

## SHAREHOLDER ACTIVISM AND CORPORATE GOVERNANCE REFORMS IN INDIA

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### I. **ABSTRACT**

In recent years, shareholder activism has emerged as a significant force influencing corporate governance reforms in India. Traditionally, Indian companies have been characterised by concentrated ownership structures and promoter-driven management, which often limited the role of minority shareholders in corporate decision-making.

However, the increasing presence of institutional investors, enhanced regulatory supervision, and growing awareness among shareholders have contributed to a gradual shift towards greater accountability and transparency within corporate governance frameworks. This paper seeks to examine the evolving role of shareholder activism in strengthening corporate governance practices in India.

The study undertakes a doctrinal and analytical examination of the legal and regulatory framework governing shareholder rights, with specific reference to the Companies Act, 2013 and the regulatory measures introduced by the Securities and Exchange Board of India (SEBI), including the Listing Obligations and Disclosure Requirements Regulations. It analyses the various mechanisms through which shareholder activism operates, such as the exercise of voting rights, submission of shareholder resolutions, engagement with management, reliance on proxy advisory firms, and the use of class action remedies.

The paper also evaluates the contribution of institutional investors and stewardship principles in promoting responsible corporate conduct and protecting investor interests. Despite notable regulatory reforms, the effectiveness of shareholder activism in India continues to be constrained by several challenges, including promoter dominance, limited participation by retail shareholders, procedural complexities, and enforcement deficiencies.

Through an assessment of the Indian experience and a brief comparative analysis with developed jurisdictions, the paper highlights both the progress made and the gaps that remain.

The study concludes by proposing legal and policy-oriented recommendations aimed at strengthening shareholder engagement, enhancing minority shareholder protection, and reinforcing corporate governance standards, thereby contributing to sustainable corporate growth and increased investor confidence in the Indian corporate sector.

## II- CONCEPTUAL UNDERSTANDING OF SHAREHOLDER ACTIVISM

### Meaning and Nature of Shareholder Activism

Shareholder activism refers to the active involvement of shareholders in influencing the decision-making processes and governance practices of a company with the objective of protecting their interests and improving corporate performance. Unlike the traditional perception of shareholders as passive investors concerned only with financial returns, shareholder activism recognises shareholders as key participants in corporate governance who can exercise oversight over management and the board of directors. Activism may take various forms, including voting against management proposals, proposing shareholder resolutions, engaging in dialogue with the board, and, in certain circumstances, initiating legal proceedings against the company.

The nature of shareholder activism lies in its role as a monitoring mechanism that seeks to address agency problems arising from the separation of ownership and control in modern corporations. In companies where management exercises significant discretion, shareholder activism acts as a corrective tool to ensure that managerial decisions align with shareholder interests and broader governance standards. This is particularly relevant in jurisdictions like India, where promoter dominance and concentrated shareholding structures have historically limited the effectiveness of minority shareholder participation.

Shareholder activism may be categorised as either *reactive* or *proactive* in nature. Reactive activism occurs in response to specific corporate actions such as poor financial performance, governance failures, executive remuneration issues, or related-party transactions. Proactive activism, on the other hand, involves sustained engagement by shareholders aimed at improving long-term

governance practices, transparency, and sustainability standards. Institutional investors, such as mutual funds and pension funds, often engage in proactive activism through voting policies and stewardship responsibilities.

From a legal perspective, shareholder activism derives legitimacy from statutory shareholder rights, including the right to vote, seek information, requisition meetings, and seek remedies against oppression or mismanagement. In the Indian context, these rights are primarily governed by corporate legislation and securities regulations, which aim to balance managerial autonomy with shareholder oversight. Thus, shareholder activism represents a shift towards participatory corporate governance, where shareholders act not merely as investors but as guardians of corporate accountability and ethical conduct.<sup>123</sup>

In addition to these statutory rights, the regulatory framework in India further reinforces shareholder activism by mandating transparency and accountability in corporate decision-making. Disclosure obligations imposed on companies ensure that shareholders are adequately informed about material developments, enabling them to exercise their rights in an effective and informed manner. Regulatory oversight by securities authorities also provides shareholders with institutional avenues to raise grievances and seek corrective measures in cases of governance failures.

Moreover, the growing recognition of stewardship responsibilities has expanded the scope of shareholder activism beyond reactive intervention to proactive engagement. Institutional investors are increasingly encouraged to monitor corporate conduct, engage with management on governance concerns, and promote long-term value creation. This approach reflects an evolving understanding of shareholder activism as a constructive governance tool rather than an adversarial mechanism.

