

# Corporate Governance in India: Evaluating Shareholders' Control Over Management under the Companies Act, 2013

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**Abstract**—Corporate governance forms the ethical and regulatory backbone of modern corporations. In the Indian context, the Companies Act, 2013, emerged as a transformative statute aimed at instilling transparency, accountability, and shareholder inclusiveness in corporate management. This research article delves into the extent of shareholders' control over company management, as enshrined in the Companies Act, 2013. Through legal analysis, case studies, and doctrinal evaluation, the paper examines the legal rights of shareholders, their practical enforceability, and the evolving jurisprudence around shareholder protection. Further, it explores the systemic and cultural challenges that undermine shareholder influence, particularly in promoter-driven Indian companies. Finally, the study proposes reforms to reinforce corporate democracy and enable shareholders to function as active custodians of governance.

**Index Terms**—Corporate Governance, Shareholder Rights, Companies Act 2013, Board of Directors, Shareholder Activism, Minority Protection, Corporate Democracy

## I. INTRODUCTION

rights ranging from voting and inspecting documents to initiating legal action against mismanagement. Despite these legal provisions, practical enforcement and genuine influence over company affairs remain corporate governance is no longer a peripheral aspect of business management; it is central to the legitimacy and sustainability of corporate enterprises. Globally, corporate governance standards have evolved to incorporate greater transparency, ethical accountability, and participation from stakeholders, particularly shareholders. In India, the need for a modern corporate governance regime gained momentum following high-profile scandals like

Satyam in 2009. This culminated in the enactment of the Companies Act, 2013, replacing the older, fragmented framework of 1956.

Shareholders, as the true owners of the company, are expected to play a vital role in influencing corporate strategy and holding management accountable. The Act grants them several statutory limited, especially in promoter-led firms. This paper investigates the legal architecture, judicial trends, and institutional barriers that shape shareholders' control over management in India.

## 2. SHAREHOLDER RIGHTS UNDER THE COMPANIES ACT, 2013

2.1 Voting Rights Sections 106 to 110 of the Companies Act, 2013, outline the framework of shareholder voting. Shareholders vote on critical issues including director appointments, mergers, dividend declarations, and amendments to company policies. With the introduction of electronic voting (e-voting), shareholder participation was expected to rise. Yet, in practice, voting remains concentrated among large institutional investors, with retail shareholders rarely participating due to lack of awareness or technical access.

2.2 Appointment and Removal of Directors Under Sections 152 and 169, shareholders can appoint and remove directors through ordinary resolutions. This provision gives shareholders the theoretical power to shape the company's boardroom. However, in promoter-dominated companies, board composition is often tightly controlled. Independent directors, too, may be beholden to promoter interests, diluting the effectiveness of this provision.

2.3 Right to Information The right to receive financial statements and audit reports is guaranteed under Section 136. Shareholders are entitled to inspect company records, which is essential for informed voting. Despite statutory backing, access to relevant, timely, and comprehensible information remains a concern. Companies often provide dense, jargon-laden documents, making it difficult for retail shareholders to grasp material issues.

2.4 Class Action Suits Section 245 empowers shareholders to file class action suits against the company, its auditors, or directors for mismanagement or fraudulent conduct. This provision is a milestone in empowering minority shareholders. However, its usage remains rare due to procedural complexities, fear of retaliation, and prolonged adjudication timelines.

### 3.SHAREHOLDER INFLUENCE VS. MANAGERIAL POWER

3.1 The Role of the Board of Directors Corporate governance traditionally separates ownership (shareholders) from control (management). The Board of Directors acts as an intermediary, expected to align managerial actions with shareholder interests. Yet, in practice, boards often function under the influence of dominant promoters or executive management.

3.2 Independence of Directors Section 149 mandates the appointment of independent directors in listed and certain public companies. These directors are supposed to provide unbiased oversight. However, appointments often reflect the preferences of existing management, compromising their independence. The Kotak Committee (2017) noted this and recommended more rigorous criteria for independence.

3.3 Case Study: Tata-Mistry Dispute The ousting of Cyrus Mistry from the chairmanship of Tata Sons illustrates the limited power of shareholders in governance disputes. While NCLAT ruled in favor of Mistry, the Supreme Court later upheld Tata Sons' decision, emphasizing the board's autonomy. This case underscores the tension between shareholder rights and board discretion in India.

### 4.PROTECTION OF MINORITY SHAREHOLDERS

4.1 Oppression and Mismanagement Sections 241 and 242 provide remedies against oppression and mismanagement. Shareholders can petition the National Company Law Tribunal (NCLT) to intervene in cases where actions are prejudicial to their interests. However, these provisions are underutilized due to lengthy litigation and high legal costs.

4.2 Shareholder Agreements and Exit Rights Shareholder agreements, though not explicitly covered under the Companies Act, are enforced under contract law. These agreements can provide minority shareholders with special rights, such as veto powers or pre-emptive rights. However, enforcement through civil courts adds an additional layer of complexity.

