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THE LEGAL ROLE OF SHAREHOLDER ACTIVISM IN PROMOTING SUSTAINABLE BUSINESS PRACTICES

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Abstract

Shareholder activism has become an important mechanism for promoting corporate governance, accountability, and transparency in modern corporations. Unlike the traditional view of shareholders as passive investors, shareholders today actively influence corporate decision-making through voting rights, legal actions, and direct engagement with management. This article examines the legal framework governing shareholder activism and evaluates its impact on corporate governance under company law. It explores the evolution of shareholder activism from a focus on profit maximisation to broader concerns, including executive remuneration, corporate transparency, and environmental, social, and governance (ESG) responsibilities.The study further analyses the regulatory challenges arising from shareholder interventions, particularly the need to balance the interests of majority and minority shareholders while preserving managerial autonomy. Through an examination of statutory provisions, judicial decisions, and comparative practices from India and other jurisdictions, the article assesses whether shareholder activism strengthens corporate democracy and investor protection. It also evaluates the growing role of institutional investors in influencing corporate behaviour within the Indian legal framework.The article concludes that shareholder activism, when supported by an effective regulatory framework, serves as a valuable tool for enhancing corporate accountability, transparency, and sustainable governance. At the same time, excessive or unregulated activism may result in conflicts of interest, short-term decision-making, and instability in corporate management.

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Therefore, a balanced legal approach is essential to protect corporate interests while ensuring meaningful shareholder participation in corporate governance.

Keywords:*Shareholder Activism, Corporate Governance, Minority Shareholder Rights, SEBI, Companies Act, 2013*.

I. Introduction

Shareholder activism has become an important feature of modern corporate governance, changing the traditional role of shareholders from passive investors to active participants in corporate decision-making. Earlier, the board of directors and management exercised primary control over corporate affairs, while shareholders had limited involvement apart from voting at general meetings. However, the growth of institutional investors, globalisation, and increasing expectations of corporate transparency and accountability have significantly expanded the role of shareholders. Today, shareholders influence corporate policies through voting rights, shareholder resolutions, litigation, derivative actions, proxy contests, and direct engagement with management. The scope of shareholder activism has also widened considerably. While it was initially focused on improving financial performance and protecting shareholder value, it now extends to issues such as executive remuneration, environmental sustainability, ethical business practices, diversity, and corporate social responsibility. The increasing importance of Environmental, Social, and Governance (ESG) principles has further encouraged investors to demand responsible and sustainable corporate conduct. As a result, shareholder activism is now regarded as an essential mechanism for enhancing transparency, accountability, and long-term corporate performance. Despite its benefits, shareholder activism presents several legal and practical challenges. Excessive or poorly regulated activism may interfere with managerial autonomy, create conflicts between majority and minority shareholders, and encourage short-term decision-making at the expense of long-term corporate growth. These concerns highlight the need to strike an appropriate balance between protecting shareholder rights and preserving the authority of the board of directors in managing corporate affairs. From a legal perspective, shareholder activism raises important questions regarding corporate democracy, investor protection, minority shareholder rights, and the effectiveness of regulatory frameworks governing corporate governance. Jurisdictions such as the United States and the United Kingdom have developed legal mechanisms that facilitate responsible shareholder participation, while India has witnessed a growing role of institutional investors and increasing shareholder engagement under the framework of the Companies Act, 2013 and the regulations of the Securities and Exchange Board of India (SEBI). This article adopts a doctrinal research approach to examine the legal foundations of shareholder activism and its impact on corporate governance. By analysing statutory provisions, judicial decisions, and comparative legal practices, the study evaluates whether shareholder activism strengthens corporate accountability and sustainable governance or creates challenges that require further regulatory intervention. The article concludes by suggesting the need for a balanced legal framework that protects shareholder rights while ensuring effective corporate management and long-term corporate stability.

II. Evolution of Shareholder Engagement

A. Retail Shareholders: Limited Participation and Passive Ownership

In the years following India's independence, retail shareholders played only a marginal role in corporate governance. The Indian equity market was relatively underdeveloped, and individual investors held small stakes in listed companies. As a result, promoter groups and controlling shareholders exercised overwhelming control over corporate decisions. Although retail shareholders possessed voting rights, their limited shareholding prevented them from significantly influencing the outcome of corporate resolutions.The legal framework also contributed to shareholder passivity. Company meetings were required to be conducted at specified physical locations, many of which were situated in remote areas. This made participation costly and inconvenient for minority shareholders, discouraging active engagement in corporate affairs. Consequently, retail investors remained largely passive participants in the governance process.

B. Institutional Shareholders: Significant Ownership with Limited Activism

Institutional investors such as public sector banks, Development Financial Institutions (DFIs), and the Unit Trust of India (UTI) held comparatively larger equity stakes and were expected to play an active monitoring role. However, these institutions functioned under substantial governmental and bureaucratic influence, limiting their independence. Although they exercised voting rights and nominated representatives to company boards, they rarely challenged management decisions or acted against promoter interests.Following the economic liberalisation of 1991, the shareholding of government-controlled financial institutions gradually declined. Despite this structural change, many institutional investors continued to remain passive because the costs of monitoring corporate management and exercising voting rights were often considered greater than the expected benefits. Their limited engagement weakened the effectiveness of shareholder oversight, particularly in smaller companies where institutional ownership remained low.

C. Foreign Institutional Investors: Passive Investment Strategies

Foreign Institutional Investors (FIIs), presently regulated as Foreign Portfolio Investors (FPIs), emerged as significant investors in Indian listed companies after market liberalisation. Although they acquired substantial shareholdings, they generally adopted a passive investment strategy and exercised voting rights only in exceptional circumstances. Their primary objective remained financial returns rather than active participation in corporate governance, resulting in limited influence over management decisions.

