultaneously creating superior value for its shareholders. This was also described as the company “commitment beyond the market.”

This vision encouraged ITC’s practice of trusteeship to ensure sustainable wealth creation. It required each business to not only achieve a level of international competitiveness for itself, but also help enhance the competitiveness of the larger value chains supporting its operations.

This led to the creation of unique business models that synergized long-term shareholder value enhancement with the fulfilment of the larger societal purpose.

4.2 Values

Values refer to the standards of behaviour that influence the formulation of organizational strategy, and also guide the conduct of its people engaged in purposive action. The core values of ITC were shaped around the belief that business organizations do not exist in isolation; they arise from within the society and are duty bound to serve social interests. The company looked upon profit not as an end in itself, but the means by which the owners of capital may be compensated in accordance with the effectiveness of their contribution to society.

The defining trait of ITC was its deeply nationalistic organizational character that guided the alignment of its corporate strategy with action in the service of national priorities. An unwavering commitment to integrity, ethical conduct, meritocracy, teamwork and abiding concern for stakeholders constituted the heart of the company’s value system.

4.3 Vitality

Vitality is the engine that enables robust strategy formulation, and excellence in its execution.
At ITC, vitality was manifested as the company’s ability to strengthen its competitive capability, deepen its consumer insight, deliver breakthrough innovations in products and processes, development of the ability to rapidly absorb knowledge and harness technology, widening of the bandwidth of its distributed leadership, proactive management of change, and nimble adaptation in order to continuously leverage market opportunities.

ITC’s robust business strategies, its climate of professionalism, and a caring culture constituted the framework for effectively channelizing corporate vitality. This led to enhanced market standing and profitability, in addition to enlarged contribution across the Triple Bottom Line.

5. The Strategic Drivers of Transformation

Mr. Deveshwar began the process of revitalization at ITC by working assiduously to put strong internal systems and processes in place. This was intended to put the ethical controversies of the past to rest, and also preclude the development of new distractions.

Next, an inspiring vision was developed for the company. It forged unity amidst diversity - between the agenda of individual businesses and the broader corporate identity; between the present imperatives and those of the future; between shareholder needs and those of society.

ITC’s business portfolio was also restructured, based on the strategic fit between market opportunities and its core capabilities. The greatest challenge was to enable the business divisions in making the transition from competing in a relatively protected environment to winning in an intensely competitive and rapidly globalizing market. This called for a paradigm shift as well as substantial investments in technology, processes, innovation and brands.

A multifarious strategy was crafted to support the transition. It rested upon five key elements: a) Pursuit of multiple growth drivers, b) Harnessing of internal strengths, c) Service of the national interest, d) Triple Bottom Line Performance, and e) Robust Corporate Governance.

5.1 Pursuit of Multiple Growth Drivers (Diversification)

Cigarettes were a lifestyle product in the twentieth century, but became a “sin” product in the new millennium. As a result, the business soon came under pressure from increased taxes and stronger regulation. ITC could have elected to remain in the comfort zone of the tobacco industry that it had led for nine decades. The alternative was to create multiple drivers of growth in sunrise areas that best leveraged the company’s considerable internal capabilities.

The company consciously chose the latter option, even though conventional wisdom did not favor diversification as a prudent growth strategy. Contending that ITC’s earlier diversification projects
had run into choppy waters because of insufficient investments, Mr. Deveshwar was convinced that judicious but full-throated diversification was indeed the best way forward. The company thereby engaged with a process of intense introspection and dispassionate evaluation in order to define a revised core portfolio of businesses for itself.

Multiple drivers of growth supported by innovative business strategies promised to yield tremendous success in capitalizing upon the untapped opportunities in the emerging economy. The views of Harvard’s Professor Krishna Palepu regarding the relevance of diversification to growth in emerging markets also struck a deep chord. Prof. Palepu specifically dwelt upon the need for the company to leverage its legendary distribution expertise. Given that the organization was also renowned for its brand management skills and possessed sufficient cash reserves too, the development of a significant FMCG footprint appeared to make sense.

Accordingly, ITC set about creating world-class consumer brands that could create and retain greater value for the Indian economy. It entered several categories of consumer goods—branded packaged foods, personal care, branded apparel and lifestyle retailing, education & stationery products, safety matches and incense sticks.

