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**SHAREHOLDER ACTIVISM IN INDIA VS U.S.**

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**1.1 INTRODUCTION**

In the literature on corporate finance, shareholder activism is one of the topics that receive the most discussion and argument. One school of thinking emphasizes the advantages of shareholder activism, while another has been discussing its drawbacks. Whether you like it or not, it is everywhere, including in developing nations like India. For the last three decades, activism has existed in developed countries like the USA (Denes et al., 2017). Since the advent of The Company Act in 2013, India has seen an increase in activist instances without presence significant pensions or hedge funds. There are over 4,000 listed companies in India. As of October 2021, India had over 50 million+ total registered investors. It's crucial to have an adequate framework for investor protection in place with such a large and expanding investment base. Therefore, it's critical to comprehend whether the rising activism is helping investors or publicly traded corporations. The study's main objective is to evaluate how shareholder activism affects corporate performance. This study is carried out in a unique environment (India's emerging economy) devoid of traditional activist investors like hedge funds and pension funds. Using a variety of corporate governance and activism indicators, we developed a thorough shareholder activism index (sha index). In contrast to earlier studies in this field, we developed a rigorous activism index as a stand-in for activism.

**1.1.1 SHAREHOLDER ACTIVISM**

Shareholder activism is the engagement of activist investors with corporate management to influence existing policies and, ultimately, the company's conduct. The goal of shareholder 2 activism is to maximize wealth for all of the company's shareholders (Sjöström, 2008; Gillan and Starks, 2000). Black (1990) states that shareholder activism is formal or informal

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management oversight. According to Judge et al. (2010), activist shareholders might have financial and social objectives. The concerns raised by activist shareholders fall under the following categories: board-related problems, executive-related worries, ideal cash concerns, financial performance & value concerns, and other concerns. The stockholders can express their concerns in many different ways. They frequently sell the shares and leave, but few investors work with the senior executives/management because selling the shares and exiting the investment does not yield desired benefits (Gillan and Starks, 2000). According to Berle and Means (1932), the managers of publicly traded firms have more control than the actual stockholders. In emerging economies like India major shareholders exploits the minority stockholders; as such, emerging nations have a weaker or underdeveloped legal system (Selarka, 2005). Shareholder activism is relatively new in India but is well-known in the USA and European countries. Even though shareholder activism is becoming more common, research has not explicitly examined its effects, especially in emerging economies like India. Academics and policymakers in India have previously studied shareholder activism qualitatively, but at the moment, we observe actual occurrences taking place throughout Indian corporations. It has been noted that institutional shareholders are increasingly rejecting proposals. This improved performance can be attributable to the corporate governance system, which has advanced significantly (Narayanaswamy et al., 2012).

### 1.1.2 SHAREHOLDER ACTIVISM IN INDIA

Since the new company act was introduced in 2013, India has seen a change in its corporate governance system. The following are some of the important shareholder-friendly provisions of the new Companies Act 2013,

- Section 108 – The listed corporates should enable remote electronic voting (E-voting) so that shareholders can cast their votes from far-off places.
- Section 151 – This section of the act gives small stockholders additional leverage (shareholders who hold shares of the nominal value of not more than twenty thousand rupees)
- Section 188 – Section 188 concerns minority shareholders' approval of related party transactions.
- Section 241 – This section addresses poor management and oppression of minority shareholders. Since the firm typically operates under the majority rule, courts rarely

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intervene to defend the rights of minorities. The exception to the rule is the prevention of mismanagement and oppression.

- Section 245 – This section grants the right to bring a class action lawsuit against the company, its directors, its auditor, or any advisors or consultants it employs. SEBI is also making a substantial contribution to protecting shareholders' interests by developing laws and regulations that fit the current investment environment. The key enabler of shareholder activism is a robust regulatory framework (La Porta et al., 2000a; La Porta et al., 2000b; Gordon and Pound, 1993) that is efficiently implemented.

Due to recent legislative developments like the appointment of several independent directors and the separation of the positions of the chairperson of the board and managing director, among other things, activist shareholders now have more influence in India. One of the leading causes of the increase in shareholder activity is the institutional investor share, which rose from 21% in 2001 to 34% in 2018. Higher stakes are correlated with greater voting power and control over policies. Indian regulatory bodies such as the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), and Insurance Regulatory and Development Authority of India (IRDAI) mandate that institutional investors participate in the corporate governance activities of the investee companies (SEBI). Such favorable conditions for defending investors' rights encourage shareholder activism. As a result, institutional shareholders' passive involvement in shareholder activism in India has changed to active participation, voicing concerns around management's plan (Khanna and Varottil, 2015; Bhomawat, 2016).

