

A STUDY OF CORPORATE GOVERNANCE VIS-A VIS SHAREHOLDER AGREEMENT

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ABSTRACT

This research delves into the intricate dynamics of shareholder activism within the context of corporate governance in India. Through an extensive analysis of case studies and legal precedents, the study examines the multifaceted impact of shareholder activism on company operations, governance standards, and stakeholder rights.

The investigation reveals a nuanced understanding of the advantages and disadvantages associated with shareholder activism. While activism can potentially enhance operational efficiency, promote corporate governance, and encourage socially responsible investing, it also poses challenges such as impeding long-term growth, disrupting decision-making processes, and fostering internal conflicts within companies.

Furthermore, the study explores Indian institutional activism case studies, including acquisitions, related party transactions, and mergers, to illustrate the tangible effects of shareholder activism on corporate decisions and outcomes. By incorporating case law examples, such as the Vodafone tax case, the Reebok India scam, and the Kingfisher case, the research underscores the legal and regulatory dimensions shaping shareholder activism in India.

In conclusion, the study advocates for constructive engagement between shareholders and companies, emphasizing the importance of dialogue and collaboration to foster sustainable business development. By aligning activism with the interests of all stakeholders and promoting transparency and accountability, shareholder activism can catalyze positive change within corporate governance frameworks and contribute to long-term business success.

KEYWORDS: *Shareholder, Governance, Corporate, Activism, Practice, Act, Behaviour*

1. INTRODUCTION TO CORPORATE GOVERNANCE

The terminology "corporate governance" refers to the objectives and procedures of corporation governance. It denotes persons in positions of power and accountability in addition to decision-makers. It is essentially a collection of tools

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designed to assist management and the board in better addressing the challenges associated with running a firm. A company's ability to make choices that balance the interests of all stakeholders—consumers, suppliers, shareholders, and society at large—is ensured by its corporate governance framework.

The strategies a company uses to define and achieve its objectives while operating in the social, legal, and economic spheres are collectively referred to as corporate governance. It focuses on procedures and policies meant to ensure that a company is run in a way that achieves its objectives and gives stakeholders peace of mind that their confidence in the company is well-founded. The community is in a state of balance that allows society to grow as a whole.¹

2. CADBURY COMMITTEE REPORT

The Cadbury Report, formally titled "The Financial Aspects of Corporate Governance," was released in the UK in December 1992. It was initiated by the Financial Reporting Council, the London Stock Exchange, and the accounting profession in reaction to a slew of high-profile business scandals and failures in the late 1980s and early 1990s.

3. IMPORTANT POINTS FROM THE CADBURY REPORT

Objectives and Focus.

- 1- Primary Goal: The study sought to address concerns of corporate governance and financial reporting.
- 2- The major focus was on the procedures by which corporations are managed and controlled, assuring directors' obligations, and emphasizing the value of financial openness.

Key Recommendation:

1. Board of Directors:

Role and structure: Clear definition of roles. To prevent power consolidation, the chairman and CEO functions should be separated.

Non-Executive Directors: Non-executive directors should be present in sufficient numbers to provide independent judgment and scrutiny.

2- Audit Committees: Establishment of audit committees made up mostly of non-executive directors to monitor financial reporting and audit processes.

3-Financial Accounting

¹ What is Corporate Governance (The Chartered Governance Institute) <<https://www.cgi.org.uk/about-us/policy/what-is-corporate-governance>> (Last Visited on 26th September)

Transparency: An emphasis on accurate and transparent financial reporting.
Internal Controls: The importance of strong internal controls in protecting shareholders' interests and corporate assets.

4- Accountability: Directors should report on the success of their governance processes and be accountable to shareholders.

Implementation and Impact: The report outlined a Code of Best Practice that corporations were required to follow or explain why they did not ("comply or explain" principle).

