

## Looking beyond Tomorrow: Story of a Living Company - Kitex Garments

### Abstract

Profit Maximisation is one of the key drivers for Businesses and Entrepreneurs of Start-up firms. These firms often focus only on profit maximisation during the initial years. This kind of myopic outlook, if not revisited subsequently, dilutes the importance of sustainability of the business over a long term. **Living Companies** in contrast stand strong on the Pillars of Profit Maximisation and Business Sustainability. While the emphasis remains on financial growth and gains, they look beyond the horizon of profit and growth. A Living Company undergoes a natural evolution which is planned systematically for future growth. They thrive by learning to be sensitive to environment, have the ability to build a natural ecosystem of a stable community, an ability to sense the changes in the environment and the courage and agility to respond to changes in business landscape. Besides business sustainability, an organisational culture also shows how Top Management uses different Situational Leadership styles to manage to grow in spite of the challenges. The Situational Leadership theory (Hersey and Blanchard, 1969) describes four leadership styles that are adopted by progressive leaders. **Kitex Garments is a perfect example of a Living Company with its core DNA made up of Compassion, Social Sensitivity and creating a Stable Ecosystem in addition to Profit Maximisation.** The case deals with the experiences of two generations of entrepreneurs of Anna – Kitex Group, their dreams, their challenges, their heartburns and heartbreaks and their innate ability to strategically manoeuvre the company to a pathway of success despite several restraining factors.

**Keywords:** Living Company, Situational Leadership, Triple Bottom Line theory, CSR, Entrepreneurship, Ease of doing Business

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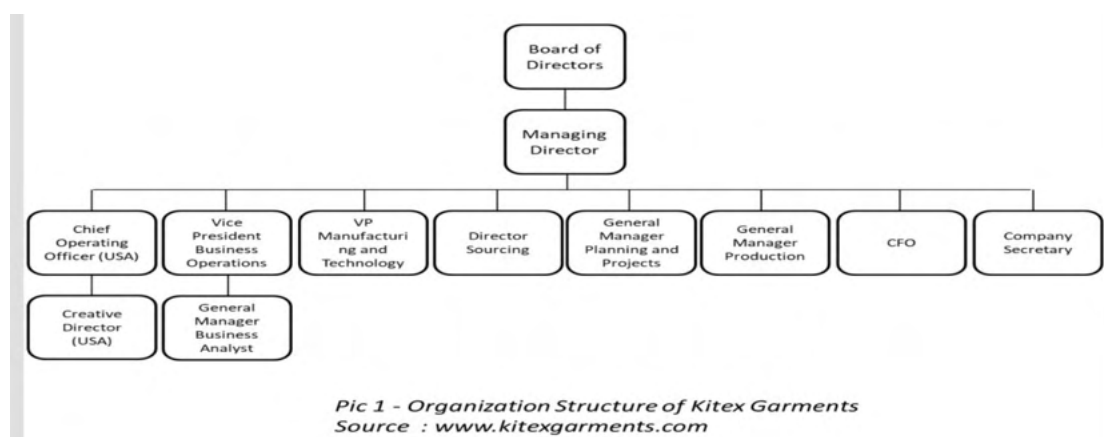
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## Introduction

Mr Sabu Jacob, the CMD of Kitex Garments, one of the biggest employers in God's own country Kerala, was in a pensive mood after being literally forced to pledge investments out of his hometown in Kerala. He was in a state of nostalgia, reminiscing his childhood days, wherein he and his elder brother Bobby Jacob used to assist their father late M. C. Jacob in building and living the dream of providing livelihood to the members of the community by starting the first entrepreneurial venture: Anna Aluminium Company way back in 1968 at Kizhakkambalam, a beautiful and green eastern suburb of Ernakulam, Kerala. Their late father's dream of providing employment was carried forward very religiously by both the brothers after his demise and the unrelenting efforts resulted in a multibillion business venture. Despite their selfless dedication in providing resources to the community since two generations, Kitex Garments Limited, the second generation company floated by Mr Sabu Jacob, today is at the crossroads. What could be the possible reasons?

Having started production in 1995, Kitex Group today employs around 11000 employees with a turnover of almost `1200 Crores. It is a supplier of infant garments to major US brands like Walmart, Amazon, TCP, Target, Gerber, Carter's, Ross Store to name a few. Since 2016, they also market their products under 2 of their own brands called Little Star and My Little Star and one licensed 100% Organic brand Lamaze. The entire production and supply is from the single unit located in Ernakulam, Kerala. The Organisation structure of Kitex Garments is as under:



As mentioned by Mr Sabu Jacob, Kerala is known for highest literacy but poor employment rate. This could be partially attributed to the political instability, lack of willingness of natives

to take up blue collar jobs and poor employment opportunity. To make matters worse, Kitex Garments Limited, a household name in Kerala, has announced in July 2021, their plan to invest `1000 crores in Telengana district for new business venture, after cancelling their initial plans of investing in Kerala. A stark similarity can be seen in another Indian Multinational Company pulling out of Singur in West Bengal, after investing a huge capital for their automobile plant. This announcement has closed the doors of possible employment opportunity for locals who are already reeling under the job loss due to the COVID crisis. A company known for its altruistic efforts to help the needy is investing away from its place of origin? This does not look like a business decision for profit, as the company has been posting reasonably good profits year after year in a recession proof industry of manufacturing infant's apparels. Then what could be the core issue behind such a decision that has a long standing effect on the economy of the state? Let's explore.

## **An Entrepreneur's Journey**

### **The Incubation**

Many of the founders of start-up firms focus on growth and profit as the key goals of doing business. Even if they have an intention to serve a "Greater purpose", many look at the option of doing business beyond profit as a luxury they cannot afford. "Achieving Product – Market Fit" is of prime importance for a start-up firm, according to Andreessen (2007). However, there are very few who create such opportunities for others. They are "**Visionaries**" in true sense. One such visionary was the Late M. C. Jacob, a well-known Entrepreneur of Kerala, who established the Anna-Kitex group in 1968. Born in a traditional Christian family, his ancestors were Namboodiri's, the priests in Hindu temples. The Late M. C. Jacob was altruistic right from childhood days and was always concerned about uplifting the underprivileged and downtrodden. Giving employment to others and developing a stable ecosystem for the community was always a priority for him. He was famous as a contractor for construction projects before turning into an entrepreneur.

### **The Early Day's**

The journey of becoming an Entrepreneur started way back in 1968, when Late M. C. Jacob would see the plight of daily workers who would come to his father's agricultural land for employment. Hardly 3 or 4 would be employed each day, and the rest would have to go back dejected. He was deeply moved and shaken by the plight of those workers. It would be the

same story everyday. Then one day, he thought to himself, that unemployment could be solved if he could give employment to 10 people on a daily basis. Anna, his mother was the inspiration to move forward and help others in need. The seeds of a visionary & budding entrepreneur were sown in his formative years.

He started his entrepreneurial foray by manufacturing Aluminium utensils, named it Anna Aluminium Company, after his beloved mother. He started with moulded aluminium products. He would go from one household to the other, collecting worn-out aluminium products and would melt them to be moulded into various forms like a spoon, bowl, knife, plate and other items mainly of daily use in every household. Those days, majority Aluminium products would come into Kerala from Karnataka & Tamil Nadu. The quality of those products was questionable as they had higher lead levels that were harmful to human life. However, the local consumers weren't aware of the same. He then decided to make quality products and started sourcing good quality Aluminium from INDAL and HINDALCO. However, he could not sustain sales for long due to the higher prices, and sales came down. By 1973, he had a huge stock of Aluminium products. As luck would have it, in 1974 Tamil Nadu & Karnataka faced a major power issue, and since smelters required enormous power, they were shut down. Supplies got cut from these 2 states. Also, the rates of Aluminium, which were in the rage of `6-7 per Kg, shot up to `18-20 per Kg due to the crisis. He was able to liquidate his stocks and earn decent profit. They strengthened the customer base when consumers realized the importance of good quality aluminium products compared to the poor-quality ones. From then onwards, there was no looking back. The group today makes almost 800 varieties of Aluminium products.

### **Expansion and Diversification**

When a business is doing well by posting profits, the obvious next step would often be diversification. Demand for spices increased worldwide, and "Indian Curry Powder" became a household name in many western countries. Kerala is known to be the land of spices. Mr Jacob sensed an opportunity to manufacture and export good-quality spices. In 1978 they made a foray into trading & exporting of whole spices to Russia & America, Russia being their biggest market. The major driving force behind the business diversification was the very sentiment of employing more and more people from the community. Within one year, they started selling powdered spices under their brand name of *Saras*.

