

# An Attempt to Find Impression of Good Governance Practice in FMCG Sector

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**Abstract – This article deals with the impact of corporate governance on the performance of FMCG industries. FMCG product touches every aspects of human life. These products are frequently consumed by all sections of the society and a considerable portion of their income is spent on these goods. Apart from this, the sector is one of the important contributors of the Indian economy. Every company needs a set of processes, which may include rules and practices for direction and control. Such processes are often referred to as Corporate Governance (CG). Like any other governance, CG essentially is associated with balancing expectations of stakeholders. In our paper, we present the study on the similarities and the differences of the good Governance practices between the various companies under the sector of Fast Moving Consumer Goods (FMCG) sector.**

**Keywords: Corporate, Governance, Sustainable, FMCG**

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## I. INTRODUCTION

Corporate governance discussions have progressively shifted to sustainability, popularly articulated in the 3 E's, Social Equity, i.e., Environmental Performance along with economic Performance. The associated worries have resulted in changes in regulation, (e.g., the Indian Environment Protection Act) change in consumer options (e.g., towards the so-called environmentally friendly products as well as services) as well as increased media attention. In a survey conducted by McKinsey in February 2010, on exactly how businesses handle sustainability, it's been reported that businesses that are controlling sustainability intentionally are reaping the gain of superior shared value.

The Indian Fast Moving Consumer Goods (FMCG) business continues to be picked for the study, owing to a pattern of substantial engagement of sustainability tasks, as when compared with various other industries. Of the previous 5 years, there's a change towards naturals of the personal care items targeted at saving the planet and leading to the health of the society. For instance, Hindustan Unilever Limited has produced The Unilever Sustainable Living Plan (USLP) as the blueprint for obtaining the vision of theirs to produce business, whilst decoupling the environmental footprint of theirs from development and increasing positive social impact. The Plan sets stretching targets, including the way they source raw materials and just how customers use the models of theirs. The 2 fast-growing new entrants, Patanjali Ayurveda (promoted

by the world-famous yoga exercises guru Baba Ramdev) & Sri Tattva (promoted by another world-famous religious leader Sri Sri Ravi Shankar) have identical goals. Never to be overlooked, various other leading FMCG businesses as Dabur, Himalaya, VLCC, Godrej, Colgate Palmolive as well as Dr. Vaidy's, have realigned the techniques of theirs to produce shared value.

## II. CONCEPT OF CORPORATE GOVERNANCE

Globalization, to achieve success, needs to be preceded by good governance. The crucial concept for success is usually to make certain that growth is sustained as well as shared. Sustained, in this, it's powerful and may withstand shock and shared, in that, it creates prosperity to many, instead of the several. There are lots of players interested in great (corporate) governance owners, shareholders, the board of directors, staff as well as supervisors. They're the inner architecture. The outside architecture comprises the statutory and legal prerequisites, regulatory standards, stock markets, government policies, media, reputation, and agents including standards and accounting bodies, every one of which impacts the corporation's believability as well as stock value.

Corporate governance concentrates on a company's procedures and framework to ensure good, accountable, transparent as well as accountable corporate behaviour. You will find

really several definitions of corporate governance but all of the problem the following:

- Systems of controls within the company;
- Relationships between the company's board/shareholders/stakeholders;
- The company being managed in the interests of the stakeholders; and
- Greater transparency and accountability to enable users of corporate information to determine whether the business is being managed in a way that they consider appropriate.

Corporate governance is actually a high priority for firms since it provides opportunities to handle risks and add value. The emphasis of corporate governance is actually shifting from simple obligation as well as compliance with laws as well as listing requirements to a business imperative for a lot of firms. Corporate governance greatly influences the firm's performance. It is short for conscientious business management geared towards long term value creation. Effective corporate governance is a major driver of long term competitive advantage and sustainable corporate development.

