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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal provided dedicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

# **THE INFLUENCE OF SHAREHOLDER PROPOSALS ON CORPORATE GOVERNANCE IN INDIA**

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## **1. Introduction: Shareholder Proposals and Corporate Governance in India**

Shareholder proposals are an important part of corporate governance since they allow shareholders to express their views or demands to management and the board of directors. These proposals for the Annual General Meeting might target a variety of topics, including executive remuneration, board composition, and environmental and social effect. These suggestions are significant because they have the ability to influence business policies and practices in ways that are consistent with shareholder interests and social expectations. The rising number of proposals concentrating on Environmental, Social, and Governance (ESG) issues reflects a growing sense of business responsibility beyond financial success, matching the global trend toward investor stewardship practices.<sup>1</sup>

Shareholder proposals are important in corporate governance because they allow shareholders to voice their needs to management and the board of directors. These proposals can address topics like as executive remuneration, board composition, and environmental and social effect. The relevance resides in creating business policies and procedures in accordance with shareholder interests and social expectations. The expanding number of proposals concentrating on ESG issues demonstrates a greater knowledge of corporate responsibility beyond financial performance.<sup>2</sup>

## **2. The Legal and Regulatory Framework for Shareholder Proposals in India**

India's legal system, principally controlled by the Companies Act of 2013, permits shareholders to present resolutions for consideration. Sections 100-102 provide shareholders the ability to attend and vote at general meetings, while Section 115 permits them to make motions. The

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<sup>1</sup> Lawcrust, *Shareholder Activism Rights in India*, <https://lawcrust.com/shareholder-activism-rights-india/>

<sup>2</sup> STA Law Firm, *Corporate Governance in India: Trends and Best Practices for 2025*, <https://www.stalawfirm.com/en/blogs/view/corporate-governance-in-india-trends-and-best-practices-for-2025.html>

Securities and Exchange Board of India (SEBI) Regulations of 2015 require shareholder approval for major actions in listed businesses. Section 115 of the Companies Act, 2013 gives a legal framework for shareholders to offer resolutions at AGMs, while SEBI regulations further shareholder empowerment by demanding their approval on critical matters.<sup>3</sup>

Shareholder proposals are submitted for voting during a company's Annual General Meeting (AGM). Companies must provide members with a notice at least 21 days before the AGM, outlining the business to be conducted. The board considers the proposals, and shareholders vote on them. Although many proposals are advisory and non-binding, their influence on the board's decision-making can be substantial. The submission, board consideration, and subsequent shareholder vote can exert considerable "reputational pressure"<sup>4</sup> on the company to take concerns raised seriously.

### **3. The Growing Landscape of Shareholder Activism in India**

In recent years, India has experienced a considerable surge in shareholder activism, which is being driven by rising investor knowledge and a greater emphasis on corporate responsibility. Shareholders are increasingly expressing their thoughts and concerns about crucial topics like as CEO pay, related party transactions, and environmental, social, and governance (ESG) performance. This trend points to a mature investor base in India, where shareholders are no longer satisfied with being passive beneficiaries of corporate choices and are actively seeking more control over the firms they own. Shareholder proposals are one important technique used in the larger range of shareholder activism. Other methods to exert their influence include directly voting against proposals put forth by the board, engaging in public campaigns to raise awareness about specific issues, holding private meetings with company management to discuss concerns, and resorting to litigation to protect their rights. Furthermore, shareholders who meet certain ownership thresholds have the right to call for an EGM to specifically address urgent or critical matters that require immediate attention.

The growing importance of institutional investors, who frequently own huge shares in

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<sup>3</sup> Rahul Bajaj, *Shareholder Activism in India: A Case for Strengthening the Legal Framework*, 16(2) JINDAL GLOBAL L. REV. 1 (2021), <https://journals.sagepub.com/doi/10.1177/09746862211045760>.

<sup>4</sup> Luc Renneboog & Peter Szilagyi, *The Role of Shareholder Proposals in Corporate Governance*, U. SASK. CTR. FOR STUDIES IN FIN. & MGMT., <https://edwards.usask.ca/centres/csfm/files/papers2010/3b-The%20Role%20of%20Shareholder%20Proposals%20in%20Corporate%20Governance.%20L.%20Renneboog%20and%20P.%20Szilagyi.pdf>

corporations, is a major driver of shareholder activism in India. These investors are more engaged in exercising their voting rights and demanding improved corporate governance standards. Complementing this trend is the rise and growing impact of proxy advice companies, who perform in-depth research and advise institutional investors on how to vote on various resolutions, serving as an important mediator in the corporate governance environment. The assistance and analysis offered by proxy advisory firms can have a major impact on institutional investors' voting decisions, magnifying the efficacy of shareholder activism in India.