From the Aluminium-based products, they diversified their product portfolio into Textile manufacturing (Kitex Limited) in 1975, Sara's Spices and Condiments in 1979, Kitex Textiles in 1980, Chakson brand Pressure Cooker in 1993, Scoobeeday School Bags in 2003, Agna Adonis innerwear in 2007, and Travel day bags in 2008.

Then in year 1980, the group made its entry into fabrics manufacturing with Kitex Textiles. Kitex is a short form for Kizhakkambalam Textiles, which is the location of the factory. Manufacturing of fabric started in the form of Grey fabric, which was unprocessed. It was sold to big export houses in Delhi & Chennai, who would then bleach it and convert it to finished clothes and sell it in the market.

Fabrics that were less than 10 meters could not be sold in a bulk sale. This meant huge wastage of fabric that was less than 10 meters in length. This threat was converted into an opportunity by converting the short fabric to 'Lungi,' which is a comfort wear for men in not only in Kerala but the entire country today. Kitex is also known as the Lungi makers for the Nation.

With a meagre 8 employees in 1968, today, Anna-Kitex Group employs a staggering 15000 plus employees. Today, they are one of Kerala's biggest private-sector employment providers with annual revenue in excess of `1700 crore.

Both the sons of Late M. C. Jacob made an early entry into the business. Mr. Sabu Jacob, the younger son was only 13 years old, and was inducted into business by his late father in the year 1975. His initial job for a year was to clean the factory toilets and then sweep the factory floors. Post that when the textiles complex (a 5 story building) was being constructed, he was made to work alongside the workers in constructing the building. That involved running the hand mixer, making the mix, carrying it on heads/shoulders and working alongside construction workers. This style of induction into family business helped to imbibe values of modesty and dignity of labour.

When the first lot of 200 conventional machines arrived from Grasim, Mr. Sabu Jacob was made to assist the team in commissioning them. It was all hands-on. He was made to work on all machines and in different shifts, in a structured manner to gain complete experience and rose from the ranks to take up the position of Executive Director.

## **New Beginning**

Having had the experience of commissioning and running a textile unit, Mr Sabu Jacob was thrilled by the prospect of starting independently.

In the year 1992, he decided to start on his own and laid the foundations of Kitex Garments Limited as its Managing Director. The idea of readymade garments came from various sources. He visited exhibitions in Germany and travelled to Japan to understand the latest machines. He also made efforts to understand fabric manufacturing in India and abroad. For, e.g. Tiruppur, the Textile City of India that was only into knitted garments; Delhi, primarily into woollens; Bangalore for Silk; and Mumbai into fashion clothes, Europe & America mostly winter clothing.

In the early 1990s, Europe was shifting its garment industry base to Asia to reduce cost of manufacturing. Mr Sabu Jacob grabbed this business opportunity and took the plunge into manufacturing readymade garments.

The new unit of Kitex Garments has state of the art facilities like 100% Airconditioning, dormitory accommodation for female workers inside campus and male workers, at similar facility, outside this campus, latest technology, most stringent quality control measures, world's best machines, lush green and well-manicured gardens and playground. These are also the venues for various activities that the company organises for its employees round the year to keep them engaged, focused and make them feel like a family.

Kitex Garments Limited started commercial production in 1995. In 1997, Mr Sabu formally separated from Kitex Limited and focused on the exports market. This new unit is equipped to make everything from yarn to finished garments.

He had surveyed the US & European markets extensively to understand product preference and acceptability. In his initial days, he works with intermediaries and his dependence on them went on for five long years until he made his first direct sales to a customer in the USA in the year 2000. Kitex Garments sold infant apparel worth 5000 USD that year.

Kitex Garments has an impressive success story to share. With 15 acres of land from his father and a bank loan, Mr Sabu Jacob set up his Kitex Garment unit in 1995. First five years showed negative growth, with the management struggling to make payments to employees. The first ray of hope came in the form of a modest order from Gerber. That was the new beginning.

However, every business is cyclical and has its ups and downs. Businesses world over are subjected to various market forces. So when the recession hit the world in 2001, Kitex too was affected. That let Sabu Jacob and Kitex Garments into introspection, and they reasoned that every business could take a beating, but infant garments never will. A parent may cut down on their food or clothing but not that of their child. With this belief, Kitex Garments decided to specialize 100% into infant garments since the year 2005. Then there was no looking back. The company's strong fundamentals also reflect in the financial performance, which stands testimony to the decision of the Managing Director to focus on infant garments.

### **Renewed Focus**

With \$12 million investment for niche production of baby and toddler apparel in 2006, Mr Sabu Jacob initiated stringent measures to ensure international quality standards to the extent of “*Saliva testing*” for infant clothes. “Mr Sabu Jacob invested a lot more than what is expected for the welfare of the employees too”, in the words of Marion Smith, Senior Vice President of Jockey, which is world leader in manufacturing and retailing of sleepwear, undergarments and sportswear for men, women and children.

Mr Sabu Jacob says that an additional investment of \$800 as initial expenditure and \$100 as recurring investment per employee helped bring in motivation and smooth efficiency in apparel production. Employees mostly reside in the same locality and the company provides a comfortable free stay and free food for all the employees. There is a good representation of migrated employees from all states of India. Today, Kitex boasts of one million units of kids apparel exported to around 28,000 outlets in USA on a daily basis.

Their first customer in the year 2000, today does a business of almost 60 Million USD. That's a phenomenal growth, by any standard in 20 years, from 5000 USD to 60 Million USD. Today Kitex Garments is perhaps the largest single unit under one roof, in the world and the second largest manufacturer of infant garments in the world. Kitex Garments today has the capacity to produce 1 million pieces per day across 50-60 product lines with its' 100 % EOU supplying the garments to supermarket chains like Walmart, Amazon, The Children's Place,



Carters, Gerber Children’s wear in USA. Its production unit is very compact and world class, offering high efficiency and better utilization of resources. All this has been possible due to a combination of factors like, sourcing the best raw material, best in class machines, the latest and best technology, most stringent quality control parameters, trained and efficient manpower and robust practices to name a few.

This can be seen form the Kitex Value Chain, as described below.

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<b>External Value Chain Process</b>	<ul style="list-style-type: none"> <li>a. Harvesting of cotton in farms.</li> <li>b. Ginning of raw cotton, cleaning and conversion to bales for despatch to spinning mills.</li> <li>c. At spinning mills, fibres are spun to make yarn.</li> </ul>
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<b>Internal Value Chain Process</b>	<ul style="list-style-type: none"> <li>a. Yarn, dyestuff and chemicals are purchased and tested at its laboratories to meet Oekotex Standard and GOTS Organic Standards.</li> <li>b. Dyeing recipes prepared inhouse using fully automated robotic technology to ensure accuracy and consistency of colours.</li> <li>c. Dyeing dispensing through fully automated process.</li> <li>d. Yarns are dyed using robotised, fully automated machines achieving highest quality in terms of specifications like count, strength, evenness as well as safety.</li> <li>e. Most modern and advanced machinery from Japan &amp; Germany used to convert yarn into Greige Fabric.</li> <li>f. Cold Pad technology used to dye the fabric. It ensures high pickup, colour consistency and low water &amp; energy consumption.</li> <li>g. The fabric is then washed.</li> <li>h. Fabric is printed on modern rotary printing machines from Austria. They are ready for cutting.</li> <li>i. Automated spreading and cutting machines ensure accurate cutting of fabrics with minimum wastage.</li> <li>j. Imported automatic screen printing machines used for placement printing and value added prints.</li> <li>k. Advanced embroidery machines ensure embroidery of motifs.</li> <li>l. Sewing production done in a systematic and efficient manner.</li> </ul>
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Systems like GSD, Inspire & ERP enable cost effective and efficient production and tracking.

m. Final product is ready for despatch.

