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Strategic Integration of Corporate Social Responsibility in the Indian FMCG Sector: Evidence from the Baddi Industrial Cluster

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Abstract

Corporate Social Responsibility (CSR) has become an important part of business strategy today. Companies use CSR to grow, build trust, and stay competitive. In India, the FMCG sectors is playing a major role in carrying out CSR activities, especially after Section 135 of the Companies Act, 2013 that made CSR spending mandatory.

Although FMCG companies spend much on CSR, there is still limited research available for studying how they actually include CSR in their internal systems and governance. This is especially true for industrial areas like the Baddi-Barotiwala-Nalagarh (BBN) area in Himachal Pradesh.

This study examines how the FMCG companies in Baddi integrate CSR into their work. It focuses on corporate governance, stakeholder involvement, and the role of government rules. We have collected the primary data collected from the participants in the required areas.

The results show that good governance, active leadership, and strong stakeholder engagement can improve CSR implementation. The Government regulations also make this relationship stronger. This study provides useful ideas for the improvement of CSR planning and its effect in industrial areas like Baddi.

Keywords: Corporate Social Responsibility (CSR), FMCG Sector, Corporate Governance, Strategic CSR, Stakeholder Management, Baddi Industrial Area, India, Companies Act 2013, Sustainability, Industrial Clusters

Introduction

Corporate Social Responsibility (CSR) has been emerging into a strategy, for contemporary companies as they are addressing the rising social demands, environmental challenges and legal obligations (Carroll, 1999; Porter & Kramer 2006)^[1, 2]. Although CSR was traditionally focused on charity current models highlight embedding it within governance, strategic foresight and active stakeholder involvement (Dahlsrud, 2006)^[2]. In India the Companies Act, 2013 represented a breakthrough by requiring eligible companies to allocate funds, for CSR thus embedding CSR within corporate responsibility frameworks (Sheehy, 2015)^[7]. The Moving Consumer Goods (FMCG) industry is especially significant because of its resource-heavy processes, direct interaction with consumers and environmental consequences. The industry's strong foothold in the Baddi-Barotiwala-Nalagarh (BBN) cluster-a key manufacturing center-highlights the need, for well-coordinated CSR programs that meet regulatory demands and support local community interests (Kumar & Tiwari

2011)^[4]. Although this importance is recognized there is a scarcity of research investigating how CSR is integrated into governance structures and stakeholder mechanisms in these industrial environments.

In this context the current research seeks to evaluate the role of governance and stakeholder management in the strategic incorporation of CSR, in FMCG companies based in Baddi. Precisely the investigation explores if efficient governance frameworks and active stakeholder involvement favorably affect the execution of CSR and if governmental policies reinforce these connections. Consequently the research hypothesizes that (i) strong governance frameworks correlate positively with CSR incorporation, (ii) successful stakeholder management improves CSR results and (iii) government policies act as moderators amplifying these associations. By investigating these interconnected theories, the study contributes empirical insights of the strategic drivers of CSR in India's FMCG sector and offers the evidence-based guidance for enhancing sustainability practices within industrial clusters like Baddi.

Materials and Methods

Research Design

We have employed a mixed-method research design, integrating both quantitative and qualitative approaches to obtain comprehensive insights into CSR practices of FMCG firms operating in the Baddi industrial cluster. The quantitative part of the study focuses on measuring the relationships among corporate governance, stakeholder management, government regulation, and CSR integration through structured surveys whereas the qualitative component supported the quantitative findings by the interviews and analysis of the collected information of CSR reports, sustainability disclosures, and company documents.

Study Area

The study was carried out in Himachal Pradesh's Baddi-Barotiwala-Nalagarh (BBN) industrial belt, which is one of the largest area for the production of FMCG and pharmaceuticals. Due to its fast industrial growth, environmental problems, and need for community development, the region—which is providing shelter to more than 2,000 industrial unit—is a main point of study for the CSR.

Population and Sampling

We have included the CSR managers, corporate officials, HR managers, plant heads, and sustainability officers employed in FMCG companies in the Baddi industrial area.

- We have employed the Purposive sampling to find businesses that satisfied the following requirements:
- Registered in accordance with the 2013 Companies Act
- Falling under CSR mandatory threshold
- Actively engaged in CSR implementation
- Within these companies, respondents were selected based on their roles in CSR planning, execution, or reporting.