D. Depository Receipt Investors: Constraints on Voting Rights

Foreign investors also participated in Indian companies through Depository Receipts (DRs). Unlike ordinary shareholders, DR holders did not possess direct voting rights because the underlying shares were legally held by the depository. In many cases, the depository exercised voting rights according to the directions of the company's board or did not exercise them unless legally required. Consequently, DR investors had minimal involvement in corporate governance, and their voting power was effectively restricted[4].

E. The Transition Towards Shareholder Activism

For several decades, shareholder passivity remained a defining characteristic of Indian corporate governance, even after economic liberalisation. A significant turning point occurred following the *Satyam Computer Services accounting scandal* in 2009, which exposed serious deficiencies in corporate governance and investor protection. The scandal prompted regulatory reforms aimed at strengthening transparency, accountability, and shareholder participation. It also encouraged institutional investors to exercise greater oversight of their investments. Since then, shareholder activism has gradually evolved into an important

[4] J. J. Irani, *The Companies Act, 2013: Law and Practice* (LexisNexis, latest ed.).

mechanism for promoting corporate accountability and improving governance standards in India[5].

III. Factors Contributing to the Limited Growth of Shareholder Activism in India

Despite significant reforms in corporate governance, shareholder activism in India has remained relatively limited when compared to developed jurisdictions. Several legal, structural, and institutional factors have contributed to the slow development of active shareholder participation.

A. Absence of Long-Term Active Investors

One of the primary reasons for limited shareholder activism is the shortage of long-term institutional investors. A large number of investors in India are primarily driven by short-term financial returns rather than long-term corporate value creation. Institutional investors such as pension funds and hedge funds, which have played a significant activist role in developed markets, have traditionally maintained a cautious approach in India and rarely engage actively with corporate management unless long-term concerns arise.

B. Concentrated Promoter Ownership

Most Indian companies continue to have concentrated ownership structures, with promoters and their families holding substantial controlling stakes. Such concentrated ownership enables promoters to dominate corporate decision-making, leaving minority shareholders with limited influence. Since the remaining shares are widely dispersed among numerous investors, coordinating collective action becomes difficult, thereby reducing the effectiveness of shareholder activism.

C. Limited Influence of Institutional Investors

Although foreign institutional investors (FIIs), now recognised as Foreign Portfolio Investors (FPIs), hold considerable investments in Indian listed companies, individual institutional investors generally do not possess sufficient shareholding to influence management independently. Similarly, domestic institutions such as the Life Insurance Corporation of India (LIC) and the Unit Trust of India (UTI) have historically adopted a passive investment approach rather than actively challenging corporate management. Consequently, statutory

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[5] Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, regs. 4 & 23.

provisions that permit shareholders holding a prescribed percentage of equity to exercise governance rights often remain underutilised.

D. Regulatory Restrictions on Pension and Insurance Funds

The growth of shareholder activism has also been constrained by the limited participation of pension and insurance funds. Traditionally, these institutions have been government-owned and subject to strict investment regulations that restrict the range of permissible investments. Although private sector participation has gradually increased, regulatory limitations have reduced the ability of these institutions to function as effective activist shareholders.

E. Judicial Delays and Weak Enforcement Mechanisms

An effective judicial system is essential for protecting shareholder rights. While Indian company law provides several remedies for minority shareholders, prolonged judicial proceedings often discourage investors from pursuing legal action. Corporate disputes may remain pending for several years, reducing confidence in the enforcement of shareholder rights. To address these concerns, legislative reforms have introduced specialised forums and strengthened the institutional framework for resolving company law disputes. Nevertheless, delays in adjudication continue to affect the effectiveness of shareholder remedies.

F. Complex Regulatory Environment

India's corporate regulatory framework is often perceived as complex and compliance-intensive. The existence of multiple regulatory requirements increases compliance costs for investors and companies alike. In some cases, concerns regarding promoter influence and corporate manipulation have reduced investor confidence, making activist interventions more difficult to pursue effectively.

G. Practical Limitations in Minority Shareholder Protection

Although the **Companies Act, 2013** and the regulations issued by the **Securities and Exchange Board of India (SEBI)** provide important safeguards for minority shareholders, practical enforcement remains challenging. Many shareholder rights, including the ability to requisition meetings and initiate certain corporate actions, require prescribed ownership thresholds. Given the concentrated promoter ownership and dispersed minority shareholding prevalent in Indian companies, achieving these thresholds is often difficult, limiting the practical exercise of minority shareholder rights[6].

H. Corruption and Governance Challenges

Governance concerns, including bureaucratic inefficiency and corruption, have also affected the development of shareholder activism. In certain situations, influential promoter groups may exercise considerable influence over regulatory or administrative processes, reducing investor confidence in the fairness of corporate governance mechanisms. Such challenges discourage both domestic and foreign investors from actively participating in corporate oversight.

I. Overall Assessment

The limited growth of shareholder activism in India is the result of a combination of concentrated ownership patterns, passive institutional investment, regulatory constraints, judicial inefficiencies, and governance-related challenges. Although recent legal reforms and increasing institutional participation have encouraged greater shareholder engagement, addressing these structural obstacles remains essential for strengthening corporate democracy and promoting effective corporate governance.

