



## Case Study on ITC Supply Chain Sustainability

Dr. P. Vanishree Sah

Associate Professor, CVR College of Engineering, Ibrahimptnam

**ABSTRACT**

Supply Chain sustainability is a key component of corporate responsibility. The objective of supply chain sustainability is to create, protect and develop long-term economical, environmental and social values for all stakeholders involved in bringing the goods and services to market. Supply Chain sustainability is key to maintaining the integrity of a brand, ensuring business continuity and managing operational costs. ITC has been successful in establishing a sustainable supply chain through innovative strategies. Effective programmes have been designed and implemented by ITC in close collaboration with local communities ensuring more meaningful outcomes. This paper studies the high impact initiatives taken by ITC to establish a sustainable supply chain.

**KEYWORDS** : sustainable supply chain, risk, challenges

**I. Introduction**

Sustainable supply chain can be a strong driver of value and success. It's a major challenge to develop a sustainable supply chain that encompasses all the four issues- human rights, labour, environment and anti-corruption. Companies can take initiatives to support and promote the realization of human rights. Business should strive to uphold international labour standards within their supply chains. Environmental impacts from supply chains are often severe, particularly where environmental regulations are lax, price pressures are significant and natural resources are abundant. Companies that engage with their supply chains through anti-corruption programmes can improve product quality, reduce fraud and related costs and create a more sustainable platform for future growth. Therefore the supply chain networks have not only grown in scale and complexity but the opportunities for companies to promote human rights, protect the environment, improve labour conditions and support ethical business conduct, have also increased. ITC has been putting efforts to align high-impact initiatives, national priorities and needs of local communities. ITC has been able to make a meaningful contribution to improving the quality of life of people in rural India whilst also enriching the natural resource base by developing a sustainable supply chain. ITC has concentrated on economic performance, social performance and environmental performance to develop a sustainable supply chain.

**II. Literature Review**

Sustainable Supply Chain initiatives are being seen as an important component in a firm's strategy to plan for, mitigate, detect, respond to and recover from potential global risks (Mark Pagell, et.al., 2009). The firms can maximize the value generated by their supply chains by matching the flow of products or services supplied with the flow of value demanded by customers (Stefan Seuring, et.al., 2008). Globalization, market preferences and health concerns are becoming key drivers for sustainable supply chains (Pagan R., et.al., 1999). The practice of greening in different stage of the supply chain will lead to a sustainable supply chain, which will lead to competitiveness and better economic performance (Purba Rao, et.al., 2005). Sustainability in supply chain is based on long-term cooperation, shared knowledge, joint development of competence both downstream and upstream in supply chain (Clodia Vurro, et.al., 2009). A firm using commodities need to create smaller, parallel, expensive identity preserved supply chain in-house before making sustainability supply chain ( Susan L.Golicic, et.al., 2013). Non-commoditized inputs require a flow of knowledge and compliance between all stakeholders from the manufacturer to the primary producer to achieve higher value-added benefit (Jacques H.Trienekens, et.al., 2003). The environmental, social and economic performance of the supply chain has to be controlled to secure sustainable supply of inputs (J.Hamprecht et.al., 2005). Developing a sustainable supply chain may present challenges as environment, safety and human rights issues are interrelated (Craig R.Carter, 2008).

**III. Risks and Opportunities In Sustainable Supply Chain of ITC****A. Continued Competitiveness**

Risks - ITC cigarettes business is increasingly impacted by taxation and regulatory regime which have led to a significant shift in tobacco consumption to lightly taxed tobacco products like khaini, gutkha, bidi, chewing tobacco, and illegal cigarettes.

Opportunities - The strengths of ITC such as strong rural linkages, deep consumer insight, world class manufacturing, brand-building skills, cutting-edge Research & Development, superior agri-sourcing, culinary expertise, digital technology, innovative consumer packaging, world-class human capital, and an effective trade marketing, distribution and logistics network and sustained investments in R&D, enable the Company to power its strategy of developing multiple drivers of growth through diverse businesses.

**B. Sustainable Use of Natural Resources**

Risks - Continuous decline in ground water level may have an impact on Paperboards and Specialty Papers Business of ITC which is relatively more water intensive in its operations when compared to other ITC Businesses. Disruptions in rainfall patterns will also have an impact on water quality. Energy prices are volatile and there is inadequate infrastructure for capitalizing on off-site renewable sources of energy. There are challenges related to energy efficiency improvement and increased electricity consumption from non-fossil fuel based energy resources that may arise owing to sectoral GHG emission reduction targets.