Widespread Influence: The Cadbury Report had a significant influence on global corporate governance norms. It paved the way for later corporate governance rules and frameworks, including the OECD Principles of Corporate Governance and the UK Corporate Governance Code.²

4. INTRODUCTION TO SHAREHOLDER ACTIVISM

A shareholder who utilizes their ownership position in a publicly listed firm to urge management to adopt a certain strategy is known as a shareholder activist. Instead of using a pricey takeover to gain a controlling interest, shareholder activists use a very tiny stake—less than 10% of the outstanding shares—to launch a campaign.

Shareholder activism may serve non-financial goals like as promoting workers' rights, adopting eco-friendly policies, and withdrawing from politically volatile countries, or it can serve financial goals such as maximizing shareholder value.

To be appointed to the board of directors, activist shareholders purchase a substantial portion of the target corporation. The shareholder activist may bring about changes in the target firm that will lower operating expenses, increase efficiency, remove the company from particular nations, and increase profits by obtaining clout inside the organization.³

5. HISTORY OF CORPORATE GOVERNANCE

The notion of corporate governance has existed ever since the United States saw the emergence of the first modern businesses in the early 20th century, As a result

² Corporate Governance (Overview) (Financial Reporting Council) < <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/corporate-governance-overview/> (Last Visited on 18th May)

³ What is an Activist Shareholder? What they do and how they work (Investopedia) <https://www.investopedia.com/terms/s/shareholderactivist.asp> (Last Visited on 26th September)

of the growth of these massive companies, governance frameworks were required to guarantee the safety of shareholders' interests and the smooth operation of the companies. To oversee the securities industry and safeguard investors, the US Securities and Exchange Commission (SEC) was founded in the 1930s. Academicians, decision-makers in government, and investors began paying more and more attention to corporate governance in the 1960s and 1970s. Better corporate governance procedures were required, as evidenced by the significant corporate scandals and governance lapses of the era, including the Watergate crisis in 1972 and the collapse of the Penn Central Railroad in 1970. Around this time, investors started using their ownership rights to influence corporate management, giving rise to the idea of shareholder activism. The corporate governance movement gained traction in the 1980s and 1990s as a result of growing institutional investor interest and globalization. Corporate governance norms and principles were created by international organizations such as the World Bank and the OECD. One of the first significant findings on corporate governance, the Cadbury Report⁴ was released in the UK in 1992 and included recommendations for UK corporations to abide by. The idea of corporate governance became popular in India in the 1990s, especially when the country's economy was liberalized in 1991. A series of reforms, including the creation of the Companies Act, of 1956⁵, the SEBI, and the Ministry of Corporate Affairs in 2004, were implemented to enhance corporate globalization in India. Due to rising concerns over social responsibility, sustainability, and ethical behaviour, corporate governance has gained importance in several nations in recent years. The landscape of corporate governance is always changing as new possibilities and problems arise in the international business world.⁶

6. CORPORATE GOVERNANCE'S OBJECTIVES

Corporate governance seeks to build a framework of rules, procedures, and processes through which businesses are directed and regulated. Its major goal is to properly protect and balance the interests of numerous stakeholders, such as shareholders, management, workers, customers, suppliers, and the larger community. Key goals of corporate governance include:

- 1- Enhancing openness: Corporate governance seeks to improve openness in decision-making, financial reporting, and disclosure standards. By delivering

⁴ The Committee on the Financial Aspects of Corporate Governance, Report on Financial Aspect of Corporate Governance (Cadbury Report), (May 1992)

⁵ The Companies Act, 1956, No. 1, Act of Parliament (India)

⁶ Ansh Mishra, "Corporate Governance and Shareholder Activism in India", *A.K. Legal*, June 7 2023, available at <https://aklegal.in/corporate-governance-and-shareholder-activism-in-india/> (Last Visited on 26th November)

accurate and timely information to stakeholders, the organization may foster trust and confidence in its operations.

