

# An Empirical Study on Cognizance and Engagement of Shareholder in Surat City

**Dr. Baxis Patel**

Assistant Professor, D. R. Patel and R. B. Patel Commerce College and B. C. Patel BBA College,  
Affiliated to Veer Narmad South Gujarat University, Surat

**Prof. (Dr.) Vinod B. Patel**

Professor & Dean, Faculty of Management Studies, Department of Business & Industrial Management, Veer Narmad South Gujarat University, Surat

## Abstract:

There are investors who label themselves “shareholder activists” that pursue a diverse array of agendas, including Share price underperformance / undervaluation, Corporate governance – shareholder rights specific, Environmental, social and corporate governance and Executive compensation, among other causes. This paper has tried to study the awareness of shareholders towards different rights and their activism. In this study total 200 respondents were selected with judgmental sampling and result has been presented after conducting descriptive analysis as well as chi-square test with the help of SPSS.

**Keywords : Shareholder activist, Shareholder Engagement, Shareholder Cognizance, shareholder rights, Shareholder**

## Introduction

The genesis of shareholder activism in India can be traced back to early 2010 when SEBI came up with a mandatory requirement for domestic mutual funds to disclose their voting policies as well as voting actions at their investee companies, on an annual basis. A proxy advisory firm offers voting recommendations to institutional investors like mutual funds, insurance companies, foreign institutional investors, private wealth management firms, etc. on shareholder meeting resolutions of their investee companies. Shareholder activism means minority shareholders banding together to protect their interest, against promoters with higher shareholding. In India, changes in laws empowering minority shareholders have played a major role in spurting shareholder activism. “India has enacted laws that effectively prevent managements and promoters from using their majority shareholding to pass resolutions pertaining to material related-party transactions (RPTs). The impact of such legal changes seems to be most visible in India where large frontline companies have sought minority shareholders’ approval for RPTs,” the report dated September 22, 2014 noted in Times of India newspaper. Indian institutional investors were initially concerned largely with non-routine corporate actions such as M&As and company restructurings. When domestic mutual funds made voting disclosures for the first time in 2011, the data was telling that the funds were not actively engaged with companies on routine businesses such as director appointments, director remuneration, auditor appointments, equity and debt fundraisings, related party transactions, sale of business assets, role of independent directors, director tenures, etc.

Regulation meant for improving performance of the Board of Directors seeks to increase powers given to the minority shareholders to turn down certain decisions of the board as also put pressure by filing legal proceedings against the board. Minority shareholders can use their equity stake in the company to put public pressure on the management. For this purpose, minority shareholders are those together holding less than 10% of the outstanding shares of the company.

Shareholder activist is a person who attempts to use his or her rights as a shareholder of a publicly-traded corporation to bring about social changes. Some of the issues most often addressed by shareholder activists are related to the environment, investments in politically sensitive parts of the world and workers' rights.

## Reviews of Literature

Ghahramani, Salar (2013) took purpose of their paper is to examine the propensity of sovereign wealth funds (SWFs) for shareholder activism and their potential impact on corporate governance. Design/methodology/approach – The study highlights the associations between SWFs and corporate governance and also applies eight antecedents/determinants of institutional activism to analyze whether SWFs have a predisposition for shareholder activism. Findings says that the study only finds two instances of SWF activism. Additionally, it finds that despite their mostly passive investments, SWFs possess a natural tendency towards shareholder activism. Some are more likely to engage in activism than others, however.

Rehbein, Kathleen; Logsdon, Jeanne; Buren, Harry, (2013) examined corporate responses to activist shareholder groups filing social-policy shareholder resolutions. Using resource dependency theory as our conceptual framing, we identify some of the drivers of corporate responses to shareholder activists. their analysis finds that corporate managers are more likely to engage in dialogue with shareholder activists when the firm is larger, is more responsive to stakeholders, the CEO is the board chair, and the firm has a relatively lower percentage of institutional investors.

