
Original Article

Corporate social responsibility through *knowledge leadership* in India: ITC Ltd and Y.C. Deveshwar

Received 4 September 2008; revised 29 October 2008; accepted 7 January 2009

C Lakshman

Independent Consultant, Chennai, India.

E-mail: clakshman2007@gmail.com

Abstract This study examines corporate social responsibility (CSR) in an Indian context, a region which has not found much attention in the research literature in this regard. It focuses on identifying gaps in the growing theoretical literature on CSR around the world and aims to inform some of those theoretical gaps with a case description and analysis of ITC Ltd and its activities in the social responsibility realm. Specifically, this study focuses on providing empirical details that throw light on a few gaps in the theoretical literature on CSR. First, it contrasts the different (etic and emic) conceptualizations of CSR across countries, by focusing on how CSR is conceptualized in India. Second, this study focuses on an examination of leadership and its role in influencing CSR. Third, this case description and analysis of ITC also provides valuable lessons on how resources have been configured in an innovative fashion to create value in 'bottom-of-the-pyramid' markets.

Asian Business & Management (2009) **8**, 185–203. doi:10.1057/abm.2009.5

Keywords: CSR; India; ITC; knowledge leadership; Deveshwar

Introduction

e-Choupal goes beyond mere knowledge-connectivity and enables farmers to exercise informed choice by connecting them to local and global markets. Thus, the human and the digital infrastructure at the village is complemented and completed with a physical infrastructure in the form of 'choupal saagars', each at the centre of a cluster of 40 e-Choupals. Saagars offer multiple services under one roof – a marketing platform, store front for agri-equipment and personal consumption products, insurance counters, pharmacy & health center, agri-extension clinic, fuel station and a food court. ... ITC has innovated a win-win situation for the farmers and the shareholders of ITC by linking farm operations



directly to their agri-export business through e-Choupal. The system has avoided the middlemen and also ensured quality product reaching the national and international markets with the quality certification needed by the importing countries.

(Dr A.P.J. Abdul Kalam, National Symposium on Agriculture)

Corporate social responsibility (CSR), especially in the context of globalization, has been a very widely discussed topic in recent times, with a slowly burgeoning research stream (Bies *et al*, 2007). Although this research stream is growing rapidly, not much of it is focused on Asia and almost none on India (Bruton and Lau, 2008). In fact, Bruton and Lau found that most of the broader management research, both at micro- and macro-organizational levels, has not focused as much on Asia as it has on North America and Europe. This is very surprising, given that Asia contains one of the global economic powerhouses (that is, Japan) and two of the most rapidly growing economies of the world (that is, China and India), one of which could become the world's biggest economy in the not too distant future (see Carroll, 2004; Bruton and Lau, 2008). The special issue (special topic forum) of the Academy of Management in 2007 on Corporate Social Responsibility focused to a certain extent on differences in CSR across countries (for example, Matten and Moon, 2008), but still with very little to no emphasis or focus on countries within the Asian region. Moreover, as Bruton and Lau (2008) point out, Asia is a very broad region with a wide variety of cultures within its boundaries. These researchers more specifically make the suggestion that there is a strong need to study countries other than Japan and China (for example, India) within this Asian region. This study examines CSR in an Indian context, thereby providing the initial spark for such focus on India within this vast region.

The 2008 list of the world's most ethical companies (93 companies in all), compiled by US companies Ethisphere and Forbes, does not include a single Indian company, although earlier lists have had one or two such representatives, such as Tata and Hindustan Lever (http://timesofindia.indiatimes.com/Business/Intl_Business/Indian_firms_not_among_worlds_most_ethical_cos/articleshow/3103816.cms#write#write), accessed 25 August 2008. Going beyond legal minimums, bringing about innovative ideas for public well-being and working on reducing their carbon footprint are among the key criteria used in this compilation of the most ethical companies. The fact that very few Indian companies have found mention on this list over a period of time is worrisome, because there are companies that excel on these criteria, and thus the situation may simply be a result of something akin to a 'country-of-origin' impact and the association of India with high corruption. In this context, it becomes imperative from an Indian perspective to have discussions in the public domain of companies that do excel on these criteria. In this regard, this



study focuses on providing details of consistent triple-bottom-line reporting (for over 3 years) according to global standards by one Indian company, ITC Ltd.

Instead of merely providing details of Indian companies that are socially responsible, this study focuses on identifying gaps in the growing theoretical literature on CSR around the world and aims to inform some of those theoretical gaps with case description and analysis of ITC Ltd and its activities in the social responsibility realm. Specifically, this study focuses on providing empirical details that throw light on a few gaps in the theoretical literature on CSR.

First, this study contrasts the different (etic and emic) conceptualizations of CSR across countries, by focusing on how CSR is conceptualized in India. Matten and Moon (2008) suggest that identifying and understanding different conceptualizations of CSR is critical to the enhancement of knowledge in this area, especially in the context of globalization.

Second, this study focuses on an examination of leadership (of a certain form, that is, *Knowledge leadership*: see Viitala, 2004; Lakshman, 2007) and its role in influencing CSR as an organizational state of being. Although leadership has been associated with and examined in the context of CSR (for example, Vogel, 2005; Basu and Palazzo, 2008), Bies and colleagues (2007), introducing the special topic forum on CSR to the Academy of Management's readers, suggested that the examination of the role of leadership in the emergence of social change activities is one of the high-potential areas for future research.