Focus on quality of product and concern for environment can be seen from the various certifications that Kitex has received. They are as under:

1. Worldwide Responsible Accredited Production (WRAP)
  - Certification recognized by all major retailers, manufacturers and importers in the US and Worldwide and gives them the assurance that the apparel produced at the accredited factory is produced in a safe, lawful, humane and ethical manner.
2. Global Organic Textile Standard (GOTS)
  - Worldwide leading textile processing standard for organic fibres including ecological and social criteria backed up by independent certification. It ensures organic status of textiles from harvesting of raw materials through environmentally and socially responsible manufacturing up to 98% in order to provide a credible assurance to end customer.
3. Supplier Compliance Audit Network (SCAN)
  - An Industry trade association that provides a systematic approach whereby mutually acceptable global compliance standards are achieved in reducing audit and operational redundancy for common supply chain stakeholders while maintaining confidentiality.
4. Global Security Verification
  - Kitex is rated as “Low Risk” by GSV for compliance to Custom Trade Partnership against Terrorism (C-TPAT) and Border Security requirements laid out by the government of United States. “Low Risk” is GSV’s highest possible rating and assures Governments, Manufacturers and Retailers that the supply chain operates in a secure and efficient manner.
5. Workplace Conditions Assessment (WCA)
6. Consumer Product Safety Commission (CPSC)
7. Supplier Qualification Program (SQP)
8. Oeko-Tex

- Kitex Garments is certified “Class-I” for compliance to Oeko-Tex Standard 100 standards. Class-I is strictest standard for chemical product safety and is an assurance that products so produced are safe for infants.

## Financial Performance of the Company

Kitex Garments has been doing very well financially. The company is currently almost debt free. Financial ratios like Return on Capital Employed (ROCE) is 11% for the financial 2021, which is considered to be reasonably good for a manufacturing company. The following table shows a comparative chart of the financials of the company over past 10 years.

` in Crore

Years	Total Income	Growth in Income (%)	Total Expenditure	PBT	PAT	Growth in Net Profit (%)	Avg PAT of previous 3 Years	2% of Avg PAT of previous 3 Years	CSR Fund Allocated
2009-10	273.9	-	246.1	27.8	18.5	-	-	-	-
2010-11	260.9	-4.75	229.3	31.2	20.6	11.4	-	-	-
2011-12	318.3	22.00	278.2	40.1	27.1	31.6	-	-	-
2012-13	321.0	0.85	276.9	44.0	29.4	8.5	22.1	-	0.1
2013-14	455.5	41.90	367.3	88.1	57.3	94.9	25.7	-	0.4
2014-15	524.5	15.15	382.8	141.6	98.5	71.9	37.9	0.76	1.5
2015-16	565.6	7.84	394.6	171.1	112.1	13.8	61.7	1.23	3.2
2016-17	547.8	-3.15	405.1	142.7	92.5	-17.5	89.3	1.79	6.1
2017-18	559.9	2.21	452.4	107.5	70.0	-24.3	101.0	2.02	12.8
2018-19	629.3	12.40	499.1	130.2	81.5	16.4	91.5	1.83	5.6
2019-20	783.6	24.52	640.4	143.2	108.7	33.4	81.3	1.63	6.8
2020-21	465.5	-40.59	380.6	84.8	59.9	-44.9	86.7	1.73	3.1

Table 1 – Comparative chart showing company financials of Kitex Garments

(Source: Annual Report of Kitex Garments Limited) – Figures highlighted are years when CSR Act was not passed

Kitex Garments is one of the leading players in the infant apparel market. Today there are only 10 to 12 such units across the globe, which are as big as Kitex Garments. The major competition is from China, Vietnam, Cambodia & Bangladesh and despite higher employee cost, they remain vibrant and competitive. The average employee cost for Kitex is `25000.00 per month compared to `2800.00 per month in a similar unit in Bangladesh. Also, the fact that, their 1<sup>st</sup> customer continues to be their loyal customer even today and Kitex’s revenues are 12000 times of what it did with them 20 years back, speaks volumes of the confidence the

customer has not only with respect to the product but also the process, commitment and company. This brings accountability to the company to be responsible towards society and contribute in terms of their social responsibility.

### **Corporate Social Responsibility at Kitex Garments**

Corporate Social Responsibility is an extensively debated topic across the globe. “The Social Responsibility of Business encompasses the Economic, Legal, Ethical, and Discretionary expectations that Society has of Organizations at a given point in time” (Carroll, 1979). The sanctity of CSR has been a topic of discussion from the Ford Motors days in 1919, where Henry Ford, a genuine philanthropist, was keen to provide automobiles at an affordable price of \$360 but was not able to do so due to the annoyed stakeholders, who believed that a firm’s prime responsibility was to fetch profit for the stakeholders (Ostrander, 2002). So, while one has to handle the risk of stakeholder jeopardy, the financial investment that goes into planning, establishing, and sustaining a CSR activity is relatively high. Then, what would be the rationale behind corporate houses spending a significant sum on CSR? One of the underlying reasons could be the firm’s core values that align with doing “Good” for society. (McWilliams & Siegel, 2001) believe that CSR gives a company an edge over the others considering the goodwill in the society and customer loyalty. It is important to note that, CSR is a government mandate in India, the first country to make CSR are as a compulsory dimension of running a business in India, as per the CSR act that came into force on 1<sup>st</sup> April 2014 (Section 135 – Indian Companies Act). 2% of average net profit of last three years needs to be budgeted for CSR, as per the Act. Besides being compliant with the Government mandate, CSR is a sure way for the long-term sustainability of any business. The effectiveness of CSR of a firm can be analysed using the Triple Bottom Line theory (Elkinson, 1997). This can be used as a framework to budget, implement and measure the results of CSR activities of a firm.

Apart from following the government regulations, there are many more reasons for a company to turn to CSR activities. The following diagram depicts the drivers of CSR.

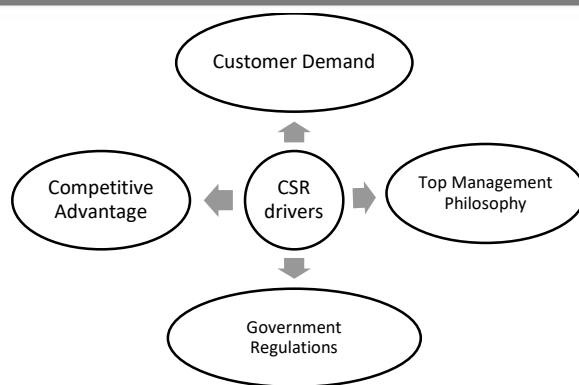


Figure 1 – Drivers of CSR

Peter Drucker (1970) in his “Opportunity Based Theory”, states that “Entrepreneurs excel at seeing and taking advantage of possibilities created by social, technological and cultural changes”. There are many instances of leveraging the opportunity created by such changes, like Apple’s turnaround strategy of digitalization of music by designing ipods, mushrooming of old ages homes in pockets in India where the majority of the youngsters work outside India, where good care for the elderly in the home is a business opportunity, proliferation of modular furniture manufacturing to cater to the shortage of working/home space etc. This also means that many miss taking note of that opportunity, and few can place their hands and grab it firmly. If the business opportunities are grabbed at the right time, with the aim of “**Greater Good**”, the exponential growth of a sustainable business is a sure outcome.

### The Rationale

Late father of Mr Sabu Jacob had written a book in 2010, a year before his demise, on how to take care of society. The family was already into lot of philanthropic activities. So after the demise of his father, both brothers decided that in order to take forward their fathers dream of contributing to society, they must do something in a systematic manner. They decided to form a Charitable Trust to carry forward the dream of his father for serving society. Considering the benefits of initiating CSR, Kitex Garments Limited initiated CSR activities in the year 2012.

Then with the approval of the Board of Directors, a Society named Twenty20 Kizhakkambalam was formed in the year 2013 to carry forward his philanthropic sentiments and the CSR activities of Kitex Group. Twenty20 Kizhakkambalam is a Society (NGO) registered under the Travancore Cochin Literary Scientific and Charitable Societies Registration Act, 1955. “Compassionate care” is the underlying CSR Philosophy of Kitex.

The CSR of Kitex includes the following: (Source: Annual report on Corporate Social Responsibility (CSR) activities – 2019-20 (2020 September):

1. To pursue a Corporate Strategy that enables the realization of the twin goals of shareholders' value enhancement and societal value creation in a mutually reinforcing and synergistic manner.
2. To implement Social Investments/CSR programs primarily in your company's economic vicinity to ensure the long-term sustainability of such interventions.
3. To contribute to sustainable development in areas of strategic interest through initiatives designed to address the challenges faced by the Indian society, especially in rural India.
4. To collaborate with communities and groups to contribute to the national mission of eradicating poverty and hunger, especially in rural areas, through the superior farm and agri-extension practices, soil and moisture conservation and watershed management, conservation and development of forest resources, empowering women economically, supplementing primary education and participating in rural capacity building programs and such other initiatives.
5. To sustain and continuously improve standards of Environment, Health, and Safety through the collective endeavour of your Company and its employees at all levels towards attaining world-class standards and support other programs and initiatives, internal or external, for the prevention of illness and combating of diseases as may be considered appropriate from time to time.
6. To encourage human capital development by expanding human capabilities through skills development, vocational training, etc., and promoting excellence in identified cultural fields.”