According to Khanna and Varottil (2015), institutional shareholders are more likely to express their concerns than to sell their shares of publicly traded Indian companies. However, no experimental research has been conducted on whether this increase in investor activism accomplishes the desired goal or is suitable for businesses, investors, or corporations. Our inspiration for carrying out the current research project came from these vicissitudes. Several writers have examined and evaluated the implications (Karpoff et al., 1996) of investor activism on corporate performance. Returns (Wahal, 1996), profitability (Carleton et al., 1998), or valuations (Brav et al., 2008) are used to gauge a company's performance. Altaf and Shah (2018) used empirical data to demonstrate an

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inverse U-shaped relationship between ownership and firms' performance when investor protection acts as a moderating element.

Most empirical studies have not shown a substantial effect of investor activism on the performance of the corporates, but Filatotchev and Dotsenko (2015) assert that the partial effects of abnormal share price return in the UK change noticeably depending on the types of investors. Bouaziz et al. (2020) studied French corporations and found that activism is useless and has no influence on accounting decisions. According to Guimaraes et al., (2018) findings, there is a negative association between the efficiency scores and the activism index, which suggests that activist investors prefer investing in companies that are not utilizing assets efficiently. Thus, the analysis establishes that activism has little effect on Brazilian listed firms' efficiency ratings. The researcher also considered studies on corporate governance from India, emphasizing the importance of management compensation, CEO duality, and board of directors. However, there is little empirical research on the effects of shareholder activism on business performance (Shingade and Rastogi, 2019). Researchers have discovered several studies (Karpoff et al., 1996; Carleton et al., 1998; Med Bechir and Jouirou, 2021) on activism that evaluates corporates' performance. There are numerous studies on corporate governance in India (Sinha 2006; Chauhan et al., 2016; Islam 2020); however, no empirical studies evaluate the effects of shareholder activism.

Research conducted using event studies (Carleton et al., 1998) suggests that the impact of activism is typically assessed by examining abnormal returns (Brav et al., 2008) or accounting-based ratios. Most research in this industry is concentrated on large pension funds and hedge funds activism, which might not give a complete picture of investor activism. In India, hedge funds and pensions are still much smaller in size and lesser in numbers. Understanding the drivers and motivations of targeting the companies will simplify understanding how activism affects such economic conditions. The sha index has been used as a stand-in to evaluate its impact on corporate valuation, return ratios, and profitability.

It is clear from the literature that the majority of researchers have used qualitative characteristics as a success criterion for activism, such as nominating a director to the board, replacing the CEO, or changing policy (Helwege et al., 2012; Subramanian, 2017).

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Another set of studies looks at how better corporate governance affects the performance of firms. Taking ideas from this comprehensive research, the authors were motivated to conduct the analysis utilizing market-based and accounting-based criteria to assess the long-term impact of investor activism on targeted firms (Das et al., 2009; Croci et al., 2012). By empirically establishing the relationship between activism (as assessed by the sha index) and success for the selected firms, the current study seeks to close this gap. As per the researcher's knowledge, the current study is unique in that it investigates the relationship between business performance and shareholder activism (as measured by the sha index) in a developing market like India. The study will assist many stakeholders in determining whether activism affects performance in developing nations. From the perspective of corporate performance, it will offer empirical facts to activist shareholders, which will assist them in formulating effective tactics. Only accounting and market-based indicators are the focus of research because we believe they adequately capture and reflect firm performance.

#### **UNITED STATES OF AMERICA**

The financial crisis in United States of America in the year 2008 came with a lot of lessons to learn from. It was realised that changes are required in the existing corporate governance structure. The financial crisis led to further comparing the time of great depression and this led to the need for identification of culprit behind the white-collar crimes. This process of identification found culprit in the boardroom hiding behind corporate veil.<sup>3</sup> After witnessing the financial crisis, it was also stated that —among the central causes of the financial and economic crises that the United States faces today has been a widespread failure of corporate governance.<sup>4</sup> As a means of resolving the issue in hand, it was suggested that the shareholders look into the functioning and role played by the directors so as to create their accountability and to give effect to this method it was suggested that lawmakers take into account this method. Since the issue has been identified to be within the company, therefore, enhancing the role of shareholders would be a little more helpful to cope up. This was recognised to have been achieved by active and vigilant participation by shareholders in the process of nomination as well as election

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<sup>3</sup> Christopher Fawal, —Protecting Shareholder Access to Director Elections: A Response to Ca, Inc. V. Afsme

<sup>4</sup> Ibid at 1460.

