

SUSTAINABLE DEVELOPMENT – TRIPLE BOTTOM LINE REPORTING: A STUDY ON ITC LIMITED

Dr. B. K. Surya Prakasha Rao*
Sri A.V.S Ashok**

ABSTRACT

Sustainable Development means economic progress coupled with upgrading social and ecological capital. Sustainable Development is about the Triple Bottom Line - across three dimensions namely **Economic, Social and Ecological** - creating economic, social and ecological wealth. There are three kinds of businesses in the context of sustainable development: **First** - those that pursue shareholder value creation above all else. Such companies exist from quarter to quarter, focused solely on their incomes, leaving a deferred burden for somebody else to take care of. **Second** - those that pursue shareholder value and comply with Regulations. Compliance would ensure adherence to minimum acceptable standards. **Third** - are those enterprises that are willing to go that Extra Mile, beyond the dictates of Regulation. Such companies do not view shareholder value as the end in itself. They are driven by a super ordinate goal, a Commitment beyond the Market. A meaningful research, in collaboration with academia, business and industry is to find innovative solutions that address the sustainability challenges of economies. ITC is one such company which has been creating enduring value by following the Triple Bottom Line Reporting and its market capitalization has multiplied 50 times during the last 17 years. This paper aims at highlighting the exemplary Triple Bottom Line Reporting, which is the most enduring contribution of ITC Limited which is helpful to our Country and to the Society at large.

***Professor and Head, Dept. of Management Sciences, RVR&JC College of Engineering, Guntur, 19**

****Asst. Professor, Dept. of Management Sciences, RVR&JC College of Engineering, Guntur, 19**

Sustainable development refers to a mode of human development in which resource use aims to meet human needs while ensuring the sustainability of natural systems and the environment, so that these needs can be met not only in the present, but also for generations to come. Sustainable development ties together concern for the carrying capacity of natural systems with the social challenges faced by humanity.

Introduction: India's economic challenges

The Indian economy demonstrated remarkable resilience in the initial years of the contagion but finally lost ground last year. GDP growth slowed down to a 10-year low of 5%. One of the most critical problems hindering India's growth prospects is the unsustainable Current Account Deficit. The persistently large deficit reveals that the country is yet to attain international competitiveness in several segments of its economy. Therefore, it is very clear that the only sustainable solution to tackle the large Current Account Deficit is to create extreme competitiveness in higher value-added goods and services.

One should believe that tomorrow's world belongs to those who create, nurture and own intellectual property. Such assets form a superior basis for sustaining competitive advantage over the long run. The large current account imbalance also reveals the paucity of domestically owned intellectual property assets. This in turn creates an over-dependence on foreign intellectual property to service even the home market. As a consequence, there is an increasing outflow of payments to overseas entities on account of charges for the use of their intellectual property resident in patents, trademarks, copyrights, industrial processes, designs and so on. These transfers are over and above the large deficit on account of merchandise trade. This over-reliance on foreign-owned intangible assets constitutes an in-built source of future unsustainability of the current account imbalance. Therefore, creation of intellectual property assets is a vital pre-requisite for attaining international competitiveness.

Sustainable Development:

Economic Development and Sustainable Development are not necessarily the same thing Ever since the Industrial Revolution, the last century and half witnessed unparalleled material development. Modern capitalism has indeed expanded the horizons for material development and wealth creation. Unfortunately, such material development has come at a significant price.

As we make rapid progress in financial prosperity, we also create a tremendous burden on nature's living systems. As a consequence, in less than half a century, the world lost a fourth of its topsoil and a third of its forest cover. In the last 35 years alone, we lost a third of our global bio-diversity. Scientific evidence today confirms that humanity's demand on the planet's living resources, known as its Ecological Footprint, now exceeds the planet's regenerative capacity by about 30 per cent. This means that it now takes the Earth one year and four months to regenerate what we use in a single year. And if we continue at this pace, we will need the equivalent of resources of two Earths to support us by the mid 2030s. (Incidentally, reports indicate that if everyone lived the lifestyle of the average American, we would need as much as the resources of five planets). And that is a luxury we cannot afford. Irrespective of our national boundaries, we have just one planet and one biosphere that sustain all living forms. That is indeed the reality check - rich or poor, developed or developing, we have one world to live together or perish together.