- 2- **Fostering Accountability:** Corporate governance makes managers responsible for their actions and choices. It sets tools for the board of directors to oversee executives and ensure that they behave in the best interests of shareholders and stakeholders.
- 3- **Minimizing Risks:** Effective corporate governance frameworks incorporate risk management methods for identifying, assessing, and mitigating operating, financial, legal, and reputational risks. Companies may ensure their long-term viability and resilience by establishing effective risk management methods.
- 4- **Safeguarding Shareholder Rights:** Corporate governance aims to safeguard shareholders' rights, such as the ability to participate in governance decisions, obtain a fair return on investment, and access knowledge regarding the company's performance and direction.
- 5- **Fostering Responsible Conduct and Enforcement:** Corporate governance provides ethical norms and codes of conduct for directors, executives, and workers. It assures adherence to applicable rules, regulations, and industry standards, lowering the risk of wrongdoing and legal liability.
- 6- **Enhancing Long-Term Worth:** In the end, the goal of corporate governance is to maximize the company's long-term worth for shareholders and stakeholders. It promotes strategic decision-making, responsible management practices, and effective resource allocation, resulting in long-term growth and profitability.⁷

7. HISTORY OF SHAREHOLDER ACTIVISM IN INDIA

The phenomenon known as "shareholder activism" in our nation, which at first had difficulty making a name for itself, has now been able to attract the interest of academics, researchers, and business people. After doing an investigation, the researcher concludes that, among the three strategies Albert O. Hirschman mentions in his treatise—"voice," "loyalty," and "exit"—the current investor community is opting to pursue." Recently, shareholders have shown a tendency to express their opinions before selling their shares when they see a decline in the firm's performance and its capacity to maximize share returns. This is improving the company's operational effectiveness.

⁷ "Corporate Governance and Shareholder Activism", *Ipleaders*, 26th December, 2017 available at <https://blog.ipleaders.in/shareholder-activism-corporate-governance/> (Last Visited on 26th November)

According to a recent Economic Times study, "between October and December 2020, over 50 resolutions proposed by nearly 24 listed companies were defeated by public shareholders," indicating the growing speed of this occurrence. The employee stock ownership plan (ESOP), related party transactions, and board changes were the topics of the rejected proposals." Interpreting the voting results of Lakshmi Vilas Bank, where nearly "60% of shareholders had voted against the reappointment of Sundar as the M.D. and C.E.O. due to the poor performance of the bank," one can understand the growing intolerance among shareholders towards the incompetent directors. The idea of selecting seven independent directors and statutory auditors was also met with strong criticism." The debate that has come before on activism has only addressed the tactics used by hedge funds, which are mostly active in wealthy nations like the United States of America and whose primary goal is to make short-term profits. However, the Asia Pacific area is also seeing a rise in activist activity at this time."

It's interesting to note that this activism phenomenon was sparked by institutional investors, who were previously referred to as passive investors. The notion of shareholder activism as a protector of corporate governance only gained traction following the entrance of these institutional investors. The concentration of activists on the board composition is the fundamental link between corporate governance and shareholder activism.

A sneak peek at the activist campaigns reveals that institutional investors are largely focusing on four areas: first, simplifying the board recruitment process; second, on resolutions involving promoters or, more specifically, related party transactions; third, on the timely submission and veracity of the audit committee's financial reports; and, fourth, on the royalties and compensation awarded to the company's executive and non-executive members.

8. LEGISLATIVE AND ADMINISTRATIVE ACTIONS THAT PROMOTE SHAREHOLDER DEMOCRACY

The researcher tried to list the several laws and rules that encouraged this activist inclination among shareholders.

Provisions from the 2013 Companies Act and SEBI regulations. the authority granted to the stockholders.

Section 149(1)⁸: Section 149 (1) of the Companies Act, 2013, read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules 2014,

⁸ The Companies Act, 2013, s 149(1), No. 18 Act of Parliament (India)

provides that every listed Company and every other Public Company having paid-up share capital of ₹100 crore or more, or turnover of ₹300 crore or more shall appoint at least three directors in case of a public company and two directors in case of a private company. It also states that there should be a minimum of one director in the case of One Person Company and at least one women director.

It also mentions that the company can appoint a maximum of 15 directors at a time and it can appoint more directors after passing a special resolution.

Section 149(8)⁹: It defines Independent Directors' qualifications, obligations, and professional behaviour norms.

Section 149(10)¹⁰: The Independent Directors are reappointed. A special resolution must be passed before an Independent director may be reappointed after serving for five years in a row.