With an objective of transforming the Kizhakkambalam Panchayat where the manufacturing unit is stationed, great emphasis was laid to transform acres of barren land into paddy and sugarcane cultivating field by investing into farm development equipment. Other notable CSR activities by Kitex are: providing potable water, education and skill development, infrastructure development broadening and upkeep of roads in the Panchayat, free health check-up, housing aid for the needy, providing school bags for underprivileged children etc.

Developing a Model Village is a CSR venture of Anna Kitex group, which is one of the largest employers in God's own Country, Kerala. Sabu M. Jacob, Managing Director of Kitex

Garments says that Kitex has plans to ensure Social Welfare and Collective Wellbeing of people in the village of Kizhakkambalam, where the manufacturing unit is set up. Mr Jacob envisions bringing the infrastructure and business potential on par with progressive nations like Switzerland and Singapore. Twenty20, an apolitical party floated by Mr Jacob monitors the wellbeing of the village by appointing candidates who are masters in social work. Roads are remarkably improved since the inception of the CSR project. As a result of host of actions taken under guidance of Sabu, living standard has improved, people are able to afford small luxuries' of life and this has resulted in crime rates coming down by almost 80% since 2015.

Mr Sabu M. Jacob heads the four-member team of CSR committee. According to the company's financial disclosure, as seen in the table in appendix, the company's average profit during financial years 2017-2020 was ` 126.79 crores. As per the government mandate {Rule 8 (1) of Companies (Corporate Social Responsibility Policy) Rules, 2014}, two percent of the profit should be disbursed for CSR activity. Accordingly, `6.76 crore was spent by Kitex on CSR activities, which is much more than the stipulated 2% , according to the CSR report of Kitex for the FY2020.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sr. No	CSR project or activity identified	Sector in which the project is covered	Projects or Programs	Amount outlay (budget) project or program wise (₹)	Amount spent on projects or programs	Cumulative expenditure up to the reporting period (₹)	Amount spent: direct or through implementing agency
			1. Local area or other 2. Specify the state and district where projects and programs were undertaken		Subheads 1) Direct expenditure on projects and programs 2) Overheads		
1	Agriculture capacity building	Environment sustainability	Local area covered by KIZHAKKAMBALA M Panchayat in Ernakulum district in the state of Kerala	61,712	1,64,403 (Direct expenditure on projects and programs)	1,64,403	Directly by the company
2	House construction and colony development	Environment sustainability		88,047	2,34,560 (Direct expenditure on projects and programs)	2,34,560	
3	Infrastructure development	Environment sustainability		2,52,08,951	6,71,57,821 (Direct expenditure on projects and program)	6,71,57,821	
<b>Total Spent (₹)</b>				<b>2,53,58,710</b>	<b>6,75,56,784</b>	<b>6,75,56,784</b>	

Table No 2

Source: Annual report on CSR – Kitex (2020)

As admitted by Mr Sabu Jacob, both brothers shared their father's dream of giving back to society; they embarked on a beautiful journey called CSR even before the Company's Act made it Mandatory in India.

The company took a census and found that "there are 36,000 people and 8,000 families in Kizhakkambalam. When they started Twenty20 in 2013, they found that 220 houses did not have electricity and 205 houses had no toilets. With their CSR funds they constructed toilets for all the houses and got them electricity".

However, irrespective of "whichever projects they started, whether it was the water project or the road project or the housing project, the ruling Panchayat opposed everything". They faced lot of obstacles and could not progress at the pace they had originally planned.

All good things happen with proper design and elaborate planning or they happen when one is challenged beyond a point. In the latter case, one has to challenge oneself to overcome a setback and create a positive impact. The entry of Twenty20 Kizhakkambalam into Panchayat Elections happened due to one such adversity.

The final nail in the coffin was the trauma experienced by Mr Sabu and his team during the Onam festival. As it is their biggest festival, the Jacob brothers decided and constructed a 40,000 sq ft temporary shed to sell things that are needed in every household, from salt to oil to furniture to furnishing to home appliances.

And the residents of the Panchayat could buy everything for 50% the price. Locals were very enthusiastic about the prospect of owning things they longed for a very long time. Around 6000 people were inside the temporary structure, trying their best to own whatever they could manage to.

At 6 pm, the Panchayat declared Section 144 of IPC (*which forbids the assembly of more than four persons*) in the area and closed the centre with almost 5000 people still inside. Ladies and children stuck inside, many started crying out of panic. They could come out only at 3 am.

It was then that the locals decided, "Enough is Enough". They felt the Panchayat could do this because they have the Power and thought aloud, "why can't their power be taken away"?

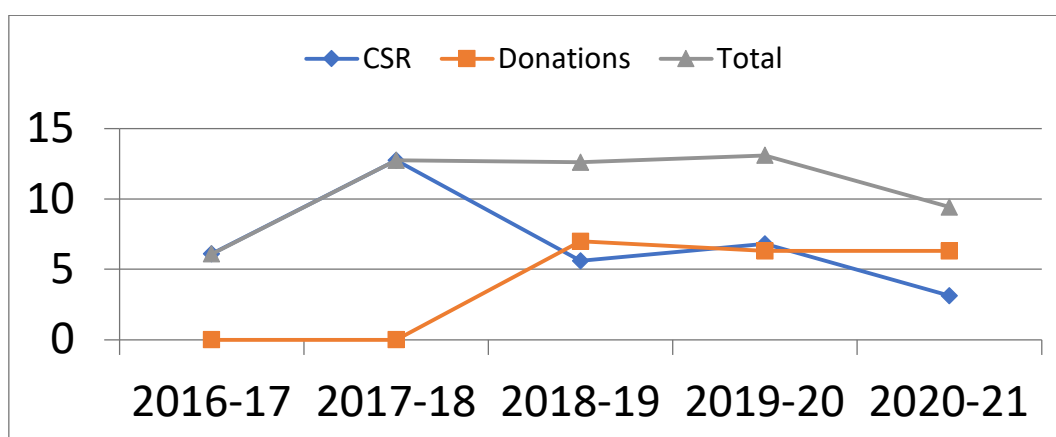
The very next day people gathered and decided that in order to complete their mission of making Kizhakkambalam the country's best Panchayat, they need to form a Political Party



and contest elections. And thus Twenty20 Party was conceived. They understood that without political power and without support from the Panchayat, they would not be able to do anything.

They contested their first Panchayat election in 2015 by fielding candidates in all 19 constituencies. All the candidates were highly qualified and selected by local people. They won 17 of the 19 seats. In 2020, they won 18 of the 19 seats. Such was the confidence and this confidence has helped them to further their mission of realizing their father’s dream of serving the people of the locality by spending generously on CSR activities.

The CSR activities have yielded results and Mr Sabu says that by the next Panchayat elections in 2024 (2 terms of Twenty20 party), their Panchayat would be Net Positive and self-sustaining. He also goes on to say, that if such change is possible in 10 years in one Panchayat, every Panchayat in the country can transform in 10 years if Government is serious about development. Moreover, the development of Kizhakkambalam Panchayat is based on State Grant and CSR grants. If government decides, they can run various schemes to bring about development and transform lives of people. Apart from higher than mandated contribution towards CSR, the group has been making generous donations which are utilised towards CSR activities. The same can be seen from the graph 1 below.



Graph 1 – CSR Spending during the last 5 years  
Source: Annual Report on CSR

Year	CSR	Donations	Total
2018-19	5.6	7	12.6
2019-20	6.8	6.3	13.1
2020-21	3.13	6.3	9.43

Table 3 – CSR and Donations during last 3 years

Kitex can proudly claim that their contribution towards CSR is over and above the mandated two percent, (2X more than the prescribed norm). The table 4 below shows the generous contribution towards CSR during last 5 years.