Apart from this strain on living systems - that are a source of fuel, raw materials and food - the remorseless increase in the planet's population also places enormous pressure on life support services which work on a 24x7 basis. We have inherited a 4 billion year stock of natural capital. We cannot afford to diminish this stock in the name of material progress. Indeed, we have been living far beyond our means. The recent global and financial meltdown is yet another manifestation of this stark reality. Benefits that go beyond wealth creation alone to embrace a much larger respect for the ecology and for ensuring development with social equity.

The challenges of development

The first - that arises from growing income inequities.

The second - which relates to the threat of global warming and climate change.

A recent UNDP Report states that 10 % of the richest adults in the world today own 85% of the world's household wealth, while the bottom 50 % of adult population have only 1 % of total household wealth. These numbers are alarming, but if we look at the population projections forward it is even more daunting. From a current level of around 6.7 billion people, we will move to a global population of 9 billion by 2050. Almost the entire addition of over 2 billion is likely to take place in developing nations. And to compound it will be the increasing lawlessness, terrorism and unrest that is fuelled by such widespread discontent.

The threat of environmental degradation was poignantly highlighted way back by Mahatma Gandhi in his reaction to a question related to India's economic development. He said, "It took Britain half the resources of the planet to achieve prosperity. How many planets will a country like India require?"

The multiple challenges arising from growing income inequities, global warming and climate change indeed make future economic progress unsustainable. Market forces, as they stand today, do not adequately reward such longer-term sustainability objectives and therefore have not been able to address these challenges. Going forward, we will have to necessarily chart a growth path that not only achieves the economic goals but also simultaneously addresses the larger social and environmental objectives. We have to trigger a much broader paradigm of growth, a paradigm that goes beyond economic development alone to achieve sustainable and inclusive development.

Shortcomings of current economic model

- Shortcomings of the global economic system.
- Focus on Shareholder Value rather than Societal value
- The short run supersedes the long run
- The means overshadow the ends
- Only financial outcomes incentivise managements

The Sustainable Development means economic progress coupled with upgrading social and ecological capital. Sustainable Development is about the Triple Bottom Line - across three

dimensions namely Economic, Social and Ecological - creating economic, social and ecological wealth.

Today many organizations around the world want to accord more priority to meeting Triple Bottom Line objectives. However the challenges are large. All organs of society will need to align their forces to enable a constructive partnership that can realize the global goal of sustainable development.

Role of Business in securing sustainable and inclusive development:

The role of Indian business enterprises in this regard is critical, particularly because the corporate sector employs vast societal resources in the pursuit of its growth objectives. It is therefore in the enlightened self-interest of business to also find innovative solutions that build and augment both social and natural capital.

Corporate, through their operations, have a large number of touch points which constitute the front line of engagement with civil society. The physical presence in communities around their catchments gives them an opportunity to directly engage in synergistic business activities that can create livelihoods and add to preservation of natural capital.

Pre-requisites of Sustainable Development:

- Redefine Purpose of Business - Service to Society
- Shareholder Value is a reward for Societal Value creation and not an end in itself
- Redefine P & L and Balance Sheet more comprehensive
 - measure both shareholder and societal value creation
 - account for both societal and company asset formation

There are **three kinds** of businesses in the context of sustainable development:

One - those that pursue shareholder value creation above all else. Such companies exist from quarter to quarter, focused solely on their incomes, leaving a deferred burden for somebody else

to take care of. We can definitely state that such companies are committing a cardinal sin and are a burden on society.

Two - those that pursue shareholder value and comply with Regulations. Compliance would ensure adherence to minimum acceptable standards. Such an approach can at best slow down damage to natural capital.