Third, this case description and analysis of ITC also provides valuable lessons on how resources have been configured in an innovative fashion to create value in 'bottom-of-the-pyramid' (BOP) markets (Prahalad, 2004). This is challenging, to say the least, and thus very informative for future-oriented learning and application. Seelos and Mair (2007) suggest that our collective knowledge of configuring and creating value from resources in BOP markets is very limited because of the likely complexity and lack of clarity in the cause-and-effect relationships in such regions. Thus, this study aims to inform the theoretical literature on CSR by throwing light on the innovative building of a business model through knowledge leadership in rural and other markets of India, to meet/satisfy an Indian conceptualization of social responsibility.

This paper is organized as follows. First, the uniqueness of India in the global as well as Asian context is highlighted by focusing briefly on its culture, economy and nature of markets (BOP). The paper then moves on to address the role of leadership in social change initiatives addressing CSR, in a context where such a role has not been adequately addressed. The subsequent section focuses on the challenge in BOP markets of establishing appropriate business models, especially those that accomplish both profit and social responsibility objectives. The next section of this paper then provides an analysis of ITC's actions in fulfilling economic, social, labour, human rights and environmental objectives, consistent with a triple-bottom-line approach to reporting, which



the company has done now for three successive years (ITC Annual Report, 2008). This section focuses largely on the e-choupal initiative that highlights the role of knowledge leadership and the building of business models in BOP markets, while providing the minimal coverage required on ITC's other activities comprising its broader CSR initiative. The final section of the paper concludes with the contributions of this study to the knowledge base of CSR in Asia and CSR literature in general. The next section begins with a brief definition of CSR that serves as a guide for the rest of the study.

Definition of CSR

For the purposes of this study, Carroll's definition of CSR is used, because it is comprehensive and quite popular in the literature. Accordingly, 'The social responsibility of business encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organisations at a given point in time' (Carroll, 1979, p. 499) is used as the operational definition for the analysis of the ITC case in this study.

India

India is very different in culture, economy and nature of markets, in comparison to China and Japan, the countries that have received the most attention in Asian research (Bruton and Lau, 2008). A study of CSR practices of Dutch companies in India found that Indian conceptions of CSR differed very much from Dutch conceptions (CREM-report nr. 03.650, 2004). This study noted that one of the strongest findings was that, whereas Indian companies thought of community development as a critical part of CSR, Dutch companies did not, rather thinking of it as charity. This held true for a number of stakeholders such as non-governmental organizations (NGOs), employees and outside observers. Many of the small and medium enterprises (SMEs) (Indian Subsidiaries of the Dutch parents) in this Dutch study also had very negative perceptions of trade unions and resisted unionization, with a number being non-unionized. Many of these Dutch subsidiaries also met legal minimums, but did not go much beyond them (according to trade unions) by way of wages and working conditions (CREM-report nr. 03.650, 2004). Additionally, the study did not focus on the environmental performance of subsidiaries, but it noted that in the area of product integrity and meeting consumer needs, these companies again met the legal minimum and did not go much beyond that. This is typical of most SMEs, who do not have adequate resources, either intellectual or material, to conceive of and support CSR



strategies. However, this state of affairs does convey something about the Indian approach to CSR.

Economy

India is one of the rare countries of the world where the knowledge economy operates side-by-side with an industrial and an agrarian economy, each operating on its own rules of business (see Table 1). This is one of the huge challenges offered by emerging economies such as India. India's rural market, more specifically, is potentially huge at 720 million consumers (> 70 per cent of population), though constituting less than 30 per cent of the country's GDP (Annamalai and Rao, 2003). Adding to the problem of small wallets, the rural market is also characterized by high levels of dispersion and unsustainable population densities for the marketer. The farmer's plight is no less in that land ownership is dispersed and fragmented (average 1.5 ha), plagued with weak infrastructure, heavily dependent on the monsoon and the presence of numerous intermediaries. Similar to the two cases in Bangladesh identified by Seelos and Mair (2007), this situation is characteristic of the complexity and uncertainty surrounding BOP markets, where little collective knowledge exists for building appropriate business models. How ITC and its Chairman Deveshwar configured their corporation and the resources available in this very non-munificent environment to build a business model that would bring in profits and meet social needs is the subject of this case analysis. If one looked at this picture and saw the tremendous opportunity for integrating, sharing, leveraging and managing information and converting it into a business model, one would be on a par with the ITCs of the world and knowledge leaders such as Y.C. Deveshwar, Chairman of ITC. According to G. Ramachandran, a financial analyst and member of the Shankerlal Guru Committee on agricultural markets, 'E-choupal has correctly regarded India's agrarian and rural poverty as the result of a cruel situation faced by India's small and poor farmers, which forces them to operate and transact in 'un-evolved' markets.

Table 1: GDP by Sector

<i>Macroeconomic Indicators</i>	<i>1993</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2007</i>
Nominal GDP (measured in thousands of &\$)	273.93	414.32	444.35	450.68	481.42	500.99	695.78
Agriculture (% of GDP)	28.16	25.42	23.85	22.74	22.76	23.15	19.60
Industry (% of GDP)	23.88	24.33	23.53	24.23	23.59	26.35	30.60
Services (% of GDP)	38.90	42.05	43.59	44.16	44.85	50.50	49.90

Source: University of Michigan Business School Case Study on e-choupal (Economic Intelligence Unit).