Section 152(6)(a)¹¹ states that a public corporation's board of directors must be composed of at least two-thirds members who will be chosen by rotation and appointed by the company at a general meeting.

Sec. 151 read in conjunction with Rule 7¹². Companies (Appointment and Qualification of Directors) Rules, 2014, A person nominated by small shareholders of a listed business may serve as a director for a maximum of three years in a row; once appointed, the nominee's retirement is not subject to retirement by rotation.

Section 169(1)¹³: A director may be dismissed by ordinary resolution before the end of his term of office, according to the norms of natural justice.

Section 173¹⁴: Every company must hold the first meeting of its Board of Directors within thirty days of the date of its incorporation, and thereafter hold a minimum of four meetings of its Board of Directors every year, with no more than one hundred and twenty days intervening between two consecutive meetings of the Board.

⁹ The Companies Act, 2013, s 149(8), No.18. Act of Parliament (India)

¹⁰ The Companies Act, 2013, s 149(10), No. 18 Act of Parliament (India)

¹¹ The Companies Act, 2013, s 152(6)(a), No. 18 Act of Parliament (India)

¹² The Companies Act, 2013, s 151, No. 18 Act of Parliament (India)

¹³ The Companies Act, 2013, s 169(1), No. 18 Act of Parliament (India)

¹⁴ The Companies Act, 2013, s 173, No.18 Act of Parliament (India)

Section 177¹⁵: It states that all listed firms must constitute an audit committee of at least three directors, with a majority of independent directors.

Section 184¹⁶: It states that directors must declare any concerns or interests they have in a business, body corporate, firm, or party to a contract.

Sec. 197 (1) of the Companies (Amendment) Act, 2017¹⁷, The whole amount of management compensation that a publicly traded firm must pay its directors, as well as managerial compensation if earnings are insufficient or non-existent, is determined by the shareholders.

Sections 100(2) and (4) Act of 2013¹⁸, The right of shareholders possessing at least ten percent of the total voting power to summon an extraordinary general meeting. Should the board refuse to do so within 21 days, the requisitions may preside over the meeting themselves.

Sections 62(b) and (c)¹⁹, A special resolution must be approved before a firm may seek to raise its share capital by issuing more shares to its workers via ESOPs or to any other individuals.

Sec. 213 of the Act of 2013²⁰, A tribunal may be approached by shareholders who own at least 10% of the total voting power or 100 shares to request an investigation of the company's operations.

Sections 188²¹ and 245²², Approval of linked party transactions by shareholders and class action suit proviso.

Apart from the aforementioned clauses, the Companies Act has several other rules that provide shareholders access to the company's register and annual reports. They may also require the firm to locate the register at a location that is inhabited by more than 10% of registered members. This may be accomplished by approving a unique resolution.

¹⁵ The Companies Act 2013, s177, No 18 Act of Parliament (India)

¹⁶ The Companies Act 2013, s 184, No.18 Act of Parliament (India)

¹⁷ The Companies Act, 2013, s 197(1), No. 26 of Indian Parliament (India)

¹⁸ The Companies Act, 2013, s 100 clauses (2) and (4), No. 26 of Indian Parliament (India)

¹⁹ The Companies Act, 2013, s 62 (b) and (c), No 26 of Indian Parliament (India)

²⁰ The Companies Act, 2013, s 213, No. 26 of Indian Parliament (India)

²¹ The Companies Act, 2013, s 188, No. 26 of Indian Parliament (India)

²² The Companies Act, 2013, s 245, No. 26 of Indian Parliament (India)