IV. Regulatory Reforms Facilitating Shareholder Activism

The development of shareholder activism in India has been substantially influenced by a series of legislative and regulatory reforms aimed at promoting greater shareholder participation in corporate governance. Over the last decade, policymakers and market regulators have increasingly recognised that an effective system of corporate governance depends upon the active involvement of shareholders in the decision-making process. Consequently, various measures have been introduced to encourage shareholders to exercise their rights more effectively and to strengthen accountability within corporate management.The regulatory approach adopted in India has evolved gradually by addressing multiple dimensions of shareholder participation. These reforms have focused on improving the methods through which shareholders cast their votes, facilitating their participation in general meetings, and ensuring that voting rights are exercised in a more transparent and meaningful manner. Collectively, these initiatives have transformed shareholders from

[6] Bernard S. Black, Shareholder Activism and Corporate Governance in Emerging Markets, 4 Asian Bus. & Mgmt. 1 (2005).

passive investors into active participants in corporate governance.The enactment of the Companies Act, 2013, together with several regulatory initiatives introduced by the Securities and Exchange Board of India (SEBI) has considerably strengthened the legal framework governing shareholder rights. These reforms have empowered minority shareholders by providing them with greater opportunities to participate in corporate affairs, express their views on significant business decisions, and safeguard their interests against managerial abuse. As a result, shareholder participation in corporate management has increased substantially through various statutory mechanisms[7].

A. Reforms under the Companies Act, 2013

The **Companies Act, 2013,** introduced a modern corporate governance framework that places significant emphasis on transparency, accountability, ethical management, and protection of minority shareholders. Unlike the earlier legislation, the Act incorporates several provisions intended to improve board accountability while simultaneously encouraging greater shareholder involvement in important corporate decisions.One of the major reforms introduced under the Act concerns the regulation of related-party transactions. The legislation requires specified transactions involving related parties to receive appropriate approvals from both the Board of Directors and, wherever applicable, the shareholders. This requirement ensures that transactions involving potential conflicts of interest are subjected to greater scrutiny, thereby protecting minority shareholders from possible abuse by controlling shareholders or company management.Another landmark reform under the Companies Act, 2013, is the introduction of mandatory electronic voting. The significance of this reform extends beyond merely providing an alternative mode of voting. Before the enactment of the Companies Act, 2013, resolutions at general meetings were commonly decided by a show of hands, under which each shareholder present possessed only one vote regardless of the number of shares held. Such a method often failed to reflect the actual ownership structure of the company.The introduction of electronic voting fundamentally altered this position by ensuring that every share carries its corresponding voting value. Consequently, shareholders possessing larger economic interests exercise voting rights proportionate to their shareholding, thereby making the voting process more representative of actual ownership. Furthermore, the implementation of electronic voting requires resolutions placed before

[7] Umakanth Varottil& Vikramaditya Khanna, *Corporate Governance in India: Theory and Practice* (Oxford University Press 2020).

shareholders to be decided through polling rather than merely by a show of hands, thereby significantly improving the fairness and legitimacy of corporate decision-making.

B. Electronic Voting

Electronic voting has emerged as one of the most significant governance reforms introduced under the Companies Act, 2013. **Section 108** of the Act authorises the Central Government to prescribe the classes of companies that must provide electronic voting facilities and to specify the manner in which shareholders may exercise their voting rights electronically.Prior to this reform, shareholders were generally required to attend meetings physically at the company's registered office to participate in corporate decision-making. Since many companies maintained their registered offices in locations that were not easily accessible, minority shareholders, particularly those holding relatively small investments, often found it impractical and uneconomical to travel long distances merely to cast their votes. Consequently, many shareholders refrained from participating in general meetings, thereby reducing the effectiveness of shareholder democracy.The introduction of electronic voting has successfully removed these practical barriers by enabling shareholders to exercise their voting rights remotely through secure electronic platforms. In addition, companies are permitted to facilitate shareholder participation through video conferencing facilities at multiple locations across the country. These technological developments have substantially increased shareholder participation, improved accessibility, and strengthened corporate democracy by enabling shareholders to participate in important corporate decisions irrespective of their geographical location[8].

C. Electronic Voting under SEBI Regulations

In addition to the reforms introduced through the Companies Act, 2013, SEBI has undertaken several initiatives to strengthen shareholder participation in listed companies. In July 2012, SEBI amended the Listing Agreement by making it mandatory for major listed companies to provide electronic voting facilities in relation to matters requiring approval through postal ballots.Initially, this requirement applied to the top five hundred companies listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Subsequently, the scope of the requirement was expanded, and electronic voting facilities have now become a

[8] Brian R. Cheffins, *Company Law: Theory, Structure and Operation* (Oxford University Press).

standard feature among listed companies. These reforms have enabled shareholders across the country to exercise their voting rights conveniently while improving transparency, efficiency, and participation in corporate governance.

D. Approval of Related-Party Transactions

The Companies Act, 2013, also introduced stricter regulation of related-party transactions through Section 188. Under this provision, a company proposing to enter into specified contracts or arrangements with a related party must first obtain the approval of its Board of Directors through an appropriate resolution. In circumstances prescribed by law, approval of the shareholders is also mandatory before such transactions can be implemented.The legislation further requires every related-party transaction to be disclosed in the Board's Report together with a detailed explanation justifying the commercial necessity of the transaction. Where a director or any other officer enters into such a transaction without obtaining the necessary approvals and the transaction is not subsequently ratified by the Board or shareholders within the prescribed period, the transaction becomes voidable at the option of the company. Moreover, where the unauthorised transaction involves a related party connected with a director, the director concerned may be held personally liable to indemnify the company for any losses arising from the transaction. These provisions significantly strengthen corporate transparency and provide greater protection to minority shareholders against conflicts of interest and misuse of managerial powers[9].