The CSR outlay for last 5 years

in Lakhs

CSR Activity	Sector	2016-17		2017-18		2018-19		2019-20		2020-21	
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Agriculture	Environment Sustainability	3.45	7.00	21.80	86.86	1.31	2.61	0.62	1.64	2.21	2.73
Education	Promoting Education	9.40	19.00	1.25	4.98	0.34	0.68	0.88	2.35		
House Construction	Environment Sustainability	66.34	134.76	176.32	702.00	0.53	1.04				
Food Supply	Eradicating Hunger, Malnutrition & Poverty	4.45	9.05	4.13	16.47	269.70	535.60			0.46	0.56
Water Supply	Safe Drinking Water	1.45	2.96	3.92	15.65						
Medical	Preventive Health Care	1.64	3.33	0.69	2.73					22.8	28.2
Road Development	Environment Sustainability	213.24	433.18	111.67	444.94					228.3	281.5
Self Employment	Eradicating Hunger, Malnutrition & Poverty			0.21	0.86						
Infrastructure Development	Environment Sustainability					8.94	17.76	252.10	671.60		
<b>Total ( )</b>		<b>299.97</b>	<b>609.28</b>	<b>319.99</b>	<b>1274.49</b>	<b>280.82</b>	<b>557.69</b>	<b>253.60</b>	<b>675.59</b>	<b>253.90</b>	<b>312.99</b>

Table 4 – CSR Spending during the last 5 years  
Source: Annual Report on CSR

## Employee Relation at Kitex

As Sabu Jacob states, the biggest strength of his company is that they use the best quality raw materials, use the world’s best machines, and have a talented pool of workers. They have a good mix of workers from within the state and rest of India. The workers are trained to be punctual and perfect, each time, every time. That is precisely the reason behind the unit being able to produce 1 million units daily. Since the workers come from every state of the country, Sabu says in order to keep them motivated, engaged and connected, they organise a lot of events like food festival, musical festival, sports events all throughout the year.

With a focus on his employees, he claims with pride that there are no casual workers in his company. Every employee from day one is a permanent employee. Their bank account, PF, ESI is opened on day one, and salary is credited to the bank accounts and all statutory payments made from the 1<sup>st</sup> month itself. Almost 90% of the workforce is in the workmen category. They are provided free dormitory accommodation and free food inside the campus itself. All round the year, management organises various events like, Food festival, Cultural & Music events. Employees utilise the swanky lawns for evening sports.

During COVID, the management has taken good care of their employees by following stricter than state government guidelines. Initially, homeopathy booster medicines were given to all employees, followed by Multi-Vitamins and Zinc and calcium tablets. The canteen menu was altered to include more milk and banana. 9000 workers stay in the campus, and not a single casualty happened during COVID first and second waves due to the extreme care taken by the management. The company has ensured that all the employees are vaccinated, even when there is acute shortage of COVID vaccine in Kerala, which is a commendable act of kindness

### **Challenges of doing Business Locally**

Despite the best efforts of Management of Kitex, something seems amiss. There are many allegations against the seemingly human CSR activities. There are parallels drawn between Kitex Township and the Corporate Village promoted in Pennsylvania by Milton Hershey to promote profit for the organization. Many foresee the evolution of feudalism with unpopular labour practices and suppressed collective bargaining and trade unionism. However, in case of Kitex Garments, it's not what we see through the lens of media.

As reported in print and electronic media, it gives readers and viewers the feeling that there is a lesser accent on environmental protection on the part of Kitex. The problem started brewing way back in 2012, where Kitex Garments were accused of disposing toxic effluents to Kadambrayar, a river flowing past this area. There was exchange of views of Politicians as well as Management of Kitex Garments. The matter was settled when State Pollution Control Board, the authority in such matters, inspected and brought out the facts before the public.

In order to be Environmentally responsible, Kitex Garments has continuously upgraded and used the best technological solution in terms of process, cost management, choice of

equipment quality, process efficiency and using advanced water purification mechanism to achieve their dream of a “Zero-discharge” Plant.

- Their advanced knitting machines use only 50% of the energy as compared with conventional machines.
- By installing Variable Frequency Drive (VFD) System in all devices, 108nnual108. 40% of energy is saved.
- 18% fire wood consumption is reduced due to condensate & heat recovery system.
- Biological waste produced at the facility is utilised and converted into Bio-Gas which is used in hostel kitchen as fuel.
- The location where the unit is situated received abundant rainfall. Rain water is harvested and used in toilets as well as plantation purposes.
- The processing house uses 25% water and 50% steam lesser than conventional dyeing. 100% of treated water is being used for irrigation and gardening purposes.

To put in perspective, Sabu says that in terms of Environment, Switzerland is the worlds No 1 country. One can be 100% sure of purity of water coming from any tap and it is 100% portable. It’s not the same in India though. Also, any chemical waste is generally treated with a chemical before discharge. However, Kitex follows the best process using the latest and best technology to treat effluent biologically and then discharge or use within their factory. The national standard for discharge is 250 COD (Chemical Oxygen Demand) and 30 BOD (Biological Oxygen Demand). In Switzerland, the discharge norm is 50 COD and BOD is below 10. For KITEX Garments, COD is below 50 & BOD is below 5. This is much below International standards and is possible because of best and latest Italian technology.

Their unit is spread over 100 Acres of land. As per government regulations, the factory is built on 34.5 Acres and the balance land is utilised for cultivation.

### **The New Scenario**

With different government bodies conducting 11 raids in one month, Mr Sabu Jacob shelved his plan of a future investment of ` 3500 crore in his home state, Kerala. With news that Mr. Sabu M Jacob announced the decision to pull out of Kerala and invest ` 1000 crore in

Telangana, the youngest state in India, the share prices of Kitex Garments shot up by 20 % in the first week of July 2021.

This decision has raised many eyebrows. A business operation employing thousands of employees are now diversifying their portfolio by investing outside Kerala, a state it was stationed for half a century, stating a lack of business feasibility. This does not align with PM of India, Narendra Modi's efforts on "Ease of doing Business in India" through his "Make in India" drive.

In the words of Mr Sabu Jacob, sometimes being on the right side is not sufficient. Primarily if one is operating in a state like Kerala, despite being the most literate state of India, it has been alternatively ruled by Left and Right wing for a long time, and if one is not aligned with the Government, it could make life and business difficult. According to Mr Sabu, the biggest problem of Kerala can be listed as under:

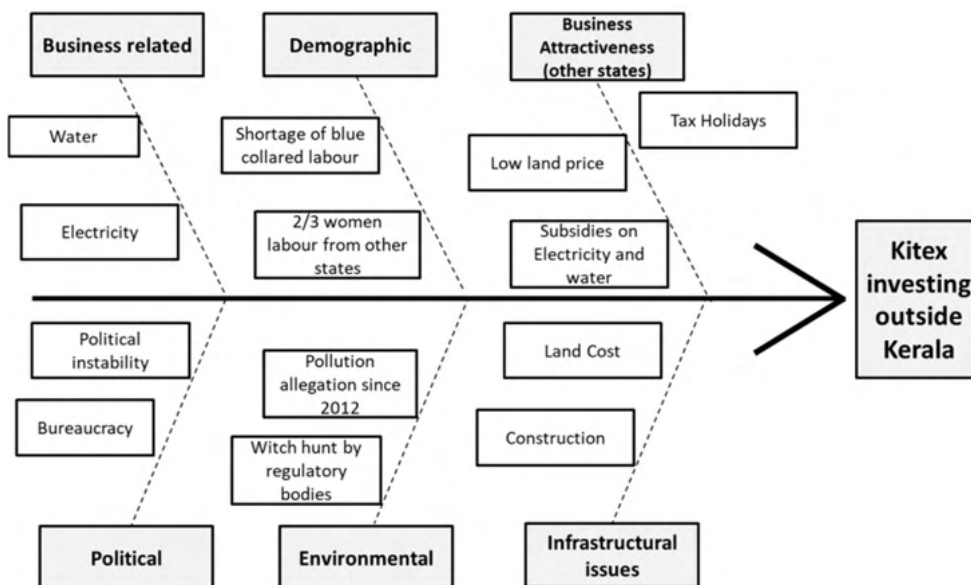
1. Attitudinal – If a factory is running, it must be making huge profits.
2. Fixed Mindset – If there is a factory, it must be flouting rules, exploiting locals, and polluting the environment.
3. Political – If you are not aligned with the Political class, you can be harassed any time of the day, on any frivolous grounds, any number of times.
4. Bureaucratic – Highly bureaucratic, industry unfriendly, and not progressive.
5. Environmental – Local Panchayat's exercise a lot of power.