Shareholder proposals in India have increasingly become a tool for influencing various aspects of corporate governance, resulting in a greater emphasis on executive compensation, board composition, related party transactions, and compliance with Environmental, Social, and Governance (ESG) principles. According to research, shareholder activism can improve a company's financial performance in the term after the activist involvement. Other research, however, show a negative or even small influence, which might be attributed to the widespread concentrated ownership arrangements in many Indian enterprises.

Several case studies highlight the practical impact of shareholder suggestions on critical company decisions in India. For example, shareholders in firms like as Eicher Motors and Balaji Telefilms have successfully resisted or influenced planned hikes in CEO compensation. The growing emphasis on ESG problems in these proposals reflects a global movement toward a broader view of corporate responsibility, as well as increased shareholder interest about non-financial performance criteria.

Shareholder proposals serve as a method for increasing transparency and making boards of directors responsible for their choices and actions. By requesting more detailed information and lobbying for stronger governance processes, shareholders help to establish a business climate characterized by increased openness and responsibility.<sup>5</sup>

## **5. Board Consideration of Shareholder Proposals in India**

The board of directors of Indian firms has a fiduciary obligation to act in the best interests of the company and its shareholders. While advisory shareholder recommendations are not legally binding, the board must examine them and respond appropriately. This entails re-evaluating

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<sup>5</sup> Lawcrust, supra note 1.

current policies, participating in productive discussions with the shareholders who proposed them, and maybe implementing modifications to meet the concerns voiced.

Several factors influence how a company's board responds to shareholder proposals, including the level of support from other shareholders, the nature of the proposal, the extent of shareholder engagement with the company, and proxy advisory firm recommendations. A strong degree of shareholder support for a plan, combined with a negative recommendation from a well-known proxy consulting company, is likely to elicit a more extensive review and reaction from the board. In India, the bulk of shareholder recommendations are advisory rather than legally obligatory. These suggestions, however, can nonetheless result in major changes inside a firm owing to the reputational pressure they generate and the interaction they promote between shareholders and the board. To preserve investor trust and keep their fiduciary obligations, boards are frequently required to act on advisory suggestions that garner significant shareholder support.

## II. Shareholder Proposals: Definition and Importance

### A. Understanding Shareholder Proposals

#### 1. What Constitutes a Shareholder Proposal?

A shareholder proposal is a formal recommendation or request submitted by shareholders to a company's board of directors, typically presented during the Annual General Meeting (AGM) (Shleifer & Vishny, 1997).<sup>6</sup> These proposals address governance, financial strategy, or ethical concerns and can be advisory (non-binding) or mandatory (binding), depending on company bylaws and regulatory frameworks (SEBI, 2023).

#### 2. Legal Requirements and Submission Process: In India, shareholder proposals are governed by the Companies Act, 2013, and the Securities and Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 (SEBI, 2015).<sup>7</sup>

Key requirements include:

- i) Ownership Threshold: Shareholders must hold at least 1% of voting rights or shares worth ₹5 lakh to submit a proposal (Companies Act, 2013, Section 111).

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<sup>6</sup> Andrei Shleifer & Robert W. Vishny, *A Survey of Corporate Governance*, 52 J. FIN. 737 (1997).

<sup>7</sup> Securities and Exchange Board of India, <https://www.sebi.gov.in>

ii) Filing Deadline: Proposals must be submitted at least six weeks before the AGM (SEBI LODR, 2015).

iii) Voting Process: Shareholder proposals are put to vote, requiring a simple majority for ordinary resolutions and a 75% majority for special resolutions (Companies Act, 2013, Section 114).

### 3. Categories of Shareholder Proposals

Shareholder proposals can be broadly classified into:

i) Governance-Related Proposals: Board independence, executive pay, and transparency (OECD, 2020).

ii) Environmental, Social, and Governance (ESG) Proposals: Sustainability practices, ethical sourcing, and diversity (IiAS, 2022).

iii) Financial and Strategic Proposals: Dividend policies, mergers, and capital allocation (Jensen, 1986).

## B. The Role of Shareholders in Corporate Governance

### 1) Minority vs. Majority Shareholder Rights

- Majority Shareholders: Typically, promoters or institutional investors with control over board decisions (La Porta et al., 1999).<sup>8</sup>
- Minority Shareholders: Often struggle to influence governance, leading to regulatory interventions such as SEBI's minority shareholder protection norms (SEBI, 2021).