Farmers and rural households remain uninformed or inadequately informed in these ‘un-evolved’ markets because of adverse societal and economic structures’ (Businessline, 2005c).

Leadership and CSR

In addition to the tendency to view community development as a critical part of CSR in India, there is also the subtle ‘other’ side which views this as the primary responsibility of the government. More specifically, according to one Indian company in the Dutch study, ‘Sustainable development implies optimising financial position while not depleting social and environmental aspects and CSR implies supporting issues related to children, women and environment’ (CREM-report nr. 03.650, 2004, p. 13). Thus, notions of CSR typically evoke community development and issues related to children, women and the environment, while not involving a focus either on the ‘people’ or ‘profit’ part of a triple-bottom-line approach. Thus, good labour practices that go above and beyond the legal compliance minimum, and achievement of profits and servicing financial capital, would both fall outside a comprehensive conceptualization of CSR. It is in this context that executive leaders and their conceptualizations of what is within the realm of CSR for their corporation take on higher importance.

Although the theoretical literature on CSR has paid some attention to the connection between leadership and establishment of values (for example, Carlson and Perrewé, 1995), much more work needs to be done by way of examining the influencing of people and their unique conceptualizations of CSR, especially from the point of view of bringing these viewpoints into consensus with ‘global’ conceptualizations of CSR, such as the all-encompassing Triple-Bottom-Line approach, for instance. Moreover, the theoretical literature on CSR also focuses on a preponderance of either instrumental (for example, transaction cost economics) or institutional theory approaches to why firms behave in a socially responsible manner, to the exclusion of ‘leadership and corporations as social agents’ approach (see Aguilera *et al*, 2007; Bies *et al*, 2007; Campbell, 2007; Basu and Palazzo, 2008; Matten and Moon, 2008).

This study focuses on an examination of leader(CEO)-espoused values on Deveshwar’s conceptualization of CSR, in addition to his exhibition of knowledge leadership (Lakshman, 2007) in the building of a business model that would operationalize his conceptualization of CSR in this BOP market. This case is remarkable because of the success the model has achieved amid the generally challenging conditions attested in the literature (see Seelos and Mair, 2007). The ITC case is also remarkable for achieving both business success and



successful accomplishment of social performance (see following section on the e-choupal for details). Knowledge leadership involves leader-initiated and -influenced actions pertaining to organization-wide management of knowledge, including the creation, sharing, leveraging and dissemination of knowledge for the benefit of the entire corporation (and society, in this case) (see Lakshman (2007) for more details). This study highlights the use of knowledge leadership in building a business model that would achieve both financial (profit) and social objectives, while not forgetting the environmental objectives.

BOP Markets

BOP research (for example, Seelos and Mair, 2007) generally suggests a high level of complexity in such environments, making the disentangling of cause-and-effect relationships very difficult. Such high levels of causal ambiguity also lead to high levels of uncertainty in such environments. The configuring of resources in such an environment to build business models that could become effective is therefore a very challenging task, with very low 'net present values' for these projects, in addition to the delayed future cash inflows from such resource investments (see, for example, Seelos and Mair, 2007). This uncertainty and complexity is so high that BOP researchers suggest that there is very little collective knowledge of how to accomplish this task in such environments (for example, Prahalad, 2004). This study highlights one such instance of highly fragmented and dispersed rural markets in India, complicated by poor infrastructural problems and other social inadequacies. ITC's e-choupal (a combination of socio-cognitive and technological knowledge networks) has successfully demonstrated the building of a fruitful business model under such conditions. Hence, this study throws some light on the theoretical literature on CSR from this perspective, in addition to focusing on uniquely Indian conceptualizations of CSR, and focusing on (knowledge)-leadership guided approaches to making corporations agents of social change.

ITC's Triple-Bottom-Line Approach to CSR

ITC is the first and only one of seven Indian companies to adopt the Global Reporting Initiative's (GRI) triple-bottom-line reporting on a voluntary basis. Incidentally, it is also one of only 700 corporations worldwide to adopt such an initiative (<http://www.newindpress.com/NewsItems.asp?ID=IEA20060119013321&Page=A&Title=Southern%2BNews%2B-%2BAndhra%2BPradesh&Topic=0>), accessed 25 August 2008. The ITC group of companies is one of India's largest private sector companies, with a



market capitalization of approximately US\$4 billion and annual sales of \$2 billion. The group has the distinction of being 'Water Positive' for at least three successive years, as well as becoming 'Carbon Positive' in its most recent reporting year (see ITC Sustainability report, 2006: http://www.itcportal.com/sustainability_report_2006/), accessed 25 August 2008, and also making rapid strides toward becoming a zero-solid waste company. Once this third objective is accomplished, it would become the first company in the world to claim such a distinction, thus justifying the selection of ITC for this analysis.

Leader's Cognition and Language

The sense-making model of CSR (see Basu and Palazzo, 2008) highlights the importance of managerial cognition (including cognitive, linguistic and conative factors) for the nature, intensity, longevity, stability and success of CSR activities carried out by the firm. In an environment where people (Indians) are likely to think of CSR as mainly social and community-oriented actions (most importantly excluding profit and labour objectives), such managerial cognition and espousal of values becomes very important. The following quote captures the essence of Deveshwar's thinking on the concept of CSR and how it applies to ITC.

