



Corporate Governance practices of FMCG Sector in India

S Deepika¹, J Antony Nancy², Dr. A Morarji³

¹ Assistant Professor, Department of Commerce, Annai College of Arts and Science, Kumbakonam, Tamil Nadu, India

² Research Scholar, Alagappa Institute of Management, Alagappa University, Karaikudi, Tamil Nadu, India

³ Professor, Department of Corporate Secretaryship, Alagappa University, Karaikudi, Tamil Nadu, India

Abstract

Corporate governance in the FMCG business is critical for guaranteeing accountability, transparency, and ethical compliance. This study investigates the governance procedures of India's largest FMCG firms, which include ITC Ltd., Dabur, Marico, Godrej, and Hindustan Unilever Limited (HUL). The sector's distinguishing features, such as complicated supply chains and severe regulatory standards, requires strong governance structures. These frameworks rely heavily on effective board composition, risk management techniques, compliance processes, and sustainable activities. The report focuses on various measures taken by corporations, such as ITC's Code of Conduct and Dabur's Direct Touch Initiative, which demonstrate their commitment to good governance while tackling industry-specific difficulties. Furthermore, it emphasizes the importance of incorporating sustainability into governance systems in order to encourage environmental and social responsibility. By studying corporate governance reports, the study identifies parallels and variances in procedures, providing significant insights into how FMCG companies navigate risks and develop stakeholder trust in a competitive landscape.

Keywords: Accountability, transparency, ethical standards, sustainability, environmental responsibility

Introduction

Corporate governance is the backbone of organizational accountability, ensuring that companies operate transparently and ethically while meeting stakeholder expectations. In the Fast-Moving Consumer Goods (FMCG) sector, where consumer trust and brand reputation are paramount, corporate governance assumes even greater significance. FMCG companies are characterized by complex supply chains, rapid product turnover, and stringent regulatory requirements, making effective governance a critical driver of success. The FMCG industry in India is one of the largest and most dynamic sectors, encompassing household names such as ITC Ltd., Dabur, Marico, Godrej, and Hindustan Unilever Limited (HUL). These companies play a pivotal role in shaping consumer behavior and fostering economic growth. Effective governance practices in this sector are essential for ensuring product safety, maintaining supply chain integrity, and promoting sustainability. Furthermore, aligning corporate objectives with stakeholder interests through mechanisms such as board diversity, executive compensation linked to performance, and risk management strategies has become a priority for FMCG companies.

This study delves into the governance frameworks adopted by leading FMCG companies in India, analyzing their policies, initiatives, and practices to address challenges specific to the industry. Key focus areas include board composition, compliance and ethics, sustainability initiatives, and risk management. By comparing corporate governance reports, the research highlights similarities and differences in governance practices, providing insights into best practices and opportunities for improvement. As the FMCG sector evolves, robust corporate governance remains vital for building stakeholder trust, achieving long-term sustainability, and navigating an increasingly competitive market.

Objectives

1. To analyze the corporate governance practices in leading FMCG companies in India
2. To assess the role of corporate governance in addressing industry-specific challenges
3. To understand the good Corporate Governance Practices and the organization philosophies

Statement of the problem

In a competitive world, there are many problems in marketing of goods. Some problems can be solved, but many problems may not be solved. India is a developing country. So, most of the people are living in rural areas. Rural and Urban marketing is important for developing a country's economy. Manufacturers industries face many problems in marketing their product in rural areas because most of the rural consumers earn low incomes, have low levels of literacy, low levels of brand awareness, communication and transportation facilities. The consumers are facing various problems in selecting their fast-moving consumer goods. It is identified that there is a need for research work in the field of consumer behavior of FMCG in the rural areas.

Review of Literature

Hitesh J Shula (2023) examined Governance practices followed by Indian FMCG sector within the Indian regulatory framework. Among the renowned FMCG companies, observations show ITC scored the highest (79) points followed by Tata Tea (77) points, HUL (72) points and Nestle (69) points. ITC, Tata Tea and HUL figured in the criteria of very well and Nestle figured in the criteria of good.

Bhardwaj N and Rao B.R (2023) have examined and benchmarked the Corporate Governance practices of the CNX Nifty 50 companies with revised clause 49. It further

concluded that majority of the companies followed the practices mentioned in the clause 49 and a few disclosures were beyond the requirement.

Gupta *et al* (2023) analyzed the Corporate Governance report of 30 companies listed in BSE for the year 2019-20 and 2020-21. The findings of the report said that the reporting practices of the company vary to a large extent

Neeti Sanam and Sangeeta Yadav (2023) found out that despite impressive Corporate Governance reforms, the Indian firms only disclosed a moderate level of financial disclosure. The financial reporting quality required further improvement and enforcement of legal and regulatory structure.