Three - there are enterprises that are willing to go that Extra Mile. Go beyond the dictates of Regulation. Such companies do not view shareholder value as the end in itself. Shareholder value is deemed important to the extent required to attract financial capital. A necessity and the mere means to realizing the broader purpose of creating societal value. They are driven by a super ordinate goal; by a Commitment beyond the Market. Their culture is imbued with values that are born out of a larger purpose.

There will always be examples of business leaders with exemplary social conscience and integrity. They will drive their enterprises forward with such a vision without any external incentives or rewards. ITC Ltd is one such company in our country.

Multiplying companies of the third kind require the creation of a market for responsible corporate conduct. Such a market can only come about through heightened awareness of civil society. Such awareness can create a "pull factor" - both for regulators and for businesses. An aware civil society can ensure progressive tightening of regulations in step with growing resources of society and advancement in technology.

ITC Limited: A Case Study:

ITC has a sense of satisfaction at yet another year of robust growth. This performance is even more heartening given the challenging circumstances in the global economy and the slowdown in India.

It also bears testimony to the robustness of the Company's strategy of pursuing multiple drivers of growth. This portfolio of traditional and Greenfield businesses, has built a strong foundation to power the ITC of tomorrow and create enduring value for the Indian society.

ITC believes that the governance process should ensure that resources are utilized in a manner that meets stakeholder's aspirations and societal expectations. This belief is reflected in the company's deep commitment to contribute to "Triple Bottom Line" . Currently, there are five board committees namely, the Audit Committee, the Compensation Committee, the Investors Services Committee, the Nominations Committee and the Sustainability Committee.

The structure, process and practice of governance are designed to support effective management of multiple businesses while retaining focus on each of them.

Sustainability Committee:

The role of sustainability committee is to review, monitor and provide strategic direction to the company's sustainability practices towards fulfilling its triple bottom line objectives. The committee seeks to guide the company in integrating its social and environmental objectives with its business strategies.

Composition:

The sustainability committee presently comprises of the Chairman of the company and six Non-executive Directors, four of whom are independent Directors. The Chairman of the company of is the chairman of the committee.

Triple Bottom Line Performance

| | |
|----------------------|------------------------------|
| Purpose ----- | Societal Value |
| | Consumer, Social, Ecological |
| | Triple Bottom Line |
| Reward ----- | Shareholders Value |

The highlights of Company's Triple Bottom Line performance for the year 2013. **ITC: Triple Bottom Line Performance** Gross Revenue for the year grew by **19.9%** to over Rs 41,800 crores. Net Revenue at over Rs 29,600 crores was primarily driven by a **26.4%** growth in both the non-cigarette FMCG as well as the Agri business segments. Profit before tax increased by **20.1%**, crossing the Rs 10,000 crore milestone, while Net Profit grew by **20.4%** to over Rs 7,400 crores. **The non-cigarette segment net revenue has grown 14-fold from about Rs 1,360 crores in 1996 to nearly Rs 19,500 crores in 2013. As a result, 58% of net segment revenue of the Company is now from businesses other than cigarettes.**

Apart from being the country's leading FMCG marketer, the Company is also the clear market leader in the Indian Paperboard and Packaging industry, a globally acknowledged pioneer in farmer empowerment through its wide-reaching Agri Business, the second largest Hotel Chain in India and a trailblazer in 'green hoteliering'. The Company's wholly-owned subsidiary, ITC Infotech, is one of India's fast-growing IT companies in the mid-tier segment. This portfolio of rapidly growing businesses considerably enhances ITC's capacity to generate growing value for the Indian economy.

