

## DECODING SHAREHOLDER ACTIVISM: AN INDIAN PERSPECTIVE

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### ABSTRACT

*This article examines "Shareholder Activism: An Indian Perspective," giving light on the growing landscape of corporate governance, transparency, and sustainability policies in India. Drawing upon regulatory frameworks, case studies, and future outlook analyses, the study discusses the varied nature of shareholder activism and its ramifications for Indian firms and stakeholders. The regulatory framework governing shareholder activism in India, covering laws, rules, and institutional guidelines, sets the environment for investor engagement and advocacy. Case studies, including the Tata-Mistry story and minority shareholder activism in family-owned enterprises, highlight the intricacies and impact of shareholder activism on governance systems, transparency, and accountability. The study also underlines the role of institutional investors in driving shareholder activism, utilizing their stewardship obligations, engagement capabilities, and ESG integration practices to push for governance reforms and sustainable business practices. Challenges and limits, such as concentrated shareholding, regulatory hurdles, and cultural barriers, underline the need for continuing regulatory reforms and investor education activities to build an enabling climate for shareholder activism. Despite hurdles, the future outlook for shareholder activism in India appears optimistic, driven by legal reforms, investor knowledge, and a rising emphasis on environmental and social responsibility.*

**Keywords:** Shareholder Activism, Corporate Governance, Transparency, Sustainability, Regulatory Framework, Institutional Investors.

### INTRODUCTION

Shareholder activism has become a crucial tool in modern corporate governance procedures worldwide. It signifies a deliberate method employed by shareholders to exert influence over the decision-making processes, governance structures, and operational policies of companies in which they have ownership shares. Shareholder activism refers to a range of measures performed by investors to assert their rights, express concerns, and bring about changes within

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organizations. The main objective is to increase shareholder value and encourage the adoption of sustainable business practices.

Shareholder activism in India has experienced substantial growth in recent years, reflecting the changing dynamics of the country's corporate environment. Corporate governance in India has been historically shaped by a range of factors such as governmental reforms, market dynamics, investor expectations, and cultural norms. In the Indian setting, shareholder activism has become a significant force that promotes corporate accountability, transparency, and performance.

Shareholder activism refers to the range of methods and tactics used by investors to interact with firms and exert influence over their decision-making processes. These actions may encompass activities such as submitting shareholder resolutions, participating in proxy contests, initiating discussions with management and board members, and pushing for policy reforms to improve corporate governance standards and promote sustainable business practices.

The significance of shareholder activism in India is immense, as it directly affects investor protection, market efficiency, and overall economic progress. Shareholder activism has become more prominent in influencing positive change and wealth creation in Indian firms due to the increasing presence of institutional investors, activist hedge funds, and socially responsible investment methods.

India has been seeing a shift in its corporate governance structure since enacting the New Companies Act in 2013. Various SEBI (Securities and Exchange Board of India) policies have improved the corporate governance structure. Regulatory framework and effective implementation are the major enablers of Shareholder activism. The new efforts made by regulators such as the e-voting facility, appointing a minimum number of independent directors, and separation of the Chairman and Managing Director job have provided additional leverage to the activist shareholders in India. Institutional Investor stake climbed to 34% in 2018 from 21% in 2001,<sup>1</sup> and this is one of the primary causes of shareholder activism. The bigger stake is related to higher voting power and control policies.

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<sup>1</sup> Shingade S and others, 'Shareholder Activism and Its Impact on Profitability, Return, and Valuation of the Firms in India' (2022) 15 Journal of Risk and Financial Management 148

Indian regulatory authorities such as the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), and Insurance Regulatory and Development Authority of India (IRDAI) are enforcing the participation of institutional investors in corporate governance activities of the investee companies. The conducive atmosphere for preserving investors' rights is driving shareholder activism. As a result, we have seen shareholder activism in India moving from the passive involvement of institutional shareholders to active participation and rejecting the proposal put out by management.

## **BACKGROUND & EVOLUTION**

Corporate governance systems in India have undergone significant modification throughout the years, determined by a combination of historical, legislative, and socio-economic variables. Understanding the historical backdrop is vital for contextualizing the birth and evolution of shareholder activism within the Indian business sector.