Even the Prime Minister of India has acknowledged at the National level that the benefits under various schemes do not reach the last mile. If the government announces a benefit of `100 for the poor, only 10% reaches the intended population, and the rest gets eaten away by middlemen. The idea of direct transfer to the bank account was the solution, and hence a massive drive to open bank accounts for all and transfer benefits like gas subsidy, subsidy to construct toilets, subsidy to construct affordable homes were transferred directly to bank accounts of the needy. This speaks about the Political & Bureaucratic willingness to serve the people and the future that they wish to create. The local environment too plays a significant role. However, the local people have no choice and minor role to play, despite their best intentions.

There are many such cases in Kerala, where the community protested against exploitation of depleting resources that has eventually led to closure of business units. In 1998, **Hindustan Coca Cola Beverages Private Limited (HCCBPL)** acquired 34.4 acres of land to set up a bottling plant at Plachimada in the Palakkad district of Kerala. In January 2000, the Perumatty Panchayat granted a license to begin construction of the plant. In March 2000, Coca-Cola commenced operations. The Kerala State Pollution Control Board (KSPCB) granted them a permit to produce 561,000 litres of beverage per day, with an average requirement of 3.8 litres of water per litre of beverage. The source of water was primarily groundwater from about six bore wells and two open ponds. Roughly 2 million litres of water were extracted per day. Residents of the area claimed that the bottling plant soon caused severe water shortage and contamination by releasing toxic waste. Protests by the people of Plachimada, interest groups, and NGOs lead to the shutdown of operations at the plant. In 2003, soft drink major Coca-Cola was forced to close down its bottling plant. Coke lost a legal battle to Perumatti Village Panchayat, which refused to renew the company’s license, citing over-exploitation of groundwater and contamination.

This leads to introspect and looks for actual reasons for taking such a decision which is radical and has far reaching consequences.

**Fishbone diagram of factors propelling Kitex to invest outside Kerala**



Mr Sabu recalls that the state government has been talking about single window clearances for the last 15-20 years but very little has been seen in action. He goes on to say, “The fact is, there are 1,000 windows and you have to waste your entire life to start an industry here.

Especially after the year 2000, the main issue in state is Political & Bureaucratic paralysis. Even a local Leader or UD clerk can destroy the operations of any factory, despite the investor having invested almost `1 billion into the business. There is absolutely no state machinery to control such lawless actions. Which Industrialist would feel safe to invest in such a vicious environment? We have already seen Coca Cola being forced to close down the plant, in Kerala, within 3 years of commencing operations.”

According to Mr Sabu, politicians and political parties never want to eradicate poverty. They gain from continuing poverty by portraying themselves as saviours of the weaker section but actually use their helplessness to broaden and consolidate their voter base.

Kerala has a dubious distinction of having highest literacy rate in the country and also double the unemployment rate compared with National average. This view has been echoed by various learned people from time to time.



*Journalist & Author, Shekhar Gupta says that "Hounded by the Left-led government, Kitex is shifting investments to Telangana. Kerala needs to become Investor-friendly and should not return to Inspector Raj"*



*Prof Shamika Ravi speaks about double the rate of unemployment in Kerala compared to the rest of India.*



*Progressive state like Gujarat has unemployment of 0.9% whereas Kerala has 12.5%. State needs to improve business environment in order to generate jobs.*

*Pic: Courtesy Twitter*

As stated by Mr Sabu, 36 lakh Keralites are employed abroad and another 25 lakh in different states. Despite these numbers, almost 40 lakh people in the age bracket of 18 – 40 years are registered with the employment exchange in state. The main reason being, educated people don't wish to take up employment if they feel the job is not upto their expectations and government policies don't encourage new entrepreneurs or invite investments. The locals



prefer to remain unemployed rather than earn a living in their home state. Till 2010, 100% employees of Kitex were from the state. However, over the years, the ratio has changed and today, roughly 51% employees are from Kerala and rest 49% from rest of India.

With news in Media about Mr Sabu Jacob pulling out investments out of Kerala, the Telangana State rolled out a red carpet for him and offered various incentives. The state's pro-activeness is evident from the fact that after Kitex Garments confirmed investment of `1000 Cr, the state government has also started to impart training to workers to make them work ready, from day one. This training will help the workers gain knowledge and expertise in operating computer controlled equipment's and machines, once the new set-up is ready. Such a proactive approach on behalf of the state governments would go a long way to instil confidence in any investor and well as generate huge employment for the youth.



*Pic above (Twitter): Kitex hounded by state politics decides to move investments out of Kerala*



*Pic above (Twitter): Telangana rolled Red Carpet for Kitex and grabbed the opportunity for initial investment of `1000 Cr in the state*



*Pic above (Twitter): Telangana State begins training its people for making available ready to work manpower for Kitex*

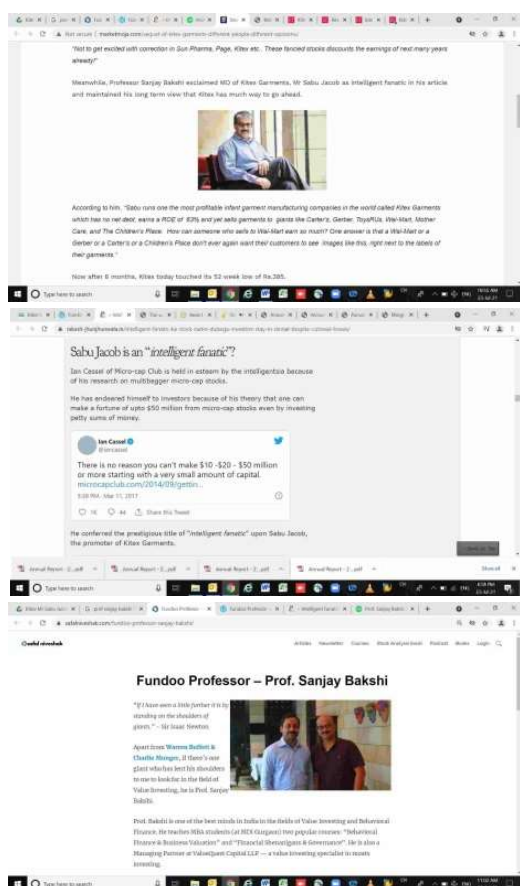
*Pic: Courtesy Twitter*

If we look at numbers, for setting up a new factory in Kerala, the land cost would be roughly ` 3 Crore per acre. This is, even by any conservative estimate, at least 15 times the land cost in other states. Higher land cost would also mean higher construction cost, at least 2 times, owing to constructing a stronger foundation and higher labour cost in the state. Moreover, different states offer a host of promotional schemes, apart from their proactive approach, to benefit any start up. Either on labour cost or Capital & Interest subsidy, water subsidy, tax subsidy and so on. With such sops, the investor would get back the investment in a period of

max 10 years, or in some cases earlier too. This would allow him to roll back the capital for further expansions, thus opening windows for further employment.

Despite all odds, the group, which has its roots in Kerala and started off on the Entrepreneurial journey almost 50 years back, continued its focus in the state and is determined to transform the lives of people they touch, either directly or indirectly.

Kitex Garments Limited started off and continues to be a Mid Cap Private Limited Company in Textile Sector, listed in BSE and NSE in 1995. Investment Guru's with deep market knowledge have spoken very highly about the group which echoes in the company's strong fundamentals. Kitex Garments debuted in the "Forbes Asia's Best 200 under Billion" list in 2015. Within a span of 20 years Kitex Garments has achieved International recognition, which was possible only because of consistent quality production and achieving high standards of customer satisfaction through its efficient manufacturing process.



According to Prof Sanjay Bakshi, ex Adjunct Prof of MDI Gurgaon, "Sabu runs one of the most profitable garment manufacturing companies in the world called Kitex Garments which has no net debt, earns a ROE of 63% and yet sells garments to giants like Carter's, Gerber, ToysRUs, Wal-Mart, Mother Care and The Children's Place. How can someone who sells to Wal-Mart earn so much?"

Ian Cassel of Micro-cap Club is held in high esteem by the intelligentsia because of his extensive and thorough research on multibagger micro-cap stocks. He says, "there is no reason you can't make \$10-\$20 - \$50 million or more starting with a very small amount of capital". Ian Cassel has called Sabu as an "Intelligent Fanatic".

Safal Niveshak compares Prof Bakshi, a Value Investor, to the likes of Warren Buffet & Charlie Munger. They say that Prof Bakshi is one of the best minds in India in the field of value investing and behavioural finance. And Prof Bakshi understood the company fundamentals very early. He is so bullish on Kitex that in November 2016 he bought 2065 Lakh shares of Kitex Garments.