The Company is also one of the most influential stocks in the Indian bourses and has created substantial value for its investors over time. Market capitalization, which stood at Rs 5,570 crores in 1996, has multiplied **50 times** to around Rs2,90,000 crores. Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, have grown at a compound annual rate of nearly 27% during this period.

| ITC :Financial Highlights 1996-2013 (figures in Rs.Cr) | | |
|---|-------|----------|
| | 1996 | 2013 |
| Gross Income | 5,188 | 43,044 |
| Net Segment Revenue (other than Cigarettes) | 1,363 | 19,494 |
| Profit After Tax | 261 | 7,418 |
| Net Assets Employed | 1,886 | 23,569 |
| Market Capitalisation | 5,571 | 2,90,000 |

CAGR in Total Shareholder Returns in the period 1996-2013: 27%

A Quarter of Sensex Rally in the last one year came from ITC.

| Company | Price change % (July 2012 to June 2013) | Points added to the Index |
|---------------|---|------------------------------|
| ITC | 45 | 723 |
| Infosys | 36 | 438 |
| TCS | 45 | 383 |
| RIL | 24 | 345 |
| HUL | 43 | 247 |
| TOTAL | -- | 2136 |
| SENSEX | 17 | 2909 |

An article in the Hindu Business Line dated July 28, 2013 highlights the pivotal performance of ITC Limited during the last one year, BSE Sensex has gained close to 3,000 points as it raced higher from the 16,600 level recorded last July 2012. Over a quarter (25%) of the index's 3,000-point rally since July last has been contributed by the FMCG heavyweight ITC, which contributed 723 points to the rise, Hindustan Unilever has chipped in with 247 points. Another 800 points came from Infosys and Tata Consultancy Services.

It is also gratifying that the Company's exemplary sustainability initiatives continue to receive accolades and global recognition. ITC has been ranked No. 1 as the 'Most active in CSR' for two successive years in the Nielsen Corporate Image Monitor. The Bombay Stock Exchange recently instituted two indices titled 'GREENEX' & 'CARBONEX' evaluating several green operational parameters, including carbon performance. It is a matter of pride that the Company has been assigned the highest weightage in both the indices.

ITC continues to be the only enterprise in the world of comparable dimensions to be carbon, water and solid waste recycling positive. These global environmental distinctions have been sustained even though the Company's operations have grown substantially over the years. **This Company has been water positive for 11 consecutive years; carbon positive for 8 years now and solid waste recycling positive for the last 6 years.**

New benchmarks are being attained with renewable energy constituting over 41% of ITC's total Energy Consumption. This is a remarkable achievement given the scale and spread of the Company's units. Several factories as well as 5 premium luxury hotels and the ITC Infotech Park in Bengaluru, meet 100% of their power requirements from wind energy.

The not-for-profit U.S. Green Building Council (USGBC) has devised a multidimensional rating system that judges the proposed Leadership in Energy and Environmental Design (LEED) which promotes construction that is environmentally responsible, profitable and, in the words of its mission-statement, creates healthy places to live and work. The award of a LEED certification first and foremost objectively evaluates the energy efficiency and eco-friendliness of a developer's latest project, elements that investors and tenants would otherwise have to take entirely on faith. Indeed, LEED certification may well become a widely accepted brand in itself, denoting environmental 'added value' to buyers. This, in turn, fosters a viable private-sector marketplace for green products. A proposed building's design can be awarded, in ascending order, a LEED rating of certified, silver, gold, or platinum depending upon a composite score given to it based upon its overall energy efficiency, conservation of materials and resources during construction, indoor environmental quality afterwards, and preservation and safeguarding of fresh water supplies throughout ("Greening construction," 2003).

The iconic ITC Grand Chola, unveiled in Chennai in the year 2012, stands testimony to the fact, as it achieved the distinction of being the world's largest LEED (**Leadership in Energy and Environmental Design**) Platinum certified hotel in the New Construction category. It was also awarded India's first 5 Star GRIHA (**Green Rating for Integrated Habitat Assessment**) rating by the Ministry of New and Renewable Energy. This is yet another laurel for ITC Hotels, reinforcing its **unique position as the greenest luxury hotel chain in the world with every hotel in the chain being LEED Platinum certified.**

The Company's businesses and the associated value chains today support sustainable livelihoods for more than 5 million people, representing some of the weakest in our society. We are sure that this large-scale and meaningful contribution of the Company to the national goal of sustainable and inclusive development gives you justifiable pride and a sense of great satisfaction.