A total of 150 questionnaires were distributed, of which 120 valid responses were received (response rate = 80%).

Data Sources

Primary Data

Primary data were collected using

- Structured questionnaire (Likert scale items)
- Semi-structured interviews with CSR officials
- On-site observations

The questionnaire was divided into four major sections:

1. Corporate Governance (CG)
2. Stakeholder Management (SM)
3. Government Regulation (GR)
4. CSR Integration (CSRI)

All measurement items were adapted from validated CSR and governance scales used in prior studies.

Research Instrument and Measurement

Variables and Indicators

1. Corporate Governance (Independent Variable):

Measured using items such as:

- Existence of CSR committees
- Transparency in reporting

- Leadership involvement
- Monitoring and evaluation mechanisms

Stakeholder Management (Independent Variable)

Measured through:

- Community participation
- Engagement with NGOs
- Employee involvement
- Collaboration with government bodies

Government Regulation (Moderating Variable)

Measured using:

- Compliance pressure
- Monitoring mechanisms
- Government guidelines and audits
- Alignment with national CSR policy

CSR Integration (Dependent Variable)

Measured through:

- Strategic alignment of CSR
- Long-term planning
- Measurable outcomes
- Integration into business processes

Validity and Reliability

Content Validity

Experts in CSR, management, and academia reviewed the questionnaire to ensure clarity, relevance, and completeness.

Dependability

Cronbach's alpha values for all constructs were above the acceptable threshold of 0.70, confirming internal consistency.

Validity of Constructs

The dimensional validity of the constructs was evaluated using factor analysis (EFA).

Data Collection Procedure

Data collection was carried out over a period of three months.

The procedure involved

- Contacting firms and seeking permission
- Distributing questionnaires physically and via email
- Conducting interviews with CSR and HR managers
- Ensuring confidentiality and voluntary participation

Data Analysis Techniques

The data were analyzed using R version 4.4.3 through the following statistical methods:

- Descriptive Statistics (mean, SD, frequency)
- Reliability Testing (Cronbach's alpha)
- Exploratory Factor Analysis (EFA)
- Correlation Analysis
- Multiple Regression Analysis
- Moderation Analysis (to test government influence)

Ethical Considerations

The study was conducted under the adherence of rules related to the sample collection criteria-

- Participation was voluntary

- Data confidentiality and anonymity were maintained
- Informed consent was obtained from all respondents
- No sensitive personal or organizational information was disclosed

Results

Descriptive Statistics

The FMCG companies surveyed in the Baddi industrial cluster generally had a positive view of how they integrate Corporate Social Responsibility (CSR) into their operations. The average scores for all four areas: Corporate Governance, Stakeholder Management, Government Regulation, and CSR Integration: were above the midpoint of 3.0, suggesting a strong commitment to CSR practices.

Table 1: Descriptive Statistics

Variable	N	Mean	SD	Minimum	Maximum
Corporate Governance (CG)	120	4.02	0.61	2.70	4.90
Stakeholder Management (SM)	120	3.88	0.66	2.60	4.85
Government Regulation (GR)	120	4.10	0.58	2.80	4.95
CSR Integration (CSRI)	120	3.95	0.63	2.50	4.80

Corporate Governance (Average = 4.02)

Respondents concurred that their organizations have official CSR committees, leadership participation, and open procedures.

Stakeholder Management (Mean = 3.88)

Firms showed active engagement with local communities, NGOs, and government bodies.

Governmental Regulation (Average = 4.10)

Respondents strongly agreed that government guidelines and compliance mechanisms shape CSR practices.

CSR Integration (Mean = 3.95)

In general, the integration of CSR into strategic planning seemed to be moderate to strong.

3.2 Correlation Analysis

Table 2: Correlation Matrix

Variables	CG	SM	GR	CSRI
Corporate Governance (CG)	1	—	—	—
Stakeholder Management (SM)	0.48**	1	—	—
Government Regulation (GR)	0.54**	0.52**	1	—
CSR Integration (CSRI)	0.62**	0.57**	0.68**	1

Note: $p < 0.01$

Correlation results showed significant positive associations among all variables:

Corporate Governance and CSR Integration ($r \approx 0.62$)

Integration of CSR and Stakeholder Management ($r \approx 0.57$)

Strong correlations were found between government regulation and governance ($r \approx 0.54$) and CSR integration ($r \approx 0.68$).