Schaefer, Henry; Hertrich, Christian (2013) provided the most recent empirical Evidence that formal activism in Germany remains a relatively ineffective instrument for shareholder engagement, in contrast to research findings for the US and UK financial markets. The study has used all publicly available information from various sources and represents as of today one of the most extensive research analyses for shareholder activism in Germany

Waldron, Theodore L., Navis, Chad, Fisher, Greg (2013) Activist campaigns describe efforts to modify socially or environmentally detrimental industry practices by contesting prominent industry members' versions of those practices (i.e., target firms). We adopt a socio-cognitive perspective to account for variance in when and how the managers of target and non-target firms attend to, interpret, and respond to pressure from activists. Overall, we enhance theory by explaining why firms in an industry differ in their reactions to activism, even when they are subject to common campaigns and strategies.

So from the above mentioned reviews of literature researcher has found that shareholder engagement is very wide in scope and carried out in various countries too but can be limit it by focusing on shareholders activities and engagements only.

### **Research Problem:**

Unlike the past where shareholders' response was to sell shares in companies that exhibited poor corporate governance behaviour (termed as the —Wall Street Walk), shareholders are now more willing to engage with the company boards and managers to safeguard their investments. It is acknowledged that there is a general lack of involvement by minority shareholders and investors in India, due to a lack of corporate governance awareness and a lack of influence. As a result, we've seen that retail shareholders do not participate or express their views at shareholder meetings — either they do not know how, or feel it is pointless. Their negligible shareholding does not give them power to affect the outcomes of corporate decisions, and they are usually ignored by the controlling shareholders. Whether the trend of shareholders activism in India provides the large and small companies, firms, etc., any new framework and how the shareholders are taking the initiatives to provide their hand to build Indian market at large? So here this research is scientific investigation of the extent of shareholders' cognizance and engagement in Surat City.

### **Objectives**

Primary Objective: The primary objective of this research is “to study cognizance and Engagement of Shareholders in Surat city”

Secondary Objectives:

- a. To investigate the cognizance regarding rights as a shareholder in Surat city
- b. To examine the association between age of shareholder as well as gender and sources of cognizance about share market.
- c. To examine the association between qualification of shareholders and cognizance of rights to participate and vote in General Meetings either personally or through proxies.

### **Research Methodology**

**A. Nature Of Research:**

This is a descriptive in nature so it's a descriptive Research: Descriptive research is used to draw a picture of the topic and describe characteristics of the phenomenon. In other words, it describes and interprets the present (Taylor, 2005). This study tries to answer what, who, when, where, way of multiplex for its adopted servicescape.

**The Target Population**

In this research, the target population was shareholders of Surat city in different organizations.

## B. Sampling Design

To collect data judgmental sampling method was used which is one of the types of Non-probabilistic Sampling. Through this method 250 samples from Surat City were taken.

## C. Source Of Data & Data Collection:

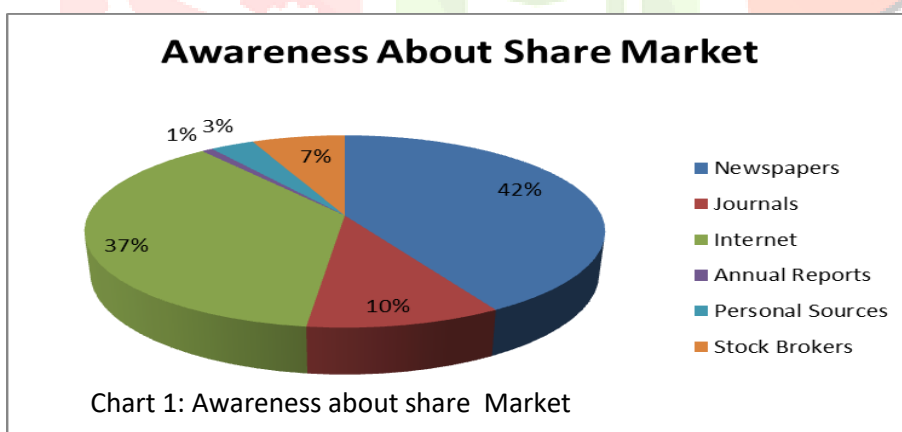
This research was based on Primary data whereby structured questionnaire using dichotomous questions, was prepared. And as Survey Method, Questionnaires were filled up by using personal survey method.

