



*Think beyond.  
 Stay ahead.*

| YC DEVESHWAR, CHAIRMAN ITC |

# “Sometimes, not taking a risk is the biggest risk”

YC DEVESHWAR ON HOW LONG-TERM APPROACH HAS RESHAPED ITC

**L**et me congratulate *Outlook Business* on its new tagline — “Think Beyond. Stay Ahead.” It’s inspired and I must say, in many ways, also reflects the spirit of ITC’s transformation. Thinking beyond and staying ahead for any organisation depends on three factors: the ambition of its leadership, the aspiration of its stakeholders and the expectations of society. And the impact of leadership can be seen in the vision, values and the vitality of an organisation. When I took office as chairman of ITC, I was confronted with a mix of challenges. Just a day before I took charge, our cigarette business received a retrospective excise duty demand of ₹803 crore. The company’s earlier diversification into hotels and paper was faltering. Before that could be put on a firm footing, a slew of new businesses were launched in edible oils, financial services and international trading, which turned out to be disasters. Obviously, there was criticism given the weak diversification performance. Add to that, a battle for control of the company had en-

sued amidst a huge public smear campaign. Also, the competitive landscape of the country changed with the advent of economic liberalisation.

So, I had in front of me a challenging context of old burden and new opportunities. My own ambition was to create a company that would be an engine of growth for the Indian economy, an institution with values and vitality that would create wealth for the Indian society. And it could only be done by creating drivers of growth that are aligned with national priorities. But then conventional wisdom, imported from mature markets of the West, advocated against diversification. Even our overseas shareholder thought that it was not a smart idea to diversify and we should stick to being only a cigarette company. However, our strong belief in creating an organisation to serve national priorities led us to reaffirm our strategy in creating multiple drivers of growth that could leverage the opportunities of an emerging economy by matching it with the strengths and core capabilities of the organisation.

We got rid of businesses that did not conform to our vision. Paperboards and Hotels were merged back with

ITC. Paper and packaging are core sectors of the economy because it supports education on the one hand and consumer products on the other, providing growth drivers in the economy. Hotels are a part of the national tourism industry. It is a multiplier of employment and a major foreign exchange earner. The ITC e-Choupal was also born from this vision — to create competitiveness of Indian agriculture and create value for India. Our agri business was reshaped to enhance competitiveness of Indian agriculture — we went rural, we empowered farmers through e-Choupal and created capacity in rural areas. By doing so, we helped make the entire agricultural value chain competitive. We became marketers of Indian agri products and a partner of the Indian farmer. All this springs from the values one cherishes and a larger vision to create societal value. The rationale for the choice of ITC's businesses may not be visible to the naked eye. You will be amazed at the synergies that exist across businesses. When we created the e-Choupal, we were clear that it would not be able to empower farmers significantly if there was no demand for agri commodities. The best way to sustain that was to create a set of strong brands that would have robust franchise in the market. That is how our foods business came into being. Subsequently, our branded packaged *atta*, Aashirvaad, became a runaway success. Why? We buy 18 grades of wheat and blend them to make our Aashirvaad brand, unlike what most of our competition does. Aashirvaad maintains a consistent quality and customises *atta* for every region of India. It is possible only if you buy wheat at the farm gate and preserve its identity so it can be blended with other varieties. That is a unique advantage. Anyone who wants to compete will have to build an agri-business division like ours.

I have not taken as big a risk as people think because we have thought through where the sources of competitive advantage would come from. In our foods business, we had insights into the Indian palette, thanks to the chefs of our hotels. That's why the first director in charge of the foods business was the person who was running the hotels business. We did this deliberately. So in foods, we have competencies in sourcing and product formulation which add value to enterprise strengths in branding, trade, marketing and distribution to deliver a unique source of competitive advantage. In addition to our existing strategic advantages, we have also built strengths through vertical integration. That's not a conventional approach but it's a long-term one. For example, given the strategic role of packaging in our FMCG

businesses, we have invested in state-of-the-art facilities that give us complete control over packaging quality, which is vital for product appeal, be it foods or personal care. Financially, you may argue that packaging will not deliver the returns that we should be chasing, but there are other equally important considerations. When you are a newcomer, the incumbents can get to know what you are coming out with, thanks to their relationships with suppliers. So, we thought it was important to have our own set-up to ensure both confidentiality and quality. The last thing you want is for competition to do something you are thinking, ahead of you.

