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AN ANALYSIS OF STEWARDSHIP CODE AS A TOOL OF CORPORATE GOVERNANCE IN INDIA- A FEW CASE STUDY

KEY WORDS: Corporate Governance, Institutional Investor, Stewardship Code, SEBI, PFRDA, IRDA

Dr Chandan Karki

Associate Professor, Motilal Nehru College, University of Delhi

ABSTRACT

The Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA) have issued the Stewardship code for the Institutional Investors operating in the respective industry in India. These code are viewed as a step towards improving corporate governance practices in the investee companies. The paper attempts to analyze the six principles embodied in the Stewardship Code as tool of improving corporate governance practices in India. The sample covers the three major front runner companies in the insurance, mutual fund and pension fund sector in India. The result showed abstain and opposition voting is negligible but the participation in the strategic agendas of the investee companies is ensured. The pointed to be noted that SBIMF opposed the agenda of director appointment and compensation payable to them in majority of the cases. The SBI pension fund devised the policy on all the six principles and duly available on the website.

INTRODUCTION & RATIONALITY

The market regulator SEBI in its task to protect the interest of the end investor started deliberations with the Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA) on introduction of Stewardship code in India. As a result the Stewardship Code came into effect from the Financial Year beginning 01 April 2020 for the listed entities. In 2017, the IRDA issued the Guidelines on Stewardship Code for Insurance companies in India. This was followed by the Common Stewardship Code by the PFRDA, applicable for pension funds in 2018. Stewardship Code are the set of principles meant for the observance by the institutional investors while they are acting in the fiduciary relationship. There are large number of institutional investors who are investing on behalf other retail investors like insurance companies, Banks, mutual funds etc., who are in fact acts a custodian of the wealth of the end investors. These institutional investors makes investment in the publicly traded companies and keep a portion of the profit as their respective fees. In a globalized world, the State cannot only be tasked with every responsibility. The role of the Institutional investor becomes crucial for maintaining check and balances with every system else cruelty of the capitalism as witnessed by the history.

- The key stewardship responsibilities inter alia includes
- (a) To participate proactively into the investment process, monitor business strategy, quality of management of investee company, remuneration of the management, leadership effectiveness of the investee company;
 - (b) To consider the corporate governance practices of the investee company;
 - (c) To vote and engage in the investee company;
 - (d) To consider the environment, society and governance practices of the investee company;
 - (e) To continuously engage in the investee company and suggest for the better operational and financial decisions in the investee company;
 - (f) To ensure transparency in the voting policy and disclosing the same;
 - (g) To adopt clear and detailed policy to manage conflict of interest;
 - (h) To ensure compliance of the stewardship code and period reporting of the same.

Literature Review

The literature on the stewardship code is small as the concept is not very old as contemplated after the financial crisis of 2008 worldwide. Aggarwal et al., (2011) & McNulty, T. & Nordberg, D. (2016) advocated the stewardship codes for the role of institutional investors in corporate governance,

shareholder activism and different forms of corporate ownership. The study by Majumdar, A. (2020) suggested that emerging economies such as China and India ought to develop and implement corporate governance norms that are separate from those of advanced economies to combat the unique issues arising out of shareholding patterns at home. Bansal, S. & Dastidar, G. R. (2021) concluded that the sheer transplantations of stewardship responsibilities have largely been unsuccessful to bring about considerable changes in the corporate governance practices by institutional investors. Gerard M. (1998) advocated shareholder activism became crucial for upholding good corporate governance practices but he doubts application to the institutional investors.

Whereas Gilson and Gordon (2019) argued that the current institutional investors are "rationally reticent" with diversified portfolios and competing stocks which acts as an impediment for them from effectively participating in the governance of a company. Khurana, S., K. (2021) suggested for a uniform stewardship code for the Indian market. Klettner, A. (2021) reported that Stewardship codes influence the shareholder-manager relationship and can encourage integration of wider economic and societal concerns into corporate finance. Mees, B. and Smith, S., A. (2019) provided evidence of the re-concentration of shareholder power through industry associations that mediate collective action to influence the governance practices of the investee companies. The study by Shorewala, K. & Paranjpe, A. (2011) advocated institutional investors are not only capable of but also obligated to play key roles in corporate governance. Varottil, U. (2020) concluded that UK style stewardship code is not appropriate for the India case as shareholding structure is different, secondly mandatory law based in India. Whereas the study by Yutaro, S., Naoshi, I., Yasuhiro, A. & Kotaro, I. (2019) showed that the introduction of the stewardship code in a country increases the value of the firms with high institutional ownership.

