Chapter 4:

Strategic Planning Process in Indian Private Sector Companies: Strategic Corporate Governance at ITC Limited
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ITC is one of India's foremost private sector companies with a market capitalisation of around US $ 12 billion and a turnover of US $ 3 billion. Rated among the World's Best Big Companies by Forbes magazine, ITC ranks third in pre-tax profit among India's private sector corporations. ITC has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Packaged Foods & Confectionery, Branded Apparel, Greeting Cards and other FMCG products. While ITC is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery, Branded Apparel and Greeting Cards.

As one of India's most valuable and respected corporations, ITC is widely perceived to be dedicatedly nation-oriented. Chairman Y C Deveshwar calls this source of inspiration "a
commitment beyond the market". In his own words: "ITC believes that its aspiration to create enduring value for the nation provides the motive force to sustain growing shareholder value. ITC practises this philosophy by not only driving each of its businesses towards international competitiveness but by also consciously contributing to enhancing the competitiveness of the larger value chain of which it is a part."

ITC's diversified status originates from its corporate strategy aimed at creating multiple drivers of growth anchored on its time-tested core competencies: unmatched distribution reach, superior brand-building capabilities, effective supply chain management and acknowledged service skills in hoteliering. Over time, the strategic forays into new businesses are expected to garner a significant share of these emerging high-growth markets in India.

ITC's Agri-Business is one of India's largest exporters of agricultural products. ITC is one of the country's biggest foreign exchange earners (US $ 2 billion in the last decade). The Company's 'e-Choupal' initiative is enabling Indian agriculture significantly enhance its competitiveness by empowering Indian farmers through the power of the Internet. This transformational strategy, which has already become the
subject matter of a case study at Harvard Business School, is expected to progressively create for ITC a huge rural distribution infrastructure, significantly enhancing the Company's marketing reach.

ITC's wholly owned Information Technology subsidiary, ITC Infotech India Limited, is aggressively pursuing emerging opportunities in providing end-to-end IT solutions, including e-enabled services and business process outsourcing.

ITC's production facilities and hotels have won numerous national and international awards for quality, productivity, safety and environment management systems. ITC was the first company in India to be rated for Corporate Governance by ICRA, an associate of Moody's Investors Service, which accorded it the second highest rating, signifying "a high level of assurance on the quality of corporate governance."

ITC employs over 20,000 people at more than 60 locations across India. Ranked among India's most valuable companies by the 'Business Today' magazine, ITC continuously endeavors to enhance its wealth generating capabilities in a globalising environment to consistently reward more than 3,87,170 shareholders, fulfil the aspirations of its stakeholders and meet societal expectations. This over-arching vision of the
company is expressively captured in its corporate positioning statement: "Enduring Value. For the nation. For the Shareholder."

**Vision and Mission: Reflecting Corporate Social Responsibility**

![Sustain ITC's position as one of India's most valuable corporations through world-class performance, creating growing value for the Indian economy and the Company's shareholders]

**ITC Limited: The Strategic Growth**

Over the years, ITC has evolved from a single product company to a multi-business corporation. Its businesses are spread over a wide spectrum, ranging from cigarettes and tobacco to hotels, packaging, paper and paperboards and international commodities trading. Each of these businesses is vastly different from the others in its type, the state of its evolution and the basic nature of its activity, all of which influence the choice of the form of governance. The challenge of governance for ITC therefore lies in fashioning a model that addresses the uniqueness of each of its businesses and yet strengthens the unity of purpose of the Company as a whole. Since the commencement of the liberalisation process,
India's economic scenario has begun to alter radically. Globalisation will not only significantly heighten business risks, but will also compel Indian companies to adopt international norms of transparency and good governance. Equally, in the resultant competitive context, freedom of executive management and its ability to respond to the dynamics of a fast changing business environment will be the new success factors. ITC's governance policy recognises the challenge of this new business reality in India.

**Corporate Governance: Making Strategy Work**

Flowing from the concept and principles of Corporate Governance adopted by the Company, leadership within ITC is exercised at three levels. The Board of Directors at the apex, as trustee of shareholders, carries the responsibility for strategic supervision of the Company. The strategic management of the Company rests with the Corporate Management Committee comprising the whole-time Directors and members drawn from senior management. The executive management of each business division is vested with the Divisional Management Committee (DMC), headed by the Chief Executive. Each DMC is responsible for and totally focused on the management of its assigned business. This three-tiered interlinked leadership process creates a wholesome balance
between the need for focus and executive freedom, and the need for supervision and control.