A proud moment this year for ITC was the global recognition from **one of the world's most respected publications. Based on ITC's consistent triple bottom line performance over 15 years, the Harvard Business Review in January 2013 ranked the Company's Chairman as the 7th Best Performing CEO in the world.**

Some glimpses of ITC Limited to demonstrate how a larger contribution can be made by the private sector with a conscious strategy to contribute to the Triple Bottom Line.

Over a decade ago, they redefined their Vision to reflect its commitment to go far beyond the market in enlarging their contribution to the society and to the nation. This vision finds expression through two major interventions of the Company: one that is integrated into their Business and the second which relates to the CSR activities that each of their businesses have been mandated to carry out in the catchment area around their operations.

Let us have a glance on a case study of ITC's eChoupal. This pioneering initiative is today the world's largest Rural Digital Infrastructure for empowering the small and marginal farmer.

ITC's eChoupal

It is known fact that, almost 72 % of India's population live in Rural India, and 60% of our workforce earns their livelihood from Agriculture. However, this sector contributes to only 18 % of GDP. ITC is one of India's leading players in the Agri Products and Branded Foods business. Recognising that farmers constitute the first rung in the agricultural value chain, they embarked on a major initiative to build their competitiveness by bringing them the benefits of an Information Technology enabled agri-extension and information service. This initiative, which they call the eChoupal, has today transformed Rural India with significant empowerment of small and marginal farmers. By eliminating wasteful intermediation, farmers become a part of an efficient supply chain and secure higher margins, and also gain from a two-way flow of goods and services procured through the e-choupal network. No contracts are signed with the farmers binding them to do business with them only, and they are free to sell their produce to whomsoever they wish to. Currently there are around 6,500 choupals serving nearly 40,000 villages and 4 million farmers. The Company not only gained from an efficient supply chain and identity

preserved procurement, which in turn adds value to its packaged foods business, but in the process have also created an inclusive model of business that empowers small and marginal farmers by giving them the power of digital connectivity and access to markets.

Community Investments

To supplement the e-Choupal initiative, and enhance the quality of life in rural India, ITC has also helped in creating significant community assets. A major programme in this context is ITC's Integrated Watershed Development initiative for sustainable agriculture and community development. ITC has helped create watershed projects covering over 44,000 hectares in water-stressed areas, providing precious water resources for agriculture, rural communities and livestock.. This has also improved their quality of life by providing more time that can be devoted to crucial areas such as education for women as well as their children.

In addition, their integrated animal husbandry services have been launched benefiting over 2,70,000 milch animals. Over 1,80,000 children attend their supplementary education centers, and 18,000 women entrepreneurs have been created through 1000 self-help groups.

ITC's Social & Farm Forestry

The second initiative that we would like to present about is ITC's Social and Farm Forestry project which creates sustainable livelihoods for tribals and marginal farmers. This initiative is part of the Value Chain of ITC's Paper business. Some years ago, the company was advised that due to several challenges, which entailed huge investments and issues in sourcing wood pulp, it would be advisable to close down their paperboards business..

ITC invested in extensive R & D in a clonal propagation project to create unique saplings which apart from being disease resistant, would grow much faster and in harsher conditions. These saplings, which are today popularly known after their paper plant in Bhadrachalam, as 'Bhadrachalam Clones' which are distributed to tribals and marginal farmers for harvesting in unproductive wastelands. Today, this programme covers over 90,000 hectares and has provided

over 40 million man days of employment. ITC is a willing buyer of such produce, whilst the growers are free to sell to the highest bidder in the open market.