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of directors. Thus, a need to protect the rights of shareholders so that the individuals holding offices in the management are held accountable.<sup>5</sup> This was the time when need for shareholders participation was felt hugely. Initially, the concept of shareholder democracy could be found with respect to the representation as well as empowerment of shareholders. This was primarily to hold the managerial professionals accountable for their actions and further promoting shareholder activism. In United States of America, the Supreme Court of Delaware has played a key role in its development. The court came up with two standards namely Blasius Standard and Unocal Standard.<sup>6</sup>

The two standards have been discussed as below:-

1. Blasius Standard:- under the blasius standard, the board has to prove that the actions taken up by them were in fact reasonable and they took the decision in good faith. Moreover, the directors had compelling reason to take the said decision.<sup>7</sup> Such instances can also be at the time shareholders exercise their right to vote while making an appointment for directors and directors could interfere in such voting process.<sup>8</sup> Thus, a need was felt for such a standard. The standard provides for protection of rights of shareholders before the directors can interfere with their exercise of rights and putting directors under the spotlight asking them to justify their actions.<sup>9</sup> The standard puts —the heavy burden of demonstrating a compelling justification<sup>10</sup> upon the board. Therefore,

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<sup>5</sup> Christopher Fawal, —Protecting Shareholder Access to Director Elections: A Response to *Ca, Inc. V. Afsme* Urging the Adoption of a Blasius Standard of Review for the Exercise of a Fiduciary-Out Clause 59 *Duke Law Journal* 1460 (2010), available at: <https://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1465&context=dlj> (last visited on September 22, 2021).

<sup>6</sup> Arman Khachaturyan, —The One-Share-One-Vote Controversy in the EU ECMI Paper No.1 Vol. 8 *European FindLaw Attorney Writers*, —*Mercier v Inter-Tel and the Reformulation of the Blasius Standard* FindLaw, Mar. 26, 2008, available at: <https://corporate.findlaw.com/corporate-governance/mercier-v-inter-teland-the-reformulation-of-the-blasius.html> (last visited on September 25, 2021).

<sup>8</sup> Christopher Fawal, —Protecting Shareholder Access to Director Elections: A Response to *Ca, Inc. V. Afsme* Urging the Adoption of a Blasius Standard of Review for the Exercise of a Fiduciary-Out Clause 59 *Duke Law Journal* 1484 (2010), available at: <https://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1465&context=dlj> (last visited on September 25, 2021).

<sup>9</sup> *Ibid* at 1488.

<sup>10</sup> Christopher Fawal, —Protecting Shareholder Access to Director Elections: A Response to *Ca, Inc. V. Afsme* Urging the Adoption of a Blasius Standard of Review for the Exercise of a Fiduciary-Out Clause 59 *Duke Law Journal* 1491 (2010), available at: <https://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1465&context=dlj> (last visited on September 25, 2021).

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any situation or circumstance in a company where the voting rights of shareholders are either prevented or limited comes under the scope of blausius standard.<sup>11</sup>

2. Unocal Standard:- under this standard, the burden of proof is upon the board of directors to prove that there existed some reasonable threat and due to this threat, the actions taken by them were not draconian in nature. The board will have to prove that their actions were just and reasonable.<sup>12</sup> If in a circumstance, any shareholder activist has come to a standstill for a duration of time, in that case, as per the standard the board can take a defensive approach and the court will lower the burden on the board if it is proved that such an activist had interest in the company only for a short term.<sup>13</sup> The standard was brought up taking into account the growing number of hostile takeovers and it was also recognised that the actions taken by the board of directors must be reasonable as well as proportionate keeping in mind the interest of the shareholders of the company. This was so because directors may take advantage of such situation and derive their own profits/looking into their interest.<sup>14</sup> Investment relations officer is yet another measure undertaken by various CEOs of companies so as to bridge the gap between people investing their money in their companies and themselves respectively. With the growing awareness amongst stakeholders, it has become even more important to have such an officer. Their primary role involves to take initiatives to build relationships with all kinds of shareholders and at the same time work as leader to help understand the risks factors pertaining the company. An Investing Relations Officer (IRO) needs has to have constant communication with the shareholders from time to time and also identify long term strategy for the management for consideration.<sup>15</sup>

The ongoing trend in terms of shareholder democracy in United States of America has seen quite a change. There has been increase in the participation in terms of shareholder approvals, criteria for voting, nomination process and corporate actions. Even the Securities and Exchange Commission of US has taken initiative in this regard by introducing rules for nomination of new director with the objective of making such

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<sup>11</sup> Ibid at 1494.

<sup>12</sup> Steven Epstein et.al., —Takeaways from a Recent Application of Unocal Standard| Law360, Feb. 05, 2016,

<sup>13</sup> Ibid.

<sup>14</sup> Arman Khachaturyan, —The One-Share-One-Vote Controversy in the EU| ECMI Paper No.1 Vol. 8 European Business Organization Law Review 2 (2006), available at: <http://ssrn.com/abstract=908215> (last visited on September 25, 2021).