4.3 Class Actions: Unrealized Potential Despite the revolutionary intent behind class actions, few cases have materialized under Section 245. Legal scholars argue that procedural hurdles, high thresholds for filing, and judicial delays hinder their effectiveness.

### 5.SHAREHOLDER ACTIVISM IN INDIA

5.1 Institutional Investors With increasing shareholding by mutual funds and insurance companies, institutional investor activism is gradually rising. The introduction of SEBI's Stewardship Code (2020) aims to formalize this trend. However, many institutions still shy away from confrontation, prioritizing business relations over activism.

5.2 Retail Investors Retail investors, though large in number, remain passive. Factors like low financial literacy, lack of coordination, and fear of reprisal contribute to their limited participation. E-voting and digital platforms have improved access but not necessarily engagement.

5.3 High-Profile Examples Instances such as the Infosys boardroom conflict and shareholder dissent in Eicher Motors' executive compensation proposal highlight the potential of shareholder activism. However, these remain exceptions rather than the norm.

### 6.ENFORCEMENT CHALLENGES

6.1 Legal Delays One of the most significant barriers to shareholder empowerment is the slow pace of

judicial proceedings. Cases related to oppression, mismanagement, or class actions often take years to resolve, diluting their impact.

6.2 Regulatory Limitations While SEBI and the Ministry of Corporate Affairs have undertaken reforms, enforcement remains weak. Regulatory bodies are often under-resourced or reluctant to challenge large corporate entities.

6.3 Cultural Factors Corporate culture in India still leans towards promoter dominance. Many companies treat shareholder engagement as a compliance formality rather than a democratic process. Changing this mindset is critical for real governance reform.

## 7. RECOMMENDATIONS

7.1 Strengthening Independent Directors Introduce a transparent and independent nomination process for independent directors. SEBI could play a larger role in vetting and approving such appointments.

7.2 Fast-Track Legal Mechanisms Establish fast-track tribunals for shareholder disputes, particularly class actions and oppression claims. This would enhance confidence in legal remedies.

7.3 Investor Education Implement widespread investor education programs, particularly targeting retail shareholders. Simplified disclosure formats and multilingual reports can enhance accessibility.

7.4 Institutional Stewardship Mandate stewardship reporting for all institutional investors. Public disclosure of voting patterns and rationales would enhance accountability.

7.5 Digital Governance Tools Use AI and digital dashboards for real-time disclosure and voting. Technology can bridge the information asymmetry between management and shareholders.

## 8. FUTURE SCOPE OF RESEARCH

Future Scope of Research While this study focuses on the legal and structural aspects of shareholder control in India, there remains significant scope for empirical research into the behavioral aspects of shareholder engagement. Future studies could analyze voting patterns, investor perception surveys, and corporate disclosures to assess the real-world impact of shareholder actions. Additionally, comparative research with global governance models especially in jurisdictions like the UK, USA, and Japan can offer

lessons for improving Indian corporate governance practices.

Furthermore, the growing role of Environmental, Social, and Governance (ESG) considerations and their integration into shareholder activism opens a new dimension of inquiry. Investigating how Indian shareholders are aligning governance demands with sustainability goals could be a meaningful area of exploration in the coming decade.

## 9. POLICY IMPLICATIONS AND LEGISLATIVE REFORM

Policy Implications and Legislative Reform Given the identified gaps between shareholder rights and their actual enforcement, there is a pressing need for thoughtful policy intervention. First, amendments to the Companies Act, 2013 could simplify the process for initiating class action lawsuits and reduce the financial thresholds for minority shareholder intervention. Simplification of compliance procedures and creation of a shareholder grievance redressal mechanism within SEBI would further democratize shareholder participation.

Moreover, mandatory disclosure of voting rationales by institutional investors can enhance transparency and encourage a more proactive approach to governance issues. There is also a need to redefine the criteria and appointment mechanisms for independent directors to ensure true autonomy and objectivity. Legislative backing for stewardship responsibilities, currently under voluntary guidelines, would bolster the involvement of mutual funds and insurance companies in governance monitoring.

Finally, provisions must be introduced to improve gender diversity, ESG reporting, and whistleblower protection factors increasingly linked to good governance globally. By embedding these reforms into law and practice, India can strengthen shareholder oversight and contribute to a more resilient corporate sector.

## 10. CONCLUSION

The Companies Act, 2013 marked a progressive step toward shareholder-centric governance. Yet, the journey from legal rights to practical empowerment remains incomplete. Shareholders, especially minorities, continue to face structural, cultural, and

procedural hurdles in asserting control over management. Realizing the vision of corporate democracy requires a multi-pronged approach legal reform, regulatory vigilance, institutional accountability, and cultural change. As India moves toward becoming a global economic leader, strengthening shareholder governance will be key to sustainable corporate success.

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