Study on Good Governance Practice in FMCG Sector'

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Abstract

The Corporate Governance is an important aspect for the implementation of the principles of and codes which has a positive impact on the performance of the firms. During the course of time, various mechanisms of Corporate Governance have been studied in relation to the performance of the firms and most of them have also been used. Corporate Governance framework ensures effective engagement with all the stakeholders of the companies and also brings transparency between the company authorities and the stakeholders. Corporate Governance is practiced in all the industries of the economy. 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. The fourth largest sector in the economy is FMCG. This study attempts to learn the good Governance practices followed in this sector and the key differentiation philosophy followed by them.

KEY WORD:- Corporate Governance, FMCG, Good Governance practices, Committee, Board of directors

Introduction

Corporate Governance

Corporate Governance is a system of rules, process, practices and structures through which a company manages its business to attain its financial, operational and strategic goals along with long term sustainability. It involves balancing the interest of various stakeholders, management, customers, suppliers, financiers, government and the community.

Definition of Corporate Governance:

The Securities and Exchange Board of India Committee on Corporate Governance defines Corporate Governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company. “India is a growing economy and to safeguard the interest of the investors and to clearly define the roles of the management Corporate Governance plays a major role.

Corporate Governance has particular emphasis on three groups

Shareholders, Board of directors and Management, it may also specify the power other stakeholders like employees, customers, creditors and suppliers.

Principles of Corporate Governance

1.Ensuring the basis of effective Corporate Governance framework

2.The rights of shareholders and key functions protecting and facilitated

3.Equitable treatment of shareholders

4.The role of stakeholders in Corporate Governance

5.Disclosure and transparency

6.The responsibility of the board-monitoring management and accountability to shareholders

Good Corporate Governance

Good Corporate Governance creates transparency and responsiveness to the rules and controls of the shareholders, directors and officers. Companies strive for a high level of Corporate Governance. Today companies look ahead of profits and aim in creating good corporate citizens through environmental awareness, ethical behavior and sound Corporate Governance practices. Good Governance brings positive impact to the performance and long term viability of every company.

Eight characteristics of Good Governance

Participation, rule of law, transparency, responsiveness, consensus orientation, equity, effective, efficiency and accountability.

Benefits of Good Corporate Governance Practices

Result oriented board of directors, Shred management accountability, Internal evaluation and control, risk management, efficient performance. In a highly competitive business environment good governance is of great significance in relation to increasing capital, securing debts, qualified directors, talent management, employee and stakeholder satisfaction, growth & acquisition.

The foundation of Corporate Governanceare based on law based on corporate legislation, securities laws and policies, security regulators and the decisions of the court. The directors of the company are expected to serve loyally towards the company and in the interest and good faith of the company. They are also based on other sources like the stock exchange, interest groups, media and others. Corporate Governance is an aid to the directors to meet their duties and responsibility towards the company. The board plays a central role in Corporate Governance by guiding, monitoring, establishing, overseeing and achieving managerial objectives of the organization. Corporate Governance policies should be reliable and credible to attract investors, reduce the cost of capital, ensure functioning and sources of financing.

Fast Moving Consumer Goods (FMCG)

The fourth largest sector in the economy is FMCG(Fast Moving Consumer Goods). The FMCG sector has witnessed a growth of US$ 31.6 billion in 2011 to US$ 52.75 billion in 2017-18. The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 27.86 per cent to reach US$ 103.7 billion by 2020.

List of Top 10 FMCG Leading Companies in India (2018)

Hindustan Unilever Limited

Colgate – Palmolive

ITC Limited

Nestle

Parle Agro

Britannia industries limited

Marico Limited

Procter and Gamble

The Godrej Group

AMUL

Selected Companies for the Study

Emami Group

The inception of Emami Group took place in the mid-70s in the state of West Bengal. In the year 1978, Emami Group acquired a 100years old company Himami Ltd, which proved to be the turning point for Emami Group. Now, Emami group has successfully established its brands through a very strong endorsement. A niche category player and innovator is the fastest growing FMCG companies.The key brands are the strongest market leaders. Zandu is one of their strongest Ayurvedic brand.

ITC LTD.

ITC started in the Tobacco sector, had entered the FMCG sector in the early 2000s. A multi-business conglomerate, ITC has climbed its way to the top of the mountain in the FMCG Sector posing a challenge to the giants in the sector. Leading food and beverage company.ITC believes in sustained value creation, operating profits and cash profits. It is a market leader and is the only FMCG company to be featured in Forbes 2000 list in 2016.