V. Landmark Case Studies Demonstrating Shareholder Activism in India

A. Maruti Suzuki India Limited: Shareholder Intervention and Revision of Transaction Terms

In January 2014, Maruti Suzuki India Limited announced that its parent company, Suzuki Motor Corporation (SMC), Japan, would establish a manufacturing plant in Gujarat through its wholly owned subsidiary, with the vehicles being sold to Maruti for distribution in India. Minority shareholders questioned the commercial rationale behind the proposal, particularly because Maruti possessed sufficient financial resources to establish the plant independently. Investors also feared that the arrangement would gradually transform Maruti from a manufacturing company into a marketing entity, thereby affecting its long-term valuation.

[9] Lucian A. Bebchuk, Alon Brav & Wei Jiang, The Long-Term Effects of Hedge Fund Activism, 115 Colum. L. Rev. 1085 (2015).

Further concerns were raised regarding the timing of the proposal, which appeared to precede the implementation of stricter regulations requiring approval by a majority of minority shareholders for related-party transactions. Several institutional investors collectively engaged with the Board of Directors by sending a series of letters seeking clarification regarding the commercial justification for the transaction, the expected return on investment, and the role played by the independent directors in evaluating the proposal. Investors also raised broader corporate governance concerns and requested greater transparency regarding the decision-making process. Following discussions with shareholders, Maruti revised the transaction structure to address governance concerns and minimise potential value leakage. Although shareholder approval was not legally mandatory when the proposal was initially announced, the company voluntarily placed the revised transaction before its shareholders. After SEBI reduced the approval threshold for minority shareholders, the proposal was approved in December 2015[10].

B. United Spirits Limited: Minority Shareholders Challenging Related-Party Transactions

United Spirits Limited (USL) came under shareholder scrutiny after several undisclosed transactions with companies belonging to the UB Group, controlled by Dr. Vijay Mallya, were revealed following regulatory changes. Investors were concerned that these transactions resulted in the diversion of company funds to financially distressed group entities. It was also discovered that USL had extended financial support to Kingfisher Airlines, adversely affecting the company's financial position. Shareholders further questioned Dr. Mallya's continuation as Chairman while facing allegations of being a wilful defaulter, as this could negatively affect USL's credibility and its relationship with the banking sector. Concerns were also raised regarding the lack of transparency surrounding related-party transactions and delayed financial disclosures. In November 2014, minority shareholders actively exercised their voting rights by rejecting nine out of twelve resolutions proposed through a postal ballot. The rejected resolutions primarily related to transactions that would have provided substantial financial benefits to UB Group companies, including loans and commercial arrangements. Shareholders also opposed a proposed brand licensing agreement with Diageo. In addition, increasing investor pressure led to demands for greater accountability from the Board, and similar concerns within other UB Group companies resulted in calls for Dr.

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[10] Institutional Investor Advisory Services (IiAS), *Proxy Season Review: Shareholder Activism in India* (2016), at 6-8

Mallya's resignation from board positions. Following shareholder opposition, USL resubmitted the Diageo brand licensing proposal with enhanced disclosures and stronger commercial justification, after which it received shareholder approval. Although Dr. Mallya was initially reappointed as Chairman pursuant to the shareholder agreement with Diageo, a subsequent forensic audit led the Board to lose confidence in his leadership and request his resignation. The matter eventually became the subject of legal proceedings[11].

C. Crompton Greaves Limited: Shareholder Opposition Resulting in Revision of the Demerger Scheme

In October 2014, the Board of Crompton Greaves Limited (CGL) approved a scheme for the demerger of its consumer products business. Under the proposed arrangement, the newly formed Crompton Greaves Consumer Electricals Limited (CGCEL) would remain 25% owned by CGL, while the remaining shares would be distributed to existing shareholders. Investors expressed concern that the promoters would indirectly increase their effective control over the more valuable consumer business from approximately 32% to 57%. Although the demerger was expected to unlock shareholder value, minority shareholders believed that the proposed structure disproportionately favoured the promoters. Institutional Investor Advisory Services (IiAS) publicly criticised the demerger proposal and recommended that minority shareholders vote against it. Several brokerage firms also viewed the scheme as unfair, arguing that the continued 25% holding by CGL would prevent minority shareholders from fully realising the value of the consumer business. Owing to these concerns, the stock exchanges directed the company to obtain shareholder approval before implementing the demerger. Recognising the growing opposition from shareholders, CGL revised the demerger scheme in February 2015. Under the modified proposal, the shareholding pattern of CGCEL mirrored that of CGL, thereby eliminating the promoters' additional indirect control over the demerged entity. Subsequently, private equity investors Advent International and Temasek Holdings acquired the promoters' stake in CGCEL, further strengthening corporate governance.

D. PTL Enterprises Limited: Minority Shareholders Opposing the Sale of Material Assets

[11] Institutional Investor Advisory Services (IiAS), *Proxy Season Review: Shareholder Activism in India* (2016), at 8–-10.