9. EXAMPLES OF SHAREHOLDER ACTIVISM IN INDIA

- 1- **Controversy surrounding Tata Sons and Cyrus Mistry:** The Tata Sons and Cyrus Mistry dispute is a complicated and well-known corporate governance tale that took place within one of India's major corporations, the Tata Group. The dispute arose from Mistry's strategy and governance conflicts with the Tata Group's board, notably Ratan Tata, who remained prominent even after standing down as Chairman. Mistry's strategy for restructuring and divesting failing assets, his emphasis on financial performance, and his efforts to decentralize decision-making inside the enormous conglomerate were said to be at odds with the Tata Group's conventional culture and centralized management style. The disagreement sparked a series of legal actions, including lawsuits brought by both parties, revealing internal schisms and governance issues inside the Tata Group. The case sparked larger debates about corporate governance norms in India, shareholder rights, and the role of family-owned corporations in the country's economy. The legal struggle and following events highlighted the complexity of corporate governance, succession planning, and shareholder activism in big, family-owned companies such as the Tata Group. The tale also demonstrated the significance of openness, board independence, and conflict resolution tools in resolving governance-related disputes and maintaining stakeholder confidence.
- 2- **Infosys – NR Narayana Murthy Controversy:** The battle between Infosys and its co-founder Narayana Murthy began in 2017, mostly over issues of corporate governance, CEO salaries, and strategic decisions inside the business. Narayana Murthy, a highly recognized figure in India's corporate sector, highlighted many concerns about Infosys' governance processes after rejoining the company in 2013. He expressed concern over executive pay increases, severance payouts, and acquisitions undertaken by the management under CEO Vishal Sikka. Murthy's vocal criticism, voiced in media interviews and shareholder letters, sparked a schism between him and the company's board and management. The Infosys-Narayana Murthy dispute brought to light wider concerns with corporate governance, shareholder activism, and board-management relations in Indian enterprises. It emphasized the need for openness, accountability, and effective communication in sustaining stakeholder trust and long-term business reputation for him and the company's board and management.
- 3- **Acquisition of Mindtree by L&T:** The purchase of Mindtree by Larsen & Toubro (L&T) in 2019 was a watershed moment in India's business environment, generating arguments over corporate governance, shareholder value, and the independence of IT service providers. Mindtree's founders

and staff opposed the transaction, citing concerns about the company's distinct character and ideals under L&T management. The founders, led by Subroto Bagchi, were passionately opposed to the purchase attempt, claiming that it jeopardized Mindtree's entrepreneurial ethos and employee-centered culture. Despite the founders' protests, L&T finally bought a controlling stake in Mindtree, calling into question the balance between shareholder interests and target company autonomy. The purchase emphasized the difficulty that mid-sized IT enterprises confront in retaining their independence in the face of industry consolidation and competition from larger companies. The Mindtree-L&T transaction also highlighted the significance of corporate governance principles in M&A transactions, namely transparency, stakeholder involvement, and board supervision. It sparked debate regarding business directors' fiduciary responsibility and the necessity to safeguard the interests of minority shareholders in such transactions. Overall, L&T's acquisition of Mindtree served as a case study in corporate governance, demonstrating the challenges of M&A transactions involving founder-led enterprises and the delicate balance between preserving company culture and achieving shareholder value.

10. ADVANTAGES AND DISADVANTAGES OF BEING AN ACTIVE SHAREHOLDER:

After talking about how "shareholder activism" has changed in our nation, the researcher used a few case examples to try to summarise the advantages and disadvantages of activism in the previous part.

The strong impact of shareholder activism on companies is replicated by the recent initiative of U.S.-based multinational investment bank J.P. Morgan Chase & Co., which launched a New Data Analytics Tool to help their financial advisers understand the behavioural changes in their shareholder base with an activist investment.²⁹ To ensure that the activist approach ultimately leads to the sound financial growth of the corporate sector as well as the economic development of the country, it is critical to evaluate its advantages, identify its disadvantages, and pinpoint the factors that give this phenomenon negative undertones.

ADVANTAGES OF A VIBRANT SHAREHOLDER COMMUNITY

1. Increases the firm's operational efficiency and, if necessary, modifies corporate strategy to optimize share value via investments made by activist funds or the presence of active shareholders. This makes sense in the context of the recent events at Fortis Health Care when shareholders removed longtime employee and founder Brian Tempest with an 87-97% majority vote for participating in a plan to sell the company to IHH Health

Care Berhad Company.³⁰ Based on the previous instance, it can be inferred that shareholders are closely watching the makeup of the board since the board's members and management's performance directly affect the company's success.