Pic Source <https://www.capitalmind.in>; <https://forum.valuepickr.com>; <https://economictimes.indiatimes.com>

## Triple Bottom Line theory of Business Sustainability

With this kind of national relevance in the case of Kitex Garments, the Triple Bottom Line theory of CSR (Elkinson, 1997) needs to be explored to understand the reasons behind the displacement of a business unit which invests a lot of funds for CSR activities. In the words of CMD of Kitex “We have been investing in community development way before it was mandated by the Government of India. The very reason of starting the business by the founder is to provide employment for community members and reduce financial gap between the rich and the poor”. With this kind of extensive focus on CSR, how can anyone find a flaw in the company’s CSR activities? Let’s try to find an answer for this by exploring Triple bottom line theory of business sustainability

Triple bottom line theory deals with a bottom line that measures a business’s impact on profit, people, and the planet. This is a sustainability measure for a business, locally as well as globally. According to this theory, a company should consider three aspects for sustainability and long-term development.

### 1. Economic Dimension

This dimension is most important in a capitalist economy, where business performance is the principal yardstick for measuring success. It is the responsibility of the firm to ensure economic returns to the stakeholder at minimum risk. While profit is one of the prime motives for the business unit, distribution of profit to sustain the community as a whole matter the most for the long term sustainability of a business.

### 2. Social Dimension

The firm should pay heed to societal demands like job security, healthy work environment. They should not exploit the labour force and should ensure fair hiring practices. They should provide opportunities for career advancement and education of employees. Education and skill development for underprivileged children in the locality is another social dimension of CSR. The challenge with this dimension is “How far can you go”? Who all should be included in the social dimension? Employees, their families, Society, Suppliers, Customers... The list is endless.

### 3. Environmental Dimension

This is a critical dimension from the legal perspective. An organization can never violate the mandates of environmental protection. Reduction of ecological footprint should be one of the prime considerations of any business that wishes long-term

sustainability. Reducing the use of depleting energy resources, using solar energy, disposal of toxic waste in the safest manner, promoting organic farming, reducing carbon footprint, reduced use of plastic, and such materials that are not biodegradable are some of the ways to achieve a better score in this dimension.

Does it make Business Sense to adhere to the Triple Bottom Line theory? The answer is **A BIG YES**. Nielsen's survey (2018) finds that 48 % of US consumers will change their buying patterns to make the world more eco-friendly. This gives ample scope for all the green ventures to flourish. According to an article published by Harvard Business School (Miller, 2020), superior financial gains are achieved by firms with stringent environmental, social, and governance metrics. Management and employees should garner sufficient knowledge in Economics, Accounting, Environmental Science and Business Management to translate the Triple Bottom Line theory into a Workable Actuality. Constant measurement and monitoring of the three dimensions of Triple Bottom Line theory is essential for improved company reputation, continued support of the employees and win the confidence of stakeholders. Imbalance in any of the three dimensions can bring discord in the function of the business unit. Let us explore the CSR activities at KiteX Garments Limited (KGL) through the lens of Triple Bottom Line theory.

### **The Economic Dimension of CSR Activities at KGL**

KiteX has kept the shareholders happy by providing a good return on their investment, constantly paying a reliable dividend. The share price touched a new high of ₹ 204.4 on 14<sup>th</sup> July 2021. The self-employment scheme of Twenty20 is another economic dimension of their CSR. Self-employment organizations (200+ numbers) were set up to ensure the financial stability of external stakeholders. Projects of home-based animal husbandry were also promoted by Twenty20.

### **The Social Dimension of CSR activities at KGL**

Twenty20 supermarket that provides daily household items to the community is one of the prominent social dimensions of KiteX CSR. This endeavour brought a favourable reputation to the firm in the community. Twenty20 card was provided to residents of the Panchayat by the company and the cardholders could avail items from the supermarket at a significantly discounted price, sometimes as low as 80 % discount. Apart from being a CSR tool, it also helped the company wield power in the community and making people self-reliant. Other

activities that fall under the Social Dimension are free food distribution for the poor, free health check-up, free school bags for underprivileged children, provision of potable water, road repair, widening and maintenance, appointing social workers for helping the community to cope with day-to-day challenges housing support for the needy and renovation of places of worship.

### **The Environmental Dimension of CSR activities at KGL**

At Kitex Garments, they use of best technology which does not pollute the environment and converts the waste effluent into organic fertiliser. There is an equal thrust given to agriculture in the surrounding locality of the firm. Converting barren lands into agricultural land, promoting organic farming, practicing group farming and multi crop harvesting, distributing grow bags for people who do not have land to cultivate, introducing modern technology in agriculture, etc. are some of the environmental dimensions of CSR activities of Kitex.

With allocation of CSR budget in excess of mandated 2% and its judicious use through an apex committee, Triple Bottom Line theory stands vindicated at Kitex Garments. The community which has seen the benefits of benevolent CSR supports the firms' initiatives; however, it does not go down well in the state political circles that see their electorate shrinking. The Living Company, Kitex Garments, has reached the crossroads after doing their business successfully for more than 50 years and investing huge sums for CSR. This brings us to one fundamental question. What is more important, real grassroots' development or the vote bank politics? Do we need Industrialists or Politicians?

### **Way forward for Kitex Garments**

Kitex Garments should formulate short term and long term goals for Business Sustenance and Judicious Investment of Capital for expanding and continuing to operate the textile manufacturing unit at Kizhakkambalam. Kitex Garments can consider few sustainability initiatives:

- a) Front end approach: This requires lot of proactive information sharing with stakeholders regarding their environment friendly approach like use of sustainable textile fibers like recycled cotton, organic raw materials, reduction in physical samples through use of digital simulation, use of latest technology for a safe environment, comparable to best in world, which makes them world's No 2 in infant

garments. To educate the community on International Quality & Environmental safety standards being deployed at Kitex Garments, the company could conduct small focused group interactions during important local festivals like Onam, Christmas and Easter. A write up or exhibits can be prominently displayed at various strategic points like Community Centre, Twenty20 Supermarket and bus stop in the Panchayat area.

- b) Forward Integration and Expansion: Currently they are totally an export oriented unit with 100% production being exported to US. They may consider entering Indian markets because today consumers in India are equally sensitive to quality and cost is not always the driver for making purchase decisions.
- c) They should focus on attracting investments from customers or shareholders who support the green initiatives of the company and reward them suitably with higher dividends.
- d) Consistently invest in People and Technology – Endeavour to become a Carbon Negative company by taking proactive decision on newer technologies and processes that further help to reduce use of non-renewable resources, reduce waste or emissions which in turn would help to reduce cost of production and per employee cost.
- e) Introduce radical HR policies to attract more local talent, to work for a world class organisation, thereby reducing the unemployment rate in the State.

The bottom line for any business that is in for long haul is to give equal importance to all the three dimensions of business sustainability. By adhering to all the dimensions of Triple Bottom Line theory, KG has demonstrated that it is the way forward for business sustainability.

#### Synopsis of the case:

The case study titled “Looking beyond Tomorrow: Story of a Living Company – Kitex Garments” is a study of entrepreneurial journey of a company which was started five decades ago with an altruistic intention of providing job for the local community as a means to eradicate poverty. The intent was so strong that the progress was steady and the more the company progressed, the altruistic intent also increased. From a mere 8 employee strength to 15,000 employee strength, Anna – Kitex Group is one of the largest private sector employers in Kerala. The company vision was embedded in Business Sustainability, which is clear in the way the company adhered to Triple Bottom Line theory of Business Sustainability. Bottom Line refers to a company’s earning, profits, earnings per share (EPS) or net income.



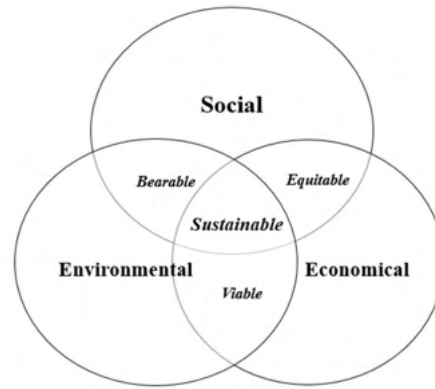


Figure 2: Triple Bottom Line theory of CSR

Triple Bottom Line theory is a three dimensional model of business sustainability that posits that for an organization to sustain and thrive in the market, the organization need to address three bottom lines: Economical, Social and Environmental. The theory argues that a company needs to focus on environmental and social aspects as much as they do on the economic dimension, for long term sustainability. The economical dimension deals with the traditional measure of corporate profit and dividends given to the stakeholders. The social angle measures the contributions made by the company to the society throughout its existence. Environmental dimension measures the environmental responsibility of the company in the form of using renewable resources, reduced carbon foot print and water foot print etc. Kitex case study shows a fair distribution on all the dimensions. Challenges in measuring the three dimensions vary between the dimensions. The economic dimension, being quantitative, is an easy measure. While the company can provide the expenditure on social and environmental dimensions, there is some level of subjectivity due to the inherent nature of those dimensions being qualitative.