Consequently, shareholder activism in India signifies a gradual transformation in corporate governance philosophy, where shareholder participation complements regulatory control and board oversight. By facilitating greater engagement, transparency, and accountability, shareholder activism contributes to aligning corporate objectives with broader stakeholder interests and reinforces ethical and sustainable business practices.

### III. CORPORATE GOVERNANCE FRAMEWORK IN INDIA

Corporate governance refers to the system of rules, practices, and processes by which companies are directed and controlled, with the objective of ensuring accountability, transparency, and fairness in corporate management. In India, the corporate governance framework has evolved significantly over the past few decades, largely in response to corporate scandals, market liberalisation, and the growing need to protect investor interests. The Indian approach to corporate governance seeks to balance managerial autonomy with effective oversight by shareholders and regulatory authorities.

The development of corporate governance norms in India can be traced to the recommendations of various committees constituted to address governance deficiencies. Early initiatives such as the Kumar Mangalam Birla Committee Report emphasised the importance of board independence, audit committees, and enhanced disclosures for listed companies. These recommendations laid the foundation for formal regulatory intervention by recognising good governance as essential for maintaining investor confidence and market integrity. Subsequent committees, including the Narayana Murthy Committee, further strengthened governance norms by focusing on transparency, related-party transactions, and the responsibilities of directors.

The statutory backbone of corporate governance in India is provided by the

Companies Act, 2013, which introduced significant reforms aimed at strengthening board accountability and shareholder protection. The Act mandates the appointment of independent directors, constitution of board committees, disclosure obligations, and mechanisms to address oppression and mismanagement.

These provisions seek to ensure that corporate decision-making is conducted in a manner that is fair and aligned with the interests of shareholders and other stakeholders. In addition to company law, securities regulation plays a crucial role in shaping corporate governance standards. The Securities and Exchange Board of India (SEBI), through the Listing Obligations and Disclosure Requirements (LODR) Regulations, has imposed detailed governance and disclosure requirements on listed entities.<sup>456</sup>

### IV. LEGAL AND REGULATORY FRAMEWORK GOVERNING SHAREHOLDER ACTIVISM IN INDIA

The legal foundation of shareholder activism in India is primarily derived from the Companies Act, 2013, which recognises shareholders as active participants in corporate governance rather than mere investors. The Act grants shareholders statutory rights such as voting on key corporate matters, requisitioning extraordinary general meetings, and proposing resolutions, thereby enabling them to influence corporate decision-making. Further, the provisions relating to oppression and mismanagement empower shareholders to seek legal remedies where the conduct of a company's affairs is prejudicial to their interests.<sup>2</sup> The introduction of class action suits under the Act marks a significant advancement, as it allows shareholders to collectively pursue remedies against unlawful or unethical corporate conduct, strengthening the enforcement dimension of shareholder activism. In addition to company law, securities regulation administered by the Securities and Exchange Board of India (SEBI) plays a crucial role in facilitating shareholder activism,

particularly in listed companies. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 mandate extensive disclosure requirements and require shareholder approval for critical matters such as related-party transactions, appointment and remuneration of directors, and alterations in capital structure. These regulatory measures promote transparency and ensure that shareholders have access to timely and adequate information, which is essential for informed engagement and effective oversight of management decisions. Further, SEBI has sought to institutionalise shareholder activism through the introduction of stewardship codes applicable to institutional investors. These codes encourage large shareholders, such as mutual funds and alternative investment funds, to actively monitor investee companies, exercise voting rights responsibly, and engage constructively with management. By emphasising long-term value creation and responsible ownership, the regulatory framework reflects a gradual shift towards participatory corporate governance in India, where shareholder activism is increasingly viewed as a legitimate and necessary mechanism for enhancing accountability, transparency, and corporate sustainability.<sup>78</sup>

V. MECHANISMS AND TOOLS OF SHAREHOLDER ACTIVISM

One of the primary mechanisms of shareholder activism is the exercise of voting rights at general meetings of the company. Shareholders may vote in favour of or against resolutions relating to the appointment and remuneration of directors, approval of related-party transactions, mergers, and other significant corporate actions. The right to requisition extraordinary general meetings and propose shareholder resolutions enables shareholders to raise governance concerns directly before the company and other stakeholders. Through informed voting and collective action, shareholders can exert meaningful influence over managerial

decisions and board accountability. Another important tool of shareholder activism is engagement with management and the board, often facilitated through institutional investors and proxy advisory firms. Proxy advisory firms analyse corporate proposals and provide voting recommendations to shareholders, thereby enhancing informed decision-making. Institutional investors, guided by stewardship principles, engage in dialogue with companies to address governance lapses, executive compensation practices, and sustainability issues. Such engagement-based activism is increasingly preferred as it seeks to achieve governance reforms without resorting to adversarial measures, thereby promoting long-term corporate value. Legal remedies also constitute a significant mechanism for shareholder activism, particularly where governance failures persist. The Companies Act, 2013 provides for remedies against oppression and mismanagement and introduces class action suits, enabling shareholders to collectively seek redress against unlawful acts of the company, directors, or auditors. Additionally, regulatory intervention through the Securities and Exchange Board of India allows shareholders to raise complaints relating to disclosure violations and unfair practices in listed entities. Together, these mechanisms and tools empower shareholders to function as effective monitors of corporate conduct and contribute to improved governance standards in India.<sup>910</sup>