## D. Limitations of the study

Although the research is done taking utmost care, certain limitations are bound to be there, like shortage of time, Survey Limitation - the sample size during this time period was only 250 which might not be sufficient enough for considering it as a sample population for Surat. There were some respondents who were unwilling to give their response and hence the final analysis might slightly vary from the actual results. Even questionnaire as it may not be that much exhaustive. The responses may be biased; the actual belief might be different from the actual response taken from them.

## Data Analysis

Demographic analysis revealed that the sample comprises of 36% from the age group of years 36 to 45, which is followed by 28.4% respondents from years 46 to 55, 26% are from years 26 to 35. If we look at gender wise distribution, 69.2% respondents are male and 30.8% respondents are female. Even maximum numbers of respondents have bachelor degree which is 41.6%, 33.2% have Master Degree, 14.8 have professional Degree and 10.4 are responds have qualification of SSC/HSC.



Descriptive analysis showed that 38% respondent invest less than 5% from their Income, 32.8% respondent invest 5% to 10% from their income, 22% respondents invest between 10% to 20% and rest 7% invest more than 20%.

Maximum respondents that are 42% respondents get information from the newspaper followed by internet with 37.2% while through annual reports very less numbers of respondents get information.

Moreover 37.6% respondent said that their investment is based on Annual report and rest of the respondent replied “No” to this option.

## Responses on cognizance and engagement

Whether shareholders are aware?	Aware	Not Aware
Investors/shareholders can file application before Consumer Forum	31.6%	68.4%
"Collective Investment Schemes" grievances for which they could approach SEBI	38.4 %	61.6%
Their right to proceed against the company by way of civil or criminal proceedings	38.4%	61.6%
Their right to receive offer in case of takeover or buyback under SEBI Regulations	38.8%	61.2%
Their right to inspect the minute books of the General Meetings and to receive copies thereof	42.4%	57.6%
Their rights to apply to Company Law Board (CLB) to call or direct the Annual General Meeting	43.6%	56.4%
Their right to receive the residual proceeds when company is winding up	44.8%	55.2%
Their right to receive offer to subscribe to rights shares in case of further issues of shares	48%	52%
"Non-receipt of dividend" grievances for which they could approach SEBI	50.8%	49.2%
"Non-receipt of share certificates after transfer" grievances for which they could approach SEBI	53.6%	46.4%
Their rights to participate and vote in General Meetings either personally or through proxies	54.4%	45.6%
"Non-receipt of letter of offer for rights" grievances for which they could approach SEBI	56.4%	43.6%
Their right to receive corporate benefits like rights, bonus etc. Once approved	56.8%	43.2%
Their rights to receive copies of annual report, and the Auditors' Report	57.2%	42.8%
"Refund Order/ Allotment Advise" grievances for which they could approach SEBI	64%	36%
Their rights to receive the share certificate, on allotment or transfer as the case may be, in due time	77.6%	32.6%
Engagement of Shareholder	Do	Don't
Respondents exercised their right to vote as a shareholder	33.2%	66.8%
Respondents file a complaint to grievance redressal of SEBI, regarding: Dividend (In case of applicable)	38%	62%
Respondents update their Demat statement account	59.2%	40.8%
Respondents keep track of transactions of bonus in their account	64.8%	35.2%
Respondents keep track of transactions of buying in their account	70.8%	29.2%
Respondents track their transaction of dividend account	71.6%	28.4%
Respondents keep track of their transactions of selling in their account	72%	28%

(Table 1: Respondents awareness and Activeness)

**Hypotheses Testing (Chi square)**

1) **H0: There is no association between Age of shareholders and the source of awareness about the share market**

**H1: There is association between age of shareholder and the source of awareness about share market.**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	23.061a	20	.286
Likelihood Ratio	21.846	20	.349
N of Valid Cases	250		

(Table 2 Chi-Square Tests)

a. 16 cells (13.3%) have expected count less than 5. The minimum expected count is .13.