Each diversification exercise was carefully incubated prior to its launch. Nevertheless, it required tremendous staying power, investment commitment and the development of deep consumer insight, continuous application of cutting-edge R&D, differentiated product development capacity, state-of-the-art manufacturing, and an extensive trade marketing and distribution network. Above all, it needed an intense determination to succeed against all odds.

Thanks to the diversification exercise, ITC’s non-cigarette businesses now yield over 50% of its revenues. Diversification also helped the company to retain talent by providing its people with challenging opportunities within the ITC umbrella. It provided professional managers with the opportunity to be entrepreneurs, and create new businesses from scratch.

5.1.1 Long Term Focus

ITC’s diversification foray has consistently been characterized by a long-term focus. In 2007 for instance, the company entered the intensely competitive personal care market with the launch of a range of shampoos, conditioners, shower gels, and soaps. However, in the face of entrenched competition from virtually every major FMCG multinational subsidiary in India, success proved to be elusive. Despite the organization getting its basic brand metrics right and displaying a willingness to invest, there was no significant “trial and adoption” of these brands.
The battle was bruising, but Mr. Deveshwar remained upbeat. Maintaining that brands were tough to build, he advocated patience. He emphasized that ITC always took a long-term view, and was willing to persist in its aspiration to become the country’s #1 FMCG player.

Following its far-sighted approach, ITC also built strengths through vertical integration. For example, the company invested in state-of-the-art facilities at its in-house packaging division. It was important to ensure quality as well as confidentiality with respect to packaging, which plays a vital role in enhancing the product appeal that is critical to FMCG success.

Shedding undue preoccupation with tactical results, the company continued to make substantial investments into its Hotels business during the prolonged period of downturn over the years following the 2008 recession. As a result of such commitment, ITC now operates India’s second largest hospitality chain with 105 hotel properties at around 90 locations.

A long-term perspective is usually not rewarded by the financial markets, with their narrow focus. Thus, companies need to perform at least as well as their competitors in order to deliver upon the market expectations in the short run. ITC believes that Corporate Leadership involves strategizing to build sustainable and secure competitive advantage for the long term, while simultaneously developing the resilience to survive and live through the short term too.

5.2 Harnessing of Internal Strengths

An important element of ITC’s growth strategy has been the creative blending of its proven core competencies such as brand building, distribution, supply chain management, and customer service in order to create new engines of growth.

For instance, the Packaged Foods business drew upon the unique sourcing capability of the e-Choupal, the culinary expertise of a galaxy of chefs from the hotels business, and the innovation capacity resident in the ITC R&D Centre. In addition to these enterprise strengths, ITC traditional marketing prowess encompassing deep consumer insight, branding skills, packaging excellence and an extensive trade marketing & distribution capacity came in handy.

Similarly, ITC’s strong presence in agricultural commodities, Packaged Foods and Personal Care products is being leveraged by the company’s Life Sciences Centre to deliver products of the future aimed at nutrition, health and well-being.

This synergy of institutional strengths drawn from different divisions of the company provides tremendous competitive advantage. For instance, ITC’s remarkably successful Aashirvaad brand customizes atta for every region of India. This becomes possible because the company is able to procure 18 grades of identity-preserved wheat at the farm gate through e-Choupal, and then blends
these to meet regional preferences. Customized blending is a strength honed by the company from its practice of tobacco blending over many decades to support local tastes.

5.3 The Service of National Interest

In the December 2006 issue of the Harvard Business Review, Michael Porter and Mark Kramer opined that if corporations analyzed the opportunities for social responsibility using the same frameworks that guided their core business choices, they would discover that Corporate Social Responsibility is a potential source of innovation and competitive advantage. This provided conceptual support to Mr. Deveshwar’s long-held conviction that there was no inherent contradiction between improving the competitive context, and making a sincere commitment to bettering the society and the nation. In order to make a significant and enduring contribution to the Indian society, Mr. Deveshwar resolved to build ITC into an exemplary, values-driven enterprise that would adopt the credo of putting INDIA FIRST.

A multi-pronged strategy was implemented to transform ITC into an engine of growth that would make a substantial contribution to the Indian economy, whilst rewarding shareholders by creating growing value. Integrated business models that enmeshed these goals in a synergistic manner were accordingly created.