Good governance means very little expropriation of corporate online resources, which contributes to a better allocation of better performance as well as resources. Lenders, as well as investors, are going to be much more prepared to put the money of theirs in firms with good governance. Some other stakeholders, including suppliers and employees, will additionally wish to be connected with these kinds of firms, as the interactions will probably be prosperous, fairer, along with more durable than those with firms with less good governance.

A method of corporate governance requires a great degree of sufficient information and also disclosure to get rid of (or at least reduce) info asymmetries involving all parties, making corporate insiders responsible for the actions of theirs. Management knows that there are economic advantages to be acquired from a well-managed disclosure policy. For the management of firms, financial reporting, as well as disclosure, are likely significant ways to communicate the firm's governance and performance to external investors. The investors, especially Foreign Institutional Investors (FIIs), are actually worried about the governance system while investing funds. As disclosure betters the effectiveness of capital allocation and in addition lowers the price of capital, just about all countries dedicate sizable initiatives, resources and time to framing and regulating disclosure rules as well as a governance system that publicly listed firms must follow. The report of the Organization for Economic Development and Cooperation (OECD) on national

growth and corporate governance along with the Asian Development Bank (ADB) research on corporate governance as well as finance in East Asia highlight the initiatives by a lot of developing nations in repairing corporate governance as well as disclosure structures.

The typical businessman or woman understands excellent corporate governance to be associated with good operational results. Particularly, people believe that a well-governed organization is but one which maximizes the outside cash of its flows, typically by fighting productively in the markets of its. Operational achievement is actually, actually, currently one of the implied meanings of good governance and one that's frequently traded on by professionals working in the industry. Nevertheless, the significance of good corporate governance has transformed for specialists during the last 4 years as a consequence of the triumph of particular theories about governance and also due to the economic interests of specific store actors. It today refers largely to the adoption of specific legal buildings as well as methods which, themselves, aren't expressly connected to results on the market for the corporation's services or products. As we are going to see, this new conception of corporate governance dominates the measurement of corporate governance.

### III. SCENARIO OF FAST MOVING CONSUMER GOODS (FMCG) MARKET IN INDIA

The solutions that are consumer regularly/ often by the customers i.e. daily functional items are known as FAST MOVING CONSUMERS. Products that are selling fast chief as well as the cost that is minimal. The among the fastest developing segment in the Indian economy is actually FMCG business, it provides very prevalently in the list are actually packed food items, packaged foodstuff, shoe polish, shaving products, toothpaste, shampoos, toiletries, detergents, and home accessories and also extends to particular electric goods. These things are intended for every day of regular usage and also have a higher return.

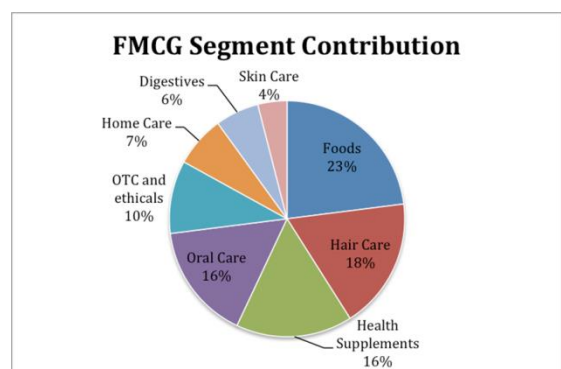


Figure 1: Segmentation of FMCG market

The Indian Fast Moving Consumer Goods (FMCG) business continues to be picked for the study, owing to a pattern of substantial engagement of sustainability tasks, as when compared with various other industries. Of the previous 5 years there's a change towards naturals of the personal care items targeted at saving the planet and leading to the health of the society. For instance, Hindustan Unilever Limited has produced The Unilever Sustainable Living Plan (USLP) as the blueprint for obtaining the vision of theirs to produce business, whilst decoupling the environmental footprint of theirs from development and increasing positive social impact. The Plan sets stretching targets, including the way they source raw materials and just how customers use the brands of theirs. The 2 fast-growing new entrants, Patanjali Ayurveda (promoted by the world-famous yoga exercises guru Baba Ramdev) & Sri Sri Tattva (promoted by another world-famous religious leader Sri Sri Ravi Shankar) have identical goals. Never to be overlooked, various other leading FMCG businesses as Dabur, Himalaya, VLCC, Godrej, Colgate Palmolive as well as Dr. Vaidy's, have realigned the techniques of theirs to produce shared value.