Opportunities - ITC intends to consider and incorporate all aspects of water security for its upcoming projects right from the design stage and operating units in water-stressed areas. This should provide long-term advantages in terms of both reduced costs as well as reliability of support. ITC's responsible water stewardship initiatives such as Integrated Watershed Development Programme will help towards meeting the water security needs. ITC has already adopted a low carbon growth path with goal set for 50% renewable energy share by 2020 as part of overall energy security strategy.

**C. Health and Safety**

Risk - While ITC is progressing steadily towards its target of zero accidents of employees within its premises, ITC cognises that accidents while traveling to and from the workplace are on the rise in India, given the steady proliferation of 2 wheelers, the poor conditions of roads and inadequate infrastructure.

Opportunities - For agri-products sourced under Agri Business division, stringent process control and quality inspection norms have been established to ensure utmost product safety. Manufacturing locations for branded packaged foods, including third party manufacturing units, are Hazard Analysis and Critical Control Point (HACCP)/ISO 22000 certified, ensuring that products use the best quality ingredients and utilise the highest quality processes. In service sectors such as hospitality, these strengths

have permitted ITC to leverage the market to its advantage. The well-established e-Choupal network coupled with the "Choupal Pradarshan Khet" programme facilitate small and marginal farmers in accessing customised knowledge on scientific farm practices, soil testing, balanced fertilisation, foundation seeds and seed treatment, water, weed, pest and post-harvest crops management and supply of quality inputs like drought resistant seeds to improve farm competencies.

#### **D. Dynamics of Government Policies and Regulation**

**Risks** - Regulatory framework such as the Forward Contracts (Regulation) Act and the Agricultural Produce Market Committee (APMC) Act were framed to curb excessive speculation in agri commodities. Essential Commodities Act (ECA), which impose stock limits and restrict movements from time to time, create uncertainty in business viability for organisations like ITC with significant dependence on agri raw material. These act as a huge deterrent to long-term investments required to build infrastructure like climate-controlled storages and transport facilities to prevent wastage. There has been a steep increase in Excise Duty for 4 years in succession along with discriminatory and punitive increases in Value Added Tax (VAT) rates by some States on cigarettes.

**Opportunities** - ITC engages with industry associations, organisations and other appropriate forums in line with its Policy of Responsible Advocacy. This is aimed to help the formulation of a balanced and pragmatic policy framework that addresses the concerns of the industry. ITC has created strong Indian brands in the cigarettes segment, in the absence of which, the domestic market would have been more vulnerable to the onslaught of smuggled and tax-evaded cigarettes. This will lead to eliminating losses to the exchequer as a result of tax-evaded cigarettes, and help in ensuring that livelihoods of farmers.

#### **E. Human Capital and Well-being**

**Risks** - ITC operates in a diversified, ever-changing, highly competitive global landscape. This necessitates the development of a strong, customer responsive world-class human capital base. The challenge of meeting the growing needs of an organisation with the requisite skills co-exists with the challenge of attracting and retaining the best talents given the multitude of options available to skilled professionals. There is also a need to nurture harmonious employee relations to enable smooth functioning and productivity enhancement to be able to support the organisation's growth and progress.

**Opportunities** - In order to sustain growth and to continue to deliver value for stakeholders, it is necessary for organisations to recognise human capital as a critical resource base. The over 100-year-old brand value of ITC provides an opportunity to attract talent from premier institutions. Retention of such a talent pool is in turn facilitated through a talent management strategy focused upon building a high quality 'future-ready' pool of managers, specialists and business leaders, supported by significant investments in learning and development and backed by a culture of care and concern.

#### **F. Sustainable Availability and Use of Natural Resources**

**Risks** - Increase in population has led to increase in consumption of natural resources at a rate far higher than the earth's capacity to regenerate. Sustainable availability of resources for industrial use as well as domestic consumption could therefore be a risk in the catchment areas of ITC.

**Opportunities** - ITC's deep rooted stakeholder centric approach and understanding of interdependence of social and environmental aspects have enabled ITC to be a pioneer in identifying sustainability issues beyond the horizon and taking necessary actions. ITC has undertaken integrated watershed development and afforestation programmes for augmentation of natural resources and higher productivity.

#### **G. Employability of Local Population**

**Risks** - Lack of proper education and inadequate availability of requisite skills in local population, especially from disadvantaged sections of society in the catchment areas is a challenge faced by most of ITC's manufacturing units. There is a need to create a large pool of skilled manpower.

