

SHAREHOLDER ENGAGEMENT PRACTICES IN CORPORATE INDIA**Dr. N Maruti Rao****ABSTRACT**

Till 2007, the shareholders across the world were too happy to point to the buoyant economy and stock markets. But the global financial meltdown which had hit the world economy had changed the perception of shareholders. Today, shareholders in US have realized the importance of shareholder engagement and are forcing companies to involve them in the decision making process which affects their interest and ensure corporate governance. Corporate governance can be ensured if the board member engage themselves with discussion with shareholders, consider their views, allow them to communicate and respond to their communication on the major issues such as board member selection, board member remuneration and incentives, project selection, CSR initiatives, environmental protection measures, business ethics practices, etc. This in turn will benefit all stakeholders in particular and society, economy, environment in general. Therefore, Shareholder engagement is considered as one of the great areas of corporate governance and it has been seen to be lacking particularly in India as this concept is very new to corporate India and is in nascent stage. The countries around the world are making shareholder engagement mandatory for corporate but are also framing regulations for the same. Shareholder engagement may play vital role in a emerging economy like India in preventing corporate scams like Satyam computers but also helps in bring transparency in corporate decisions and corporate governance thereby improving bottom-line. The need of the hour is that Corporate Boards should view and project themselves as shareholder stewards. But, question arises does the corporate India is viewing and projecting themselves as shareholders stewards? No research has been done to address this question. Further, no research has been done in India focusing on awareness about shareholders engagement among shareholders, shareholders engagement practices do adopted by companies, whether corporate entities exhibited interest in implementing shareholder engagement practices, what is the role of government in shareholder engagement, etc. This has motivated the researcher to take up the present study. 10 Companies with highest market turnover for the year ending March 2013 were selected for the purpose of study. The study reveals that the shareholders were unaware about the shareholder engagement concept. Further the study revealed that the sample companies have not engaged directly with shareholders in a sustained or ongoing way on matters of shareholder concern. The shareholder vote has served as a primary means of shareholder communication with the company. The corporate entities have not exhibited any interest in shareholder engagement as it is evident from

the fact that not a single sample company had prepared shareholder engagement activity report. The study also reveals that SEBI is exploring possibility of developing policy/regulations for the shareholder engagement. The researcher has developed a shareholder engagement model which may be of immense help to corporate India to adopt shareholder engagement practices which in turn benefits all stakeholders in particular and economy, society and environment in general.

Keywords: Shareholder Engagement, Corporate Governance, Minority Shareholder, Corporate India.

I. INTRODUCTION

Shareholders across the globe are continuously looking towards better corporate governance, improved transparency and risk management by the corporate entities. The formal written disclosures, required by the Companies Act and the listing guidelines, may not be enough to satisfy the minority shareholders. The shareholders are looking for new approach to address issues relating to corporate governance, transparency and risk management. Shareholder engagement is considered as an important tool of good governance, transparency and risk management. Stock exchange and regulatory bodies across globe are in the process of formulating regulations for shareholder engagement. The corporate entities across the globe are also trying to incorporate it as an integral part of corporate strategy in order to create value for shareholders. However, shareholder engagement seen to be lacking in India as this concept is very new to corporate India and is in nascent stage. The Board members need to engage themselves with discussion with shareholders, consider their views, allow them to communicate and respond to their communication on the major issues such as disclosure of discussion in general meeting, board member selection, board member remuneration and incentives, project selection, CSR initiatives, environmental protection measures, business ethics practices, etc. This in turn will benefit all stakeholders in particular and society, economy, environment in general. The need of the hour is that companies need to be projected themselves as shareholders stewards.

II. STATEMENT OF PROBLEM

Shareholder engagement is emerging as a new area of corporate governance and it has been seen to be lacking particularly in India. Shareholder engagement is very new to corporate India and is in nascent stage. The countries around the world are making shareholder engagement mandatory for corporate but are also framing regulations for the same. Investors and minority shareholders were

found to be expressing concern over the quality of financial disclosure as well as role of independent director. This concern can be addressed by making provision for shareholder engagement. Further, Shareholder engagement may play vital role in an emerging economy like India in preventing corporate scams like Satyam computers but also helps in bring transparency in corporate decisions and corporate governance thereby improving bottom-line. The need of the hour is that Corporate Boards should view and project themselves as shareholder stewards. But, question arises does the corporate India is viewing and projecting themselves as shareholders stewards? No research has been done to address this question. Further, no research has been done in India focusing on awareness about shareholders engagement among shareholders and board member, shareholders engagement practices do adopted by companies, whether corporate entities exhibited interest in implementing shareholder engagement practices, what is the role of government in shareholder engagement, etc. So far else none of the said questions have been addressed by the researchers. This has motivated the researcher to take up the present study.