Envisioning a larger societal purpose ('a commitment beyond the market') has always been a hallmark of ITC. The Company sees no conflict between the twin goals of shareholder value enhancement and societal value creation. The challenge lies in fashioning a corporate strategy that enables realisation of these goals in a mutually reinforcing and synergistic manner. (ITC Sustainability report, 2006)

As can be seen from this quote, Deveshwar and his team do not see social and economic objectives as differing from each other or as competing for managerial attention. Instead, the way they think and talk about it are mutually reinforcing, leading them to operationalize it with appropriate business models, such as large-scale IT intervention in the form of the e-choupal (discussed in detail below). Results (in some cases, goals) from other initiatives comprising the broader social, economic and environmental initiatives of the ITC group of companies can be found in the Appendix. In addition to building business models meant to achieve economic and social objectives in BOP markets (the component most discussed here), the ITC group of companies engaged in the following other initiatives:

1. an initiative to manage natural resources, including wasteland, watershed and agricultural development;



2. an initiative to generate sustainable livelihoods, including the economic empowerment of women (social entrepreneurialism) and the genetic improvement in livestock;
3. an initiative to develop communities with a special focus on primary education, health and sanitation.

All these three initiatives were grouped under the umbrella of *Mission Sunehra Kal* (A Bright Tomorrow), details of which can be obtained from ITC's sustainability report.

This paper now moves to a discussion of the role of knowledge leadership and business models for BOP markets in the following sections.

The e-choupal

Fighting against conventional wisdom in the western world of focusing on one core business, in a situation where 33 per cent of ITC is owned by BAT, a British Tobacco behemoth, Chairman Y.C. Deveshwar wanted to excel in several other consumer goods besides tobacco, such as flour, cooking oil, matches, salt, hotels, paper, paperboard and packaging, and agribusiness – the source of e-choupals (*Economist*, 2004). Arguing that the concept of focus is a western fixation, Deveshwar has gone on to create strategies for ITC in a multi-business environment. In a context within which the organization was concerned about social responsibility, triple-bottom-line reporting and national development, Deveshwar and his team of executives developed the concept of the e-choupal that could integrate, leverage, share and manage information in a fragmented and dispersed rural marketplace. The overall objective of the organization is to balance investor interests with those of the communities in which they operate and that of the Government. The creation of a business model for development within the context of the international business division (\$150 million in revenues), an agricultural trading company, provided the immediate context for the e-choupal. The e-choupal was simultaneously conceived as a more efficient solution for the company's supply chain as well an e-commerce platform for selling the company's goods and services to farmers.

The e-choupals were established as a business platform consisting of a set of organizational subsystems and interfaces with the potential of connecting farmers to global markets (Businessline, 2007b). The purpose of establishing such an organizational system leveraging IT infrastructure was to utilize the structure in both procurement of supplies from farmers and for providing a host of services and products to them as consumers.



The e-choupal business platform consists of three broad layers. The first layer consists of village-level kiosks with internet access (e-choupal), managed by an ITC-trained local farmer called a *sanchalak*. These choupals are located within walking distance of each target farmer, with approximately one e-choupal per cluster of five villages. The second layer consists of a bricks-and-mortar infrastructure called 'hubs', managed by a traditional intermediary with local knowledge and skills. This person, a former commission agent in the traditional *mandi* system, which the e-choupal system partly substituted, is called a *samyojak*. The *samyojak* in this second layer is located within the premises of a large mall targeting rural farmers and their families. These malls, called *choupal saagars*, are spread over seven thousand square feet and stock leading brands of clothes, home appliances and other consumer goods and a variety of farm-related supplies like fertilizer, pumps, pesticides, and so on. The third layer consists of various product and service providers, in addition to ITC itself as the procurer of farm output.

Today the e-choupal initiative comprises 6400 choupals, transforming the lives of over 3.5 million farmers, in 38 500 villages in nine states of India. By 2010, the company has set a target coverage of 20 000 choupals for 10 million farmers in 100 000 villages, transacting \$2.5 billion in business (Deveshwar, 2007). At the end of 2005, there were about 50 *choupal saagars* spread over four states, with more planned for other states.

The e-choupal business platform is an excellent illustration of knowledge transfer and utilization mechanisms at work. The computer with internet access located within a *sanchalak's* home becomes the means through which ITC channels information and knowledge in a number of different domains to the farmers. This information and knowledge ranges from daily prices for grains and crops at the *mandi* (the traditional outlet for sale of grains), to weather information, information on cropping practices and health-care information, in addition to the open information available on the internet. For instance, *sanchalaks* have been known to use the system to track prices at the local *mandi*, as well as prices on the Chicago commodities exchange. The use of trained *sanchalaks*, local farmers with local knowledge and skills, forms a key constituent of the reverse movement of information and knowledge from the villages to the multinational corporation (ITC). The same system can be used as a two-way transaction processing system for farmers to sell their output to ITC and to use it to order a variety of supplies they themselves require for use in their farms or households.