<sup>15</sup> Dennis Carey et. al., —The Changing Role of the Investing Relations Officer| Harvard Business

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process less expensive and manageable for the shareholders. Moreover, the board is obligated to respond to the shareholders and accountable to them. Recent controversy has been observed in the corporate governance, where the required of votes is questioned, i.e., should the majority votes be required only for electing directors or for all matters pertaining the company. On one hand, it is argued that the voting rights must be exercised in all corporate matters so that democracy persists in the corporate structure and shareholders can initiate matters related to basic corporate governance. On the other hand, the concerns have been raised if involving shareholders to reform corporate governance is the right approach in United States of America.<sup>16</sup>

## PROXY ADVISORY FIRMS: CONCEPT AND INFLUENCE ON CAPITAL MARKETS

### 2.1 INTRODUCTORY

A public firm is accountable for overseeing the operations of its business and the behavior of its board of directors. The shareholders of these companies engage in making significant choices through the process of voting.<sup>17</sup> The decision-making process within the company is achieved by a series of meetings in which the members vote. The voting rights of a shareholder are determined by the amount of shares they own in the company. The shareholder meetings can be classified into four categories: the statutory meeting, annual general meeting<sup>18</sup>, special meeting<sup>19</sup>, and class meetings.<sup>20</sup>

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<sup>16</sup> Arman Khachatryan, —The One-Share-One-Vote Controversy in the EU| ECMI Paper No.1 Vol. 8 European Business Organization Law Review 2 (2006)

<sup>17</sup> Chester S. Spatt, —Proxy Advisory Firms, Governance, Market Failure, and Regulation| Milken Institute.

<sup>18</sup> Companies Act, 2013 (Act 18 of 2013), s 96. (1) Every company other than a One Person Company shall in each year hold in addition to any other meetings, a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it, and not more than fifteen months shall elapse between the date of one annual general meeting of a company and that of the next: Provided that in case of the first annual general meeting, it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case, within a period of six months, from the date of closing of the financial year: Provided further that if a company holds its first annual general meeting as aforesaid, it shall not be necessary for the company to hold any annual general meeting in the year of its incorporation: Provided also that the Registrar may, for any special reason, extend the time within which any annual general meeting, other than the first annual general meeting, shall be held, by a period not exceeding three months.

(2) Every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situate: Provided that the Central Government may exempt any company from the provisions of this subsection subject to such conditions as it may impose. Explanation- For the purposes of this sub-section, —National Holiday| means and includes a day declared as National Holiday by the Central Government.

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The shareholder's primary voting right has a significant impact on the company's operations and corporate governance. Over time, the shareholders have been increasingly engaged in the company's affairs by staying well-informed about the company's performance and actively participating in its decision-making process. One can observe the exercise of voting rights during annual shareholder meetings, where individuals vote in favor or against candidates for director positions and proposals that have been presented. Special shareholder meetings are convened to address significant corporate matters pertaining to corporate structures. Therefore, the involvement of shareholders in public businesses has become crucial for the continuation of corporate governance.

Institutional shareholders exercise their voting rights on numerous shares each year, casting their influence as significant actors in the stock market. Numerous diverse investors depend on proxy advisory services for guidance due to their lack of competence or motivation to conduct research and make informed voting decisions that align with the client's best interests. A noteworthy advancement has occurred in the corporate realm regarding the increasing influence of proxy advice firms. These firms provide advice to investor customers on how to exercise their voting rights in important company decisions such as electing directors, engaging in mergers and acquisitions, determining CEO compensation, and establishing corporate governance standards.

They offer impartial proxy voting research and provide recommendations for the items on a company's agenda.

Individual shareholders once held the majority of shares in publicly traded companies. A subset of them would additionally attend the annual shareholder meetings, while others would designate directors to represent them in the company by proxy. A minority would abstain from both actions. The acquisition of majority shareholdings by investment funds and funds of all types did not occur until the 1990s. Corporate governance mandates that organizations adhere to the bare minimum requirements of sound governance. However, it

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<sup>19</sup> No. 42, Table F, Companies Act, 2013 (Act 18 of 2013). All general meetings other than annual general meeting shall be called extraordinary general meeting.

<sup>20</sup> Dr G.K. Kapoor and Dr. Sanjay Dhamija Company Law and Practice: A Comprehensive Text Book on Companies Act 2013 552 (Taxmann Publications (P.) Ltd., New Delhi, 2019).