**List of Top 10 FMCG Companies in India**

1. Hindustan Unilever Limited (HUL)
2. ITC Limited
3. Dabur India Ltd
4. Britannia Industries
5. Godrej Consumer Products Limited (GCPL)
6. Parle Agro
7. Amul
8. Pidilite Industries
9. Patanjali Ayurved
10. Haldiram's

The Indian Fast Moving Consumer Goods (FMCG) business started to shape throughout the previous 50 odd years. The progress of the FMCG business wasn't significant between the 1950's to the 80's. The FMCG business earlier wasn't appealing from investor's point of view as a result of very low purchasing power and also the government's favoring of the small scale sector. FMCG's development story more continued adhering to the deregulation of the Indian economy in the early 1990s. With fairly lesser capital as well as technological needs, a selection of new makes emerged domestically also, even though the relaxed FDI situations led to entry of many worldwide players

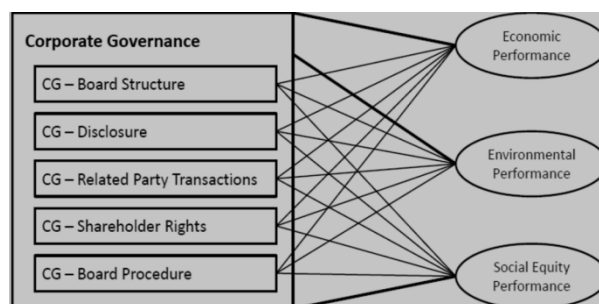
in this particular segment. These elements made the FMCG market in India very competitive and one of the key contributors in the Indian economy. In the mid-nineties, the progress of the industry was extremely fast whereas it declined quickly at the conclusion of the decade. The original development was because of to boost in product penetration as well as usage levels<sup>4</sup>. Using on a quickly growing economy, improving per capita incomes, and rising pattern of urbanization, the FMCG market of India is actually anticipated to further expand to a hundred billion dollars by 2025.

**IV. RELATIONSHIP OF CORPORATE GOVERNANCE WITH OTHER FACTORS**

Corporate governance is a critical success factor for companies, as it's been connected with enhancing gaining trust and the sustainability performance of investors. The relationship between corporate governance as well as sustainability has been explored fairly thoroughly individually, i.e. corporate governance as well as setting performance, social equity and corporate governance as well as economic value and corporate governance.

**Sustainability Performance**

In order to evaluate sustainability performance, I've used the indicators taken in the sustainability reporting tips created by the Global Reporting Initiative (GRI). GRI encourages the usage of a method of reporting sustainability performance, with a view to make firms much more delicate to and add to sustainable development. Following GRI sustainability reporting framework, businesses have set goals in the 3 dimensions, economic, viz., social equity as well as environment. Cutting across sectors as well as geographic territory, the GRI framework has been discovered to be thorough to shoot sustainability performance. Appropriately, the measurement of the sustainability performance continues to be depending on the elements captured in the GRI framework, version 3.1.



**Figure 2: Conceptual Model of Corporate Governance**

## Economic Performance

Traditionally, the economic performance of a firm has been assessed by Economic Value Added (EVA). Nevertheless, for a sustainable planet, there's a want to check out the effect of a firm's exercise not simply on the EVA of its but also on economic conditions of economic systems and stakeholders at global, local and national levels. The effect of the value tasks of a firm on stakeholders' economy and through the society is actually illustrated in the economic performance signs. While EVA reflects the real financial state of a company and reported correctly, the company's involvement in a bigger economic system's sustainability has to be evaluated. The associated aspects are actually caught in indicators that are pertinent, economic performance, viz., market presence and indirect economic impacts. 9 variables in these 3 elements are actually used to calculate the economic performance from a sustainability point of view. An author studied the merit of various forms of CG systems in solving agency issues as well as an assessment of firm performance. CG is actually known as a vital building block when obtaining target economic performance as well as development as well as top increasing in investors trust