III. OBJECTIVES OF STUDY

The study has been conducted keeping in mind the following objectives:

- 1) To identify awareness level of shareholders and board of directors about shareholders engagement.
- 2) To understand shareholders engagement practices do adopted by corporate India.
- 3) To study the role of government in shareholder engagement.
- 4) To offer policy suggestions for shareholder engagement in India

IV. OPERATIONAL DEFINITIONS

Shareholder Engagement: Shareholder engagement is a process of expressing views, comments and feelings of shareholders to board members on issues relating to environmental, social and governance but also decisions which affects their interest and return on investments.

Corporate Governance: The framework of principles; rules and practices to be adopted by companies for the conduct of business in ethical, fair, transparent manner which makes the board accountable, responsible for balancing the interests of all stakeholders in a company. The company is also responsible to make necessary disclosures and complying with all the laws of the land.

Shareholder: Individual or Hindu Undivided family or Corporate Entities etc, who have invested in public offer up to Rs. 2 lakhs and whose name appears in

register of members maintained by company are called as shareholders. These shareholders are also called as minority shareholders. The invested amount may grow above Rs.2 lakhs once the stock is listed in stock exchange.

Corporate India: Companies registered under companies' act of 1956 and having registered office within the geographical area of India are called as corporate India.

V. LITERATURE REVIEW

Kala Anandarajah conducted a study on "Shareholder Activism – Shareholder Rights and Its Effectiveness". According to him, companies should treat all shareholders fairly and equitably, and should recognize and protect shareholder rights. He had suggested that companies need to develop and implement investor relations policy. This will promote regular, effective and fair communication with shareholders and encourages greater shareholder participation at general meetings and also provides shareholders the opportunity to communicate their views on various matters affecting the company. Anastasia O'Rourke is of the view that modern shareholders are keenly interested to debate and discuss on company specific corporate social responsibility issues at annual shareholder meetings. He had developed a model i.e. "investor capitalism" based on 'responsible ownership' to address social and environmental issues which were previously outside the domain of most shareholders. The paper also traces a historical perspective on the growth and spread of shareholder activism, describes the key actors currently involved in this activity. Christine Chow in his research paper entitled "Establishing a corporate sustainability monitoring tool using the shareholder engagement commitment indicator", has developed a shareholder engagement commitment (SEC) indicator that enables the comparison of shareholder engagement activities for responsible investment from a company perspective. He is of the view that the indicator is potentially useful for regulators, non-government organizations (NGOs), investors and companies to monitor the corporate social responsibility initiatives of an organization. Marc Goldstein has conducted a study of shareholder engagement of select UK companies in 2014. He found that the shareholder engagement of sample companies was fluctuating from year to year, based on such factors as financial and stock price performance and the issues faced by the company. He found that UK companies are working towards keeping shareholders happy and invested in the stock. He is of the view that overall shareholder engagement levels of UK companies was showing upward trend. Serdar Çelik and Mats Isaksson in their research work entitled "Institutional investors and ownership engagement" made an attempt to understand the character and degree of

ownership engagement by institutional investors. According to them, there are large differences in ownership engagement between different categories of institutional investors. There are also differences in ownership engagement within the same category of institutional investors such as hedge funds, investment funds, etc. These differences arise from the fact that the degree of ownership engagement is determined by a number of different features and choices that together make up the institutional investor's "business model". When ownership engagement is not a central part of the business model, public policies and voluntary standards aiming to improve the quality of ownership engagement among institutional investors are likely to have limited effect. Presently, literature on Shareholder Engagement is not available in India. This has motivated the researcher to take up the present study.