At the Annual General Meeting held on 22 September 2014, PTL Enterprises Limited (PTLE) proposed the sale of its entire shareholding in Artemis Health Sciences and Artemis Medical Services to Leto Healthcare Private Limited, a promoter-controlled entity. Minority shareholders contended that the proposed sale was based on an unreasonably low valuation and was not in the best interests of the company. They also observed that the proposal was introduced immediately before the enforcement of stricter SEBI regulations requiring approval of related-party transactions by a majority of minority shareholders, giving rise to concerns regarding the timing and fairness of the transaction. Several large retail shareholders, with the support of Institutional Investor Advisory Services (IiAS), questioned the proposed transaction and highlighted governance concerns. The issue received public attention and was even raised in the Kerala State Legislature. Shareholders addressed representations to the company's promoters, independent directors, and the Government nominee director,E requesting that the resolution be withdrawn. However, the company stated that once the electronic voting process had commenced, the resolution could not be withdrawn. Subsequently, the Kerala State Industrial Development Corporation (KSIDC), a government-owned shareholder holding approximately 2.27% of the company's equity, approached the Kerala High Court seeking a stay on the proposed transaction and an investigation into the affairs of the company. The Kerala High Court granted an interim stay, preventing the company from placing the resolution before shareholders at the Annual General Meeting. Consequently, the proposed sale of the healthcare business was kept in abeyance and has not been reintroduced for shareholder approval. If the proposal is presented in the future, it would be governed by the stricter SEBI framework requiring approval by a majority of minority shareholders[12].

E. Tata Motors Limited: Enhanced Disclosures Strengthening Shareholder Confidence

In May 2014, Tata Motors Limited sought shareholder approval for the remuneration payable to its three executive directors, including the then Managing Director, Karl Slym. Since the company had reported losses on a standalone basis during the relevant financial year, approval of the shareholders was required under the applicable provisions of the Companies Act. Minority shareholders questioned the justification for approving substantial managerial remuneration when the company was experiencing financial losses. Investors also believed that the company had not provided sufficient disclosures explaining the basis for determining

[12] Umakanth Varottil, The Evolution of Shareholder Activism in India, 6 Indian J. Corp. L. 45 (2014).

the remuneration packages. Shareholders actively exercised their voting rights and opposed the proposed resolutions, contending that the company had failed to adequately justify the remuneration payable to the executive directors. They demanded greater transparency regarding the performance criteria, the responsibilities of the executives, and the rationale for awarding such remuneration despite the company's financial performance. Following the rejection of the proposals, Tata Motors initiated discussions with shareholders and provided detailed explanations regarding the remuneration policy, the responsibilities discharged by the executive directors, and the commercial justification for the proposed payments. The company subsequently resubmitted the resolutions in January 2015, accompanied by substantially improved disclosures and additional supporting information. With the enhanced transparency and detailed justification, shareholders approved the revised resolutions.

F. Coal India Limited: Shareholder Activism in the Face of Government Control

Coal India Limited (CIL) became the subject of shareholder activism when The Children's Investment (TCI) Fund Management LLP, a prominent activist investor, alleged that the company's management had failed to safeguard the interests of minority shareholders. TCI contended that CIL was supplying coal to power producers at prices significantly below prevailing market rates, thereby reducing the company's profitability. It also criticised the delay in establishing coal washeries, inefficiencies in underground mining operations, and other operational decisions that adversely affected shareholder value. According to TCI, these actions reflected excessive government interference in the management of the company, to the detriment of minority investors. In August 2012, TCI initiated legal proceedings against the Board of Coal India before the Delhi and Kolkata High Courts, alleging mismanagement and breach of fiduciary duties. The fund argued that the Government of India, as the controlling shareholder, had compelled the company to sell coal to power utilities at prices below commercial levels, thereby prioritising public policy objectives over shareholder interests. TCI subsequently converted its action into a representative suit, enabling other shareholders with similar grievances to join the proceedings. However, certain beneficiaries of the subsidised coal supply, including the Damodar Valley Corporation, intervened in support of Coal India and opposed the claims. The Government defended its position by arguing that Coal India's offer documents had expressly disclosed the possibility of government intervention and policy decisions being taken in the national interest. It further exercised its powers under Article 53 of the Constitution of India by issuing a Presidential

Directive requiring Coal India to execute fuel supply agreements with power producers. Faced with limited prospects of success and continued government control over the company, TCI eventually divested its approximately 2% shareholding in late 2013 and withdrew the pending legal proceedings. The Coal India case demonstrates the limitations of shareholder activism in government-controlled enterprises. Although institutional investors may challenge corporate decisions through litigation, governmental ownership and statutory powers can significantly restrict the effectiveness of shareholder intervention. The case highlights the practical challenges faced by minority shareholders where public policy considerations prevail over commercial objectives and underscores the complexities of balancing shareholder rights with the broader public interest.

G. Satyam Computer Services Limited: Government Intervention Following Corporate Fraud

Satyam Computer Services Limited, one of India's leading information technology companies, became the centre of one of the country's largest corporate frauds when its founder and Chairman, B. Ramalinga Raju, confessed on 7 January 2009 to large-scale financial irregularities and falsification of the company's accounts. The disclosure severely eroded investor confidence, caused a sharp decline in the company's market value, and raised concerns regarding the credibility of India's corporate governance framework. Shareholders feared substantial financial losses, while the scandal also threatened the reputation of the Indian information technology industry in the global market. Recognising the gravity of the situation, the Government of India acted swiftly to safeguard the interests of shareholders, employees, and other stakeholders. With the approval of the Company Law Board (CLB), the existing Board of Directors was dissolved, and a new Board comprising eminent professionals was appointed to stabilise the company's operations. The Government prioritised the continuity of the company's business, ensuring that client relationships and employee interests were protected while restoring confidence in the organisation. To facilitate a transparent resolution process, the Government constituted a committee to oversee the sale of the company through a competitive bidding process. Simultaneously, regulatory authorities initiated investigations and criminal proceedings against the individuals responsible for the fraud. The acquisition process concluded successfully with the Mahindra Group emerging as the successful bidder. The company was subsequently integrated with Tech Mahindra, enabling the revival of its business operations and preserving shareholder value to a considerable extent. Following an extensive judicial process, B. Ramalinga Raju and several other accused persons were convicted and sentenced to imprisonment along with monetary penalties in 2015 for their involvement in the accounting fraud. The Satyam scandal remains a landmark event in the evolution of corporate governance in India. The case demonstrates the importance of timely regulatory and governmental intervention in addressing corporate misconduct and protecting investor interests. It also led to significant reforms in corporate governance, financial reporting, board accountability, and shareholder protection, reinforcing the need for transparency and ethical management in listed companies.