Sustainability was embedded into the company’s core, and innovative strategies were designed to create sustainable value chains linked to its businesses. The development of new brands facilitated the creation of superior value by these supply chains, and thereby for the nation.

ITC’s early diversification into the hotels and paperboards businesses was also guided by national interest. The potential to generate significant foreign exchange earnings and its multiplier capacity to create large-scale employment in the tourism sector were the triggers for the hotels foray. Similarly, the opportunity to contribute to the economic development of a backward region like Bhadrachalam facilitated ITC’s entry into paperboards. The e-Choupal was also born from the vision of creating greater competitiveness for Indian agriculture.

Equally, these diversifications were backed by sound strategic rationale. Paperboards was a vertical backward integration for its printing and packaging business, which had already developed a sophisticated technology and skills platform by then. Likewise, the hotels business was premised upon leveraging ITC’s deep consumer insights and marketing acumen.

And the celebrated e-Choupal network has helped to source farm produce worth over Rs. 400 crore a year for the foods business. It also became a distribution engine that provides “last mile connectivity” for ITC’s own consumer products as well as those of many partner companies.
5.3.1 E-Choupal

A stellar example of ITC’s promotion of India’s national interest is the company’s e-Choupal initiative - a unique click and mortar capability that serves to make the country’s agricultural value chain more competitive.

The strategic intent underlying the development of e-choupal was to create a agricultural meta-market across India that would provide farmers with critical information on farm productivity, prices and markets while helping increase their earnings through better price discovery, improved quality and cost savings. These e-hubs also make available a range of services such as micro-credit, insurance, health and education to the farming community.

Through virtual clustering, e-choupal re-organized the farm supply chain for more cost effective sourcing using the physical transmission capabilities of current intermediaries, yet dis-intermediating them from the information flow and market signals. To accomplish this, the company drew upon ITC Infotech’s competencies.

The digital infrastructure was supplemented with a phased rollout of physical infrastructure called ITC Choupal Saagar to serve as hubs for clusters of villages. This hub and spoke model is energized at the village level through sanchalaks and samyojaks drawn from the farming community, who represent the extended enterprise. Whilst creating value for the farmer, e-choupal has also placed ITC in a position of trust with the farming community as a buyer of high quality cost effective farm output as well as a reliable supplier of goods and services.

5.4 Triple Bottom Line Performance

Besides enhancing shareholder value, ITC actively seeks to create environmental and societal value too. Its business strategies facilitate the creation of superior value propositions for the consumer, along with livelihood opportunities as well as a positive environmental footprint.

The ‘Triple Bottom Line’ approach that creates larger value for all stakeholders has defined ITC’s growth path. The transformation of its paperboards division is a wonderful case in point.

5.4.1 The Turnaround of ITC Bhadrachalam

In the late nineties, ITC Bhadrachalam Paperboards was a troubled enterprise. It had survived in a closed economy, despite outdated products and a globally uneconomical scale. However, the reduction in customs duties as a result of the economic liberalization process exposed the business
to international competition. The energy intensity of paperboard manufacture, the high cost and unreliability of electric power from the state grid, and the challenge of absorbing modern technology in the under-developed Bhadrachalam region stacked the odds against it.

Further, the dwindling forest resources of the country and a national policy that did not permit corporates to engage in farm forestry operations posed a serious threat to the continuity of its access to cost effective fibre that was its raw material. On the other hand, India needed this sector to flourish so as to support its growing sectors such as education and packaging.

Flowing from its vision and character, the company chose to invest Rs 150 crores into ITC Bhadrachalam (against all odds) towards acquiring international competitiveness in quality and cost of manufacture at its own mill. Pulling together all the resources at its disposal, the company’s insights as a consumer of value-added paperboards were leveraged to support the technology upgradation and modernization of the paper mill.

Substantial investments were also made into an ongoing biotechnology-based R & D program to develop high yielding, disease resistant clonal saplings that would grow at a rapid pace in relatively harsh climatic conditions. These saplings made the growing of pulpwood species on degraded wastelands a sustainable livelihood option. Marginal farmers and poor tribals in the economic vicinity of the mill were mobilized to grow these trees on their private wastelands.

