

Rise of Shareholders Activism in India

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Abstract:

Shareholders' Activism is on rise in India. As per our earlier paper we have found limited literature on Shareholders activism in India. We tried finding out various issues raised globally by the activist shareholders in our second paper which are broadly categorised in Idle Cash related issues, Financial Performance and Valuation related issues, Executive/Senior Management related issues and Board of directors' related issues. We tried understanding where activism in India stands and mapped the issues raised by the activist in India. For this purpose, we chose resolutions which were rejected by the shareholder's in last three financials years (starting from FY2017 to FY2019). As per our study most of the cases falls under Board of directors' related issues followed by Executive/Senior Management related issues. Related party transaction (miscellaneous issues) is found to be the key issue in these cases. We found only one resolution rejected for Financial Performance and Valuation related issue. As India is going through regulatory transformation along with increased institutional stake in Indian corporates, we expect rejection to increase Multifood going forward. This again depends on how effectively regulations gets implemented and executed.

Keywords: Shareholder Activism, Corporate Governance, Issues in Shareholder's activism, Shareholders Proposal.

Introduction

Shareholders Activism is using ownership position to influence the company's policy and practices (Sjöström, 2008 and Clifford, 2008). Generally the term is associated activism by institutional shareholders and / or minority shareholders who are not satisfied with company management (Gillan & Starks, 2000).

Corporate governance is based on four key elements Aguilera et al. (2015) – protection of shareholders interest, mediation between internal stakeholders (management and employees), transparency in disclosures and providing strategic and ethical guidance to the company. They have focused on external environment for corporate governance which is legal and regulatory framework, market for corporate control (such as Merger and Acquisitions), Auditors, Rating agencies, activist

investors and media. La Porta (1999) reiterated that legal and regulatory framework is one of the most important factors for harvesting shareholder activism and in protecting shareholders right. India is experiencing the transformation in its corporate governance framework by bringing changes in legal and regulatory framework such as introduction of the companies act, 2013. There are multiple new initiatives taken by Indian regulators such as e-voting facility, appointing minimum number of independent directors, separation of Chairman and Managing Director (MD) role etc. India has over 5000 listed companies of which shares of around 4,000 companies are traded actively on stock exchanges. There are over 4.8 crore registered investors in India. Also Finance ministry has proposed to increase the Minimum Public Shareholding (MPS) to 35% from current level of 25%. In 2019, India is ranked 13th in global ranking on Protecting Minority Shareholders parameter.

As per our detailed literature review on issues raised by activist shareholders globally, Idle Cash related issues, Financial Performance and Valuation related issues, Executive/Senior Management related issues and Board of directors' related issues are the broad categories of concerned issues. We also have pointed out gaps in Indian literature on shareholders activism and its impact on the performance of the company (Shingade & Rastogi 2019). We also have pointed out that legal and regulatory framework and ownership concentration are some of the key enablers for shareholders activism.

In current paper we are mapping the issues raised by institutional shareholders in India. We limited ourselves to shareholder resolutions which are rejected by these shareholders. We have used three year data from financial year 2017 to 2019.

Paper is divided in three sections. It starts with discussion on various issues followed by section on Indian activism scenario. We conclude the paper

with our observation and scope of future research in the area.

Issues raised by Activist Shareholders

Activist shareholders have predefined objectives of targeting particular set of companies; these broadly fall either under financially motivated activism or socially motivated activism (Judge, W. Q., Gaur, A., & Muller-Kahle, M. I., 2010). Our work focuses primarily on financially motivated activism. Globally, shareholder activism is dominated by hedge funds (Klein & Zur 2009, Becht 2008), pension funds (Klein & Zur 2009) and other institutional investors such as mutual fund and insurance companies.

Financially motivated activists typically target companies having deteriorated financial performance (Richardson 2006, Brav 2008, Fama & Jensen 1983). Financial performance is measured using various accounting and market based ratios. Firms having sound financial health but having corporate governance issues (CG) are also targeted (Carleton 1998, Daily 1997, Baliga 1996, Bebchuk 2010, Del Guercio 2008) by activist investors. We have identified number of issues (both financial as well as non-financials), as per our understanding these issues falls in one of the category given below.