Marico

Marico limited is one of India's leading consumer products companies in the beauty and wellness space. Started in the year 1988, the company engaged in manufacturing of branded personal care products, edible oils, fabric care products and processed foods. Currently present in 25 countries across Asia and Africa. The members associates consumer investors and society are empowered with freedom and opportunity.

Dabur

Dabur India is a world leader in Ayurveda. The 134 year old Ayurvedic Company started operating in 1884 as an Ayurvedic Medicines company. Since its inception, they had a very humble beginning in the city of Calcutta,Dabur has come a very long way today to become one of the biggest Indian owned consumer goods companies with the largest herbal and natural products portfolio in the world.

Objective of the study

The study is focused towards learning the good Governance policies in the FMCG sector it further aims towards

1. To understand the Corporate Governance Practices by leading FMCG companies in India

2. To understand the good Corporate Governance Practices and the organization philosophies

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, Emami Group and Dabur. All the four companies are listed in Bombay Stock Exchange and influence the stock movement of this sector.

Literature Review

Hitesh J Shukla (2009)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 good and Nestle figured in the criteria of good.

Bhardwaj N and Rao B.R (2014) 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 disclosure were beyond the requirement.

Gupta et al (2003),analyzed the Corporate Governance report of 30 companies listed in BSE for the year 2001-02 and 2002-03. The findings of the report said that the reporting practices of the company vary to a large extent.

NeetiSanam and SangeetaYadav (2011)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.

AnuragAhuja and B.S. Bhatia (2010) have analyzed the Corporate Governance disclosure. The annual reports of 50 listed companies were studied and their Corporate Governance practices were examined. The study concluded that there is considerable scope of improvement in the Corporate Governance disclosure practices followed by the companies.

SenanNeeti (2011)have analyzed the study of Corporate Governance in public and private enterprises in India. The annual reports of 77 listed Indian companies from the year 2008-2009 was studied. The study revealed the private sector companies followed high standard of Corporate Governance disclosure as compared to the public sector companies.

Analysis and Findings

The 4th largest sector in Indian economy is Fast moving consumer goods (FMCG) .the sector is divided into three main segments namely food and beverages, healthcare and household and personal care. The key growth divers for the consumer market are Growing awareness, easier access, and changing lifestyles.

The study is done on the Good Governance Practices for the companies of Dabur, ITC Ltd., Marico and Emami Group.

Based on the study, the following table shows the similarities which the companies have under the Corporate Governance.

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	✓	✓	✓	✓
Stakeholders' Relationship Committee	✓	✓	✓	✓

Based on the above table, the Committees which are formed by these companies are fewin common. Their function, roles and responsibilities are quiet similar concerning the committees mentioned in the above table.

Risk Management Committee:

The Risk Management Committee is a committee which consists of Board of Directors that has its sole and exclusive function, responsibility for the policies of Risk Management for the operations of the company and oversight of the corporation's global risk management framework. The Committee also consists of few Executive Directors who assists the Board of Directors in fulfilling its oversight responsibilities in regard with appetite of the Corporation and the Risk Management and Compliance framework and governance structure which supports it.

The FMCG sector is subject to varied business risks like:

One of the major risk that FMCG companies face is the rapid shift in the consumer tastes and preferences. The consumer behaviour is unpredictable in nature. A change in the product brought by a competitor can change the taste and the preferences of the consumer. The other risk or challenge that FMCG company face are the unstable commodity/product prices prevailing in the market. A small change in the price of the commodity can increase or decrease the sale of the company.

Audit Committee:

The Audit Committee being the central pillar of effective Corporate Governance, has the best position to offer effective oversight of the performance, independence and objectivity of the auditor and also the quality of the audit. The audit committee's role is also something can be built upon.The Audit Committee acts as the link between the statutory auditors, the internal auditors and the Board of Directors of the Company. The terms of reference of the Audit Committee are as per the guidelines set out in Regulation 18 of the SEBI Listing Regulations, 2015 read with Section 177 of the Companies Act, 2013.The internal audit department governs its audit through modules/checklists to carry out process- wise audit and to ensure effective discharges of their duties and compliance with SEBI Listing Regulations, 2015. The Audit process being used by Internal Audit Department is also reviewed from time to time with a view to bring it in line with the regulatory framework.

Roles and Responsibilities of Audit Committee

The Committee has to oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible. The committee also need to recommend the appointment, remuneration, terms of appointment and removal of Statutory Auditors, the appointment, remuneration and removal of Cost Auditors, where necessary. The other role that committee has to perform is to approve transactions of the Company with related parties, including modifications thereto.

Nomination and Remuneration Committee:

The Nomination and Remuneration Committee of the Board, identifies people who are qualified to become Directors and formulates criteria valuate the performance of Directors and the Board as a whole. The Committee includes the Chairman of the company who is an independent Director. Along with him includes two-three Non-Executive Directors.