This strategy implied longer gestation, substantial investment and considerable management attention in managing risk and uncertainty. There were periods of negative cash flows, followed by bouts of sub-optimal return on investment. It was an extremely difficult path, particularly as compared with the easy option of importing pulp in an almost zero-duty regime.

However, it enabled poor and marginalized farmers to create a sustained source of income for themselves by converting their wastelands into pulpwood plantations. ITC was a willing buyer of their produce, even as the growers were free to sell to the highest bidder in the open market.

Eventually, this strategy yielded three-dimensional success. On the social plane, it helped to create more than 70 million person days of gainful employment. A multiplicity of environmental benefits included the creation of a green cover for over 1,60,000 hectares of land, carbon sequestration, ground water recharge, regeneration of biomass, and the nurturing of depleted soil. Simultaneously, the paperboards business was transformed into a clear industry leader - profitable as well as socially and environmentally responsible.

The strength of ITC’s bold engagement across the entire value chain, and the company’s commitment towards the Triple Bottom Line, thus enabled the conversion of deep adversity into a sustainable economic opportunity for a sizeable section of India’s rural poor.
5.5 Robust Corporate Governance

During an era when enterprise strategy was being shaped by the concept of unrelated diversification, ITC embraced a broader tenet of diversification that was anchored around its “business portfolio management” skills. It was believed that the strength of capital and the scale of ITC’s operations across product-market arenas would not only provide competitive advantage to the company, but also help fill up some of the “institutional voids” in developing economies such as India. E-Choupal became a celebrated proof of that concept.

Accordingly, the organization was restructured according to a divisional framework. Robust performance measurement processes for independent “investment” centres were painstakingly created. These were supported by an elaborate management accounting system.

Further, a new three-tiered mechanism of corporate governance was introduced. Under this scheme, ITC’s Board of Directors were mandated with strategic supervision while a Corporate Management Committee dealt with strategic management and the Divisional Management Committees carried operational responsibility for their respective businesses.

This placed the company’s top management in the unique position of being able to assume the character of a holding company with the mindset of a venture capitalist. They mentored existing businesses, and created new avenues for growth by blending various skills and abilities drawn from different parts of the ITC Group. Over time, these capabilities spawned newer competencies and imparted a multiplier effect upon the company’s growth.

6. Awards and Recognition

ITC has received national and global recognition for its multi-faceted achievements. It has been ranked as ‘India’s Most Admired Company’ in a recent survey conducted by Fortune India magazine and Hay Group. The company has been rated as the world’s 8th largest ‘sustainable value creator’ amongst consumer goods companies by the Boston Consulting Group. As a testimony to its exemplary Triple Bottom Line performance, ITC has also been presented the “World Business and Development Award” at the historic Rio+20 UN Summit.

For his leadership in transforming ITC into an organization with a deep commitment to national priorities of sustainable and inclusive growth, Mr. Y C Deveshwar was conferred with the Padma Bhushan (India’s third highest civilian honour) in 2011. Also, Harvard Business Review ranked him in 2013 as the world’s 7th Best Performing CEO.

ITC is today viewed as a company that looks after the interest of Indian farmers. As the company’s Chairman, Mr. Deveshwar guided the invention of the e-choupal system that promises
to bridge the “India-Bharat” divide in one giant leap. It is a commercial operation that can be replicated throughout the country without any political subsidies or intervention.
Such a breathtaking vision, coupled with its innovative implementation, perhaps justifies Mr. S. Anklesaria Aiyar’s description of Mr. Deveshwar as the “The Great Indian Dreamer”.

7. The Road Ahead

ITC aspires to be India’s#1 FMCG player in the years to come. The company has set a revenue target of Rs. 1 trillion from its new FMCG business by 2030.
To achieve this goal, the company is continuing to build powerful brands and invest in physical infrastructure assets close to the markets. It is also co-locating its manufacturing and distribution facilities in order to reduce wastage from multiple handling and transportation.
Mr. Deveshwar actively canvassed for support from the government to maintain ITC as an independent, professionally managed firm. In February 2017, he shall be handing over the leadership mantle to a successor – most likely to be ITC’s Chief Operating Officer Sanjiv Puri.
When asked if BAT was waiting for him to retire so that they could takeover the company, he said that ITC is a “national asset” and a “national institution”. The government’s recent decision to ban FDI in tobacco is the perhaps final spoke in the wheel for any such BAT plan.
References