On the backdrop of this review, the current paper strives to study the short journey of the Indian stewardship codes.

Research Methodology

The objective of the paper is to (a) Study the Stewardship Codes presently in force in India (b) To study a case for each of the industry where the Stewardship Code applicable. The methodology shall be to analyze the applicability of the six principles of the Stewardship policy and reporting on the same by the respective market player. We have selected the largest company from each Industry. The Life Insurance Corporation of India (LIC) from the Insurance sector, SBI Mutual Fund (SBIMF) from the mutual fund sector and SBI Pensions Fund Pvt. Ltd (SBIPFL) from pension fund industry. The source of the secondary data are the respective websites.

Analysis

There are six basic principle underlying the Stewardship Code in India which are as follows:

Principle 1

Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.

Principle 2

Institutional investors should have a clear policy on how they manage conflict of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Principle 3

Institutional investors should monitor their investee companies.

Principle 4

Institutional investor should have a clear policy on intervention in their investee companies and policy for collaboration with other institutional investors.

Principle 5

Institutional investor should have a clear policy on voting and disclosure of voting activity.

Principle 6

Institutional investors should report periodically on their stewardship activities.

Life Insurance Corporation Of India Case

LIC is an Indian multinational public sector life insurance company having 4 trillion Indian rupees capitalization. The Table 1 reports the data on Voting Decisions on Stewardship Codes for the period 1st April 2020 to 31st March 2023 on the different agenda items. During three year of observance of the code; in 2020-21, out of 1448 agenda items, LIC voted for 1353, abstained in 85 and voted against in 10 agenda items. In 2021-22, out of 1851 agenda items, it voted for 1658, abstain in 142 and voted against in 51 items.

In 2022-2023, out of 2491 agenda items, LIC voted for 2286, abstain in 168 and voted against in 37 items.

Table 1. Report On Voting Decisions In Respect Of Corporate Actions In Compliance To IRDAI Guidelines On Stewardship Codes For The Period 1st April 2020 To 31st March 2023.

Agenda Item	TOTAL			FOR			ABSTAIN			OPPOSE		
	2020-2021	2021-2022	2022-2023	2020-2021	2021-2022	2022-2023	2020-2021	2021-2022	2022-2023	2020-2021	2021-2022	2022-2023
Resolutions regarding adoption of standalone and consolidated financial statements and accounts	216	283	312	192	257	284	24	17	22	0	9	6
Resolutions regarding the Appointment and Reappointment of Directors/ Approval of remuneration.	689	873	1129	654	764	1020	33	84	91	2	25	18
Resolutions regarding declaration of dividend to shareholders	127	169	196	126	167	196	1	2	0	0	0	0
Resolutions regarding the Appointment and Ratification of remuneration of auditors	165	238	321	164	234	308	0	3	12	1	1	1
Resolutions regarding Approval of alteration in the Objects Clause of the Memorandum of Association and Articles of Association of Companies	32	32	51	29	30	45	3	0	5	0	2	1
Resolutions to approve divestment / Pledge / dilution / disposal of the company's investment(s) / asset(s) / undertaking (s)	9	8	12	5	5	5	3	0	2	1	3	5
Resolutions regarding Approval to give Loan to any person or other body corporate or give any Guarantee or provide Security in connection with a Loan to any other body corporate or person etc	8	15	9	2	9	2	2	5	6	4	1	1
Resolutions regarding Raising of Capital by issue of securities	91	70	67	83	68	66	8	2	0	0	0	1
Resolutions regarding the Material Related Party Transactions	25	65	270	19	59	265	5	4	3	1	2	2
Other Routine Agenda Items in the normal course of business which includes a) Shifting of registered office. b) Approval for payment of remuneration to Directors. c) Approval of Employee Stock Options Scheme. d) Conversion of Debt into Equity. e) Buyback of Equity Shares etc.	79	85	98	73	54	70	5	24	26	1	7	2
Resolution regarding Scheme of Arrangement, Merger/ Demerger of companies.	7	13	26	6	11	25	1	1	1	0	1	0
Total Agenda Items	1448	1851	2491	1353	1658	2286	85	142	168	10	51	37

Source: Compilation from the LIC website

SBI Mutual Fund Case

SBI mutual fund is the largest mutual fund in India having ₹ 700,990.72 crores assets under management as on 31.03.2023.

Principle 1

It approved the Stewardship Code on February, 26, 2020 and update the policy on April 28, 2021.

Principle 2

A Committee comprising of Deputy CEO, Chief Risk Officer and Chief Compliance Officer has been constituted and no significant instance of conflict of interest noted during the period.