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has been observed that they have contravened various established norms or guidelines. The logistical challenge emerged when institutional and fund managers were required to vote their proxies as significant shareholders in the corporation. The firms were tasked with evaluating the corporations' performance through an examination of their adherence to a range of parameters, including the principles, regulations, and standards of corporate governance. This was done in order to ensure that votes for the election of board members were cast in an informed manner, in addition to addressing the growing number of shareholder proposals that would be presented at the shareholder annual meeting.<sup>21</sup>

A greater number of occasions have arisen in recent years for shareholders to exercise their voting rights; therefore, the function performed by these companies must be thoroughly examined. Additionally, shareholder proposals and mandated requirements are two of the numerous factors that must be taken into account.<sup>22</sup> When exercising voting rights, it is important to note that there are two distinct types of shareholders:

There are both retail and institutional investors. Institutional investors have a fiduciary duty to exercise their right to vote in a manner that does not contradict the interests of the shareholders.

interest due to the fact that they hold the vast majority of shares, while retail investors have the option to abstain from voting. The frequency with which votes are cast on any company matter is determined by the number of ballots cast by institutional investors.

## RULE OF MAJORITY AND PROTECTION OF MINORITY SHAREHOLDERS

### 3.1 Introduction

The chapter primarily focuses on the internal operations of an organization. The text has explored the conceptual comprehension of the term "shareholder" and its distinction from other like concepts. It has also examined the relationship between

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<sup>21</sup> Prepared by Professor Yvan Allaire, Ph.D., —The Troubling Case of Proxy Advisors: Some Policy Recommendations| Policy Paper No. 7 FRSC, Executive Chair, IGOPP, 8 (2013)

<sup>22</sup> David F. Larcker et.al. —Outsourcing Shareholder Voting to Proxy Advisory Firms| 58 Journal of Law and Economics 174 (2015)

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shareholders and the company's board, as well as their interactions with one another. The shareholders are legally obligated by their share certificate to comply with the business's rules and regulations. vote agreements are important since decisions inside the company are made through majority vote. This might put a group of shareholders at a disadvantage compared to the dominant shareholders. Another topic that has been addressed is the idea of "shareholder democracy," which refers to the democratic process of voting where shareholders exercise their rights within a firm. The significance of shareholders has increased in recent times due to their increasing involvement in the firm. Therefore, it is essential to comprehend their rights and also be aware of the challenges encountered by shareholders.

### 3.2 Members and Shareholders

The terms "member" and "shareholder" are sometimes assumed to have the same meaning and are used interchangeably. However, in situations where there is no share capital, such as in a company limited by guarantee or an unlimited corporation, there will only be a member and no shareholder.<sup>23</sup> According to the Companies Act, 2013, the term "member" is defined as:

- i. The subscriber to the company's memorandum, who is considered to have agreed to become a member of the company and will be recorded as a member in the company's register of members upon registration.
- ii. Any other person who agrees in writing to become a member of the company and has their name recorded in the company's register of members.
- iii. Any person who holds shares of the company and has their name recorded as a beneficial owner in the records of a depository.<sup>24</sup>

In the legal matter of *Herdilia Unimers Ltd. v. Renu Jain*<sup>25</sup>, In the case of , it was determined that an individual becomes a shareholder of a business once their share certificate is signed and their name is recorded in the company's register, regardless of whether they have received the share certificate at that time or not.<sup>26</sup> In order to become a member of the

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<sup>23</sup>Dr. G.K. Kapoor and Dr. Sanjay Dhamija, *Company Law and Practice: A Comprehensive Text Book on Companies Act 2013* 347 (Taxmann, New Delhi, 24th edn., 2019).

<sup>24</sup> Companies Act, 2013 (Act 18 of 2013), s.2(55)

<sup>25</sup> (1995) Comp. LJ. 45 (Raj.)

<sup>26</sup> MANU/RH/0073/1995.

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company, there are two more requirements that must be met. Firstly, one must acquire company shares through a written agreement. Secondly, their name must be officially enrolled in the register of members. Additionally, one can gain membership through the depository system. Thus, an individual can get membership in a certain corporation using either of the subsequent methods:

- i. Enrolling in the Memorandum of Association. During the firm's establishment phase, they have committed to join that specific company as a member. The recipient of the memorandum will be automatically enrolled as a member, even without submitting an application or being assigned shares or having their name recorded in the register of members. In the case of *Varca Druggist and Chemist and Ors. v. Chemists and Druggists Association, Goa*<sup>27</sup>, it was determined that every person who becomes a member of the Association by subscribing to the Memorandum of Association, whether at the time of its establishment or afterwards, is considered a participant in the decisions made by the association, as documented in the form of by-laws, guidelines, rules, and regulations.<sup>28</sup>
- ii. Obtaining Shares from an Existing Member through Transfer - Membership can be obtained by consenting to become a member of the company and having one's name recorded in the register of members. In the case of *Sant Chemicals Pvt. Ltd. vs. Sant Chemicals Pvt. Ltd. and Ors.*,<sup>29</sup> it was established that in order to become a member of the company, consent is necessary and the individual's name must be recorded in the business's register of members. Both qualities are required for membership. Upon transfer, membership is not automatically transferred. Instead, it is the responsibility of the applicant to take the appropriate steps to have their name listed in the register of members.
- iii. When converting debentures or loans, the terms and agreement of such must align with the conversion. In the case of *Bank of New York Mellon v. Indowind Energy Ltd.*<sup>30</sup>, it was noted that the corporation had the ability to raise capital by allowing

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<sup>27</sup> MRTP Case No. C-127/2009/DGIR (4/28).