The need of the day for both farmers and ITC and a variety of rural marketers was disintermediation. The numerous intermediaries in the Indian rural markets have a history of earning trading profits by undermining the structure and magnitude of rewards accruing to poor farmers owning small tracts of land (Businessline, 2004b). The system was such that farmers were not



getting an adequate price for their output, while at the same time consumers were not getting their produce for a fair price. The intermediaries were blocking information and market signals and using these activities as the basis of their profit-making. Thus, the movement of information and knowledge, sharing knowledge between the producer and value-adding intermediaries such as food-processing companies, and the leveraging of such knowledge would benefit all those in the value-chain. Understanding the motivations and vested interests of the *mandi* traders and utilizing many of them as *samyojaks* was a stroke of genius on ITC's part, although not completely without resistance. In December 2004, soyabean trading at the *mandis* in Madhya Pradesh came to a grinding halt as a result of an indefinite strike observed by traders in various locations (Businessline, 2004c) in protest at the e-choupal direct marketing system. With much more information about price trends, farmers were holding on to their produce waiting for better prices, lowering trade volumes in the *mandis*, leading to the stir among traders. Farmers are able to make better decisions about whom to sell their output to and at what price, not to mention their decision-making ability in planting, irrigation and other cropping practices as a result of the increased information flows made available to them.

It is a win-win situation from the perspective of ITC as well, as it has craftily invested its time and effort in a multi-layered organizational system, under the able knowledge leadership of Deveshwar, to obtain valuable information from the farmers and offer them prices for their output at prevailing market levels, in addition to using the system to sell them a bundle of products and services, in coordination with 80 or so corporations. ITC has hooked up with *Intellect*, the research and technologies wing of the Lintas Media group, to launch the Bharat barometer – the primary information source on all aspects of rural consumer behaviour (Businessline, 2006b). Mr Sivakumar, CEO of ITC's International Business Division, says 'The enthusiastic response from farmers has encouraged us to plan for the extension of the e-choupal initiative to eleven other states across India over the next few years. There are plans to channel services related to micro-credit, insurance, health and education through the same e-choupal infrastructure' (Businesswire, 2004; see also Businessline, 2006c).

Having established the rural information infrastructure highway, the company is awaiting other potential users, who are plenty: State Governments putting their services online, consumer-goods firms whose distribution networks rarely get to the smaller villages, micro-credit providers, and so on. Mr Deveshwar jubilantly says 'We are owners of the road and, of course, we will charge a toll' (*Economist*, 2004). Attesting to the success of ITC's e-choupal initiative, a few other firms are planning to roll out similar initiatives.



The Village Level

The internet-connected computer is usually housed within the *sanchalak's* house and the connectivity is either through a phone line or satellite connection. Each *choupal* serves approximately 600 farmers located in 5–10 nearby villages, with ITC aiming (as a strategic intention) to ultimately provide one such location within five kilometers of any farmer in rural India. Each of these *choupals* takes an approximate investment by ITC of 2 lakh¹ Rupees (Rs 200 000), and yearly operating and maintenance costs borne by the *sanchalak*, who receives a commission in return for his 'aggregating' services. The *sanchalak* also receives a certain level of social prestige as a result of being selected, hired and trained by a multinational corporation. ITC channels all its communications through the *sanchalaks*, knowing full well that the farmer has historically been taken advantage of, and that trust is a critical element in any transaction for the villagers. All *sanchalaks* take a public oath vouching for their actions benefiting the village community. Understanding that trust is a critical element of all knowledge-sharing activities, the effective knowledge leadership of ITC builds its core knowledge network component (the village *choupal*) by carefully selecting and training the individual who runs it. All *sanchalaks* are selected for their ability to communicate, to build trust by virtue of actions and status, literacy, willingness to try new things, risk-taking ability and availability. In addition to accessing daily closing prices, the farmers use the e-*choupal* to order seed, fertilizer and consumer goods from ITC or its partners. At the time of harvest, ITC usually offers to buy the crop at the previous day's closing price. Farmers willing to sell at that price transport their goods to the ITC processing centre (in many cases the *choupal saagar*), where the produce is electronically weighed (a process previously subject to farmer complaints and pilferage in the traditional *mandi* system) and assessed for quality. Farmers get their price and a transport fee. Thus the farmers minimize on transaction costs, which would otherwise go to the intermediary with higher margins. Some farmers do sell directly to the crushers (in the case of soya beans) and others sell their produce at the *mandi*, the traditional system set up to enable farmers to get the best prices, which has ended up benefiting traders more than farmers.

The Choupal Saagar

When farmers collect their money at the *choupal saagar*, they are physically located tantalizingly close to the shopping aisles of the mall, with complete access to a line of products from motorcycles to fertilizers, branded clothes to farm equipment, and from diesel to home appliances, with ATMs and other



outsourced retailers lined up to participate. The intention is to capitalize on both the impulsive and planned buying habits of farmers and their families. First, though, the farmer stands to benefit by being provided with the transportation costs for bringing the crop to the warehouse at the *choupal saagar*, and by not being cheated in the process of weighing and assessing quality. The combined system of buying and selling provides sufficient levels of checks and balances to motivationally ensure that such defrauding does not take place. Moreover, the *samyojaks* running the *choupal saagars*, although disadvantaged as traders in the traditional *mandi* system, are now part of the value-chain run by a larger entity, the multinational corporation. They provide the bridge financing by paying the farmers and later collecting it from ITC. They manage storage, transportation and other logistics for a commission. Many *mandi* traders have agreed to work as *samyojaks* as a combined result of a desire to work for a global company and the fragmented nature of the *mandi* agents, with some level of competition among themselves. These *samyojaks* provide the working capital, as against the major infrastructure investment provided by ITC for the mall, warehouse and electronic infrastructure. Such investment also sends powerful signals to the traders that they are dealing with a significantly powerful entity in the business. In the end, it seems like a win-win situation for all.