Roles and Responsibilities of the Nomination and Remuneration Committee are:

The committee has to review the structure, size and composition which is by the board i order to compare its current position and make recommendations accordingly to Board with regard to any changes. They also have give full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed on the Board in the future. The Committee is also responsible in identifying and nominating for the approval of the Board.

Before making an appointment, the committee has to evaluate the balance of skills, knowledge and experience on the board. The Committee has to regularly review the leadership needs of the organization, both executive and non-executive, with a view of ensuring the continued ability of the organization to compete effectively in the market place. The Committee needs to evaluate the performance of non-executive directors to ensure they are spending enough time to fulfil their duties.

Corporate Social Responsibility Committee:

In the words of Mallen Baker- "CSR is about how companies manage their business process to produce an overall positive impact on society". The Corporate Social Responsibility Committee is appointed by the Board of Directors. The Committee is been set up to promote a culture that emphasizes and sets high standards for corporate social responsibility and also reviews corporate performance against those standards. From Social Responsibility perspective, the Committee will consider the impact of the Corporation's business, operations and programs.

Roles and Responsibility of CSR Committee:

As per the Company Act, 2013, The CSR Committee has to formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the Company. They also need to recommend the amount of expenditure which are to be incurred on the activities as above, and also monitor the expenses incurred as per the Corporate Social Responsibility policy of the Company from time to time.

Stakeholders Relationship Committee:

The Committee is formed in order to resolve any grievances of the security holders of the company including the complaints regarding the transfer of shares, non-receipt of annual reports, non-receipt of dividends etc. The committee comprises of a Chairperson who is an independent Director. There may be few executives working under him which differs from company to company.

Roles and Responsibilities of Stakeholders Relationship Committee:

The committee has to look for the transfer/ transmission of the shares. They also needs to redress to the complaints/ grievances received from the shareholders or investors. The committee needs to approve, register or refuse to transfer of shares and securities. Post the authorization from the Board of Directors of the company, the Committee has to print the Share Certificates.

Corporate Governance Philosophy

The company follows established practices for systems procedures and policies to ensure they have well informed and equipped the board of directors and the management with a strategic system to create long term shareholder value. Corporate Governance aims at achieving high level of transparency, equity in all facet of operations and interaction with stakeholders.

The companies studies showed that the philosophy differed everywhere. At Dabur Good Governance Practices forms part of business strategy. While at Emami Group Corporate Governance has been at focus for complete well-being of all constituents. At ITC, "The cornerstones of ITC's Governance Philosophy are trusteeship, transparency, ethical corporate citizenship, empowerment, control and accountability". And at Marico, They believe that Corporate Governance is not an end in itself but is a catalyst in the process towards maximization of shareholder value.

Whistle-Blower Policy / Vigil Mechanism

The company has formed a Whistle Blower Policy / Vigil Mechanism as required under Section 17 of the Companies Act, 2013 and regulation 22 of listing regulation. Allow and encourage stakeholders to bring to the management notice concerns about unethical behavior, malpractices, wrongful conduct, actual or violation of policies. Timely and consistent organization response. Build a culture of transparency and trust. Provide protection against victimization.

This mechanism has been widely communicated in all the following companies ITC, Dabur, Marico and Emami. The employees at ITC are expected to follow the ITC Code of conduct failing which demands for action. With further study it was seen that a different initiative followed at Dabur is the company has established a Direct Touch Initiative, under which all Directors, employees/ business associates have direct access to the chairman of the audit committee, and also to a three-member direct touch team established for this purpose. The direct team comprises of one senior women member so the women employee of the company feel secure and free and report their policy. Further the audit committee periodically reviews the existence and functioning of the mechanism.

Subsidiary Companies

Subsidiary companies are the companies which are completely owned by the parent company. These companies are managed by the respective board of directors in the best interest of those companies and their shareholders.

At ITC ltd, the Subsidiary Companies are managed by their respective Board of Directors. The minutes of the Board meetings of the Subsidiary Companies and the details of significant transactions and arrangements are placed before the Board of Directors of the company. The performance review reports of the Subsidiary companies of ITC ltd. are been placed before the Board of Directors of the company on an half yearly basis. The Audit Committee of the company has the responsibility to review the financial statements of the Subsidiary Companies.

Conclusion

The present study is an endeavour 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 & Emami Group 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 practise new methods for effective governance. Like the ITC Ltd. Code of conduct by ITC and the Direct Touch Initiative by Dabur. Additionally there few momentous differences followed by these companies.

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