VI. RESEARCH PLAN

The total population of the study is 30 Sensex companies. 40 percent of the Sensex companies were selected as sample units. In other words, 12 companies had been selected for the purpose of study. These companies had been selected based on ranking of their stock market turnover for the period ending 31st March 2013. The questionnaire was administered to HR Manager of these companies through email. Response was received from 10 companies and the response rate was 83 percent. The data required for the study was also collected from secondary sources such as SEBI and BSE websites, newspaper and magazine/ journal articles, company annual reports. To identify awareness level of shareholders about shareholders engagement, survey was conducted in commercial cities of Karnataka (North and Hyderabad-Karnataka) i.e. Gulbarga, Belgaum and Hubli. Questionnaire was administered to retail investors. The data so collected were analyzed by using percentage and ratio method. The data were presented in the form of tables.

VII. LIMITATIONS OF THE STUDY

The Non-Sensex companies were not taken into consideration for the purpose of study. Further, the other commercial cities of Karnataka such as Bangalore, Mysore and Mangalore were not considered for the purpose study.

VIII. RESULTS AND ANALYSIS

Awareness Level among Shareholder about Shareholders Engagement

The table-1 reveals that none of the sample investor is aware of shareholder engagement. Even none of the surveyed investor were aware of shareholder engagement practices/tools/process adopted by corporate world which includes Shareholder Engagement Programme, conducting Analysts Briefing Meeting and

Road Shows by companies, executive performance evaluation by shareholders, conducting board-shareholder dialogue, disclosure of details and pay package of Board of Directors, shareholders right to say on executive compensation. None of the surveyed investors were aware of existence of Investor/Shareholders Association.

Only 15 percent of respondents were aware of Investor Relations Policy implemented by corporate India. 20 percent of investors were aware of appointment of Independent Director by companies. However, none of the investor is aware of role of independent director in an organization. 7 percent of respondents had reported that they had interacted with Investors' Relationship Officer in connection with their grievances relating to non-receipt of dividend, bonus shares, etc.

Awareness among Corporate India about Shareholders Engagement

The table- 2 depicts that the board of directors of sample companies were aware of Shareholder Engagement, Investor Relations Policy, appointment of Independent Director, executive performance evaluation by shareholders, appointment of Investors' Relationship Officer, disclosure of details about board of directors, allowing shareholders to express their views and opinion and shareholder right to say on executive compensation. Majority of Board of Directors were also aware of Shareholder Engagement Programme, Investors Road Show and Board-Shareholder Dialogue. However, the Boards of Directors of sample companies were unaware of Proxy Advisory Companies as well as Shareholder Association which were considered as popular means of Shareholder Engagement across the globe.

It is clear from the table-3 that none of the sample company had adopted Shareholder Engagement Practices such as developing code of conduct on shareholder engagement, developing shareholder engagement disclosure format, conduct of regular dialogue with shareholders, disclosure of information which leads to insider trading, conduct of virtual annual meeting, allowing shareholders to say on executive compensation and disclosure regarding disposition of assets. Majority of companies have appointed Investors' Relationship Officer to look after the grievances of investors. All the sample companies have initiated measures to set up Investors' Grievance Cell and appointment of Independent Director.

Role of Government in Shareholder Engagement

The government and its regulatory bodies are playing vital role in protecting the interest of minority shareholder by initiating various policy measures. Key policy initiatives taken by them include the following: a) Ministry of Corporate Affairs, Government of India, in July 2011, came out with the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business'. These guidelines contain comprehensive principles to be adopted by companies as part of their business practices and a structured business responsibility reporting format requiring certain specified disclosures, demonstrating the steps taken by companies to implement the said principles. b) In 2001, the SEBI had introduced postal ballot voting system for certain types of resolutions. c) In 2010, option of holding shareholders' meeting viva video conferring or through other electronic means was introduced. d) In 2012, SEBI had introduced E-voting. Now E voting is mandatory for top 500 companies listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). e) Companies bill was amended in 2012 to expand the rights of shareholders, including rights to approve certain related-party transactions. f) SEBI had introduced significant changes to the listing agreement that are aimed at protecting minority shareholder interests in mergers and other forms of corporate restructuring involving listed companies.