V. Critical Analysis of Shareholder Activism in India

Shareholder activism has emerged as a significant instrument for strengthening corporate governance in India by enhancing transparency, accountability, and investor participation in corporate decision-making. The traditional concept of shareholders as passive providers of capital has gradually evolved into one where investors actively monitor management decisions and influence corporate policies. This transformation has largely been facilitated by legislative reforms, regulatory interventions, judicial developments, and the increasing participation of institutional investors.The legal foundation of shareholder activism in India is primarily found in the Companies Act, 2013, the Securities and Exchange Board of India Act, 1992, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), the SEBI (Prohibition of Insider Trading) Regulations, 2015, and the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. Collectively, these enactments seek to strengthen shareholder rights while ensuring effective corporate governance.

One of the most significant contributions of shareholder activism has been the enhancement of corporate accountability. The case studies discussed earlier demonstrate that shareholders are no longer reluctant to question decisions involving related-party transactions, executive remuneration, mergers, demergers, and business restructuring. The requirement under Section 188 of the Companies Act, 2013 for approval of specified related-party transactions, read with Regulation 23 of the SEBI LODR Regulations, 2015, has considerably strengthened minority shareholder protection by ensuring that promoter-controlled transactions are subjected to greater scrutiny. The decisions involving Maruti Suzuki India Limited, United Spirits Limited, Siemens India Limited, and Akzo Nobel India Limited illustrate how institutional investors successfully compelled companies to improve disclosures and revise transaction terms before obtaining shareholder approval[13].The Companies Act, 2013 has substantially expanded the rights available to minority shareholders. Section 108 introduced electronic voting, thereby enabling shareholders to participate in corporate decision-making irrespective of their geographical location. Similarly, Section 151 provides for the appointment of a director representing small shareholders in listed companies, ensuring that minority interests receive representation at the board level. The statutory remedies contained in Sections 241 and 242, dealing with oppression and mismanagement, empower members to approach the National Company Law Tribunal (NCLT) where the affairs of the company are conducted in a manner prejudicial to public interest or oppressive to minority shareholders. In addition, Section 245 introduced the concept of class action suits, enabling shareholders and depositors to collectively seek relief against directors, auditors, and other professionals whose actions prejudice the interests of the company or its stakeholders.

SEBI has complemented these statutory safeguards through an extensive regulatory framework governing listed companies. Regulation 4 of the SEBI LODR Regulations, 2015 incorporates fundamental principles of corporate governance, emphasising fairness, transparency, accountability, and equitable treatment of shareholders. Regulations relating to disclosure obligations, independent directors, audit committees, and related-party transactions have considerably improved governance standards. Furthermore, SEBI's stewardship initiatives requiring mutual funds and institutional investors to formulate voting policies and disclose their voting behaviour have encouraged responsible shareholder engagement and reduced passive ownership.Institutional investors have become the driving force behind shareholder activism in India. Their stewardship responsibilities require them to exercise voting rights in a manner that protects investor interests and promotes long-term corporate value. The SEBI Circular on Stewardship Code for Mutual Funds and All Categories of Alternative Investment Funds (2020) and the stewardship guidelines issued by the Insurance Regulatory and Development Authority of India (IRDAI) have reinforced this obligation by encouraging institutional investors to actively monitor investee companies, engage with management, and disclose their voting decisions. Consequently, institutional investors have emerged as effective monitors of corporate governance.

[13] Institutional Investor Advisory Services (IiAS), *Proxy Season Review: Shareholder Activism in India* (2016).

Another significant development has been the emergence of proxy advisory firms such as Institutional Investor Advisory Services (IiAS), Stakeholders Empowerment Services (SES), and InGovern Research Services. Although these entities do not exercise statutory powers, they play an influential role by evaluating corporate proposals and issuing independent voting recommendations. Their analyses have enhanced transparency and reduced information asymmetry between management and shareholders. The increasing reliance placed upon proxy advisory firms by institutional investors has significantly improved the quality of shareholder participation in corporate governance.

Nevertheless, shareholder activism in India continues to encounter several structural limitations. The overwhelming majority of listed companies remain promoter-controlled, resulting in concentrated ownership structures that dilute the practical influence of minority shareholders. Despite statutory safeguards requiring approval of minority shareholders in certain transactions, promoter dominance frequently determines the outcome of corporate resolutions. The Igarashi Motors India Limited case clearly demonstrates that even overwhelming opposition by non-promoter shareholders may not prevent the approval of resolutions where promoters continue to exercise substantial voting power.