Historically, corporate governance in India has been affected by colonial legacies, indigenous business traditions, and legislative initiatives. In the pre-independence era, corporate structures were largely characterized by family-owned firms and conglomerates, with limited governmental control. Post-independence, the development of regulatory entities such as SEBI and the Companies Act<sup>2</sup> established the framework for institutionalized corporate governance requirements.

The origins of shareholder activism in India may be traced back to the late 20th century when the Indian economy underwent liberalization, privatization, and globalization changes. As Indian companies sought access to foreign capital markets and embraced global best practices, shareholders began asserting their rights and engaging more actively in corporate decision-making processes. The creation of institutional investors, mutual funds, and proxy advice firms lent momentum to shareholder activism initiatives, developing a culture of investor engagement and stewardship.

Regulatory reforms have played a significant role in creating the landscape of shareholder activism in India. The opening of financial markets, adoption of corporate governance rules, and modifications to company law provisions have heightened investor knowledge and empowered shareholders to hold firms accountable for their activities. The enactment of the

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<sup>2</sup> The Companies Act 2013

Companies Act, 2013 marks a key milestone in corporate governance reforms, boosting shareholder rights, disclosure obligations, and board accountability standards.

SEBI has been at the forefront of regulating shareholder activism and promoting investor protection in India. SEBI's legislation governing shareholder rights, disclosure norms, and corporate governance practices creates a robust platform for investor activism and engagement. Provisions such as the listing responsibilities and disclosure requirements force increased transparency and accountability on the part of listed firms, producing an atmosphere receptive to shareholder engagement.

## LEGAL AND REGULATORY FRAMEWORK

The Companies Act, 2013 provides the cornerstone of corporate governance regulations in India and incorporates measures pertinent to shareholder activism. Sections relevant to shareholder meetings, voting rights, shareholder resolutions, and minority shareholder safeguards lay down the legal framework within which shareholder activism functions. Provisions such as class action litigation, oppression and mismanagement remedies, and derivative lawsuits empower shareholders to seek redressal for grievances and hold errant directors and management accountable.

1. **Shareholder Meetings:** The Companies Act, 2013, mandates the conduct of different forms of shareholder meetings, including Annual General Meetings (AGMs) as per S.96<sup>3</sup> and Extraordinary General Meetings (EGMs) as per S.100<sup>4</sup>. These meetings serve as forums for shareholders to exercise their rights, discuss corporate affairs, and vote on key resolutions submitted by the board of directors or shareholders themselves.
2. **Voting Rights:** Shareholders are entitled to vote on resolutions presented at shareholder meetings, which are mentioned in sections 107,<sup>5</sup> 108,<sup>6</sup> 109,<sup>7</sup> 110<sup>8</sup> and S.47.<sup>9</sup> The Companies Act establishes the voting rights of shareholders based on their shareholding in the corporation. Each share normally holds one vote, although unequal voting rights may apply in specific instances as per the company's articles of organization.

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<sup>3</sup> The Companies Act 2013, s 96