Mrs. V. Rajalakshmi and Dr. K. Uma Devi *et. al.*, (2020) paper concentrates on consumer demographics and behavior official cream category This of fast-moving consumer goods in Kancheepuram district of Tamilnadu. Fast moving consumer goods are generally lower profit margin products and therefore it is selling in large quantities in the regional market. Thus, it is very important to understand how to improve brand value for the customers as many brands are available for the same categories of products in the market. The fast-moving consumer goods (FMCG) sector is an indispensable contributor to India's GDP. It constitutes a large part of consumers' budget in all countries. FMCG Industry is featured by an established distribution of network, an intense competition between the organized and unorganized segments, lower penetration levels, lower operating cost and also a lower per capita consumption

Research Methodology

The study is based on the Corporate Governance Practices in different companies under the FMCG sector. The annual report of the leading Fast-Moving Consumer Goods (FMCG) companies is studied and the similarities and differences in the practices followed by them are analyzed. The various Corporate Governance philosophy followed by them in this competitive environment is studied. Inferences and conclusions drawn are on the bases of secondary data. The sample for this study comprises of four mega companies in the FMCG sector, ITC Ltd., Marico, Godrej, HUL and Dabur. All the four companies are listed in Bombay Stock Exchange and influence the stock movement of this sector.

FMCG Sector-Corporate Governance

1. Indian FMCG Sector-Corporate Governance Overview

The Indian FMCG sector is the fourth largest sector in the economy with a total market size more than US\$ 13.1 billion. The industry is characterized by a well-established distribution network; intense competition between the organized and unorganized segments viz MNC presence and low operational cost. Availability of key raw materials, cheaper labour costs and its presence across the entire value chain gives India a competitive advantage. The FMCG market is set to treble from US\$ 11.6 billion in 2020 to US\$ 33.4 billion in 2021. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash *etc.* in India is low indicating the untapped market potential.

2. Dabur Corporate Profile

Dabur today operates in key consumer product categories like Health Care, Hair Care, Oral Care, Skin Care, Home Care, Hygiene and Food & Beverages. The ayurvedic company has a wide distribution network, covering 6.9 million retail outlets with a high penetration in urban and rural markets. Dabur's products also have huge presence in the overseas markets and are today available in over 120 countries across the globe. Its brands are highly popular in the Middle East, SAARC countries, Africa, US, Europe and Russia. Dabur's overseas revenue today accounts for over 27% of the total turnover.

3. ITC Limited

ITC is one of India's foremost private sector companies and a diversified conglomerate with businesses spanning fast Moving Consumer Goods, Hotels, Paperboards and Packaging, Agri Business and Information Technology. The Company is acknowledged as one of India's most valuable business corporations with a Gross sales value of ₹ 90,104 crores and Net Profit of ₹ 15,058 crores (as on 31.03.2022). ITC was ranked as India's most admired company, according to a survey conducted by Fortune India, in association with Hay Group

4. Godrej

Established in 1897, the Godrej Group has its roots in India's Independence and Swedish movement. Our founder, Ardeshir Godrej, lawyer-turned-serial entrepreneur failed with a few ventures, before he struck gold with a locks business. Today, we enjoy the patronage of 1.1 billion consumers globally across consumer goods, real estate, appliances, agriculture and many other businesses. In fact, our geographical footprint extends beyond Earth, with our engines now powering many of India's space missions. With revenue of over USD 4.1 billion we are growing fast, and have exciting, ambitious aspirations. But for us, it is most important that besides our strong financial performance and innovative, much-loved products, we remain a good company. Approximately 23 percent of the promoter holding in the Godrej Group is held in trusts that invest in the environment, health, and education. We are also bringing together our passion and purpose to make a difference through our Good & Green strategy of 'shared value' to create a more inclusive and greener India.

5. Marico Limited

Marico is one of India's leading consumer products companies in the global beauty and wellness space. During FY 2021-22, Marico recorded a turnover of about INR 95 billion (USD 1.3 billion) through its products sold in India and chosen markets in Asia and Africa. Marico touches the lives of 1 out of every 3 Indians, through its portfolio of brands such as Parachute, Saffola, Saffola FITTIFY Gourmet, Saffola Immunized, Saffola Meal maker, Hair & Care, Parachute Advansed, Nihar Naturals, Mediker, Coco Soul, Revive, Set Wet, Limon and Beardo and Just Herbs. The international consumer products portfolio contributes to about 23% of the Group's revenue, with brands like Parachute, Parachute Advansed, Hair Code, Fiancée, Caivil, Hercules, Black Chic, Code 10, Ingwe, X-Men, Mediker SafeLife, Thuan Phat and Isoplus.

6. Hindustan Unilever Limited

With 50+ brands spanning categories such as fabric solutions, home and hygiene, life essentials, skin cleansing, skincare, hair care, colour cosmetics, oral care, deodorants, tea, coffee, ice cream & frozen desserts, foods and health food drinks, the Company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as Lux, Lifebuoy, Surf excel, Rin, Wheel, Glow & Lovely, Pond’s, Vaseline, Lakmé, Dove, Clinic Plus, Sun silk, Peps dent, Close-up, Axe, Simple, Love Beauty Planet, Threesome, Brooke Bond, Bur, Knur, Kissan, Kwality Wall’s, Horlicks and Pure it.