2. Someone who maintains corporate governance:- The existence of activist shareholders undoubtedly affects how well the corresponding company complies with governance and other legal requirements. Recently, governance flaws have played a major role in the financial crisis. A commonality across almost all governance failures is the inability to reveal the actual financial condition of the firms in question, which was confirmed by fraudulent audit reports. Encouragement of this occurrence is important since one tactic used by shareholder activism is to seek representation on the board. Auditors and directors are involved in most corporate scandals by manipulating the financial statements, therefore they are key players in the recruiting process.
3. A catalyst for socially conscious investing: Gone are the days when investors focused only on the financial gains from the firms in which they invested. Recent years have seen a shift in the mindset of shareholders, who now see investments in CSR initiatives more as a business strategy than as a means of complying with regulations (Vasal 2006).³² In this way, the claim that "shareholder returns invested in socially responsible companies are not inferior to those found for the market" is supported by actual data.³³ In light of this, it is acknowledged that the existence of activist shareholders may lead to socially conscious investments, or at least, may force management to reconsider investing in the ecologically risky project to maintain the Company's good reputation.

11. THE FLIP SIDE OF ACTIVISM

To provide a fair assessment of this developing phenomenon, the researcher selected a few case studies that illustrate how activism impedes a company's ability to flourish over the long run. This is to convey the conflicting perspectives on this quickly expanding problem.

Examined in this context is the dispute between two group shareholders at Tamil Nadu Mercantile Bank. At TMB, the bank's intention to pursue an initial public offering (IPO) was met with disapproval from shareholders. The primary rationale for rejecting the bank's plan to go public with subscriptions is the twenty-year struggle for management control between foreign investors and the Nadar community, and their fear of losing control of the bank should public investment opportunities arise.

The shareholders consistently voted against the resolution for four long years, even though liquidity would be improved and the actual worth of the shares would be found. The shareholders of Tamil Nadu Mercantile firm ultimately approved the firm's IPO in 2020 after the bank regulator, R.B.I., took the initiative to encourage them to list the bank.

Market observers criticized the activity of a single community stakeholder at Tamil Nadu Merchant Bank, citing the bank's concentration of shareholdings in the hands of a small number of shareholders, which undermined share value over an extended period.

In a similar vein, recent events at Dhanalaxmi Bank and Lakshmi Vilas Bank were also mentioned as instances of unfavourable aspects of shareholder activism. The main basis for the analyst's critique is that "of the 80,000 shareholders present at Dhanalaxmi, bank, only 154 participated in the AGM, and among those 154 shareholders, there was a split amongst Sunil Gurbaxani's supporters and opponents." Gurbaxani said that the shareholders' opposition to his selection stemmed from internal conflicts between contractual personnel and management. The results do not accurately represent the effectiveness of activist campaigns because of the very small number of shareholders who were present for the vote.

Despite being an arm's length transaction, the approval of the transaction was not given by the shareholders. SES recommended SEBI that the promoters and institutional investors should have a say in approving RPTs that are significant to the core business operations. Ingovern's founding member noted that "in this kind of transactions, the onus lies on the company to convince the shareholders and any statutory change denying the minority shareholder engagement is not good for the long-term interests of shareholders." In this regard, the proxy advisory firms Ingovern and Stakeholder Empowerment Services (SES) were at odds.

Such incidents suggest that shareholder activism is a two-edged sword. While using an activist approach to satisfy individual demands may impede the long-term growth of the firms and therefore have an impact on the economic development of the country, positive usage promotes socio-economic development.

12. INDIAN INSTITUTIONAL ACTIVISM CASE STUDIES:

The researcher determined the concerns that the shareholders had complained about and then individually chatted about many cases that fell within each category to examine the shareholder campaigns against their management.