In our earlier work (Shingade & Rastogi, 2020) we tried understanding the various issues raised by activist shareholders by going through existing literature. Typically these issues can be broadly classified as below,

- Board of directors related issues
- Executive / Senior Management related issues
- Financial Performance and Valuation related issues
- Idle Cash and Capital Structure related issues

- Miscellaneous issues (Other issues which are not part of any of the above category)

Table 1: List of Issues-

| Sr. No. | Issues discussed in literature | Categories of Issues |
|---------|--|--|
| 1 | Appointment of Board of directors | Board of directors related issues |
| 2 | Compensation of Board of directors | Board of directors related issues |
| 3 | Gender diversity in Board of directors | Board of directors related issues |
| 4 | Appointment of Executives / Senior Management | Executive / Senior Management related issues |
| 5 | Compensation of Executives / Senior Management | Executive / Senior Management related issues |
| 6 | CEO Duality | Executive / Senior Management related issues |
| 7 | Financial Performance of the company | Financial Performance and Valuation related issues |
| 8 | Strategy | Financial Performance and Valuation related issues |
| 9 | Growth | Financial Performance and Valuation related issues |
| 10 | Earning Management | Financial Performance and Valuation related issues |
| 11 | Dividend | Financial Performance and Valuation related issues |
| 12 | Liquidity | Financial Performance and Valuation related issues |
| 13 | Size of Firm | Financial Performance and Valuation related issues |
| 14 | Under Valuation | Financial Performance and Valuation related issues |
| 15 | Capital Structure of the company | Idle Cash and Capital Structure related issues |
| 16 | Capex plan | Idle Cash and Capital Structure related issues |
| 17 | Over-Investment | Idle Cash and Capital Structure related issues |
| 18 | Idle cash availability | Idle Cash and Capital Structure related issues |
| 19 | Ownership type | Miscellaneous issues |
| 20 | Auditor related issues | Miscellaneous issues |
| 21 | Poison Pill | Miscellaneous issues |
| 22 | Executive Behaviour | Miscellaneous issues |
| 23 | Policy | Miscellaneous issues |
| 24 | Regulation | Miscellaneous issues |
| 25 | Risk Taking ability of firm | Miscellaneous issues |

Shareholders Activism in India

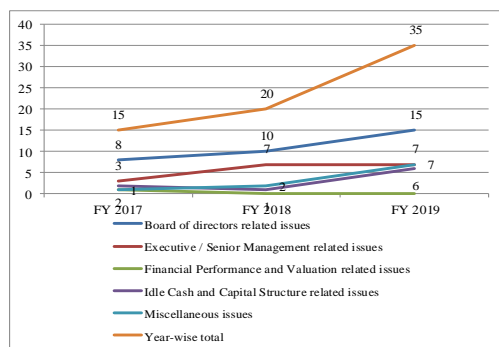
Promoters shareholding¹ in listed companies stood at 54.56% as of June 30 2019 compared to 61.34% as of June 30 2009. Over the period promoters holding in listed companies have declined by 6.78%. One reason for the said decline could be requirement of minimum 25% public shareholding for Indian listed companies. The trend is expected to continue as finance minister has proposed minimum public shareholding at 35% in budget 2019. Generally increase in institutional shareholding lead to activism.

Data and Observations

We would like to understand the extent of shareholder activism in India. For that we have gone through the shareholders proposal in India for listed companies for the period FY2017 to FY2019. We limited ourselves to proposals which are rejected by the shareholders. There are around 70 proposals in India which were rejected by the shareholders and numbers of rejected proposals are increasing over the years. As discussed earlier, we have mapped these issues with the categories we gave created.

¹ Source: Quarterly Shareholding Tracker June 2019_Detailed Report by Prime Database

Chart 1: Summary of Indian proposal mapping



Over the years the shareholders proposals rejected by shareholders are increasing. In FY2017, shareholders rejected 15 proposals; in FY2018 they rejected 20 proposals while in FY2019 total numbers of rejected proposals were 35. There proposals are spread across 40 companies. We understand that activism is not limited to any particular industry, there proposals are spread across 29 industries (industry classification as per BSE).