Gender Diversity in Board

The legal requirement to increase gender diversity on Indian Boards has been clearly highlighted by the New Companies Act, 2013. The new Company law, passed in 2013, mandates a specified class of companies to have at least one woman on the board. Since this became a law in August, dozens of companies are looking to rope in women directors on their boards. This section provides details on gender diversity in sample FMCG companies.

1. Shows cross-tab of total directors and Females on board

Table 1

Range of total directors	Range of Females				Total
	0	1	2	3	
3	0	1	0	0	1
4	14	2	0	0	16
5	8	2	0	0	10
6	11	4	0	0	15
7	10	3	2	0	15
8	11	9	2	1	23
9	3	1	1	0	5
10	2	6	0	0	8
12	6	3	1	1	11
13	1	0	0	0	1
14	0	1	0	0	1
18	0	1	0	0	1
Total	66	3	6	2	107
Percentage of table	61.7%	30.8%	5.6%	1.9%	100%

Source: Secondary data

Table elaborates on cross tabulation between total number of directors on the Board and females directors on the Board. The last row shows that 61.7% companies do not have even a single female director. To elaborate the cross-tabulation results, the Table shows the number of women on the Board for a particular Board size. For example, for a Board size of 8 directors, 23 companies have board size of 8, and out of those 23 companies, 11 were not having any female on the Board, 9 were having 1 member of the Board as female, 2 were having 2 females on the board and 1 company was having 3 females on the Board. It was inferred from annual reports of the Companies by looking at gender details that even this number is primarily because of the fact that they are family members of the owners. So, the issue of gender diversity will have to be taken up seriously by the companies after the New Companies Act mandate. Further Pearson correlation between total number of directors and females on the Board was analyzed to explore whether there is any relationship between females on the Board and the size of the Board

2. Board Practices and Processes

The following section has been extracted from questionnaire to know the details. The required information on board practices and procedures could not be traced from the annual reports. The sample here is 168 firms which responded to Corporate Governance questionnaire. The following Table provides the details regarding the same.

Shows board practices and processes

Table 2

Particulars	Yes	No
There is a regular system of evaluating CEO.	114	54
There is a succession plan for CEO.	72	96
Board has replaced CEO in last 5 years.	39	129
There is minority shareholder’s representation on Board	05	163
Company has a policy of restricting insider trading.	164	04
Board meetings are held as per norms	168	Nil

N=168

Sources: Secondary data

Table shows that firms in the FMCG sector are having CEO evaluation on regular basis as 114 firms affirmed such a practice. All the firms were complying with the norms of meetings as mandated by law. Further, 164 firms are also having a policy of restricting insider trading. Only 39 firms have replaced CEO in last 5 years. The matter of concern is minority representation on the Board. Only 05 companies are having such a representation. Further, 96 firms are not having a succession plan for CEO which is again a matter of concern.

Further, when respondents were asked about whether expertise is the major criteria in selection of directors, then 81.5% made an affirmative reply. 50% agreed and 31.5% strongly agreed with the statement. 4.2% did not give any response. And 14.3% disagreed to the statement. On an average a high average of 3.96 shows that selection is based on the expertise in FMCG companies in the sector which is a good sign. And, when opinion on “The non-executive directors of the company are demonstrably and unquestionably independent” was asked 64.9% agreed to the statement. 18.5% did not give any response and 16.7% disagreed with the statement.

Findings and Suggestions

FMCG companies often link executive compensation to key performance indicators (KPIs) like revenue growth, profitability, and market share. Long-term incentives such as stock options and performance-based bonuses are common to align executives' interests with shareholders. FMCG companies prioritize risk management strategies focusing on supply chain resilience, brand reputation, and regulatory compliance. Boards are actively involved in overseeing risk assessments and ensuring adequate mitigation measures are in place.

Board composition: the study may have found that FMCG companies with diverse and independent boards were more effective at managing risks and promoting accountability. Risk management: effective risk management is critical for FMCG companies, which must navigate range of risk related to product safety, supply chain disruptions, and reputational damage. The study may have examined how FMCG companies identified, assessed, and managed risks.

Compliance and ethics: compliance with laws and regulations is essential for FMCG companies, which must adhere to strict product safety and labeling requirements. The study may have examined how FMCG companies monitored and enforced compliance, as well as how they promote ethical behaviour among the employees and supplier

Conclusion

The present study is an endeavor to explore the Good Governance Practices in the FMCG sector in India. Relying on the study of the Corporate Governance reports of the top FMCG companies namely ITC Ltd., Dabur, Marico & Godrej and HUL the similarities of governance practices along with its differences. From the study it can be over and done that companies believe in different policies, adopt different initiatives and practice new methods for effective governance. Like the ITC Ltd. Code of conduct by ITC and the Direct Touch Initiative by Dabur. Additionally, there are few momentous differences followed by these companies.

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