**Opportunities** - ITC's deep engagement with rural communities, which has been enhanced by the co-creation of economic opportunities, has helped in forging strong relationships. This provides an opportunity to enhance gainful livelihoods of local population. ITC's partnership with local Industrial Training Institutes and agencies that impart vocational training on skills related to sales & distribution, hospitality, construction and technology acts as an opportunity to enhance the employability of youth from disadvantaged sections of society in the catchment areas of ITC operations.

#### **H. Poverty and Social Inequity**

**Risks** - The limited options of alternative off-farm employment, combined with endemic poverty, continue to imperil the livelihood of small and marginal farmers with fragmented landholdings, mainly in rain-fed agriculture regions, where the production regime is inherently fragile.

**Opportunities** - ITC's innovative development models based upon the foundation of its deep rooted stakeholder centric approach, provide the opportunity of simultaneous generation of sustainable livelihood as well as creation of positive environmental footprint. Such models unleash strong drivers for achieving development with social equity.

#### **I. Low productivity of rain-fed agricultural sector of India**

**Risks** - ITC operates across the agri value chain of 19 crops and is present in 17 states with substantial investments in resource intensive models that entail heavy capital infrastructure. Since around 55% of India's total sown area meets its requirements from rainwater alone, climate change generated environmental challenges aggravate the risks of low productivity of the agricultural sector of India, in turn impacting sustainability of agri based businesses. There is absence of micro-irrigation, precision farming, power-efficient farm mechanization, watershed development and crop and weather insurance.

**Opportunities** - ITC has created a rich knowledge pool of agri-based interventions in terms of price discovery, infrastructure, market access, connectivity, and farm productivity. ITC's close connect with the grassroots level and effective dissemination of critical information provides opportunities for ITC to address the challenges in its agri-value chain.

#### **J. Limited Capabilities of Small Scale Supply Chain Partners**

**Risks** - ITC's supply chain comprises of a large number of small-scale partners many of whom operate under limiting circumstances in terms of their ability to invest in efficient technologies and their necessity to rely on labour intensive practices.

**Opportunities** - ITC's long presence in the Indian market has helped in understanding the pulse, strengths, weaknesses and concerns of its supply chain partners, especially the rural population. This has helped in establishing strong relationships with supply chain partners and in capacity building of these partners for maximizing value.

#### **K. Post-consumer Waste Management**

**Risks** - The Indian industry is facing increasing pressure on packaging waste, which highlights the need for more effective solid waste management. Inadequate solid waste management systems result in a large amount of wastes being generated today to end up in landfills. New regulations in this area are not only putting additional pressure on industry to work out alternate product

packaging options but also demanding to develop adequate waste management system based on Extended Producer Responsibility.

**Opportunities** - The fibre for the Kovai Unit of Paperboards and Specialty Papers Business of ITC is sourced from recycled waste. ITC has already initiated collaborations with government, municipal corporations, NGOs, communities and other stakeholders to tackle the issue of plastic packaging waste. ITC is devising a multi-pronged approach to ensure waste segregation at source and improve the reuse/recycle rate by raising mass-level awareness and incentivising informal sector to collect all types of plastic packaging.

#### L. Corporate Reputation

**Risks** - Inadequate information or misrepresentation, especially in the media, can impact corporate reputation. Adverse coverage or feedback on ITC's Brands and Businesses can impact brand salience in the minds of the consumer/customer.

**Opportunities** - ITC's structured media engagement plan comprises an array of activities including press releases/ statements, media interviews by top management, media coverage of important corporate and business milestones and regular presentations to senior media editors. Presentations are made to key stakeholders backed by publications on various issues. These provide an opportunity to the senior management team to effectively engage with stakeholders on issues relating to ITC's products, services, initiatives and business practices.

#### M. Social Media

**Risks** - Social Media channels like Facebook, Instagram and Twitter, which allow individuals to form virtual communities and link up with people across the globe to share news, views, visuals and videos, is posing a new challenge to organisations. As social media is unregulated, it allows instant dissemination of information globally without any mechanism to verify or authenticate the flow of information. This creates the possibility of spreading misinformation that can impact consumer behaviour as well as corporate reputation.

**Opportunities** - ITC has created Twitter handle, @itccorpcom and is providing superior and transparent access to information through customised mobile phones apps. ITC has created Facebook page for engagement with potential employees. Several ITC brands like Bingo!, Yippee!, Wills Lifestyle and Engage have a social media presence to constantly interact with their respective target audiences.