### 2) Institutional Investors vs. Retail Investors

- Institutional Investors: Mutual funds, pension funds, and foreign investors wield significant influence. SEBI's Stewardship Code, 2020, mandates them to disclose voting policies (SEBI, 2020).
- Retail Investors: Face challenges due to limited coordination and awareness but benefit from e-voting platforms introduced under SEBI reforms (IiAS, 2022).

### 3) Shareholder Engagement and Activism

- Engagement: Includes AGMs, proxy votes, and investor relations (Gompers, Ishii & Metrick, 2003).
- Activism: High-profile cases in India include Tata Sons' governance crisis and Infosys leadership disputes (Business Standard, 2021).

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<sup>8</sup> Rafael La Porta, Florencio Lopez-de-Silanes & Andrei Shleifer, *Corporate Ownership Around the World*, 54 J. FIN. 471 (1999).

### III. Legal and Regulatory Framework Governing Shareholder Proposals in India

#### A. Company Law and SEBI Regulations

- The Companies Act, 2013<sup>9</sup>: This Act is the cornerstone of corporate governance in India, outlining shareholders' rights and obligations. Notably, Section 100 empowers shareholders with at least 10% of the paid-up share capital to call an Extraordinary General Meeting (EGM) to address specific problems.
- Securities and Exchange Board of India (SEBI) Guidelines: SEBI<sup>10</sup>, as the Listing Obligations and Disclosure Requirements (LODR) Regulations were developed by the Securities Markets Regulatory Authority (SMRA). These rules require listed firms to follow strict disclosure and corporate governance requirements, which provide openness and protect shareholder interests.
- Shareholder Rights under Corporate Governance Norms: Shareholders have the power to submit resolutions and vote on crucial company issues at general meetings. The Companies Act and SEBI rules guarantee that shareholders have a say in board composition, CEO compensation, and major company decisions.

#### B. Regulatory Institutions and Their Role

- SEBI's Role in Protecting Shareholder Interests: SEBI monitors and regulates the securities market, developing standards to encourage fair conduct and safeguard investors. It guarantees that firms provide timely and accurate disclosures, allowing shareholders to make informed decisions.
- The National Company Law Tribunal (NCLT)<sup>11</sup> and Dispute Resolution: The NCLT operates as a quasi-judicial tribunal that resolves issues involving corporation matters. Shareholders can contact the NCLT with complaints against oppression, mismanagement, or other business problems, guaranteeing a formalized procedure for conflict resolution.
- Stock Exchanges and Listing Requirements: Stock markets, such as the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), enforce listing agreements that require corporations to follow corporate governance guidelines. These criteria

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<sup>9</sup> Companies Act, No. 18 of 2013, INDIA CODE (2013).

<sup>10</sup> Securities and Exchange Board of India, *Listing Obligations and Disclosure Requirements (LODR) Regulations*, SEBI/LAD-NRO/GN/2015-16/013 (Sept. 2, 2015).

<sup>11</sup> Companies Act, No. 18 of 2013, INDIA CODE (2013).

include timely disclosures, maintaining a minimum public ownership, and adhering to shareholder rights rules, thereby fostering transparency and accountability.

By understanding this legal and regulatory framework, shareholders in India can effectively exercise their rights and contribute to robust corporate governance.

## IV. Case Studies

### A) Case Study 1: Tata Group and Shareholder Activism

- i) **Background: Tata Sons' Governance Crisis, Shareholder Interventions:** Tata Sons, the Tata Group's holding company, faced a serious governance problem in October 2016 when Chairman Cyrus Mistry was unceremoniously removed by the board. This hurried move created a public and prolonged feud between Mistry and the Tata family, particularly Ratan Tata, the group's patriarch. Mistry contested his dismissal, citing mismanagement and a lack of corporate governance at Tata Sons. The controversy received substantial attention and exposed issues with corporate governance at one of India's top conglomerates.<sup>12</sup>
- ii) **Role of Institutional Investors (LIC, Foreign Investors):** Institutional investors had an important part in the Tata Sons governance dilemma. The Life Insurance Corporation of India (LIC), one of the major owners in numerous Tata Group firms, as well as international institutional investors, were keenly watching the events unfold. Their viewpoints and voting decisions influenced the outcome of shareholder resolutions and boardroom disputes. These institutional investors' positions shaped the wider narrative about corporate governance norms and shareholder rights in India.
- iii) **Board Decisions Influenced by Shareholder Proposals:** The governance issue heightened scrutiny of Tata Sons' board choices, prompting talks about improving openness and accountability. Shareholders, notably institutional investors, lobbied for improvements to the group's corporate governance processes. This action led to discussions about redefining the duties and responsibilities of the board, enhancing communication with shareholders, and enacting steps to prevent similar crises in the future.<sup>13</sup>