ITC defines Corporate Governance as a systemic process by which companies are directed and controlled to enhance their wealth generating capacity. Since large corporations employ vast quantum of societal resources, we believe that the governance process should ensure that these companies are managed in a manner that meets stakeholders aspirations and societal expectations.

**CORE PRINCIPLES**

ITC's Corporate Governance initiative is based on two core principles. These are:

(i) Management must have the executive freedom to drive the enterprise forward without undue restraints; and

(ii) This freedom of management should be exercised within a framework of effective accountability.

ITC believes that any meaningful policy on Corporate Governance must provide empowerment to the executive management of the Company, and simultaneously create a
mechanism of checks and balances which ensures that the
decision making powers vested in the executive management is
not only not misused, but is used with care and
responsibility to meet stakeholder aspirations and societal
expectations.

Cornerstones

From the above definition and core principles of Corporate
Governance emerge the cornerstones of ITC's governance
philosophy, namely trusteeship, transparency, empowerment and
accountability, control and ethical corporate citizenship.
ITC believes that the practice of each of these leads to the
creation of the right corporate culture in which the company
is managed in a manner that fulfils the purpose of Corporate
Governance.

Trusteeship :

ITC believes that large corporations like itself have both a
social and economic purpose. They represent a coalition of
interests, namely those of the shareholders, other providers
of capital, business associates and employees. This belief
therefore casts a responsibility of trusteeship on the
Company's Board of Directors. They are to act as trustees to
protect and enhance shareholder value, as well as to ensure
that the Company fulfils its obligations and responsibilities to its other stakeholders. Inherent in the concept of trusteeship is the responsibility to ensure equity, namely, that the rights of all shareholders, large or small, are protected.

**Transparency**: 

ITC believes that transparency means explaining Company's policies and actions to those to whom it has responsibilities. Therefore transparency must lead to maximum appropriate disclosures without jeopardising the Company's strategic interests. Internally, transparency means openness in Company's relationship with its employees, as well as the conduct of its business in a manner that will bear scrutiny. We believe transparency enhances accountability.

**Empowerment and Accountability**: 

Empowerment is an essential concomitant of ITC's first core principle of governance that management must have the freedom to drive the enterprise forward. ITC believes that empowerment is a process of actualising the potential of its employees.
Flowing from the philosophy and core principles, Corporate Governance in ITC shall take place at three interlinked levels, namely -

(a) Strategic supervision (on behalf of the shareholders), being free from involvement in the task of strategic management of the Company, can be conducted by the Board with objectivity, thereby sharpening accountability of management.

(b) Strategic management of the Company, uncluttered by the day-to-day tasks of executive management, remains focused and energised; and

(c) Executive management of the divisional business, free from collective strategic responsibilities for ITC as a whole, gets focused on enhancing the quality, efficiency and effectiveness of its business.

The strategic roles and responsibilities are as under;

- Strategic supervision by the Board of Directors
- Strategic management by the Corporate Management Committee
- Executive management by the Divisional Chief Executive assisted by the Divisional Management Committee
It is ITC's belief that the right balance between freedom of management and accountability to shareholders can be achieved by segregating strategic supervision from strategic and executive management. The Board of Directors (Board) as trustees of the shareholders will exercise strategic supervision through strategic direction and control, and seek accountability for effective strategic management from the Corporate Management Committee (CMC). The CMC will have the freedom, within Board approved direction and framework, to focus its attention and energies on the strategic management of the Company. The Divisional Chief Executive, assisted by the Divisional Management Committee, will have the freedom to focus on the executive management of the divisional business.

Role of Board of Directors (Board):

The primary role of the Board of Directors is that of trusteeship to protect and enhance shareholder value through strategic supervision of ITC, its wholly owned subsidiaries and their wholly owned subsidiaries. As trustees they will ensure that the Company has clear goals relating to shareholder value and its growth. They should set strategic goals and seek accountability for their fulfillment. They will provide direction, and exercise appropriate control to ensure that the Company is managed in a manner that fulfills
stakeholder aspirations and societal expectations. The Board must periodically review its own functioning to ensure that it is fulfilling its role.

The ITC Board will be a balanced Board, consisting of Executive and Non-Executive Directors, the latter including independent professionals. Executive directors, including the Executive Chairman, shall not generally exceed 1/3rd of the total strength of the Board. The Non-Executive Directors shall comprise eminent professionals, drawn from amongst persons with experience in business / finance / law / public enterprises. Directors shall be appointed / re-appointed for a period of three to five years, and in the case of Executive Directors up to the date of their retirement, whichever is earlier. The Board shall determine from time to time the retirement age for both Executive and Non-Executive Directors. The Board shall specify the maximum number of company Directorships which can be held by members of the ITC Board.