The effectiveness of shareholder activism is further constrained by procedural delays in the adjudication of corporate disputes. Although the National Company Law Tribunal has replaced the erstwhile Company Law Board and provides specialised forums for company law disputes, proceedings under Sections 241–242 and Section 245 often remain time-consuming. Judicial delays diminish the practical utility of shareholder remedies and discourage minority investors from pursuing litigation. Consequently, shareholders increasingly prefer engagement through voting, negotiations, proxy advisory recommendations, and regulatory intervention rather than prolonged legal proceedings.Another important concern relates to balancing shareholder rights with the fiduciary duties of directors under Section 166 of the Companies Act, 2013. Directors are legally obligated to act in good faith, promote the objects of the company, exercise due care, skill and diligence, and act in the best interests of the company, its shareholders, employees, and the community. Excessive shareholder intervention should not undermine the statutory authority of the Board to manage corporate affairs under Section 179 of the Act. Therefore, shareholder activism must operate as an accountability mechanism rather than substituting for managerial discretion in commercial decision-making.From a comparative perspective, jurisdictions such as the United States and the United Kingdom possess more mature shareholder activism regimes owing to dispersed ownership structures, stronger institutional investor participation, and more effective shareholder litigation mechanisms. In contrast, India's promoter-driven ownership model presents unique challenges despite progressive legislative reforms. However, recent developments indicate a gradual shift towards greater shareholder participation, particularly following the recommendations of the Kumar Mangalam Birla Committee (1999), the Naresh Chandra Committee (2002), the N.R. Narayana Murthy Committee (2003), and the Uday Kotak Committee on Corporate Governance (2017), many of which have been incorporated into the SEBI LODR framework.

VI. Challenges to Shareholder Activism in India

Despite significant legislative and regulatory reforms, shareholder activism in India continues to face several legal, structural, and institutional challenges. Although the Companies Act, 2013 and the regulatory framework established by the Securities and Exchange Board of India (SEBI) have strengthened shareholder rights, the practical effectiveness of shareholder activism remains constrained by concentrated ownership patterns, procedural inefficiencies, regulatory limitations, and market realities. These challenges often restrict the ability of shareholders, particularly minority investors, to influence corporate governance meaningfully.

A. Concentrated Promoter Ownership

One of the most significant obstacles to shareholder activism in India is the concentrated ownership structure prevalent in listed companies. Unlike jurisdictions such as the United States and the United Kingdom, where ownership is widely dispersed, most Indian companies are promoter-controlled. Promoters frequently hold substantial equity stakes, enabling them to exercise decisive influence over corporate resolutions and board appointments.Although the Companies Act, 2013 provides minority shareholders with several statutory rights, these protections become less effective when promoters possess sufficient voting power to determine the outcome of shareholder resolutions. Consequently, minority shareholders often encounter practical difficulties in opposing management decisions or influencing strategic corporate actions.

B. Limited Collective Action by Minority Shareholders

Minority shareholders generally possess relatively small and dispersed shareholdings. While the law provides mechanisms such as class action proceedings under Section 245 and remedies against oppression and mismanagement under Sections 241 and 242 of the Companies Act, 2013, coordinating large numbers of dispersed shareholders remains difficult. Collective action is often hindered by inadequate communication among shareholders, differing investment objectives, and the costs associated with organising shareholder campaigns.The collective action problem reduces the effectiveness of shareholder activism and enables management to implement corporate decisions with relatively limited resistance.

C. Judicial Delays and Enforcement Challenges

The effectiveness of shareholder remedies depends largely upon timely judicial enforcement. Although the establishment of the National Company Law Tribunal (NCLT) has significantly improved the institutional framework for resolving corporate disputes, proceedings relating to oppression, mismanagement, class action suits, and other shareholder remedies may still involve considerable delays.

D. Regulatory Complexity and Compliance Burden

India's corporate governance framework consists of multiple statutes, rules, regulations, and circulars administered by different regulatory authorities. Companies must simultaneously comply with the Companies Act, 2013, the SEBI Act, 1992, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the SEBI (Prohibition of Insider Trading) Regulations, 2015, the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, and several other regulatory requirements.While these provisions collectively strengthen investor protection, the complexity of the legal framework often creates compliance challenges for companies and makes it difficult for minority shareholders to fully understand and effectively exercise their legal rights.

E. Passive Institutional Investors

Institutional investors possess considerable potential to influence corporate governance because of their substantial shareholdings. Nevertheless, not all institutional investors actively participate in shareholder activism. Some continue to adopt a passive investment strategy, preferring to avoid confrontation with company management or promoters. Others may refrain from voting owing to concerns regarding business relationships, regulatory considerations, or conflicts of interest.Although SEBI's Stewardship Code encourages responsible shareholder engagement, consistent implementation across all institutional investors remains a challenge.

F. Information Asymmetry

Effective shareholder activism depends upon access to timely, accurate, and complete corporate information. Despite enhanced disclosure requirements under the SEBI LODR Regulations, **2015**, management continues to possess significantly greater information than shareholders regarding the company's operations and strategic decisions.

G. Risk of Short-Termism

While shareholder activism promotes accountability, excessive emphasis on immediate financial performance may adversely affect long-term corporate sustainability. Activist investors may pressure management to prioritise higher dividends, share buybacks, or short-term profitability at the expense of long-term investment, research, innovation, and sustainable growth.Accordingly, boards of directors must balance legitimate shareholder expectations with their fiduciary duties under Section 166 of the Companies Act, 2013, which require directors to act in the best interests of the company and all its stakeholders.

H. Balancing Shareholder Rights and Managerial Autonomy

Corporate governance requires an appropriate balance between shareholder oversight and managerial independence. Directors are entrusted with the responsibility of managing the affairs of the company under Section 179 of the Companies Act, 2013, while shareholders primarily exercise oversight through voting and statutory remedies.

I. Need for Stronger Institutional Mechanisms

Although India has made considerable progress in strengthening shareholder rights, further institutional reforms remain necessary. Greater awareness among retail investors, stronger stewardship by institutional investors, improved functioning of proxy advisory firms, faster adjudication by specialised tribunals, and stricter enforcement of corporate governance standards would significantly improve the effectiveness of shareholder activism.