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<sup>12</sup> *Cyrus Mistry's Removal: Several Decisions by Him Did Not Go Down Well with Tata Trusts*, ECON. TIMES, <https://m.economictimes.com/news/company/corporate-trends/cyrus-mistrys-removal-several-decisions-by-him-did-not-go-down-well-with-tata-trusts/articleshow/55040072.cms>

<sup>13</sup> *Boards in Crisis*, FORTUNE INDIA, <https://www.fortuneindia.com/enterprise/boards-in-crisis/101397>

## **B. Case Study 2: Infosys and Shareholder Pressure on Corporate Strategy**

- i) Vishal Sikka's Resignation and Shareholder Influence: In August 2017, Vishal Sikka resigned as CEO and Managing Director of Infosys, claiming "a continuous drumbeat of distractions" and "unrelenting, baseless/malicious, and increasingly personal attacks." His resignation reflected continuous difficulties between the company's board and its founders, notably N.R. Narayana Murthy. Murthy's public conflicts and critiques of Infosys' corporate governance policies produced a climate that Sikka considered intolerable, resulting in his departure.<sup>14</sup>
- ii) Role of Narayana Murthy and Institutional Shareholders: Narayana Murthy, Infosys' co-founder and previous chairman, had a crucial part in the events that led to Sikka's resignation. Murthy repeatedly questioned board actions, including CEO salary and severance packages, raising worries about worsening corporate governance standards. Given his status and the respect, he commanded among stockholders and employees, his critiques had a significant impact. Institutional shareholders were keenly monitoring these events, since the unfolding drama had significant ramifications for the company's stability and strategy direction.
- iii) Impact on Board Decisions and Governance Changes: The upheaval surrounding Sikka's resignation, as well as the challenges expressed by Murthy, prompted Infosys to reflect on its governance structures. The board was under pressure to address the issues raised by Murthy and other stakeholders, which led to efforts targeted at increasing transparency and strengthening corporate governance processes. These measures were meant to repair confidence among investors, workers, and other stakeholders, and to guarantee that the company's leadership could function successfully without excessive external pressures.

## **V. Challenges and Limitations of Shareholder Proposals in India**

### **1. Lack of Binding Power**

The majority of shareholder recommendations in India are advisory rather than binding. Even if a resolution wins majority approval from shareholders, boards are not legally obligated to adopt it, limiting the true impact of the minority shareholders.

### **2. Concentrated Ownership Structure**

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<sup>14</sup> Vishal Sikka Quits Infosys on Bitter Note, Board Blames Founder Narayana Murthy, TIMES OF INDIA, <https://timesofindia.indiatimes.com/business/india-business/vishal-sikka-quits-infosys-on-bitter-note-board-blames-founder-narayana-murthy/articleshow/60127182.cms>

In India, the promoter-dominated ownership structure presents a significant difficulty. In most Indian enterprises, promoters possess a considerable interest, frequently over 50%, allowing them to overrule shareholder motions from minority or institutional investors.

### **3. Limited Shareholder Rights**

While the Companies Act, 2013 and SEBI rules give avenues for shareholders to voice concerns, the criteria for submitting resolutions (e.g., owning at least 10% of voting rights or shares worth INR 5 lakh for six months) are high and discourage regular shareholders activism.

### **4. Low Shareholder Participation**

Many retail shareholders do not actively vote or attend AGMs/EGMs due to a lack of knowledge or access to proxy advice services. This results in poor turnout, which can undermine the efficacy of shareholders activism.<sup>15</sup>

### **5. Regulatory and Procedural Hurdles**

Shareholders must comply with rigorous procedural procedures and fulfil tight deadlines when submitting proposals or scheduling meetings. Non-compliance might result in rejection by the board, providing a high barrier for participation.

### **6. Dependence on Institutional Investors**

Institutional investors, such as mutual funds and insurance corporations, are the primary drivers of activism. Retail shareholders frequently lack both the resources and influence to have a substantial impact on corporations' decisions.

### **7. Limited Transparency and Information Asymmetry**

Shareholders may not always have access to timely and accurate information, restricting their capacity to make informed decisions or suggest relevant changes.<sup>16</sup>

### **8. Board Resistance and Entrenchment**

In many circumstances, boards may actively oppose shareholder proposals, particularly those that threaten management control or question current strategy. Such entrenched boards might stymie reforms or dismiss minority concerns.