ITC could have taken the easier route by importing pulp given the low import duty regime, rather than a more difficult route of mobilizing tribals and marginal farmers, involving long gestation and substantial investment exposure. If it had imported wood pulp and converted into paperboards, they would have given employment to only 600 people in their paper mill. However, by following this difficult but satisfying route, they have today provided a livelihood potential for over 40 million man days so far. In addition, it has enabled us to create today India's greenest paper for business and home use, which they offer in the market under the "Paperkraft" brand. **This view, exemplifies the integration of triple bottom line objectives as a part and parcel of business strategy.**

India today possesses a huge opportunity in promoting agro-forestry. The paper and pulp industry, however, is only one application of wood-based industries, and barely uses 4 % of the total wood consumed in India.. The agro-forestry value chain has the rare distinction of being able to contribute to augmenting energy capacity and ecological wealth besides supporting the core needs of food and housing. With increasing population, rising incomes and consequent demand for energy, education, housing and home lifestyle products, the wood-based value chain is well poised not only as a profitable economic activity but also as **a catalyst sector that promotes sustainability and inclusive growth.**

CONCLUSION:

Triple Bottom Line Performance at I T C:

This is **the only company in the world, of their size and diversity to be carbon positive, water positive and solid waste recycling positive.** They sequester **two** times the carbon they emit from their operations, and generate **three** times freshwater potential than what they consume. In addition ITC's businesses generate sustainable livelihoods for over 5 million people, many of whom represent the most disadvantaged in India. And it is with deep satisfaction that they

mention today they have been able to do all this and still achieve a compound rate of growth in Total Shareholder Returns of over 25 % in the last decade.

One could engage in meaningful research, in collaboration with business and industry, to find innovative solutions that address the sustainability challenges of economies like developing economies. The fruits of this research would not only help corporate recipients but also be valuable inputs for Government policy, including that for multilateral negotiations.

Last but not the least, it is critically important to create awareness among the society and government that we can influence the course of future events by redefining our own value propositions in a way that are more conscious to the needs of society. Surely, with all the knowledge at hand, the experience of generations and in our own enlightened self-interest we will make a break from the past and create a more meaningful and secure future for all future generations. That indeed would define a new freedom for mankind, a freedom from greed and from destruction. A freedom that will give a new lease of life to this Planet and to those who will come after us.

Keywords:

Ecologically sustainable development
Green Business
Green Construction
Clean Production
Environmental Regulation
Greenex
Carbonex

References

1. **Baker, G. (2006).** Certification impacts private sector. *Environmental Design & Construction*, 9(6), s80-s82.
2. **Benhaïm, J., and P. Schembri.** 1996. Technical change: An essential variable in the choice of a sustainable development trajectory. In *Models of sustainable development*, edited by S. Faucheux, D. Pearce, and J. Proops, 123-150. Cheltenham, Brookfield: Edward Elgar.

3. **Daly, H.E.** 1990. Towards some operational principles of sustainable development, *Ecological Economics* 2: 1-6. 1992. *Steady-state economics*. London: Earthscan.
4. **Delmas, M., & Toffel, M.** (2004). Stakeholders and environmental management practices: An institutional framework. *Business Strategy & the Environment* (John Wiley & Sons, Inc), 13(4), 209-222.
5. **Gack, J. & Greene, J.** (2003). A guide to cost-effective green design for public building owners. *Environmental Design & Construction*, 6(6), 62.
6. **Lash, J. & Wellington, F.** (2007). Competitive advantage on a warming planet. *Harvard Business Review*, 85(3), 94-102.
7. **Opschoor, J.B.** 1992. Sustainable development, the economic process and economic analysis. In *Environment, economy and sustainable development*, edited by J.B. Opschoor, 25-52.
8. **Streamlined LEED certification process goes online.** (2006). *Engineered Systems*, 23(4),77-78.
9. **Yudelson, J. (2005).** **Marketing LEED.** *Environmental Design & Construction*, 8(10), 94-95.
10. ITC Limited Annual Reports and Accounts
11. Harvard Business Review
12. The Hindu Business Line