## Environmental Performance

A firm's value-creating pursuits have an effect on non-living in addition to living systems, which include land, air, and water. Appropriately, the indicators of environmental performance are actually caught in outputs in addition to inputs. The outputs cover emissions as well as waste as well as the input coverage water, essential substances and power. With a view to coming up with the evaluation much more extensive, extra factors as effect of services and product; environmental compliance; and biodiversity are actually taken. The assessment is carried out through 9 sets of variables, viz., materials, energy, water, biodiversity, emission, waste and effluents, transportation and in general. 30 variables in these 9 elements are used to calculate the environmental performance of a business. Another discovered that corporate governance is positively linked to environmental performance in a sophisticated emerging economy like found a dependable as well as valid corporate governance environment link via the extensive fact-based research of theirs.

## Social Equity Performance

Firm's value chain activities have an apparent effect on the social system within which companies work. Social equity aspects connect to all these kinds of impacts. The social equity part of sustainability has likewise been taken in the sustainability framework articulated by The Natural Steps (TNS) like a vital system state for sustainability. aspects that are Crucial surrounding labor practices, rights that are

human as well as a society or product duty are actually recommended in the GRI social performance indicators as critical assessment characteristics.

## V. RESEARCH METHODOLOGY

The study is founded on the Corporate Governance Practices in businesses that are different under the FMCG industry. The annual report of the major Fast Moving Consumer Goods(FMCG) businesses is actually studied as well as the similarities as well as differences in the methods followed by them are actually examined. The different Corporate Governance philosophy followed by them in this competitive atmosphere is actually studied. Inferences as well as conclusions drawn are actually on the bases of secondary details. The sample because of this analysis comprises of 4 mega businesses in the FMCG sector, Marico, ITC Ltd., Emami Group as well as Dabur. All of the 4 firms are actually mentioned in Bombay Stock Exchange and affect the stock action of this industry.

## VI. ANALYSIS AS WELL AS FINDINGS

The 4th largest industry in Indian economy is actually Fast moving consumer goods (FMCG). the industry is actually split into 3 primary segments namely beverages and food, healthcare and private care and home. The major development divers for the consumer sector are actually Growing recognition, much easier access, and changing lifestyles

The study is completed on the Good Governance Practices for the businesses of Dabur, ITC Ltd., Marico as well as Emami Group.

According to the study, the next table shows the similarities which the companies have within the Corporate Governance.

**Table 1: Corporate Governance Practices by Selected companies**

Particulars	Dabur	ITC Ltd.	Marico	Emami Group
Risk Management Committee	✓	✓	✓	✓
Audit Committee	✓	✓	✓	✓
The Company's Governance Philosophy	✓	✓	✓	✓
Nomination and Remuneration Committee	✓	✓	✓	✓
Corporate Social Responsibility Committee	✓	✓	✓	✓
Stakeholder's Relationship Committee	✓	✓	✓	✓

Based on the above-mentioned table, the Committees that are created by these businesses are very few in typical. The function of theirs, roles & responsibilities are actually a silent related



feature, roles and responsibilities are actually quite very similar

The FMCG industry is governed by mixed business consequences like: One of the leading threat that FMCG businesses face is the fast change of the consumer tastes as well as preferences. The consumer behaviour is volatile in nature. A change in the item brought by a competitor is able to alter the tastes and also the taste of the consumer. The additional threat or even challenge which FMCG business face are actually the unstable commodity/product rates prevailing on the market. A little change in the cost of the commodity is able to improve or even reduce the sale of the business.