<sup>28</sup> MANU/CO/0060/2012.

<sup>29</sup> 1999(3) Bom CR 454.

<sup>30</sup> MANU/MH/0224/1999.

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bond holders of "Foreign Currency Convertible Bonds" to convert 50% of their bonds into equity shares.

- iv. Via transmission Membership can be obtained in specific situations such as the death, insolvency, or madness of a shareholder. The transfer or transmission of shares is a direct consequence of a prearranged agreement between the parties or is governed by applicable laws that protect their individual rights. An individual can only be recognized as a member once their names have been officially recorded in the company's register of members. Upon joining a business, the member is granted a set of privileges outlined in Section 47213 of the Companies Act, 2013, previously covered in Section 87<sup>31</sup> of the Companies Act, 1956.

There are various types of shareholders, including local and foreign shareholders, minority and majority shareholders, natural persons and corporate/institutional shareholders, as well as long-term and short-term shareholders. Nevertheless, there are distinct differences in the conceptual meaning of terminology such as members, contributors, and institutional investors, which will be elaborated upon below.

### CONCLUSION

The analysis has identified the various corporate structures present in the three entities. Countries that exert significant influence on governance. In the United Kingdom, the function of Institutional investors and asset managers have begun taking aggressive measures. As representatives of the individual shareholders, we are accountable to them for our activities.

who are subject to the regulations and guidelines outlined in the UK Stewardship Code. Therefore, possessing a solid foundation for Engaging shareholders and providing competition to proxy advisory businesses. Nevertheless, in the United States

In the United States, institutional stockholders held a significant portion of the equity. 80% of the equity is widely distributed, unlike in India. India is a country located in South Asia. The banking sector, in conjunction with insurance companies, has significantly

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<sup>31</sup> Companies Act, 2013 (Act 18 of 2013).

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contributed to the accumulation of Household savings can take the shape of pension funds, mutual funds, and provident funds.

Similarly, other individuals provide their services in exchange for the amenities offered. There has been an increase in engagement. Both private and institutional funds participate in both the primary and secondary markets by engaging in the buying and selling of financial instruments. The shareholding pattern in India is limited. As the promoter retains control. In addition to this, the majority of the equity is owned. Shared by the institutional stockholders, this is a common characteristic throughout the three countries. Due to their voting powers, the shareholders have the most significant If decision-making power is concentrated in the hands of a few individuals, it would result in a concentration of power.

The consolidation of authority has resulted in the exercise of personal influence. Preferences granted by the controlling stakeholders. This situation poses a challenging scenario for the Shareholders with limited influence are unable to effectively oversee management due to the presence of dominant shareholders. They hold a position of great influence, allowing them to manipulate outcomes and shape their own conclusions. Advantages stemming from their controlling stake in the company. In order to deal with or tackle

The shareholder agreement serves to reconcile the differences between the majority and Shareholders who control a smaller percentage of a company's shares compared to other shareholders. The agreement restricts the authority of controlling stockholders, thus providing equitable voting rights to minority shareholders, ultimately Minimizing the likelihood of the abuse of voting authority by dominant individuals Investors who own shares in a company. The shareholder agreement has been recognized as an endeavor to maintain Monitoring management's performance and improving efficiency. Administration. Simultaneously, it is important to acknowledge the existence of a worry. There is a potential for impasse to occur as a result of the equal distribution of powers among. Shareholders have become increasingly involved in analyzing how a One way to analyze the performance of a firm is by monitoring its Environmental, Social, and Governance (ESG) practices.

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Variables that define the characteristics or properties of a system or process. ESG criteria encompass the factors related to the environment, society, and corporate governance. Stakeholders and shareholders prioritize the contributions made by companies in these areas. Factors that have contributed to the rise in shareholder participation. The right to vote in business meetings, which is accessible to individuals, Shareholder decisions are not legally binding, but rather have an advisory nature. Although With its consultative function, it exerts a significant influence on the decision-making process.

Hence, the firm directors regularly monitor the vote pattern. Not merely the manner in which The analysis of the vote cast by the shareholder is being examined, as well as the context in which it occurred.