Strong governance and stakeholder engagement are associated with better CSR integration, according to these correlations.

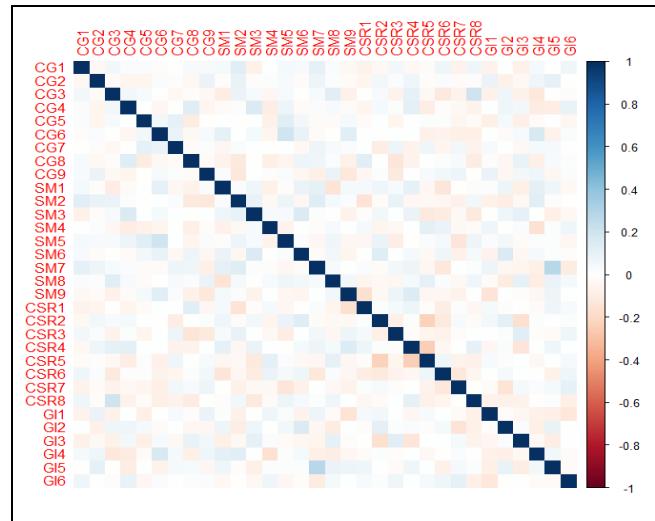


Fig 1: Correlation heat map

Regression Analysis

A multiple regression model was employed to test the influence of Governance and Stakeholder Management on CSR Integration.

Table 3: Multiple Regression Results (Predictors of CSR Integration)

Predictor	β (Standardized)	t-value	Sig.
Corporate Governance (CG)	0.41	4.98	0.000**
Stakeholder Management (SM)	0.36	4.27	0.000**
Government Regulation (GR)	0.29	3.96	0.001**
Adjusted R ²	0.48	—	—

Note: $p < 0.01$

Model Summary

- Adjusted R² ≈ 0.48
- F-statistic: significant at $p < 0.001$

Predictor Significance

- **Corporate Governance** → **CSR Integration**
 $\beta = 0.41, p < 0.01$
- **Stakeholder Management** → **CSR Integration**
 $\beta = 0.36, p < 0.01$

Both predictors were significant, demonstrating their positive effect on strategic CSR integration.

Moderation Analysis: Role of Government Regulation

Table 4: Moderation Analysis – Government Regulation as Moderator

Moderation Path	Interaction β	t-value	Sig.
CG × GR → CSR Integration	0.19	2.32	0.022*
SM × GR → CSR Integration	0.22	2.61	0.010*

Note: * $p < 0.05$

A moderation model (interaction term = Governance × Government Regulation) revealed:

- Government Regulation significantly moderates the relationship between Corporate Governance and CSR Integration ($\beta = 0.19, p < 0.05$)

- Government Regulation also moderates the relationship between Stakeholder Management and CSR Integration ($\beta = 0.22, p < 0.05$)

The interaction plots demonstrate that governance and stakeholder engagement have a significantly greater impact on CSR integration when there is strong government oversight.

Discussion

The FMCG companies that were surveyed in the Baddi industrial cluster generally expressed a positive outlook on how they incorporate Corporate Social Responsibility (CSR) into their operations. The average scores across all four areas—Corporate Governance, Stakeholder Management, Government Regulation, and CSR Integration—were above the midpoint of 3.0, indicating a solid commitment to CSR practices.

Corporate Governance as a Driver of CSR Integration

The existing literature highlights a positive link between governance and the integration of Corporate Social Responsibility (CSR), underscoring the importance of:

- Active CSR committees
- Strong leadership commitment
- Transparent reporting
- Effective monitoring and evaluation mechanisms

This aligns with the assertion by Porter & Kramer (2006) [2] that for CSR to be truly strategic, it needs to be integrated at the highest levels. In Baddi, FMCG companies with robust governance structures have demonstrated a better alignment of their CSR efforts with long-term sustainability objectives.