IX. CONCLUSIONS

- 1) The study reveals that retail investors were unaware of the concept of Shareholder Engagement, conduct of analysts briefing meeting and road shows by the companies for creating awareness about shareholders' rights, existence of proxy advisory companies and shareholder association, right of minority shareholder to evaluate executive performance, disclosure of information relating personal and financial details of board of directors and shareholders right to say on executive compensation.
- 2) Majority of retail investors were unaware about Investor Relationship Policy and appointment of Independent Director who represent them in Board Meeting.
- 3) Majority of shareholders were also unaware about appointment of Investors Relationship Officer or Investor Grievance Cell set up by companies to look after grievances of shareholders.
- 4) The boards of directors of sample companies have not initiated actions to implement Shareholder Engagement Practices i.e. executive performance evaluation by shareholders, allowing shareholders to express their views and opinion and shareholder right to say on executive compensation, holding Investors Road Show, etc.

- 5) The study also reveals that the Board of Directors of sample companies were unaware of Shareholder Engagement Practices adopted by Companies in UK, USA and Russia. Board of Directors were found to be not showing much interest in acquiring information about shareholder engagement practices across the globe. The major shareholder engagement practices adopted at global level include existence of proxy advisory companies and Shareholder Association.
- 6) The study also reveals that none of the sample company had adopted shareholder engagement practices such as developing code of conduct on shareholder engagement, developing shareholder engagement disclosure format, conducting regular dialogue with shareholders, disclosure of information which leads to insider trading, conduct of virtual annual meeting, allowing shareholders to say on executive compensation and disclosure regarding disposition of assets.
- 7) The government and regulatory bodies in UK and USA have formulated a policy / guidelines for shareholder engagement. But in India neither SEBI nor Government of India has initiated any measures for Shareholder Engagement.
- 8) An interaction with representatives of Uttar Pradesh based Investor Association “Midas Touch Investors Association” reveals that the SEBI had called for meeting with Representatives of Investors Association on 21st December 2012 to discuss about investors problems. But, most of the items on the agenda were not discussed in the meeting. Further, the Chairman of SEBI did not spent much time with Representatives of Investors Association.

X. SUGGESTIONS

In the light of above findings, the following suggestions were made which may be of immense help to shareholders to express their views to Board Members on issues relating to Environmental, Social and Governance but also decisions which affect their interest and return on investments.

- 1) The government should provide fund for setting up of Retail Investors Association in India. The Association should represent its member's views, opinion, etc to Board Members and try to see that views of Minority Shareholder were taken into consideration while taking corporate decisions.
- 2) SEBI in association with Commerce and Business Management Schools should conduct Awareness Programme to educate shareholders about their rights and duties, their role in corporate governance, their role in protecting environment and society interest through Shareholder Engagement.
- 3) The retail investors were unaware about e-voting, video conference, e-ballot paper, etc. In this regard it is suggested that the companies should develop shareholder engagement policy and the same should hosted on their websites for the benefit of shareholder. Further, the companies need to develop shareholder

engagement programme covering issues such as guidelines, procedure, rights, disclosure format, complaint procedure, etc.

4) The companies in India need to establish link in their website connecting SEBI and Investors Association websites. This will ensure easy access to SEBI as well as Investor Association but also helps shareholder to file complaint to SEBI or investors Association on non compliance of shareholder engagement practices by companies.

5) Presently, there is no specific policy governing shareholder engagement is in existence in India. Therefore, it is suggested that SEBI should come out with policy on shareholder engagement. Shareholder engagement should be made mandatory for the Listed Companies. Further, any company violating the norms of shareholder engagement should be penalized with fine.

6) It is suggested that the companies should prepare Shareholder Engagement Report and same should be hosted on their respective website. Further, companies should submit the Shareholder Engagement Report to SEBI and Investors Association for their kind reference, remarks and feedback. The feedback, views, opinions and comments of shareholder as well as association but also measures taken on the same should also be disclosed on the website.

7) It was found that SEBI is not able to allocate reasonable & sufficient time for discussion with key stakeholders' i.e. retail investors/association. In this connection, it is suggested that SEBI should organize Investors Meet on every Saturday. This will also ensure the optimal and proper utilization of investor education and protection fund.

It is expected that the above measures if implemented, will play a measure role in ensuring corporate governance, protecting the interest of minority shareholders and value for them, but also protecting environment and preserving it for next generation.