The *samyojaks* are another crucial element in the information and knowledge-leveraging network component of the e-choupal. They bring in their years of experience of handling the system and are able to provide crucial inputs on markets and trends to the e-choupal system. In return for taking an agent's role vs the earlier principal's role, the *samyojaks* benefit by managing the mall, selling consumer goods, household provisions, and so on, and by finding work for themselves and their staff throughout the year, rather than just during the harvest season. The dynamics of the e-choupal system, including the powerful motivating features of the traditional and alternative e-choupal systems, provide an excellent illustration of knowledge leadership at work, similar to the motivational problems faced by Toyota's knowledge-sharing network (Dyer and Nobeoka, 2000). Toyota had to face motivational issues among its network of suppliers, eventually owing the success of its supplier knowledge-sharing network to its excellent management of the multifaceted motivational challenges.

ITC and Providers of Products and Services

The *choupal saagars* stock the products of about 80 companies, who pay a fee to ITC for using the channel to contact the difficult-to-reach rural consumer (Businessline, 2004a). The fee serves as a toll on the 'road' of the physical



infrastructure built by ITC. A similar possibility for charging tolls exists in the virtual realm, as well as for direct sales, through the e-choupals, which are serviced through the *choupal saagars* acting as warehouses, thereby forming a 'clicks-and-mortar' infrastructure. All the providers of products and services benefit by leveraging the physical infrastructure built by one company over the offerings of all the companies, thereby bringing down distribution costs. ITC benefits because it can get better quality delivered at its doorstep at better prices compared to the conventional option of obtaining grain from the *mandi*.

Sivakumar, CEO of ITC-IBD, gives the example of Aashirwad aata in explaining the success of the e-choupal system. He says 'If under two years ITC's Aashirwad aata (flour) has become the No. 1 brand in the country, with nearly 15 per cent of the market share, it is because of quality, which is the result of the choupal infrastructure – because we now buy from the farmer directly and we are able to store different varieties of wheat separately. When farmers sell in *mandis* or the FCI, all the wheat gets aggregated, and after that it can't be segregated. So sometimes the aata quality is very good, sometimes it is quite bad, and the consumer has to deal with it. But today when we store wheat separately, we have different blends. What is sold in Kolkata, Mumbai or Chennai is very different, as consumer preference is different in terms of level of coarseness, colour, usage patterns, water absorption capacity and so on. Earlier consumer preferences were not matched with the wheat grown, and the farmer didn't get the right value for his produce. But that is changing now' (Businessline, 2004d). Thus, as can be seen, the process of creating, sharing and leveraging information extends all the way from the farmer to the consumer as a result of the e-choupal system, thereby making it an excellent illustration of the concept of knowledge leadership along the entire value chain.

The company is working on traceability of farm produce, aimed at adding value by providing buyers with products of their choice (Businessline, 2007a). Traceability is the ability to track the origin of a product and its attributes. Such a feature would help add value and secure higher returns to farmers. Traceability is extended to some produce, aquaculture products – backed by insurance – and fruits. The concept of traceability adds to the value of information and knowledge of sources of products and the resulting value in the marketplace. Wheat from Punjab and some parts of Madhya Pradesh is valued more than other wheat sources and rice from certain locations is more valuable than that from others. The e-choupal network leverages this fact by helping identify and track the source of various products, which would not otherwise be possible under the traditional system, with the intermediaries often muddling that information and blocking signals.

Seeing the potential value of the choupal system, more and more companies are aligning themselves with ITC in their efforts to reach the rural consumer, thereby enhancing the efficacy of the e-choupal network and further lowering



distribution costs. Motorola India recently joined the growing list of companies aiming to use the retail space provided within the e-choupal network. Dukes Consumer Care Ltd, the Hyderabad-based confectionery maker, also recently tied up with ITC to market its products through the e-choupal network (Businessline, 2007c). DTH player TataSky is another company that has recently tied up with ITC's e-choupal initiative to reach the cable-dry rural areas and expand its business (Businessline, 2006d). All this is likely to bring more consumerism to rural consumers, bringing economic benefits to participants.

ITC has won the Development Gateway, TERI and Golden Peacock awards for its e-choupal initiative, all serving to illustrate the value of the e-choupal network and the knowledge leadership behind it. The Development Gateway Foundation recognized ITC's initiative in giving farmers access to market information with a \$100 000 award called the Development Gateway Award 2005. Chairman Deveshwar said 'By delivering essential healthcare and educational information, we can extend the benefits of e-choupal more deeply into the fabric of our communities across India. And by recognising programmes like ours, the Development Gateway Foundation is spurring on the use of information technologies in communities worldwide, to build grassroots capacities and enhance the quality of life'. The Foundation, based in Washington DC with operations in 60 countries, puts the internet to work for developing countries, helping to improve lives by enabling more effective development worldwide. Awards such as this serve also to attest to the efficacy of such initiatives and of effective knowledge leadership in this context.