Table 2: Detailed mapping of proposals rejected by Indian Shareholders with categories of Issues

| List of Issues | Date of Meeting | Board of directors related issues | | | Executive / Senior Management related issues | | | Financial Performance and Valuation related issues | | | | | | | | Idle Cash and Capital Structure related issues | | | | Miscellaneous issues | | | | | | |
|------------------------------------|-----------------|-----------------------------------|------------------------------------|--|---|--|-------------|--|------------------------|--------|---------------------|-----------------|-----------|--------------|-----------------|--|---------------------|-----------------|------------------------|----------------------|------------------------|-----------|---------------------|--------------------|------------|-----------------------------|
| | | Appointment of Board of directors | Compensation of Board of directors | Gender diversity in Board of directors | Appointment of Executives / Senior Management | Compensation of Executives / Senior Management | CEO Duality | Financial Performance of the company | Stakeholder engagement | Growth | Earnings Management | Dividend policy | Liquidity | Size of Firm | Under Valuation | Capital Structure of the company | Capital expenditure | Over-Investment | Idle cash availability | Ownership type | Auditor related issues | Pollution | Executive Behaviour | Political activity | Regulation | Risk Taking ability of firm |
| Equitas Holdings Ltd | 28-Mar-19 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Lupin Ltd. | 27-Mar-19 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Gufic Biosciences Ltd. | 13-Dec-18 | | | | | | | | | | | | | | | | | | | | | | | ✓ | | |
| Shriram Transport Finance Co. Ltd. | 4-Dec-18 | | | | | | | | | | | | | | | | | | | | | | | ✓ | | |
| Eclerx Services Ltd. | 25-Oct-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| TeamLease Services Ltd | 6-Oct-18 | | | | | | | | | | | | | | | | | | | | | | | | | |
| TeamLease Services Ltd | 6-Oct-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| ITC Ltd | 1-Oct-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| ITC Ltd | 1-Oct-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| A P L Apollo Tubes Ltd. | 29-Sep-18 | ✓ | ✓ | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Elpro International Ltd. | 29-Sep-18 | | | | | | | | | | | | | | | | | | | | | | | ✓ | | |
| Elpro International Ltd. | 29-Sep-18 | | | | | | | | | | | | | | | | ✓ | | | | | | | ✓ | | |
| Gufic Biosciences Ltd. | 28-Sep-18 | | | | | | | | | | | | | | | | ✓ | | | | | | | ✓ | | |
| Atul Auto Ltd. | 28-Sep-18 | | | | | | | | | | | | | | | | ✓ | | | | | | | ✓ | | |
| Heidelberg | 21-Sep | | | | | | | | | | | | | | | | ✓ | | | | | | | ✓ | | |