Acquisitions, related party transactions, and mergers:

- a. The combination of Akzo-Nobel with unlisted companies: When the management of Akzo-Nobel India Ltd. and minority institutional shareholders debated a proposal to merge with three unlisted promoter-based companies in 2012, stakeholders became aware of the phenomenon of shareholder activism for the first time. The opposition to the merger was attributed to the involvement of local institutions such as Asian Paints, an equity stakeholder with a 5% interest in Akzo-Nobel, LIC, GIC, SBI, and Birla Sun Life mutual funds. Ultimately, however, the merger was authorized.

RESULTS: Despite the opposition from minority institutional investors, the merger plan was accepted.

- b. Sesa Goa and Sterlite merger: In 2012, following institutional investors' rejection of AKZO-NOBEL'S proposed merger, the proposal to combine Vedanta Group subsidiaries Sesa Goa Ltd. and Sterlite Industries into "SESA-STERLITE" was met with resistance once more. However, in contrast to the last occurrence, there was a difference of opinion between the two leading proxy consulting companies in India, Institutional Investment Consulting Services (IiAs) and Ingovern. IiAs had argued against the merger while Ingovern, a proxy consulting service, had advised its shareholders to approve it. The biggest institutional shareholder, Franklin Templeton, who had about 13% of the company's shares, spearheaded the opposition to the merger. The Vedanta group's alleged abuses of human rights and environmental standards, together with the company's massive debt load, are the primary arguments used to oppose the merger plan.

RESULTS: Due to disagreements, Templeton, a mutual fund company, was unable to get the necessary backing to reject the special resolution that approved the merger. Consequently, institutional investors were unable to carry out their choice even in this particular instance.

- c. The merger of Shriram City Union Finance Ltd. with IDFC: When IDFC announced plans to acquire Shriram City Union Finance Ltd. in 2017, the acquisition was met with opposition from investors in both firms. "Decline in shareholding value of IDFC shareholders and Shriram Group's shareholders opposed suspecting the IDFC's capability to run Shriram Transport business" was reportedly cited as the primary reason for opposition to the merger.

RESULTS: - The agreement was cancelled. IDFC's ownership structure mirrors the predominance of domestic institutional investors, who possess a 43.09% interest in the business. Pension and mutual funds, as well as

overseas institutional investors, controlled the remaining portion. The instigation of the merger was largely facilitated by IDFC's wealth managers and domestic institutions.

- d. Snapdeal-Flipkart Acquisition: In 2017, Snapdeal's minority shareholders challenged Flipkart's proposal to purchase all of the company's equity. A few minority shareholders, including Ratan Tata, Ontario Teacher's Pension Plan, and Azim Premji, were said to have been instrumental in the decision to scrap the Flip Kart buyout plan.

END RESULTS: The necessary consent from minority owners was not granted to the plan of arrangement.

- e. Disagreement between shareholder interests and business agreements: In 2017, Raymond's business offered to sell its JK home to its promoters and affiliated parties at a significantly reduced price as part of carrying out a tripartite arrangement. The idea was rejected by the shareholders when it was presented to them for approval because they believed it would ruin the value of the shares.

13. CASE LAW

1-Vodafone International Holding By v Union of India

The Vodafone tax case, officially known as Vodafone International Holdings B.V. v. Union of India, is a legal story that played out in Indian courts on a disputed topic concerning the taxation of cross-border purchases. The dispute was over Vodafone's 2007 acquisition of Hutchison Essar, one of India's biggest telecoms businesses.

The disagreement developed due to different interpretations of Indian tax regulations governing transactions involving the transfer of assets based in India. Vodafone, a global business headquartered in the Netherlands, purchased Hutchison Essar's Indian operations in a series of offshore deals. These deals comprised the acquisition of shares in a Cayman Islands-based firm that indirectly possessed Indian properties. The Indian tax authorities argued that because the underlying assets were situated in India, the transaction was liable to Indian capital gains tax. They claimed that Vodafone was required to pay taxes on the benefits from the transfer of shares in an Indian firm, even though the transaction took place between two foreign corporations located outside of India. Vodafone, on the other hand, claimed that the transaction was carried out fully offshore between two non-Indian businesses and hence fell beyond the scope of Indian tax jurisdiction. The corporation said that because Indian tax regulations did not address the taxation of such offshore transactions, it was not required to pay Indian taxes on the transaction.