<sup>4</sup> The Companies Act 2013, s 100

<sup>5</sup> The Companies Act 2013, s 107

<sup>6</sup> The Companies Act 2013, s 108

<sup>7</sup> The Companies Act 2013, s 109

<sup>8</sup> The Companies Act 2013, s 110

<sup>9</sup> The Companies Act 2013, s 47

3. **Shareholder Resolutions:** Shareholders have the ability to offer resolutions for consideration at shareholder meetings. These resolutions may apply to numerous things such as the nomination or removal of directors, changes to the company's capital structure, approval of financial accounts, and significant business moves like mergers or acquisitions.
4. **Class Action Suits:** Section 245 of the Companies Act, 2013, provides for class action suits whereby shareholders can collectively initiate legal proceedings against the company, its directors, auditors, or other parties for acts of oppression, mismanagement, or any prejudicial conduct that affects their interests. Class action actions empower minority shareholders to seek redressal for grievances and hold the firm accountable for misconduct.
5. **Oppression and Mismanagement Remedies:** Sections 241,<sup>10</sup> 242,<sup>11</sup> 243,<sup>12</sup> 244,<sup>13</sup> 245,<sup>14</sup> and 246<sup>15</sup> of the Companies Act, 2013, permit shareholders to bring petitions before the National Company Law Tribunal (NCLT) alleging oppression and mismanagement by the company's management or majority shareholders. The NCLT has the ability to investigate such accusations and, if justified, take corrective actions to protect the interests of minority shareholders and promote appropriate corporate governance.
6. **Derivative proceedings:** Shareholders have the ability to launch derivative proceedings on behalf of the company to enforce corporate rights and remedies against directors or officers for breaches of fiduciary responsibilities or other unlawful acts damaging to the company's interests. Derivative proceedings empower shareholders to hold accountable people responsible for corporate misconduct and seek damages or equitable redress on behalf of the corporation.

The regulatory framework governing shareholder activism in India contains a multitude of laws, regulations, and guidelines intended to defend investor rights, encourage transparency, and boost corporate governance standards. Key regulatory authorities such as SEBI and

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<sup>10</sup> The Companies Act 2013, s 241

<sup>11</sup> The Companies Act 2013, s 242

<sup>12</sup> The Companies Act 2013, s 243

<sup>13</sup> The Companies Act 2013, s 244

<sup>14</sup> The Companies Act 2013, s 245

<sup>15</sup> The Companies Act 2013, s 246

provisions within the Companies Act play a crucial role in delineating the rights and obligations of shareholders, as well as the channels for shareholder activism.

SEBI, as India's major regulatory organization for securities markets, has enacted policies and guidelines that directly impact shareholder activism. These regulations include a wide spectrum of concerns ranging from disclosure requirements to takeover regulations, all of which influence the conduct and efficacy of shareholder activism campaigns. For instance, SEBI's restrictions on insider trading, related-party transactions, and corporate governance disclosures set the norms for transparency and accountability, so encouraging educated shareholder activism.

SEBI's Listing Obligations and Disclosure Requirements (LODR) impose severe disclosure norms for listed businesses, including those pertaining to shareholder rights and resolutions. Under LODR, listed businesses are obligated to disclose information regarding shareholder meetings, resolutions, voting outcomes, and related-party transactions, thereby boosting transparency and encouraging shareholder activism campaigns.

Institutional investors, including mutual funds, insurance firms, and pension funds, play a prominent role in shareholder activism in India. Regulatory guidelines and codes of conduct issued by institutions such as the Association of Mutual Funds in India (AMFI) and the Insurance Regulatory and Development Authority of India (IRDAI) outline principles of responsible investing, shareholder engagement, and stewardship responsibilities for institutional investors. These principles urge institutional investors to actively participate in shareholder activism activities and exercise their voting rights in a responsible manner.

## **FORMS OF SHAREHOLDER ACTIVISM**

Shareholder activism in India comprises a spectrum of techniques aimed at influencing corporate governance, transparency, and sustainability. Proxy warfare and boardroom activism<sup>16</sup> are popular forms, with shareholders leveraging proxies and interacting directly with boards to exercise influence over strategic decisions and governance frameworks. Shareholder resolutions serve as crucial tools for addressing varied issues, from environmental concerns to executive compensation, through motions made at general meetings. Public activism and media

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<sup>16</sup> Sridhar I, 'Corporate Governance and Shareholder Activism in India—Theoretical Perspective' (2016) 06 Theoretical Economics Letters 731

initiatives strengthen shareholder voices, shedding focus on governance inadequacies and prompting company action.

Collaborative engagement and shareholder alliances increase shareholder impact by facilitating cooperation among investors, institutional stakeholders, and advocacy groups. Through combined resources and coordinated activities, alliances amplify shareholder concerns, strengthening bargaining power and achieving substantial change in company behavior and policy.

Legal methods, including class action cases and derivative proceedings, allow shareholders recourse against corporate misbehavior, breaches of fiduciary duty, or extreme misconduct. These legal tools empower shareholders to hold firms and management accountable for their activities, ensuring transparency, accountability, and conformity to regulatory standards.