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<sup>15</sup> Lexology, *India: Shareholder Proposals and Governance Reforms*, <https://www.lexology.com/library/detail.aspx?g=d2b13aa6-7ee0-4231-a72c-d03721ce6e9b>

<sup>16</sup> J. Aboody & B. Lev, *Corporate Governance and Information Asymmetry Between Managers and Investors*, [https://www.researchgate.net/publication/235306453\\_Corporate\\_governance\\_and\\_information\\_asymmetry\\_between\\_managers\\_and\\_investors](https://www.researchgate.net/publication/235306453_Corporate_governance_and_information_asymmetry_between_managers_and_investors)

## VI. Future Trends and Recommendations for Shareholder Proposals in India

### A. Future Trends

#### 1. Increasing Role of Institutional Investors

As SEBI demands increased active engagement from mutual funds and institutional investors through stewardship guidelines, and their impact on company choices is expected to expand. These institutions are anticipated to promote improved governance and long-term value development.<sup>17</sup>

#### 2. Rise of ESG-Driven Proposals

Environmental, Social and governance (ESG) issues are gaining traction throughout the world, and Indian shareholders are starting to catch up. Shareholder requests for climate action, board diversity, and ethical sourcing are set to rise.

#### 3. Enhanced Retail Participation via Digital Platforms

With the rise of e-voting systems and dematerialization, retail shareholders now have greater access and opportunities to engage in governance. The digital transition is projected to diminish small investors' customary disinterest.

#### 4. Growth of Proxy Advisory Firms

Proxy advisors like Institutional Investor Advisory Services (IiAS) and InGovern are becoming influential voices in shaping shareholder sentiment, especially by guiding institutional investors on how to vote.<sup>18</sup>

### B. Recommendations

#### 1. Lower thresholds for shareholder resolutions.

To empower minority shareholders, lessen the bar for filing resolutions (currently 10% ownership or ₹5 lakh worth of shares), especially for ESG-related or governance-enhancing motions.

#### 2. Make specific proposals. Binding

SEBI and MCA should explore making some types of shareholder resolutions binding, particularly those with overwhelming majority support, in order to improve board accountability.

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<sup>17</sup> Securities and Exchange Board of India, *Stewardship Code for Mutual Funds and All Categories of AIFs*, SEBI Circular No. CIR/CFD/CMD1/168/2019 (Jan. 24, 2020).

<sup>18</sup> Institutional Investor Advisory Services (IiAS), <https://iiasadvisory.in> ; InGovern Research Services, <https://ingovern.com>

3. Strengthen minority protection mechanisms.  
Expand safeguards under Section 245 of the Companies Act (Class Action Suits) and strengthen enforcement of coercive board practices.
4. Encourage ESG engagement.  
Companies should be encouraged to actively engage shareholders on ESG issues through required disclosure frameworks and sustainability reporting.
5. Capacity Building for Retail Shareholders  
SEBI and stock exchanges should expand up their investor education programs to enable ordinary investors understand their rights and effectively influence corporate governance.
6. Enhance transparency in board decisions.  
Mandating extensive disclosures on how boards evaluate (or reject) shareholder proposals would increase openness and accountability.

## VII. Conclusion

The importance of shareholder suggestions in affecting corporate governance in India has grown in recent years. As stakeholders call for greater transparency, accountability, and ethical corporate practices, shareholder activism—particularly through formal proposals—has emerged as a crucial driver of governance reform.

Case studies like Tata Sons and Infosys demonstrate how shareholders, particularly institutional investors, may challenge boardroom decisions, advocate for greater governance, and even influence leadership changes. Regulatory efforts, such as the SEBI Stewardship Code, have further empowered institutional investors, encouraging them to interact more responsibly with investee firms.

However, significant structural and procedural obstacles continue to impede the widespread adoption and efficacy of shareholder recommendations in India. These include high ownership requirements for submitting resolutions, promoter domination, little retail engagement, and the non-binding character of most initiatives.

To effectively increase corporate governance and foster shareholder democracy, India's legal and regulatory environment must be further reformed. This involves reducing barriers, increasing transparency UJMI8-, fostering ESG involvement, and bolstering minority rights

with stronger enforcement tools.

In conclusion, while shareholder proposals in India have made significant progress, their full potential will only be realized when regulatory backing, institutional commitment, and shareholder awareness come together to create a more inclusive and responsible corporate ecosystem.

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