A "protest vote" is cast in instances where individuals express their discontent for a certain matter. A proposition was put forward during the conference. Voting rights of this magnitude exert a significant influence on the Corporate policies. Shareholder activists with significant ownership have a prominent position in the The corporation provides them the opportunity to exert influence over the policy of the companies by Exercising their suffrage. The visibility of this phenomenon was evident when hedge funds exerted influence on the Strategies, CEO changes, board representation, and similar practices were influenced. due to their ownership stake being sixty percent. A comparable pattern was pursued.

The shareholders of Jet Airways authorized the issue of fresh shares. Both equity and preference shares can be used to raise capital. They also gave their approval. A special meeting will be held to convert debt into equity, as well as other securities. Transformation. In addition to granting permissions, shareholders have the opportunity to express their opinions. Rejection by the use of veto power. Proxy advice firms operate inside the realm of the stock market as a Market intermediaries possess a significant degree of influence over company governance.

Regarding the process of making decisions. In the United Kingdom, Directive 2007/36/EC, sometimes known as the Shareholder Directive, is in effect. According to the Rights Directive, proxy advisors are obligated to operate transparently in

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their job. Adhere to their code of conduct and, as a result, they must supply Providing a rationale for their conduct without any subsequent action being taken. In addition, the proxy advisors must comply with any other alternative that is introduced. Offer a justification for this based on the provisions of Article 3(j). In addition to this, In order to uphold transparency, they are required to provide specific information regarding their actions.

Functioning to enhance both accountability and reliability, which can be collected. According to article 3(j)(2) on their official website. If there is any situation where personal interests may interfere with professional obligations If any conflict of interest arises or is even potentially present, they are obligated to identify it. Examine the conflicts and detail the methods implemented to address them. There. Limitations might be imposed on proxy advisory firms and shareholders regarding Engaging proxy advice firms to represent and provide guidance for a certain meeting or multiple meetings within a given timeframe. specified duration. If there are many securities accounts, the shareholders have the freedom to choose.

To designate distinct proxy advice companies for each securities account, however, the Voting conducted by proxy advisory services must adhere to the instructions given by the Shareholders as specified in Article 11. According to "The Proxy Advisors (Shareholders' Rights)" According to the 'Regulations, 2019', proxy advisors must declare their technique. utilized by them to generate their recommendations, in addition to The staff's qualifications and the data used for the same goal. Regarding this matter, In addition to it, the company's conditions and policies are also considered. Market regulators and legislation operate in accordance with Regulation 4. These disclosures are being made. Applicable to proxy advisors that are registered with the Financial Conduct Authority (FCA) and have their head office located within the specified area. The UK area and proxy advisors operating within the UK region Our headquarters is located outside of the United Kingdom. This will afford an opportunity to engage with their client base. To examine the operations of proxy consulting firms and their growth.

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Clarity. This will result in more judicious decision-making by the clients, taking into account their personal interests. In the United States of America, a similar pattern of disclosure is observed. According to Rule 14a-2(b)(ii) by the Securities Exchange Commission, it is required to make certain disclosures.

Produced punctually. The purpose of such disclosures is dual. First and foremost, in order to ensure that the proxy advisors have provided their suggestion to their client about the topic on which the client approached them. Furthermore, in order to guarantee that proxy advisors operate in accordance with the established mechanism, their actions align with any public declarations made before the shareholder meeting. Company meetings. Although the clients may have the same vote, they are different. The suggestions offered by proxy advisory services may differ depending on many factors. Peer-to-peer communication. Companies also engage the services of proxy advice firms for this reason to authenticate information when issuing securities in the financial market. The SEBI (Research Analyst) Regulations, 2014 in India require that proxy advice firms should exclusively rely on trustworthy information in order to develop their recommendations.

Client recommendations. Similarly, as is the case in the United Kingdom and United States, in both the United States of America and India, it is mandatory for companies to reveal their rating systems. Ensure open and honest communication with the stakeholders in accordance with rule 20. In relation to any According to rule 19, Indian proxy advising firms are likewise subject to conflict of interest. The study report must include information on the specific location or potential occurrence of the conflict. Required in the United Kingdom and the United States of America. As per In the United States of America, disclosure requirements are observed. In India, there is a regulation called Regulation 21 that governs disclosure. It is imperative for those involved in securities transactions to do so consistently and intentionally.

Recommending service providers are required to publicly reveal their details, which include their name, Disclosure of any financial stake in the company that issued the investment and information regarding its registration status. Furthermore, The focus is placed on providing

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data regarding the resolution of the disagreement between Company and proxy advisors aim to enhance efficiency in the stock market of India. Regarding In line with the United States of America, SEBI has also implemented the practice of adopting it.