The evolution of shareholder activism in India reflects an increasing emphasis on corporate social responsibility, environmental sustainability, and ethical conduct. Investors increasingly prioritize ESG (Environmental, Social, and Governance) aspects, integrating them into investment decision-making and advocacy initiatives.

However, shareholder activism in India faces hurdles such as legislative limits, legal complications, and entrenched corporate structures. Concentrated shareholding and promoter control often hamper activist activities, reducing shareholder influence and delaying efforts to effect meaningful reform.

Moreover, cultural considerations and institutional hurdles lead to a cautious approach toward shareholder activism, reducing its breadth and efficacy within the Indian corporate landscape. Nonetheless, the developing legislative environment and heightened investor knowledge reflect a growing desire for shareholder activism, emphasizing its potential as a catalyst for corporate transformation and wealth creation.

### **STIMULUS FOR SHAREHOLDER ACTIVISM**

Shareholder activism in India is driven by multiple reasons aiming at maximizing shareholder value, enhancing corporate governance standards, and addressing environmental, social, and

governance (ESG) factors.<sup>17</sup> Investors participate in activism to defend their interests, lobbying for strategic reforms that improve corporate performance, profitability, and long-term shareholder returns. Governance concerns motivate activists to campaign for reforms in board composition, executive compensation, and disclosure rules, increasing transparency and accountability within firms. Additionally, shareholders integrate ESG concerns into their investment decisions and advocacy efforts, lobbying for sustainable company practices, social responsibility, and ethical conduct. Activists also engage in policy advocacy campaigns, cooperating with regulatory bodies and industry groups to shape legislative frameworks to support investor rights and market integrity. By stressing societal impact and stakeholder value generation, shareholder activism in India strives to link business behavior with broader societal and environmental imperatives, enabling sustainable, inclusive growth and furthering the interests of shareholders and society alike.

## CASE STUDIES

Several significant case studies show the intricacies and consequences of shareholder activism in the Indian business sector. One famous example is the Tata-Mistry affair, a high-profile boardroom dispute that transpired within the Tata Group, India's largest corporation. Cyrus Mistry, former chairman of Tata Sons, was dismissed from his job, initiating a protracted legal and corporate governance conflict between Mistry and Tata Sons' board. The case underlined governance problems, including transparency, board independence, and succession planning, drawing attention to the necessity for effective governance systems inside family-owned enterprises and conglomerates.

Another prominent instance of shareholder activism involves minority shareholders contesting governance standards and related-party transactions in family-owned businesses. Cases like the Singh brothers' battle at Ranbaxy Laboratories and Fortis Healthcare highlighted governance failures, conflicts of interest, and regulatory infractions, requiring regulatory involvement and shareholder scrutiny. Minority shareholders exploited legal routes and regulatory processes to seek redressal for grievances, underlining the necessity of shareholder activism in defending minority interests and maintaining corporate accountability.

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<sup>17</sup> Shingade SS and (India) SR, 'Shareholders' Activism and Firm Performance: A Review of Literature' (2019) X Indian Journal of Commerce & Management Studies 22



ESG activism has also gained support in Indian firms, with investors pressing for sustainability programs, climate risk disclosures, and responsible investment practices. Shareholder resolutions and engagements on environmental stewardship, renewable energy adoption, and water conservation measures reflect growing investor worries about climate change, resource shortages, and business environmental footprints. Companies like Infosys, Tata Steel, and Mahindra & Mahindra have responded to shareholder agitation by committing to sustainability targets, carbon neutrality goals, and ESG reporting standards, signifying a trend towards more responsible and sustainable business practices in India.

These case studies illustrate the complex character of shareholder activism in India, including governance issues, minority shareholder protections, and sustainability advocacy. They underscore the significance of activism in advancing corporate governance reforms, boosting transparency, and aligning business strategy with stakeholder interests and societal imperatives.