| List of Issues | Date of Meeting | Board of directors related issues | | | Executive / Senior Management related issues | | | Financial Performance and Valuation related issues | | | | | | | | Idle Cash and Capital Structure related issues | | | | Miscellaneous issues | | | | | | |
|-----------------------------------|-----------------|-----------------------------------|------------------------------------|--|---|--|-------------|--|-------------|--------|---------------------|----------|-----------|--------------|-----------------|--|------------|-----------------|------------------------|----------------------|------------------------|--------------|---------------------|-----------|------------|-----------------------------|
| | | Appointment of Board of directors | Compensation of Board of directors | Gender diversity in Board of directors | Appointment of Executives / Senior Management | Compensation of Executives / Senior Management | CEO Duality | Financial Performance of the company | Stakeholder | Growth | Earnings Management | Dividend | Liquidity | Size of Firm | Under Valuation | Capital Structure of the company | Capex plan | Over-Investment | Idle cash availability | Ownership type | Auditor related issues | Pension Plan | Executive Behaviour | Pollution | Regulation | Risk Taking ability of firm |
| Cement India Ltd. | p-18 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Advanced Enzymes Technologies Ltd | 14-Sep-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Advanced Enzymes Technologies Ltd | 14-Sep-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Apollo Tyres Ltd. | 7-Sep-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| J B F Industries Ltd. | 3-Aug-18 | | ✓ | | | | | | | | | | | | | | | | | | | | | | | |
| Akzo Nobel India Ltd. | 2-Aug-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| PNB Housing Finance Ltd | 27-Jul-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Suzlon Energy Ltd. | 27-Jul-18 | | | | | | | | | | | | | | | ✓ | | | | | | | | | | |
| Suzlon Energy Ltd. | 27-Jul-18 | | | | | | | | | | | | | | | ✓ | | | | | | | | | | |
| Syngene International Ltd. | 15-Jul-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Syngene International Ltd. | 15-Jul-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Syngene International Ltd. | 15-Jul-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Jammu & Kashmir Bank Ltd. | 7-Jul-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Fortis Healthcare Ltd. | 22-May-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Fortis Healthcare Ltd. | 22-May-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Fortis Healthcare Ltd. | 22-May-18 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Gammon India Ltd. | 21-Mar-18 | | ✓ | | | | | | | | | | | | | | | | | | | | | | | |
| Gammon India Ltd. | 21-Mar-18 | | ✓ | | | | | | | | | | | | | | | | | | | | | | | |
| Karur Vysya Bank Ltd. | 1-Feb-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Dr. Reddy'S Laboratories Ltd. | 19-Jan-18 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Dr. | 19- | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |

| List of Issues | Date of Meeting | Board of directors related issues | | | Executive / Senior Management related issues | | | Financial Performance and Valuation related issues | | | | | | | | Idle Cash and Capital Structure related issues | | | | Miscellaneous issues | | | | | | |
|---|-----------------|-----------------------------------|------------------------------------|--|---|--|-------------|--|------------------------|--------|---------------------|-----------------|-----------|--------------|-----------------|--|---------------------|-----------------|------------------------|----------------------|------------------------|--------------|---------------------|--------------------|------------|-----------------------------|
| | | Appointment of Board of directors | Compensation of Board of directors | Gender diversity in Board of directors | Appointment of Executives / Senior Management | Compensation of Executives / Senior Management | CEO Duality | Financial Performance of the company | Stakeholder engagement | Growth | Earnings Management | Dividend policy | Liquidity | Size of Firm | Under Valuation | Capital Structure of the company | Capital expenditure | Over-Investment | Idle cash availability | Ownership type | Auditor related issues | Pension Plan | Executive Behaviour | Political activity | Regulation | Risk Taking ability of firm |
| Reddy'S Laboratories Ltd. | Jan-18 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Kolte Patil Developers Ltd. | 28-Sep-17 | | | | | | | | | | | | | | | | ✓ | | | | | | | ✓ | | |
| Finolex Cables Ltd. | 28-Sep-17 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Finolex Cables Ltd. | 28-Sep-17 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Finolex Cables Ltd. | 28-Sep-17 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| P T C India Ltd. | 25-Sep-17 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Sintex Industries Ltd. | 14-Sep-17 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Birlasoft Ltd. | 23-Aug-17 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Z F Steering Gear (India) Ltd. | 2-Aug-17 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Karnataka Bank Ltd. | 17-Jul-17 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Hinduja Global Solutions Ltd. | 11-Jul-17 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Hinduja Global Solutions Ltd. | 11-Jul-17 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Gammox India Ltd. | 29-Jun-17 | | ✓ | | | | | | | | | | | | | | | | | | | | | | | |
| Jammu & Kashmir Bank Ltd. | 17-Jun-17 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Raymond Ltd. | 5-Jun-17 | | | | | | | | | | | | | | | | | | | | | | | ✓ | | |
| U P L Ltd. | 30-Mar-17 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| U P L Ltd. | 30-Mar-17 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Suzlon Energy Ltd. | 30-Sep-16 | | | | | | | | | | | | | | | ✓ | | | | | | | | | | |
| Housing Development & Infrastructure Ltd. | 29-Sep-16 | | | | | | | | | | | | | | | ✓ | | | | | | | | | | |
| D S Kulkarni Developers Ltd. | 29-Sep-16 | | | | | | | | | | | ✓ | | | | | | | | | | | | | | |
| Multi Commo | 19-Sep | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |

| List of Issues | Date of Meeting | Board of directors related | | | Executive / Senior Management related issues | | | Financial Performance and Valuation related issues | | | | | | | | Idle Cash and Capital Structure related issues | | | | Miscellaneous issues | | | | | | |
|---------------------------|-----------------|-----------------------------------|------------------------------------|--|---|--|-------------|--|------------------------|------------|---------------------|----------|-----------|--------------|-----------------|--|---------------------|-----------------|------------------------|----------------------|------------------------|------|---------------------|------|------------|-----------------------------|
| | | Appointment of Board of directors | Compensation of Board of directors | Gender diversity in Board of directors | Appointment of Executives / Senior Management | Compensation of Executives / Senior Management | CEO Duality | Financial Performance of the company | Stakeholder engagement | Governance | Earnings Management | Dividend | Liquidity | Size of Firm | Under Valuation | Capital Structure of the company | Capital expenditure | Over-Investment | Idle cash availability | Ownership type | Auditor related issues | Poll | Executive Behaviour | Poll | Regulation | Risk Taking ability of firm |
| Exchange Of India Ltd. | 16-05-2016 | | | | | | | | | | | | | | | | | | | | | | | | | |
| McLeod Russel India Ltd. | 16-08-2016 | | ✓ | | | | | | | | | | | | | | | | | | | | | | | |
| Ricoh India Ltd. | 16-05-2016 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Ricoh India Ltd. | 16-05-2016 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Ricoh India Ltd. | 16-05-2016 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Ricoh India Ltd. | 16-05-2016 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Ricoh India Ltd. | 16-05-2016 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| Aarti Drugs Ltd. | 22-Jul-16 | ✓ | | | | | | | | | | | | | | | | | | | | | ✓ | | | |
| Jammu & Kashmir Bank Ltd. | 20-Jul-16 | ✓ | | | | | | | | | | | | | | | | | | | | | | | | |
| IDFC Ltd. | 25-Jun-16 | | | | | ✓ | | | | | | | | | | | | | | | | | | | | |
| Count | | 27 | 6 | 0 | 0 | 17 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 4 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 |

Size of the firms is important criteria for shareholder activism globally. Woidtke (2002) mentioned that companies having small scale are generally targeted by pension funds. Boyson and Mooradian (2007), also pointed out the same thing in case of hedge fund activism and reason behind this could be cost of associated with activism is on lower side for smaller firms. But as per our observation rejected proposals are spread across the size measured in terms of market cap. Largest company in this dataset is ITC which has market capitalization over Rs. 2 lakh crore while smallest company has market capitalization below Rs. 100 crore.

Table 3: Company details-

| Company name | Market Capital in Rs. crore As of April 18, 2020 | Industry as per BSE |
|--|--|------------------------------|
| ITC Ltd | 2,31,216.87 | Cigarettes,Tobacco Products |
| Dr. Reddy'S Laboratories Ltd. | 65,331 | Pharmaceuticals |
| Lupin Ltd. | 37,295 | Pharmaceuticals |
| U P L Ltd. | 27,750 | Agrochemicals |
| Shriram Transport Finance Co. Ltd. | 18,215 | Finance (including NBFCs) |
| Aarti Drugs Ltd. | 16,447 | Specialty Chemicals |
| Syngene International Ltd. | 11,464 | Pharmaceuticals |
| Akzo Nobel India Ltd. | 10,554 | Furniture,Furnishing, Paints |
| Fortis Healthcare Ltd. | 8,942 | Healthcare Facilities |
| Multi Commodity Exchange Of India Ltd. | 5,676 | Investment Companies |
| Apollo Tyres Ltd. | 5,609 | Auto Tyres & Rubber |