Non-Executive Directors are expected to play a critical role in imparting balance to the Board processes by bringing an independent judgement to bear on issues of strategy, performance, resources, standards of Company conduct, etc.
The Board shall meet at least six times a year and as far as possible meetings will be held once in two months. The annual calendar of meetings shall be agreed upon at the beginning of each year. As laid down in the Articles of Association of the Company, the quorum for meetings shall be one third of members and decisions shall be taken by simple majority, unless statutorily required otherwise. Meetings shall be governed by a structured agenda. All major issues included in the agenda shall be backed by comprehensive background information to enable the Board to take informed decisions. Agenda papers, as far as practicable, shall be circulated at least three working days prior to the meeting. Normally items for the Board Agenda, except those emanating from Board Committees, shall have been examined by the CMC. Minutes shall be circulated within 15 working days of the meeting and confirmed at the next meeting. Board decisions shall record the related logic as far as practicable.

The Board shall have the following Committees whose terms of reference shall be determined by the Board from time to time:

**Audit Committee**: To provide assurance to the Board on the adequacy of internal control systems and financial disclosures. The Head of Internal Audit will act as co-ordinator to the Audit Committee, but will be
administratively under the control of the Director accountable to the Board for the Finance function.

**Compensation Committee:** To recommend to the Board compensation terms for Executive Directors and the seniormost level of management below the Executive Directors.

**Nominations Committee:** To recommend to the Board nominations for membership of the CMC and the Board, and oversee succession for the seniormost level of management below the Executive Directors.

**Investor Services Committee:** To look into redressal of shareholder and investors grievances, approval of transmissions, sub-division of shares, issue of duplicate shares, etc.

**Core Values**

Core values are aimed at developing a customer-focused, high-performance organization, which creates value for all its stakeholders:

**Trusteeship**

As professional managers, we are conscious that ITC has been given to us in "trust" by all our stakeholders. We will
actualise stakeholder value and interest on a long term sustainable basis.

**Customer Focus**

We are always customer focused and will deliver what the customer needs in terms of value, quality and satisfaction.

**Respect For People**

We are result oriented, setting high performance standards for ourselves as individuals and teams.

We will simultaneously respect and value people and uphold humanness and human dignity.

We acknowledge that every individual brings different perspectives and capabilities to the team and that a strong team is founded on a variety of perspectives.

We want individuals to dream, value differences, create and experiment in pursuit of opportunities and achieve leadership through teamwork.

**Excellence**

We do what is right, do it well and win. We will strive for excellence in whatever we do.
Innovation

We will constantly pursue newer and better processes, products, services and management practices.

Nation Orientation

We are aware of our responsibility to generate economic value for the Nation. In pursuit of our goals, we will make no compromise in complying with applicable laws and regulations at all levels.

The corporate governance of the ITC Limited has been one of the important aspects behind the strategic growth of the company. The governance not only helps in effective strategic planning of the company but also ensures that the plans are implemented in the desired way. The governance structure of ITC may be put in the category of best models of corporate governance, being adopted by the Indian Private sector companies.
Table 1: Performance during Last 10 Years

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<tr>
<th>PARTICULARS</th>
<th>1995-96</th>
<th>2004-05</th>
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<tbody>
<tr>
<td>Gross Income</td>
<td>5188</td>
<td>13585</td>
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<tr>
<td>Market Capitalisation*</td>
<td>5571</td>
<td>33433</td>
</tr>
<tr>
<td>Profit After Tax (before exceptional items)</td>
<td>261</td>
<td>1837</td>
</tr>
<tr>
<td>Profit After Tax (after exceptional items)</td>
<td>261</td>
<td>2191</td>
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<td>EPS - Basic (Rs.) (before exceptional items)</td>
<td>10.64</td>
<td>73.74</td>
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<tr>
<td>EPS - Basic (Rs.) (after exceptional items)</td>
<td>10.64</td>
<td>87.97</td>
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<tr>
<td>Net Worth</td>
<td>1121</td>
<td>7896</td>
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<tr>
<td>Book Value per Share (Rs.)</td>
<td>45.69</td>
<td>316.54</td>
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<tr>
<td>Capital Employed</td>
<td>1886</td>
<td>8517</td>
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<tr>
<td>Return on Capital Employed (%)</td>
<td>28</td>
<td>32</td>
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