J. Overall Assessment

The evolution of shareholder activism demonstrates India's gradual transition towards a more transparent and accountable corporate governance framework. However, concentrated promoter ownership, judicial delays, regulatory complexity, passive institutional behaviour, and information asymmetry continue to limit its full potential. Addressing these structural challenges through legislative refinement, regulatory strengthening, and institutional capacity-building is essential to ensure that shareholder activism serves as an effective mechanism for protecting investor interests while promoting sustainable corporate governance.

VII. Recommendations

The increasing significance of shareholder activism demonstrates that active investor participation is indispensable for strengthening corporate governance and protecting shareholder interests. Although India has introduced substantial legislative and regulatory reforms through the Companies Act, 2013 and the regulatory framework of the Securities and Exchange Board of India (SEBI), several measures can further enhance the effectiveness of shareholder activism while maintaining an appropriate balance between shareholder rights and managerial autonomy.

A. Strengthening Minority Shareholder Protection

Greater emphasis should be placed on strengthening the legal rights of minority shareholders. While the Companies Act, 2013 provides remedies under Sections 241, 242, and 245, their practical effectiveness depends upon timely enforcement. The threshold requirements for initiating certain shareholder actions may be reviewed to facilitate easier access to remedies for dispersed minority shareholders. Additionally, stronger safeguards should be introduced to ensure that related-party transactions are conducted transparently and strictly in accordance with Section 188 of the Companies Act, 2013 and Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

B. Promoting Active Institutional Stewardship

Institutional investors should play a more proactive role in monitoring corporate governance. Mutual funds, insurance companies, pension funds, and foreign portfolio investors should actively exercise their voting rights and engage constructively with company management. The SEBI Stewardship Code should be implemented more rigorously by requiring institutional investors to publish detailed voting records and engagement reports. Transparent stewardship practices would improve accountability and encourage responsible shareholder participation.

C. Enhancing the Role of Proxy Advisory Firms

Proxy advisory firms have become an important component of India's corporate governance framework by providing independent analysis of corporate proposals. Their recommendations assist both institutional and retail investors in making informed decisions. Regulatory support should continue to ensure their independence, transparency, and professional standards while preventing conflicts of interest. Companies should also be encouraged to engage constructively with proxy advisors before placing significant resolutions before shareholders.

D. Expediting Corporate Dispute Resolution

Timely adjudication of corporate disputes is essential for effective shareholder protection. Although the National Company Law Tribunal (NCLT) has improved the institutional mechanism for resolving company law disputes, delays continue to undermine investor confidence. The establishment of additional NCLT benches, greater judicial capacity, and specialised procedures for shareholder disputes would facilitate quicker resolution of cases involving oppression, mismanagement, class actions, and corporate governance violations.

VIII. Conclusion

Shareholder activism has emerged as a vital component of modern corporate governance by strengthening accountability, transparency, and shareholder participation in corporate decision-making. The evolution of corporate governance demonstrates that shareholders are no longer passive investors whose role is confined to providing capital; rather, they have become active stakeholders capable of influencing managerial decisions, monitoring corporate conduct, and protecting long-term shareholder value. Legislative reforms and regulatory initiatives have significantly contributed to this transformation by providing shareholders with effective legal mechanisms to safeguard their interests. The Companies Act, 2013, has substantially strengthened shareholder rights through provisions relating to electronic voting (Section 108), appointment of small shareholders' directors (Section 151), regulation of related-party transactions (Section 188), remedies against oppression and mismanagement (Sections 241 and 242), and class action suits (Section 245). These provisions, coupled with the corporate governance framework established under the SEBI Act, 1992 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, have considerably improved transparency and accountability within listed companies. The introduction of stewardship obligations for institutional investors and the increasing influence of proxy advisory firms have further strengthened shareholder participation in corporate governance. The case studies examined in this article demonstrate that shareholder activism has produced tangible improvements in corporate governance. In several instances, shareholders successfully challenged unfair related-party transactions, influenced executive remuneration policies, secured better disclosures, improved valuation in corporate restructuring, and encouraged greater accountability from company management. These developments indicate that informed and organised shareholder participation can serve as an effective mechanism for preventing managerial excesses and protecting minority shareholder interests. Nevertheless, shareholder activism in India continues to encounter significant challenges. Concentrated promoter ownership, passive institutional investors, procedural delays before the National Company Law Tribunal, regulatory complexities, and information asymmetry continue to restrict the practical effectiveness of shareholder rights. Moreover, excessive activism driven by short-term financial objectives may interfere with legitimate managerial discretion and impede long-term corporate growth. Consequently, an appropriate balance must be maintained between shareholder oversight and the statutory authority of the Board of Directors to manage corporate affairs under the Companies Act, 2013. Comparative experience from jurisdictions such as the United Kingdom and the United States demonstrates that effective shareholder activism flourishes where there is dispersed ownership, active institutional participation, efficient judicial enforcement, and strong governance practices. Although India's corporate ownership structure differs considerably, recent legislative reforms and evolving market practices indicate a gradual shift towards greater shareholder engagement and improved corporate accountability.

In conclusion, shareholder activism should be regarded not as an obstacle to corporate management but as an essential mechanism for ensuring responsible corporate governance. When exercised in good faith and supported by a robust legal and regulatory framework, shareholder activism enhances transparency, strengthens board accountability, protects minority shareholders, and promotes sustainable corporate growth. Continued refinement of corporate laws, effective enforcement by regulatory authorities, greater institutional stewardship, and increased shareholder awareness will further strengthen India's corporate governance framework. A balanced approach that harmonises shareholder rights with managerial autonomy will ultimately foster investor confidence, improve corporate performance, and contribute to the long-term development of the Indian corporate sector.