The case study presents the dilemmas faced by entrepreneurs and how the Top Management used Situational Leadership styles to manage to grow in spite of the challenges. The Situational Leadership theory (Hersey and Blanchard, 1969) describes four leadership styles that are adopted by progressive leaders. The first is the Telling style, where the leaders tell the followers what to do and how to do things. In the second stage, the leaders have



greater interaction with followers and try and sell their view points to the followers. In the next stage, the leader encourages the followers to participate in idea generation and decision making. Then the leaders progress to delegation style where the leader is less involved in the day to day activities of business. Leader adopts a hands-off approach, making the group members to take most of the decisions. Choice of these styles match with the level of maturity of followers, ranging from low maturity, medium maturity and high maturity.

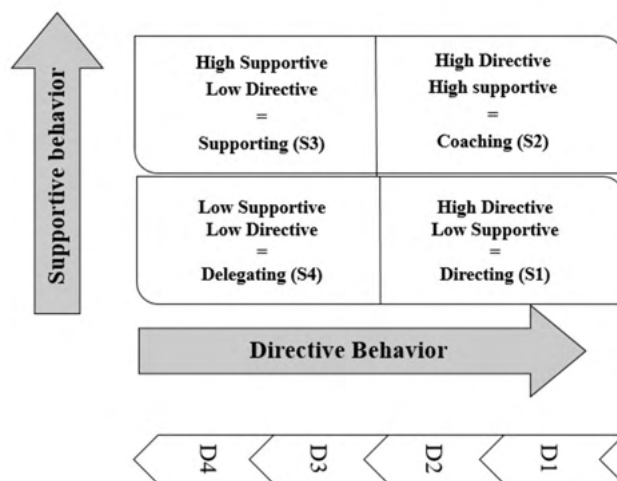


Figure 3: Situational Leadership Model (Paul Hersey and Ken Blanchard, 2009)

During different stages of company life cycle, the entrepreneurs used supporting/participating, Coaching / Selling, Directing / Telling and Delegating leadership styles to suit the situations. they could perfectly match the teams level of commitment and competence and choose a leadership style based on the need. The effectiveness of business operation is maximized by matching the employee readiness to situation based leadership style to make KiteX a classic example of living company.

#### Target group:

The case can be leveraged by Entrepreneurs, business management students, academicians, researchers, sales and marketing strategists, HR policy makers etc. The case can be used to

emphasize the learned concepts in subjects like HRM, Strategic Management, Organization Behavior, Business ethics, Marketing and General management.

### **Learning objectives:**

The above case has universal application. This case can be used to explain the Triple Bottom Line theory of CSR.

The case study has universal application. This case can be used to explain the Triple Bottom Line theory of CSR. It can be used as effective tool for business management students and corporates in the context of CSR. The learner gets insight on the concept of CSR and budding entrepreneur's get a macro perspective s on how to leverage business opportunities .The case draws from the theoretical framework of the Triple Bottom Line theory. In classroom settings, the learner and academician can discuss CSR from different economic, social and environmental perspectives. These decisions will have manifold impact on the ecosystem of the community where the corporate is housed. The core of the case rests on situational leadership theory, where all the four leadership styles are effectively used by the decision makers to align to the follower readiness.

Learning outcomes of this case are:

1. Learner evaluates the challenges of starting a business and strategies deployed to handle the business dilemma.
2. Learner critiques the triple bottom line theory of CSR and its advantage as a better metric over financial bottom line.
3. Learner analyses the suitability of the four leadership styles as described in the situational leadership theory and matches it with employee readiness in the organization.

### **Teaching strategy**

The trainer/teacher can use pedagogies/andragogy's like role play to emphasize the theoretical concepts of situational leadership. A class debate on which of the three dimensions of Triple Bottom Line theory needs to be emphasized could be another teaching method.

## Case questions

1. Identify the drivers of success of Kitex Group from Leadership Perspective.
2. Critically evaluate the significance of each of the three dimensions of Triple Bottom Line theory in Business Sustainability.
3. What stand should Kitex take in the backdrop of Political insensitivity by state machinery?
4. Chart a budget plan for Kitex Garments for CSR initiatives for the upcoming financial year.
5. Evaluate the Hersey Blanchard Situational leadership style in the Anna- Kitex group context
6. Why is the triple bottom line theory a better metric in comparison to financial bottom line?

## Suggested assignments:

1. Prepare a checklist of CSR activities conducted by a firm in manufacturing sector and service sector. Compare and contrast the activities to identify sectorial specification of CSR if any.
2. If you were the top HR manager of Kitex, what would you do differently to ensure that the ecosystem of business is not disturbed?
3. Referring the published information, identify the actions taken by the top management in past 50 years to align them to the four quadrants of situational leadership styles

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**Appendix**



*Interacting with Mr Sabu Jacob*



*With the Big Boss at Kitex*



*Zoom Meeting with Sabu Jacob*



*Anna Aluminium Company Pvt Ltd*



*Kitex Limited*



*Brothers – Bobby and Sabu Jacob*



*At The Headquarters of Kitex Garments Limited*





Kitex Garments Limited, Kizhakkambalam



Kitex Garments Limited, Kizhakkambalam



Aerial View 1



Aerial View 2

### ENERGY CONSERVATION PROFOUNDLY ADVANCED

Kitex Garments is committed in conducting its business in an environmentally responsible manner by continuously updating and implementing best technological solutions in terms of process, cost management, choice of equipment quality, process efficiency, and using advanced water purification mechanisms, the company is getting closer to its dream of zero-discharge plants.

Energy consumed by knitting/garmenting machines in our unit are only half of energy what is consumed by conventional machines.

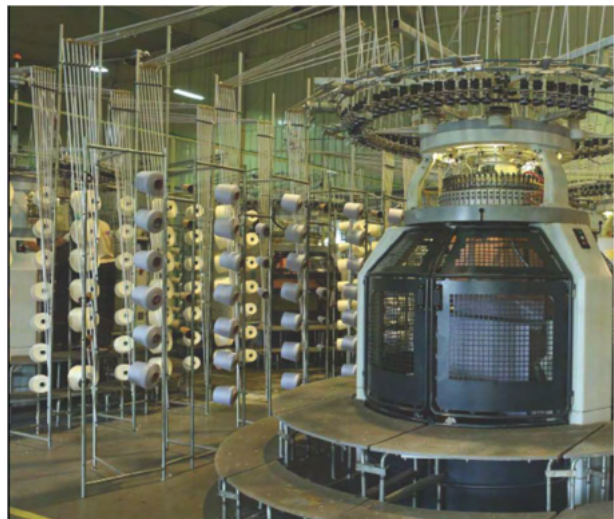
Approximately 40% of the energy is saved due to implementation of VFD (Variable Frequency Drive) system in all the machines. Also 15% fire wood consumption is reduced due to condensate and heat recovery systems.

Biological wastes produced at the facility are utilized and converted to bio gas which is used at our hostel kitchen as fuel.

Our facility is situated in a location that gets abundant rain. Rain water is harvested which in turn helps to save water that can otherwise be used for various manufacturing and general purposes.

Our processing house uses 25% water and 50% Steam lesser than conventional dyeing method. 100% of the treated water is being used for our own irrigation and gardening purpose.

The Dye Kitchen



Automatic Knitting Machine





*Embroidery in Progress*



*Profiling Work*



*Finishing Line*



*Automatic Embroidery*



*Water Tank*



*Water Tank*



*Construction of Toilet*



*Sanitation*





*Water Conservation*



*Water Conservation*



*Lighting Project*



*Lighting Project*



*Roadside Tile Work*



*Road Tarring*



*Onam Festival*



*Onam Festival – Police – Sec 144*





*Twenty20 supermarket*



*Housing Project : Ente veedu padhathi*



*Food Festival*



*Xmas Sale*



*Bus Stand*



*Bus Stand*



*Donated Cycles to Students*



*Items people can buy at 50% the price and pay in 36 interest free instalments*

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