It is seen from the top row of the above table, Pearson Chi-Square statistic,  $\chi^2 = 23.061$ , and Value of Asymp. Sig.(p value) is 0.286. means here  $p > 0.05$ ; Thus the null hypothesis is fail to rejected, since  $p > 0.05$ , so can be concluded that there is no association between Age of shareholders and the source of awareness about the share market.

2) **H0: There is no association between gender of shareholders and the source of awareness about the share market**

**H1: There is association between gender of shareholder and the source of awareness about share market.**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.606a	5	.012
Likelihood Ratio	15.222	5	.009
N of Valid Cases	250		

(Table 3 Chi-Square Tests)

a. 3 cells (15.0%) have expected count less than 5. The minimum expected count is .62.

It is seen from the top row of the above table, Pearson Chi-Square statistic,  $\chi^2 = 14.606$ , and Value of Asymp. Sig.(p value) is 0.012, means here  $p < 0.05$ ; Thus the null hypothesis is rejected, since  $p < 0.05$ , so can be concluded that there is association between gender of shareholder and the source of awareness about share market.

	Value	Approx. Sig.
Nominal by Nominal	.242	.012
Phi	.242	.012
Cramer's V	.242	.012
N of Valid Cases	250	

(Table 4 Symmetric Measures)

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

Cramer's  $V = 0.242$ , which is a weak positive association between the two variables under study. Notice that this correlation is flagged as significant, with the same p-value that was given for the chi square test. So it can be concluded that there is a weak positive correlation between gender of shareholder and the source of awareness about share market.

**3) H0: There is no association between qualification of shareholders and awareness of rights to participate and vote in General Meetings either personally or through proxies.**

**H1: There is association between qualification of shareholders and awareness of rights to participate and vote in General Meetings either personally or through proxies.**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.597a	3	.458
Likelihood Ratio	2.628	3	.453
N of Valid Cases	250		

(Table 5 Chi-Square Tests)

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 11.86.

It is seen from the top row of the above table, Pearson Chi-Square statistic,  $\chi^2 = 2.597$ , and Value of Asymp. Sig.(p value) is 0.458, means here  $p > 0.05$ ; Thus the null hypothesis is fail to rejected, since  $p > 0.05$ , so can be concluded that there is no association between qualification of shareholders and awareness of rights to participate and vote in General Meetings either personally or through proxies.

## Conclusion

The primary objective of this research is “to study Shareholders awareness and Activism in Surat city”, Most of the respondent are aware of their rights to receive the share certificate, on allotment or transfer as the case may be, in due time, rights to receive copies of annual report, to participate and vote in General Meetings either personally or through proxies, to receive corporate benefits like rights, bonus etc. receive the residual proceeds when company is winding up, receive offer to subscribe to rights shares in case of further issues of shares, While most of the respondents are unaware about “Collective Investment Schemes” grievances for which they could approach SEBI, Investors/shareholders can file application before Consumer Forum, to receive offer in case of takeover or buyback under SEBI Regulations. Even maximum

Respondents have not ever exercised their right to vote as a shareholder, Respondents file a complaint to grievance redressal of SEBI, regarding: Dividend (In case of applicable) while majority of the respondents update their Demat statement account, track their transaction of dividend account, keep track of transactions of bonus in their account, and track of transactions of buying in their account. There is no association between Age of shareholders and the source of awareness about the share market. There is a weak positive correlation between gender of shareholder and the source of awareness about share market. There is no association between qualification of shareholders and awareness of rights to participate and vote in General Meetings either personally or through proxies.

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