Stakeholder Management Strengthens CSR Implementation

The findings confirm that stakeholder management significantly enhances CSR outcomes. Successful interaction with:

- Local communities
- Employees
- NGOs
- Panchayati Raj Institutions

The results of CSR initiatives are becoming more relevant, widely comprised, and sustainable. This aligns with Freeman's Stakeholder Theory, which suggests that effective communication boosts an organization's legitimacy and trust. In Baddi, businesses that actively connect with local leaders and communities tend to enjoy better project continuity, especially in areas like environmental efforts, health, and education.

Government Regulation as a Critical Moderating Factor

One of the key takeaways from the research is that government regulation plays a crucial role in shaping how companies integrate Corporate Social Responsibility (CSR). District-level oversight and compliance requirements, as well as laws like the Companies Act of 2013, have significantly strengthened:

- The influence of governance on CSR
- The role of stakeholder management in CSR

This supports the notion that institutional pressures can hasten the adoption of CSR practices in developing economies (Jamali & Karam, 2016). In Baddi, for instance, government involvement through pollution control boards, district authorities, and state committees ensures that businesses move beyond just charitable donations to more structured CSR strategies.

Strategic Implications for FMCG Firms

The combined results show that CSR becomes strategically integrated when three elements converge:

- Robust internal management
- Engaging stakeholders actively
- Regular government supervision

As a result, CSR shifts from being compliance-focused to a strategic business instrument.

Contribution to Research and Practice

This study contributes by:

- Offering unique experiential viewpoints from an industrial cluster in India
- Demonstrating how governance and stakeholder factors interact with regulation
- Providing a verified framework for the integration of strategic CSR
- Emphasizing the role of the FMCG industry in industrial areas such as Baddi
- The results emphasize the necessity for practitioners to:
- CSR cooperation at the cluster level
- Long-term sustainability planning
- Systems for transparent reporting
- CSR models that are driven by the community

Conclusion

This study examined the effects of government regulations, corporate governance, and stakeholder management on CSR in FMCG companies operating in the Baddi industrial area. According to the research, companies can better implement corporate social responsibility (CSR) when they have good governance and active stakeholder participation. CSR becomes a significant component of businesses' operations when leaders are dedicated, reports are transparent, and businesses interact with the community. Government regulations strengthen this relationship, according to the study. CSR regulations and stringent oversight in India motivate businesses to behave ethically. Overall, the study shows that when businesses have strong governance, engage stakeholders, and abide by government regulations, CSR can become a wise business strategy rather than merely a legal obligation.

Implications

Managerial Implications

The results emphasize how important it is to put governance frameworks in place for CSR. FMCG businesses should:

- Incorporate senior executives into decision-making processes and fortify CSR committees.
- Integrate CSR goals with corporate strategy and sustainability planning.
- Enhance transparency through structured reporting and monitoring systems.

- To make sure CSR initiatives meet actual needs, interact with stakeholders more methodically.

Policy Implications

The results emphasize how important it is to put governance frameworks in place for CSR. FMCG companies should:

- Strengthen CSR committees and include senior executives in decision-making procedures.
- Integrate CSR goals with corporate strategy and sustainability planning.
- Enhance transparency through structured reporting and monitoring systems.
- To make sure CSR initiatives meet actual needs, interact with stakeholders more methodically.

Theoretical Implications

- The study advances CSR theory by showing how governance and stakeholder theories intersect with CSR.
- Providing empirical evidence from an Indian industrial context.
- Highlighting the moderating role of government in CSR adoption, which is underexplored in CSR literature.

Recommendations

As per the results we can suggest the followings-

- For FMCG Companies
- Shift from philanthropic CSR to long-term, strategy-driven CSR.
- Develop cluster-level CSR initiatives to address shared environmental and social issues.
- Adopt tools like Social Return on Investment (SROI) for impact measurement.
- Invest in community-based programs focusing on health, education, and sanitation.
- For Government & Regulators
- Strengthen regional CSR cells for monitoring and evaluation.
- Promote public-private partnerships to address regional development needs.
- Offer incentives to companies demonstrating high CSR impact.

The Study's Limitations

The study focused exclusively on FMCG firms in the Baddi industrial area, limiting generalization across other sectors or regions.

Depending on self-reported data can lead to some bias in responses.

- While the sample size is adequate for analysis, increasing it could enhance the generalizability of the findings.
- Because of the cross-sectional design, we can't establish causality over time.
- A more thorough look into internal procedures was limited by restricted access to private CSR documents.

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