Imitation is the best form of flattery. When another organization – the National Alliance on Mission 2007 – announced the aim to create a massive network of information kiosks in 6 lakh (600 000) villages in India by August 2007, acknowledging the importance of 'village knowledge centres', nothing more is required to validate this knowledge leadership initiative. 'Village knowledge centre (VKC) is one of the essential components for realising our goal of graduating into a knowledge society' said Mr A.P.J. Abdul Kalam, speaking at the second annual convention of the National Alliance (Businessline, 2005d).

In addition to the above, ITC has also received the 2004 Corporate Social Responsibility Award from 'The Energy and Resources Institute' (TERI) for its e-choupal initiative (Businessline, 2005b). The award provides impetus to sustainable development and encourages ongoing social responsibility processes within the corporate sector. The company's social responsibility initiatives (e-choupal and social and farm forestry) were also recognized with the Golden Peacock Global Award for social responsibility in Emerging Economies for 2005 (Businessline, 2005a). The award was presented to the company in London by Dr Ola Ullsten, former Prime Minister of Sweden, who



headed the jury. Capping it all is the induction of the chairman Y.C. Deveshwar into the 'Hall of Pride' by the Indian Science Congress (Business-line, 2006a).

Conclusion

The case of ITC's triple-bottom-line approach to CSR highlights a number of issues and informs CSR theory in the following ways. It highlights the role of leadership in accomplishing the challenging task of building effective business models that simultaneously accomplish social and other (for example, environmental) goals. The business goals served by the company's e-choupal initiative could easily be lost on readers. Given that more organizations, both in the private and public sector (including some NGOs), are mimicking the e-choupal initiative for rural marketing and development objectives respectively, it should be clear that such initiatives achieve a great blend of both kinds of objectives. Consistent with sense-making models of CSR (for example, Basu and Palazzo, 2008), this study highlights the role of leader cognition and leader (and others') use of linguistics in reinforcing the CSR-oriented actions of a company. In this regard, conceiving the problem as one that requires the management of information and knowledge, thereby sharing, integrating and leveraging knowledge, is the first critical step in the knowledge leadership process illustrated by Deveshwar and his team. Thus, this case analysis study also highlights the role of leadership (viz. knowledge leadership) in making such business models successful in BOP markets (see Seelos and Mair (2007) for a discussion of the challenge involved). Utilizing local farmers as *sanchalaks*, and making them take public oath as though they were occupying a public office, serves as a crucial element in building trust in the farming community. The effectiveness of the system without this trust would have been highly in doubt. Managing motivational challenges of other key stakeholders in the process, for example, the commission agents (traders) in the traditional *mandi* system, serves as the other crucial element in the building of the socio-cognitive network of knowledge, a crucial requirement of such knowledge leadership initiatives (see Lakshman, 2007; Viitala, 2004). The strength of vision possessed by the team of leaders in overcoming the many infrastructural difficulties (lack of power, lack of bandwidth) and other obstacles, in the face of potential returns not coming through, is another critical element of the knowledge leadership initiative. The balancing of both the technological and socio-cognitive knowledge networks and channelling them for optimum effectiveness is another critical feature. The utilization of knowledge networks in managing both the supply and distribution sides of the value-chain is perhaps the uniqueness of this initiative.



Future conceptualizations of CSR in the globalized world, specifically within Asia, would do well to include the etic and emic conceptualizations of CSR within their models, while also not forgetting the critical role of top executive leaders in such models.

About the Author

Dr C Lakshman received his PhD in Organization Studies from Southern Illinois University at Carbondale. He is an Independent Management Consultant, whose most recent academic assignment was as Chair of the OB & HRM area at the Indian Institute of Management, Indore. He has presented papers at various international conferences and published in refereed journals such as the *Journal of Management Studies*, *Leadership and Organizational Development Journal* and *Journal of Change Management*. His main areas of interest are executive leadership, knowledge management, decision-making in organizations, HRM and Strategic Human Resource Management. He is interested in cross-cultural and international issues in all of these areas. His new book, *Knowledge Leadership: Tools for Top Executives*, was recently published by Sage Publications.

Note

1 A lakh is an Indian unit equal to 100 000.

References

- Aguilera, R.V., Rupp, D.E., Williams, C.A. and Ganapathi, J. (2007) Putting the S back in corporate social responsibility: A multilevel theory of social change in organisations. *Academy of Management Review* 32(3): 836–863.
- Annamalai, K. and Rao, S. (2003) ITC's e-Choupal and Profitable Rural Transformation. What Works' Case Study Series, University of Michigan.
- Basu, K. and Palazzo, G. (2008) Corporate social responsibility: A process model of sense-making. *Academy of Management Review* 33(1): 122–136.
- Bies, R.J., Bartunek, J.M., Fort, T.L. and Zald, M.N. (2007) Corporations as social change agents: Individual, interpersonal, institutional and environmental dynamics. *Academy of Management Review* 32(3): 788–793.
- Bruton, G.D. and Lau, C. (2008) Asian management research: Status today and future outlook. *Journal of Management Studies* 45(3): 636–659.
- Businessline*. (2004a) Give them empowerment first. 19 November.
- Businessline*. (2004b) Ryot choice. 26 November.
- Businessline*. (2004c) Soya trading grinds to halt on *mandi* stir: Traders protest against e-Choupal. 17 December.
- Businessline*. (2004d) Broadband versus narrow elitism. 28 December.
- Businessline*. (2005a) ITC wins 'Golden Peacock' award. 17 May.