VII. SHAREHOLDER ACTIVISM AND CORPORATE GOVERNANCE REFORMS: INDIAN EXPERIENCE

The Indian experience with shareholder activism reflects a gradual but significant shift from a promoter-centric model of corporate control towards greater accountability and shareholder participation. While shareholder activism in India was traditionally limited due to concentrated ownership structures and passive retail investors, recent years have witnessed increased engagement by institutional investors and informed shareholders. This shift has been facilitated by regulatory reforms aimed at

strengthening disclosure norms, enhancing board accountability, and expanding shareholder rights, thereby creating an enabling environment for activism. Several instances of shareholder intervention in India have resulted in meaningful corporate governance reforms. Shareholders have increasingly exercised their voting rights to oppose executive remuneration proposals, reject related-party transactions, and demand greater transparency in board appointments. Such interventions have compelled corporate boards to reassess governance practices and align managerial decisions with shareholder interests. The growing influence of proxy advisory firms has further strengthened this trend by enabling shareholders to make informed voting decisions and collectively challenge management proposals that raise governance concerns. Regulatory initiatives by the Securities and Exchange Board of India have also played a crucial role in reinforcing shareholder activism as a governance tool. Enhanced disclosure requirements under the SEBI (Listing Obligations and Disclosure Requirements) Regulations and the introduction of stewardship responsibilities for institutional investors have contributed to greater transparency and accountability in listed companies. Although shareholder activism in India remains relatively restrained compared to developed jurisdictions, its increasing acceptance has led to measurable improvements in corporate governance standards. The Indian experience thus demonstrates that shareholder activism, when supported by an effective regulatory framework, can function as a constructive mechanism for corporate governance reform.<sup>1112</sup>

#### VIII. CHALLENGES AND LIMITATIONS OF SHAREHOLDER ACTIVISM IN INDIA

Despite recent regulatory reforms, shareholder activism in India faces several structural and practical limitations. A major challenge is the **concentration of ownership** in many companies, where promoters or large shareholders hold significant stakes, reducing

the influence of minority shareholders on corporate decision-making. This often limits the effectiveness of voting rights and shareholder resolutions, making it difficult for smaller investors to initiate meaningful change. Another limitation is the **relatively low participation of retail shareholders**, who are often uninformed about governance issues or lack the resources to engage actively.

While institutional investors have become more proactive, their focus is frequently on financial returns rather than broader governance reforms. Procedural complexities under the Companies Act, 2013, such as requisitioning meetings and filing class action suits, also hinder timely and effective activism. Finally, **regulatory and enforcement gaps** pose a significant constraint. While SEBI regulations and stewardship codes provide guidance, implementation and monitoring remain inconsistent, limiting their practical impact. Lack of transparency in board decisions and delays in legal remedies further weaken the capacity of shareholders to hold management accountable.

Collectively, these structural, procedural, and regulatory challenges continue to restrict the scope and effectiveness of shareholder activism in India, despite its growing importance in promoting corporate governance reforms.<sup>131415</sup>

#### XI. CONCLUSION

Shareholder activism in India has emerged as a vital mechanism for strengthening corporate governance, enhancing transparency, and promoting accountability among company boards. While regulatory reforms under the Companies Act, 2013 and SEBI regulations have provided shareholders with statutory rights and oversight tools, the effectiveness of activism is still constrained by concentrated ownership, limited minority participation, and enforcement challenges. Despite these limitations, institutional investors, proxy advisory services, and evolving regulatory practices have begun to empower shareholders to play a more active role in corporate decision-making.

The Indian experience demonstrates that shareholder activism, though relatively nascent, can contribute meaningfully to corporate governance reforms when supported by a robust legal and regulatory framework. Strengthening minority shareholder rights, enhancing transparency, and ensuring consistent enforcement of governance norms will be crucial for further development. Ultimately, fostering a culture of active shareholder engagement is essential for sustainable corporate growth, investor confidence, and the overall integrity of India's corporate sector.<sup>16</sup>

#### ENDNOTES

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