Proxy advice firms are required to promptly disclose information related to their activities. Voting policy refers to the set of rules and principles used to guide the decision-making process in elections. Methodology refers to the specific approach or method used to develop recommendations alternative perspective of the company being considered for services In addition to the problems mentioned above, proxy advisory firms are also involved. While the SEC requires

The proxy advisory firms should include a URL to offer an opportunity. Submit their response to the company. Therefore, establishing guidelines for proxy advisory firms. Due to the unique characteristics of each country's capital market, India, the United States of America, and the United States. The site of was discovered. Shareholders in the United Kingdom appeared to be more resilient than others due to... The popularity of the Stewardship Code has facilitated widespread engagement. Shareholders play a role in corporate governance. The Code offers a methodical and comprehensive process for as well as unique requirements for this particular industry. The impact of proxy advice firms is significant.

Widespread among stockholders in the United States of America. India, in spite of By emulating the procedures of the United States of America, one might also gain insights from their rules. In the United Kingdom, it is important to ensure seamless operation and efficiency. The role of shareholders is frequently reiterated. has been acknowledged by multiple panels, including the Cadbury Committee. The Higgs Report. The Cadbury Committee has emphasized their commitment to full engagement.

In management, individuals would advance their own interests while also exerting control. Their right. The Higgs Report elucidated the correlation between stockholders and It is important to monitor independent directors to maintain the efficient operation of the

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organization. Moreover, proactive shareholder participation can enhance the overall governance of The corporation might be owned by institutional shareholders and their regular investments.

Attendance at the Annual General Meeting. The Securities and Exchange Board of India (SEBI) has acknowledged the significance of Shareholders of public companies have a crucial role in upholding corporate governance. The function The presence of proxy consulting firms in the Indian market has grown in relation to proxy voting. The necessity of investigating the field of investor protection arises due to the procedure at hand. The empirical investigation has produced an accurate depiction of the current state of affairs. A number of the primary motivators of shareholder activism are identified in the study. A number of factors, both macro and micro, can influence shareholder activism. Within the scope of this study, a comparison of trends in 130 developed markets and emerging markets in India is presented.

In developed countries such as the United States of America, capital markets have reached a mature stage and are characterized by the presence of major institutional shareholders who take part in decision-making and other strategic activities. In developing markets such as India, the institutional stake is still lower than the promoters' shareholding, which includes the founders and family member shares. Additionally, hedge funds and pension funds, which are two of the most important forms of institutional activist shareholders, continue to maintain marginally reduced interests in the Indian market. Furthermore, when compared to industrialized countries, the percentage of promoters who hold shares in a company is higher in India. It is common knowledge that the presence of an efficient regulatory framework is a criterion that plays a significant role in the acceleration of activism. Changes in regulations, such as the adoption of the new Companies Act, 2013, and the adoption of new rules by regulatory organizations like SEBI, are functioning as drivers of activism in India. Activist investors are also interested in micro aspects at the firm level, such as worries regarding inadequate profitability, improper usage of assets, the appointment and compensation of directors, and other similar issues. This is made very clear by the plans that were turned down by shareholders who are activist.

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The second purpose of the study was to develop an index that has an accurate representation of militant activity. When conducting their investigation, the researcher took into consideration the feedback provided by professionals and academics who work in the sector of corporate finance and investing. The existing body of literature, which includes a limited number of empirical research that are involved in index building, is also taken into consideration. For the first time, a comprehensive shareholder activism index that takes into account both CGI and institutional action characteristics has been constructed through this study. Within the framework of this index, the study identifies 21 parameters that are distributed among four primary categories.

When it comes to analyzing activism, this is one of the rare empirical studies that makes use of the comprehensive shareholder activism index. The majority of studies that are undertaken in emerging economies are qualitative. The research makes use of Panel Data analysis and has presented seven models, each of which investigates the impact of shareholder activism on each business performance variable in a distinct manner. Regarding six out of seven models, the findings indicate that there is a statistically negligible connection between performance parameters and shareholder activism. One possible explanation for the lack of relevance in the relationship is that India is still in its infancy when it comes to organizing shareholder activism.

There is a regulatory framework in place, but its implementation is inadequate; institutional investors have a lower and more distributed shareholding in the enterprises that are being targeted;

Only one of the models demonstrates a result that is statistically significant. This model demonstrates that shareholder activism has a negative impact on the return on the share price over a period of three years. The reason for this might be ascribed to the fact that activists typically target businesses that are not performing satisfactory. The findings of a study have led researchers to the conclusion that shareholder activism has essentially no effect on the success of a corporation. Previous investigations in the domains have produced results that are comparable to one another (Bouaziz et al. 2020, Guimaraes et al. 2018, Mehran 1995, McConnell and Servaes 1990, Holderness and Sheehan 1988).

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