#### **Audit Committee:**

The Audit Committee is the main pillar of excellent Corporate Governance, has the very best place to give highly effective oversight of the performance, objectivity and independence of the auditor and furthermore, the quality of the audit. The Committee has overseen the Company's financial reporting progression as well as the disclosure of its financial info to make sure that the financial statements are actually credible, sufficient, and correct. The committee, in addition, have to suggest the appointment, remuneration, terms of removal and appointment of Statutory Auditors, the appointment, removal, and remuneration of Cost Auditors, where needed. The other function that the committee has performing is actually approving transactions of the Company with relevant parties, which includes modifications thereto.

#### **Corporate Governance Philosophy**

The business research showed that the philosophy differed each time. With Dabur, Good Governance Practices forms a part of the business method. While at Emami Group Corporate Governance has been for aim for the total wellbeing of all constituents. With ITC, the foundations of ITC's Governance Philosophy are actually trusteeship, transparency, honest corporate citizenship, empowerment, accountability as well as management. And at Marico, they feel that Corporate Governance isn't an end in itself but is actually a catalyst in the task towards maximization of shareholder value.

#### **Nomination as well as Remuneration Committee**

The Nomination and Remuneration Committee of the Board, identifies individuals that are actually competent to be Directors & formulates criteria to assess the performance of Directors and also the Board like an entire. The Committee consists of the Chairman of the business who's an unbiased Director. Together with him consists of two-three Non-Executive Directors.

#### **Stakeholders Relationship Committee:**

The Committee is actually created to solve some grievances of the security slots of the business like complaints about the transfer of shares, non-receipt of annual reports, non-receipt of dividends etcetera. There might be the number of executives working below him which differs from company to company. The committee has to seek out the transfer/transmission of the shares. Additionally, they have to correct the complaints/ grievances obtained from the shareholders or perhaps investors.

#### **Corporate Social Responsibility Committee**

In the text of Mallen, Baker CSR is all about the way companies control their company process to create a general beneficial effect on society. The Corporate Social Responsibility Committee is actually appointed by the Board of Directors. As per the Company Act, 2013, The CSR Committee has to formulate as well as suggest to the Board, a CSR Policy which shall signify the activities to be undertaken by the Company. Additionally, they have to suggest the quantity of expenditure that is to be incurred on the activities as expenditure which are actually to be incurred on the activities as above, as well as monitor the expenses incurred as per the Corporate Social Responsibility Policy of the Company from time to time.

## **VII. DISCUSSION**

The current study is actually an endeavor to check out the Good Governance Practices in the FMCG industry in India. Relying on the research of the Corporate Governance reports of the best FMCG businesses namely ITC Ltd., Dabur, Marico & Emami Group the parallels of governance methods coupled with the variations of its. Just like ITC Ltd. Code of conduct by ITC as well as the Direct Touch Initiative by Dabur. Furthermore, there a couple of momentous differences followed by these companies.

## **VIII. CONCLUSION**

The corporate governance is the ca by which businesses are directed as well as controlled in an effective fashion. It entails regulatory and promotes mechanisms, as well as the roles as well as the connection between a firm's management, the board of its, the shareholders of its along with other stakeholders as well as objectives for which the corporation is actually governed. Today, Fast Moving customers' goods have grown to be an essential component of human life. This particular industry is actually recession-proof and then developed a substantial employment chance for India, hence becoming one of the major pillars of the Indian economy. FMCG businesses really should encash possibilities such as raising

consumer income, changing consumer lifestyle, aspiring outlying consumers, constant economic growth by utilizing the strengths of its. The competitors from the unorganized sector can easily be overcome by boosting brand recognition and also by decreasing expenses via sharing methods including distribution networking.

This particular study has been determined the good connection between corporate governance as well as firms' performance. Hence, it was discovered that a positive and significant effect of corporate governance in phrases of firms' financial performance. The study results likewise recommend that the corporate governance policies, as well as transparency as well as disclosure, are positively correlated with the firm's performance. The presence of essential factors for effective governance of firms tends to lead to improved economic performance. Areas regarding disclosure were discovered to be having the strongest impact on economic performance.

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