| Company name | Market Capital in Rs. crore As of April 18, 2020 | Industry as per BSE |
|---|--|-----------------------------|
| | | Products |
| Finolex Cables Ltd. | 3,758 | Other Elect.Equip./ Prod. |
| Heidelberg Cement India Ltd. | 3,554 | Cement & Cement Products |
| A P L Apollo Tubes Ltd. | 3,126 | Iron & Steel Products |
| PNB Housing Finance Ltd | 3,117 | Housing Finance |
| TeamLease Services Ltd | 2,778 | Sp.Consumer Services |
| I D F C Ltd. | 2,701 | Finance (including NBFCs) |
| Karur Vysya Bank Ltd. | 2,190 | Banks |
| Birlasoft Ltd. | 1,926 | IT Consulting & Software |
| Advanced Enzymes Technologies Ltd | 1,794 | Other Agricultural Products |
| Raymond Ltd. | 1,772 | Textiles |
| Equitas Holdings Ltd | 1,733 | Holding Companies |
| Eclerx Services Ltd. | 1,733 | BPO/KPO |
| Suzlon Energy Ltd. | 1,628 | Heavy Electrical Equipment |
| Karnataka Bank Ltd. | 1,369 | Banks |
| P T C India Ltd. | 1,257 | Electric Utilities |
| Kolte Patil Developers Ltd. | 1,245 | Realty |
| Hinduja Global Solutions Ltd. | 1,146 | BPO/KPO |
| Jammu & Kashmir Bank Ltd. | 800 | Banks |
| Elpro International Ltd. | 589 | Other Elect.Equip./ Prod. |
| Gufic Biosciences Ltd. | 488 | Pharmaceuticals |
| Atul Auto Ltd. | 371 | 2/3 Wheelers |
| Z F Steering Gear (India) Ltd. | 251 | Auto Parts & Equipment |
| Housing Development & Infrastructure Ltd. | 94 | Realty |
| J B F Industries Ltd. | 74 | Fibres & Plastics |
| Gammon India Ltd. | 53 | Construction & Engineering |
| Sintex Industries Ltd. | 49 | Textiles |
| D S Kulkarni Developers Ltd. | 35 | Realty |
| McLeod Russel India Ltd. | 33 | Tea & Coffee |
| Ricoh India Ltd. | | |

Berle & Means (1932) discussed three tier structures (Jensen & Meckling 1976, Fama & Jensen 1983) of Modern Corporation where shareholders are owners of the corporation, managers' controls the operation and board of

directors are monitoring agents. Board of directors and their compensation related issues forms large part of activist proposals. In detailed study of shareholders proxy proposals, Renneboog & Szilagyi (2011) found that these proxy proposals target firms with weak financial performance and weak corporate governance practices. Cziraki et al. (2010) studied proxy proposals in European countries where they are legally binding in nature (in most of the countries), most of the proposals were asking for change in board.

We also found this to be true in proposals which we studied. There are 33 proposals in Board of Director category of which 27 proposals related to appointment of directors; in some instances they rejected appointment of owner / founder of the company as director of the company and other 6 proposals are related to compensation of the directors. We see increasing trend of proposals in this category. Other large category is executive and their compensation, again all the issues falling under this are related to compensation of executives. Some of the proposals were related to issuing ESOPs (Employee Stock Options).

Third large category consists of 9 Idle cash and capital structure proposals. Of these 5 proposals are about capex whereas 4 are about capital structure. Under Miscellaneous issues large number of issues were related party transactions. There was only one proposal related to financial performance, reason for the same could be overlapping of issues between Idle Cash and Financial Performance.

Conclusion and Scope for future research

Our understanding is that activism is still evolving in India and as the concept gets rooted over the years, activist shareholders will also focus on financial performance and cash flow related issues. Globally Hedge Funds and Pension funds are most active investors. In India we are still lagging in such initiative from pension funds and hedge funds. Though there are instances of foreign pension fund taking dig at large Indian companies but we are yet

to see large scale activism in India from these investors.

As an extension to this, one can check characteristics of the companies where the proposals were rejected in terms of state of corporate governance, ownership structure, financial performance, free cash flows etc.

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