Principle 3

The fund manager/analysts, attend meetings/conference calls conducted by the management of the investee company. Fund Managers and analysts use publicly available information, sell side research and industry information and endeavor to engage with the investee companies at least once a year.

Principle 4

Corporate Engagements

In the period 2020-21, SBIMF conducted 80 engagements with Indian corporates, with 58 individual companies. 53% of these engagements led to 2-3 interactions/meetings with the companies on specific ESG issues.

In the period 2021-22, SBIFMF had a total of 224 corporate engagements with 176 companies with issues on meetings on investments in new companies, financial, governance, disclosure, governance improvement and other ESG issues.

Non Corporate Engagements

SBIMF undertook 139 engagements with non-corporate stakeholders like investors, regulators, think tanks, industry associations etc. which catered to market transformation activities to mainstream ESG in India.

In FY22, SBIMF had 136 engagements with non-corporate stakeholders on various ESG issues like Business Responsibility and Sustainability Reporting (BRSR) and ESG Reporting, and Sustainable Finance.

Principle 5

The following tables no. 2 to 4 show voting patterns of the SBI mutual fund during the period 2020-21 and 2021-22. The source is SBIMF website.

F.Y.	Quarter	Total no. of resolutions	Break-up of Vote decision		
			For	Against	Abstained
2020-21	Quarter 1 - April to June	129	103	9	17
2020-21	Quarter 2 - July to September	1339* -#	1253	38	29
2020-21	Quarter 3 - October to December	117	96	18	3
2020-21	Quarter 4 - January to March	89	72	13	4
Total		1674	1524	78	53

* Resolution withdrawn by the Issuer Company.
 -# Proxy Committee had decided to vote in favour of the resolutions, however due to technical/connectivity issue, SBIFMPL could not cast its vote.

Issues	No of cases	Percentage
Articles of Association	1	1.28%
Appointment of auditors	2	2.56%
Director Election	43	55.13%
ESOPs and Director Compensation	16	20.51%
KMP Appointment	4	5.13%
Royalty issues	1	1.28%
Related Party Transactions	3	3.85%
Miscellaneous	8	10.26%

F.Y.	Quarter	Total resolutions	Break-up of Votes	
			For	Against
2021-22	Quarter 1 - April to June	220	209	11
2021-22	Quarter 2 - July to September	2123	1754	96
2021-22	Quarter 3 - October to December	148	142	6
2021-22	Quarter 4 - January to March	246	217	29

Principle 6

SBIMF reports principle is complied with as reporting periodically.

SBI Pension Funds Pvt. Ltd Case

SBIPFL is the largest pension fund manager, manages over 48% market share of Asset under management in the private sector.

Principle 1

Reported that comprehensive Stewardship policy adopted w.e.f.01.11.2018.

Principle 2

Necessary action proposed to be taken with respect to conflict of the interest is detailed in the policy but no such conflict reported so far.

Principle 3

The fund is monitoring the investee company on an ongoing basis as reported.

Principle 4

The fund has a clear policy of intervention in the investee company and collaboration with other institutional investors as reported.

Principle 5

A policy document of voting/proxy document is available but no data is available on the pattern of casted votes in the period of 2019-20 to 2022-23.

Principle 6

Reports that principle is complied with as reporting periodically.

CONCLUSIONS & RECOMMENDATIONS

It is true that stewardship policy is at nascent stage in India and that the role of institutional investors has to be proactive not only in term of voting but also acting as mentor for the ultimate interest of the large public funds. Although India has tried to move towards a UK based style but good thing is that the regulators are scattered for different industry in India and easy catch for the non-compliance. The analysis of the LIC shows that abstain and opposition voting is negligible but the participation in the strategic agendas of the investee companies is ensured. In case of SBI mutual fund the participation in the strategic agendas of the investee companies is good. The point to be noted that SBIMF opposed the agenda of director appointment and compensation payable to them in majority of the cases. The SBI pension fund as per Stewardship Code devised the policy on all the six principles and duly available on the website but author failed to find the voting pattern during the period of study. It is

correct to conclude that the stewardship code has not able to achieve the desired result of enhancing the corporate governance practices in the starting phase of three four years due to various reasons like no concrete formula for the collaborations between the institution investors, the scattered self-interest of the houses, lack of consensus, no common platform to contemplate governance issues and so on. Therefore it is highly recommended that the issues be resolved and incorporated in the stewardship code and there should be a common platform or advisory committee of the institutional investors. The appointment of the professional independent directors in place of the nominee directors is suggested. There should be responsible usage of voting rights by all the institutional investors in a single investee company so that impact of percentage of voting is reflected in the improvement of the corporate governance.

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