It is this long-term agenda that has played out favourably for us now. One key consideration, when you develop strategies to ensure the longevity of the organisation, is to see the life cycle of your products. A couple of decades ago, cigarettes were a lifestyle product but it has since become a demerit good. Today, cigarette's share in total tobacco has declined to 15% in India, though it contributes 75% of the taxes from this sector. While there is still demand for cigarettes, this sector is threatened significantly by the huge incidence of smug-

*Our hotel chefs gave us an insight into the Indian palette for our foods business*



gling as a result of the high tax arbitrage provided by contraband products. Therefore, there is a role for ITC to play as a responsible corporation because our presence in this category through popular Indian brands provide protection against such malpractices. However, staying hooked on to the cigarette business alone may end up threatening our survival in future.

Therefore, our decision to diversify was very important. Now, 50% of our net turnover comes from non-cigarette businesses. Over the past 15 years our non-cigarette Ebitda has grown faster than cigarette Ebitda by at least 500 basis points. And we are still mid-stream. There is no parallel example in the world of so many businesses created organically in such a short time.

Diversity creates a large pool of skills and competencies lending unique sources of competitive advantage for longer term value creation and also strengthens an organisation's adaptive capacity in a fast changing world. Diversification requires a clear comprehension of the dynamics of that business. If you then craft a competitive strategy that, apart from mobilising financial capital and human talent, also leverages some institu-

tional capabilities of your organisation and if you can enmesh within your strategy superordinate goals that can excite the passion of people, there is no reason that one should not succeed sooner or later.


I was fortunate that I got recognition at a very early age at ITC. I became the head of a factory at 28, head of a division at 31 and a director on the board at 37. I had the experience of running multiple businesses — packaging, hotels and tobacco. I also got an opportunity to lead Air India as its chairman. Incidentally by 1993, Air India was the most profitable carrier amongst the IATA carriers on a return on capital basis. You need early-success experience. It is extremely important to get early-success experience because it fuels growth and, in turn, helps personal growth. So, creating success experience is the first step in a virtuous cycle.

Your success experience gives you the confidence to embark on a challenging strategy and your track record of success gives others the comfort to back you. I am grateful to my board that every time we were at the crossroads, I got their backing even when there were occasions when the majority of the board did not share my optimism. To cite an example, right after I took over, we were confronted with the question of ITC Bhadrachalam Paperboards which was on the verge of defaulting in its debt repayments. This was primarily because of the non-availability of virgin fibre due to India's meagre forest cover and a national policy that did not permit corporates to engage in farm forestry operations. My personal view was that India needed this sector to flourish both to support education as well as packaging of consumer goods. So I did not give up and the ITC Board sanctioned an infusion of ₹100 crore to give the business time to demonstrate the efficacy of its new strategy. The rest is history. Today we have created 120,000 hectares of social and farm forestry and a robust source of competitive fibre apart from creating 52 million person days of employment for tribals and marginal farmers and a carbon sequestration capacity that has made ITC a carbon positive company by an amount of twice its emissions. Such a strategy requires a long term approach. We took this risk and today it has paid off. Diversification also helps create new growth engines. Also, ITC has the unique distinction of retaining its top talent. The primary reason is that ITC can provide chal-

lenging opportunities within its umbrella to many more people. Many of ITC's managers have the unique opportunity of creating a new business from scratch. Professional managers rarely get such an opportunity. We call ourselves a "preneurial" company. "Preneurs" are the tigers of professional managers and entrepreneurs. We have 13 chief executives running different businesses. People spend a long time in the company, they are encouraged to think about the long term. They know what they sow today will be reaped only 15-20 years later. The culture of long-term thinking creates additional value for the company and for the society.

The issue with long-term thinking is that it's generally not rewarded by markets. The tragedy is that markets do not reward value created beyond the numbers and even there, they focus narrowly on the next quarter. Business institutions, however, have to begin to recognise the larger interests of society. So, at ITC, we measure our performance by our contribution to the triple bottom line — how do we innovate business models to create economic, ecological and social value. ITC is today the only company in the world to be carbon positive, water positive and solid waste recycling positive and the businesses have created five million livelihoods.

There is one hitch in following this approach though: if your competitors do not take this approach and you allocate resources towards such endeavours, you may end up with a competitive disadvantage and your very survival may be threatened. Therefore, it is necessary to be a good juggler. In the present structure of markets, that means doing

what the market requires of you in the short run as well as your competitors, if not better, and in addition, doing other things that are good for the society in the long run. It is then that long-term competitive advantage is more sustainable and secure. The challenge for those who think long term is to have the ability to live through the short term as well. Sometimes, not taking a risk may be the biggest risk. In the case of ITC, not taking those calculated risks would have been the biggest danger to our survival as well as our growth. Leadership is about making these choices to build competitive advantage for the long term and to create enduring value for all its stakeholders and society. 

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*It is a tragedy that markets do not reward value created beyond numbers*