- Businessline*. (2005b) ITC's e-choupal bags TERI award. 3 June.
- Businessline*. (2005c) Rewarding resourcefulness, lifting lives. 2 July.
- Businessline*. (2005d) Village knowledge centres vital for rural development. 12 July.
- Businessline*. (2006a) ITC to invest \$1 billion in e-choupal infrastructure. 4 January.
- Businessline*. (2006b) Lintas Media arm, e-choupal join to launch Bharat Barometer. 9 August.
- Businessline*. (2006c) ITC aims to cover 1 lakh villages thru e-choupal: Helps farmers to access crop specific real-time information. 26 August.
- Businessline*. (2006d) Full of plans. 12 October.
- Businessline*. (2007a) ITC e-choupals to focus on product traceability. 26 August.
- Businessline*. (2007b) e-Choupal, a novel private sector initiative: Survey. 26 February.
- Businessline*. (2007c) Marketing: Dukes expanding in northern, eastern regions. 2 May.
- Businesswire*. (2004) Gilat Satellite Networks announces milestone in ITC-IBD 'e-Choupal' Project in India. 3 May.
- Campbell, J.L. (2007) Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review* 32(3): 946–967.
- Carlson, D.S. and Perrewé, P.L. (1995) Institutionalisation of organisational ethics through transformational leadership. *Journal of Business Ethics* 14: 829–838.
- Carroll, A.B. (1979) A three-dimensional conceptual model of corporate social performance. *Academy of Management Review* 4: 497–505.
- Carroll, A.B. (2004) Managing ethically with global stakeholders: A present and future challenge. *Academy of Management Executive* 18(2): 114–120.
- CREM-report nr. 03.650. (2004) *Corporate Social Responsibility in India: Policy and Practices of Dutch Companies*. Amsterdam, the Netherlands: Consultancy and Research for Environmental Management.
- Deveshwar, Y.C. (2007) Chairman Y.C. Deveshwar's address at ITC's 96th Annual General Meeting. 27 July. www.itcportal.com, accessed 25 August 2008.
- Dyer, J.H. and Nobeoka, K. (2000) Creating and managing a high-performance knowledge-sharing network: The Toyota case. *Strategic Management Journal* 21: 345.
- Economist*. (2004) Business: Cigarettes and virtual cathedrals – Face Value. 5 June.
- Lakshman, C. (2007) Organisational knowledge leadership: A grounded theory approach. *Leadership & Organisation Development Journal* 28(1): 51–75.
- Matten, D. and Moon, J. (2008) 'Implicit' and 'explicit' CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review* 33(2): 404–424.
- Prahalad, C.K. (2004) *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Upper Saddle River, NJ: Wharton School Publishing.
- Seelos, C. and Mair, J. (2007) Profitable business models and market creation in the context of deep poverty: A strategic view. *Academy of Management Perspectives*, 21 (November): 49–63.
- Viitala, R. (2004) Towards knowledge leadership. *Leadership & Organisation Development Journal* 25(5/6): 528–544.
- Vogel, D. (2005) *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*. Washington DC: Brookings Institution.



Appendix

See Table A1.

Table A1: ITC's triple-bottom-line achievement

<i>Economic performance</i>	Total Shareholder Returns, measured in terms of increase in market capitalization and dividends, grew at a compound rate of over 30% per annum. Gross Turnover for the year 2005-2006 grew by 21.5% to Rs 16 224 crores,^a driven by good topline growth across all businesses. The ITC scrip gained 118% during the year, outperforming the benchmark BSE Sensex by 44 percentage points.
<i>Environmental performance</i>	ITC is now a 'Carbon Positive' Corporation. ITC continues to be a 'Water Positive' Corporation. It is rapidly moving towards 'Zero Solid Waste'. Many constituent business units have obtained the ISO 14000 and SA 8000 certification in addition to other quality certifications.
<i>Social performance</i>	<i>Labour Practices and Decent Work:</i> Sufficiently empowered trade unions • <i>Occupational Health and Safety:</i> Award-winning accident-free performance. ITC's Leaf Threshing plant at Chirala has won a staggering 12 Swords of Honour, the only plant in the world to achieve this distinction. <i>Human Rights</i> • Human Rights Consideration Across the Supply Chain and in significant investments • Prevention of Discrimination at the Work Place • Freedom of Association • Prohibition of Child and Forced Labour <i>Society</i> • Community Development: <i>Mission Sunehra Kal</i> (Bright Tomorrow) • Web-enablement of the Indian farmer through the e-Choupal initiative • Natural resource management to develop wastelands and soil and moisture conservation, and promote improved agricultural practices • Genetic improvement in livestock productivity • Sustainable livelihoods creation through the economic empowerment of women • Community development with focus on universalization of primary education, health and sanitation • Patronage of classical music, art and heritage <i>Product responsibility</i> • ISO 9001, ISO 14001 and OHSAS 18001 certifications • Full compliance with appropriate laws • Follows voluntary codes on marketing communications

Source: http://www.itcportal.com/sustainability_report_2006/, accessed 25 August 2008.

^aA crore is an Indian unit equal to 10 million (10 000 000).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.