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TABLES

TABLE-1
AWARENESS LEVEL AMONG SHAREHOLDER ABOUT SHAREHOLDERS ENGAGEMENT

| Awareness about | Yes | Percentage |
|--|-----|------------|
| Shareholder Engagement | 0 | 0 |
| Shareholder Engagement Programme | 0 | 0 |
| Investor Relations Policy | 9 | 15 |
| Analysts Briefing Held | 0 | 0 |
| Proxy Advisory Companies | 0 | 0 |
| Shareholder Association | 0 | 0 |
| Investors Road Show Conducted | 0 | 0 |
| Independent Director | 12 | 20 |
| Executive Performance Evaluation | 0 | 0 |
| Board-Shareholder Dialogue | 0 | 0 |
| Investors' Relationship Officer | 4 | 7 |
| Disclosure on BOD : Property Details, Tax Payment, Bank Account Details, Credential Report, Holding Pattern, Etc | 0 | 0 |
| Allowing Shareholders to Express their views on issuing concerning them | 0 | 0 |
| Say on Executive Compensation | 0 | 0 |

Source: Fieldwork

TABLE-2

AWARENESS AMONG CORPORATE INDIA ABOUT SHAREHOLDERS ENGAGEMENT

| Awareness among Corporate India about | Yes | Percentage |
|---|-----|------------|
| Shareholder Engagement | 10 | 100 |
| Shareholder Engagement Programme | 6 | 60 |
| Investor Relations Policy | 10 | 100 |
| Analysts Briefing Meeting | 5 | 50 |
| Proxy Advisory Companies | 2 | 20 |
| Shareholder Association | 1 | 10 |
| Investors Road Show | 7 | 70 |
| Independent Director | 10 | 100 |
| Executive Performance Evaluation | 10 | 100 |
| Board-Shareholder Dialogue | 6 | 60 |
| Investors' Relationship Officer | 10 | 100 |
| Disclosure on BOD : Property Details, Tax Payment, Bank Account | 10 | 100 |
| Allowing Shareholders to Express their views on issuing concerning them | 10 | 100 |
| Say on Executive Compensation | 10 | 100 |
| Source: Fieldwork | | |

TABLE-3:

REHOLDERS ENGAGEMENT PRACTICES DO ADOPTED BY CORPORATE IN

| Shareholder Engagement Practices | Yes | % |
|--|-----|-----|
| Allow Shareholders to Say on Policies of the Companies | 0 | 0 |
| Allow Shareholders to change the Management of the Companies | 3 | 30 |
| Developing Code of Conduct on Shareholder Engagement | 0 | 0 |
| Allow Shareholders to express their views, feelings and comments | 4 | 40 |
| Conducting Awareness Programme about Investor Relations | 1 | 10 |
| Setting up of Investors Grievance Cell | 10 | 100 |
| Supply Of Information About Environmental, Social & Governance Issues | 3 | 30 |
| Supply of Information which affect the interest of Shareholder & their ROI | 5 | 50 |
| Developing Shareholder Engagement Disclosure Format | 0 | 0 |
| Regular Dialogue with Shareholders | 0 | 0 |
| Holding Analyst Briefings | 2 | 20 |
| Investor Road Shows Conducted | 2 | 20 |
| Disclosure of Risk Management Initiatives taken by Board | 1 | 10 |
| Disclosure of information which leads to Insider Trading | 0 | 0 |
| Virtual Annual Meeting | 0 | 0 |
| Appointment of Independent Director | 10 | 100 |
| Appointment of Investors' Relationship Officer | 8 | 80 |
| Disclosure of Personal and Financial Details of BOD | 3 | 30 |
| Disclosure of Executive Compensation Package | 5 | 50 |
| Allowing Shareholder to say on Executive Compensation | 0 | 0 |
| Disclosure regarding disposition of Assets | 0 | 0 |
| Source: Interaction with CFOs and Observation | | |

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Dr. N Maruti Rao is currently working as Associate Professor, P.G. Dept. of Business Administration, Rani Channamma University, Belagavi, Karnataka. He has 15 years of rich teaching and research experience. His are of interest include Finance, Stock Market, Entrepreneurship & Economics. He had published 44 papers in national and international journals. He has presented research papers in overseas international conference i.e. Sri Lanka, Dubai, Hong Kong and Nepal. He has also presented 60 papers in national and international conferences organised in India. He is an Editorial Board Member of 20 Journals and Reviewer of 11 Journals. He holds life membership in many professional bodies like Indian Commerce Association and Indian Accounting Association. He had successfully conducted 2 national level conferences.