Overall, the Vodafone tax case remains a watershed event in India's economic and legal history, highlighting the complexities of cross-border transactions, the need for tax policy clarity, and the difficulties of balancing revenue generation with promoting a favourable investment environment.

2-Reebok India Scam

The Reebok India scam, commonly known as the Reebok fraud case, is a major business controversy that occurred in India in 2012. It involves charges of financial inconsistencies, fraudulent acts, and incompetence at Reebok India Company, a subsidiary of German sportswear company Adidas AG.

The controversy emerged after Reebok India filed a criminal case with the Gurgaon Police in Haryana, India, accusing some of its former executives of embezzling cash and participating in accounting fraud. The corporation claimed that the executives had overstated sales numbers, faked invoices, and stolen monies, resulting in significant financial losses.

The scam was massive, with initial estimates indicating losses of hundreds of crores (tens of millions of dollars). The charges sent shockwaves across India's corporate sector, raising concerns about corporate governance standards, internal controls, and supervision at global firms operating in the country.

3-Kingfisher Case

The Kingfisher Airlines affair, often known as the Kingfisher scam, was a high-profile corporate failure that occurred in India in the early 2010s. The controversy centered on Kingfisher Airlines; a well-known Indian airline formed in 2005 by liquor baron Vijay Mallya. The airline, recognized for its opulent services and branding, soon came to fame but began to struggle financially owing to a variety of causes such as high operating expenses, tough competition, and economic downturns. Despite efforts to reinvigorate the airline via rapid expansion and acquisitions, Kingfisher Airlines struggled to make a profit and incurred significant debt. The Kingfisher controversy emerged when the airline failed to repay loans and pay its employees' salaries. It was reported that Kingfisher Airlines has significant debts of roughly Rs. 9,000 crore (approximately USD 1.2 billion) due to banks, vendors, and workers. The airline's financial mismanagement and alleged diversion of cash for personal use by its promoters, particularly Vijay Mallya, sparked significant criticism and investigation.

The Indian government and regulatory authorities have initiated investigations into the financial irregularities and suspected fraud committed by Kingfisher Airlines management. The airline's operating license was finally cancelled, and it halted operations in 2012, laying off thousands of employees

and failing to pay its creditors. The Kingfisher Airlines case highlighted systemic flaws in India's banking industry, regulatory supervision, and corporate governance frameworks. It emphasized the need for improved measures to combat corporate fraud, defend creditors' interests, and hold company executives accountable for financial mismanagement and misbehaviour. The case also highlighted the difficulties of combating white-collar crime and ensuring legal responsibility across international borders.

14. CONCLUSION AND SUGGESTIONS

The current study project sought to investigate the nature of activism and the factors that lead to it. In doing so, the researcher discovered that although activism is an assertive means of speaking out for shareholders, it only really starts with engagement. Activists are only revealed as stockholders when this connection breaks down or when their involvement is refused or disregarded.

As for the second study issue, which looked at whether shareholder engagement is lawful, the researcher notes emphatically that an "active shareholder community always serves as a watchdog and custodian of governance standards of their respective investee company."

Without a doubt, an engaged shareholder community will improve adherence to governance standards; but, sustained engagement from this community will be necessary to boost the company's long-term development and value. The activists are, meanwhile, heavily criticized for the majority of the time making demands that are intended to satisfy short-term advantages and financial motivations. Companies now place a high value on rigorous adherence to governance standards, not just to satisfy regulatory disclosure requirements but also to draw in new investors as they prepare to go public. Simplifying the board selection process is the first crucial element of corporate governance. In this context, obtaining a board seat is one of the usual tactics used by the shareholders. However, the study discovered that there is very little chance of activist efforts in India succeeding in getting board seats.

To sum up, the researcher says that activism should be constructive and support the company's long-term success rather than turning into an internal conflict between the shareholders and the management. Not only should businesses interact with shareholders to achieve this goal, but shareholders—that is, institutional investors and proxy advisory firms—should also remain receptive to dialogue, allowing businesses to adjust their policies in response to the capital infusions' legitimate needs.