#### N. Customer Satisfaction

**Risks** - Customer feedback is one of the vital inputs for any organisation to modify or update the product/ service in order to better address the requirements and sentiments of its customers. Growing options for customers, increased customer awareness on quality, health and safety, consumers' expectation on continual innovation and aggressively low price offer from competition, are some of the key challenges encountered by businesses today in achieving and maintaining high levels of customer satisfaction.

**Opportunities** - In the case of FMCG products, consumers are provided several communication channels like e-mail, telephone number, website address and feedback forms to enable them to contact the relevant Business. Consumers are provided with responses on their feedback in a timely manner. Customer feedback for Agri Business and Packaging & Printing is obtained from pre-season engagement with customers. In the Information Technology Business, the Customer Service Satisfaction Survey is an annual check on the robustness of the engagement, culminating in a Customer Experience Index. For Hotels Business, WOW ratio – a Guest Satisfaction Index is continuously monitored and used for benchmarking and performance improvement.

#### IV. Conclusions

As the supply chain of ITC is vertically integrated, it provides

opportunities for establishing synergy and minimizing environmental impacts. ITC's Agri Business has been continuously investing in strengthening capability through multiple sourcing models, customised and identity preserved supply chain infrastructure and network, processing and warehousing tie-ups, technology enabled systems and processes and people capabilities. Further, in line with the overall strategy to embed principles of sustainability into the various stages of product or service lifecycle, ITC initiated life cycle assessments (LCA) of its products & services in 2010 with an objective to evaluate the impacts and identify areas for improvement in the value chain. These assessments have been followed up with detailed studies which in turn have provided concrete solutions towards more efficient packaging designs, loading efficiencies and consequent reduction in transportation costs/GHG emissions/ energy use. ITC will continue to work in this direction, in line with its Policy on Life-cycle Sustainability, to identify the opportunities for improvement in the value chain and take appropriate measures for optimization

#### References

- [1] A.Ashby, M.Leat, M.Hudson-Smith, (2012), "Making Connections: a review of Supply Chain Management and Sustainability Literature", *Supply Chain Management: An International Journal*, Volume 17, Issue 5, pp.497-516, 2012
- [2] Clodia vurro, Angeloantonio Russo, Francesco Perrini, (2009), "Shaping Sustainable Value Chains: Network Determinants of Supply Chain Governance Models", *Journal of Business Ethics*, Volume 90, Issue 4, pp. 607-621, 2009
- [3] Closs D.J., Speier C., Meacham N.J., (2011), "Sustainability to support end-to-end value chains: the role of Supply Chain Management", *Journal of the Academy of Market Science*, Volume 39, Issue 1, pp.101-116, 2011
- [4] Craig R.Carter, Dale S.Rogers, (2008), "A framework of Sustainable Supply Chain Management: moving towards new theory", *International Journal of Physical Distribution and Logistics Management*, Volume 38, Issue 5, pp.360-387, 2008
- [5] Hamprecht J., Corsten D., Noll M., Meier E., (2005), "Controlling the sustainability of food supply chain", *Supply Chain Management: an International Journal*, Volume 10, Issue 1, pp. 7-10, 2005
- [6] Jacques H.Trienekens, James M.Hagen, Adriaan J.M.Beulens, Omta S.W.F., (2003), "Innovation Through (International) Food Supply Chain Development: A Research Agenda", *International Food and Agribusiness Management Review*, Volume 6, Issue 1, 2003
- [7] Jonathan D.Linton, Robert Klassen, Vaidyanathan Jayaraman, (2007), "Sustainable Supply Chains: An Introduction", Volume 25, Issue 6, pp. 1075-1082, 2007
- [8] Mark Pagell, Zhaohui W.U., (2009), "Building A More Complete Theory of Sustainable Supply Chain Management using Case Studies of 10 Exemplars", *Journal of Supply Chain Management*, Volume 45, Issue 2, pp. 37-56, 2009
- [9] Pagan R., Lake M., (1999), "A Whole Life Approach to Sustainable food production", *Industry and Environment*, Volume 22, Issue 2, pp.13-17, 1999
- [10] Purba Rao, Diane Holt, (2005), "Do Green Supply Chains lead to competitiveness and economic performance?", *International Journal of Operations and Production Management*, Volume 25, Issue 9, pp.898-916, 2005
- [11] [www.itcportal.com/sustainability/sustainability-report-2016/sustainability-report-2016.pdf](http://www.itcportal.com/sustainability/sustainability-report-2016/sustainability-report-2016.pdf)