### CHALLENGES AND LIMITATIONS

Shareholder activism in India meets various problems and limits that impair its efficacy and restrict its scope for influence within the corporate landscape:

1. **Concentrated Ownership and Promoter Dominance:** Many Indian companies have concentrated ownership arrangements, with promoters holding major equity shares and exercising disproportionate control over corporate decision-making. This concentration of power often deters minority shareholders from effectively opposing management choices and lobbying for governance improvements.
2. **Regulatory impediments and Legal complications:** Shareholder activism faces regulatory impediments and legal complications in India's corporate governance structure. Cumbersome regulatory processes, confusing legal rules, and lengthy litigation procedures can prevent shareholders from launching activism initiatives, restricting their capacity to hold firms accountable for governance shortcomings or malfeasance.
3. **Lack of Shareholder Activism Culture and Awareness:** Shareholder activism is relatively fledgling in India compared to Western markets, where activist campaigns are more prevalent and institutionalized. Lack of awareness regarding shareholder rights, insufficient investor education, and cultural norms encouraging deference to

management decisions pose hurdles to mobilizing shareholder activism and building a culture of shareholder involvement.

4. **Institutional Constraints and Investor Coordination Challenges:** Institutional investors, such as mutual funds and insurance firms, sometimes suffer constraints in engaging in activism due to fiduciary requirements, conflicts of interest, and risk-averse investing mandates. Coordination issues among varied shareholder organizations, differing investment objectives, and contradictory interests further limit collective action and concerted activism attempts.
5. **Promoter-Driven Corporate Governance Practices:** Promoter-driven corporate governance policies, popular in many Indian companies, favor promoter interests over shareholder interests and may weaken governance norms, transparency, and accountability. Promoters typically exercise enormous influence over board appointments, strategic choices, and related-party transactions, restricting shareholders' capacity to alter corporate governance results.
6. **Market Volatility and Investor Risk Aversion:** India's fluctuating market conditions, regulatory uncertainties, and economic volatility can dissuade investors from initiating activist campaigns, fearing bad market reactions, reputational risks, or legal penalties. Risk-averse investors may be hesitant to criticize management choices or face powerful promoters, preferring to retain passive investing methods to reduce downside risks.<sup>18</sup>

Despite these hurdles, shareholder activism in India is progressively gathering momentum, driven by changing regulatory reforms, greater investor awareness, and growing demands for corporate accountability and transparency. Overcoming these challenges will require concerted efforts from regulators, policymakers, institutional investors, and civil society stakeholders to foster an enabling environment for shareholder activism, strengthen investor protections, and enhance corporate governance standards in India's dynamic and evolving corporate landscape.

## FUTURE DEVELOPMENT

Looking forward, shareholder activism in India is positioned to play a vital role in improving corporate governance, transparency, and sustainability policies. Regulatory improvements aimed at increasing investor protections and disclosure standards create a conducive climate for activism to thrive while growing investor awareness and participation enable shareholders

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<sup>18</sup> Sarkar J and Sarkar S, 'Large Shareholder Activism in Corporate Governance in Developing Countries: Evidence from India' (2000) 1 International Review of Finance 161

to push for governance reforms and hold firms accountable for their activities. The rise of institutional investors and improvements in technology enable continuous communication and interaction between shareholders and corporations, facilitating increased shareholder democracy and transparency. Moreover, the increased focus on environmental and social responsibility incentivizes companies to adopt sustainable business practices and address emerging ESG risks, with shareholder activism driving good change and supporting long-term value creation for shareholders and society. As shareholder activism continues to flourish and gather momentum, it stands positioned to determine the future of corporate governance and sustainable development in India's dynamic commercial landscape.

## CONCLUSION

This summarizes the significance and possible influence of shareholder activism in India's corporate landscape. Shareholder activism, driven by regulatory reforms, investor involvement, and technological improvements, is positioned as a catalyst for increasing corporate governance, transparency, and sustainability practices. Regulatory actions targeted at improving investor rights and disclosure standards create a stable framework for activism to grow, encouraging shareholders to lobby for governance improvements and hold businesses responsible. The increased power of institutional investors, along with developments in technology permitting seamless communication and interaction, augurs well for greater shareholder democracy and transparency. Furthermore, the increased emphasis on environmental and social responsibility underlines the significance of activism in pushing positive change and fostering long-term value generation for shareholders and society at large. As shareholder activism matures and gains support, it is positioned to determine the future trajectory of corporate governance and sustainable development, making substantial contributions to India's dynamic and growing business landscape.