

EXECUTIVE SUMMARY
OF
THE U.G.C.-FINANCED MAJOR RESEARCH PROJECT

**A STUDY INTO INVESTORS'
AWARENESS, ACTIVISM AND
REDRESSAL OF GRIEVANCES
IN INDIA**

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Across the world a lot of research and studies have been conducted on investor activism and many of them address certain questions such as whether shareholder activism influences corporate decision making, returns on equity investment and corporate governance. Few studies have also been done in India but all of them have focused on activism by institutional investors which are about the large shareholders only and none have discussed the role of individual smaller shareholders in activism.

The sample consists of 431 individual equity investors, who are defined as those people who have invested in a particular company for over one year as on March, 2010. This has been done to ensure that they have had the opportunity to attend one AGM at least, and further the speculators could be excluded from the respondents. From the initial batch of sample investors, such investors are considered as final respondents who have basic knowledge of the terminologies related to equity market. The questionnaire includes some basic terminologies to test awareness. From the initial batch of sample investors again the long term shareholders have been targeted as they get a greater amount of benefit in future from management of the company for their present activism. The sample does not consist only of the individual retail equity investors as described above but also includes large investors and technically more competent fund managers. There is a total sample of 34 fund managers. It also includes 35 large shareholders who hold at least 1% of the total outstanding shares in any company.

The responses of large shareholders have been collected across India. Large shareholders have been defined as those who hold at least 1% of the floated shares in a company. This task has also been outsourced to the same agency. The responses collected by the agency through personal interview with such investors have been verified by making phone calls to certain respondents on a random basis.

The study provides evidence to the fact that majority of shareholders do not attend AGMs. They also do not take the initiative to appoint representatives for the AGMs by signing and sending the proxy forms. This is the reason that most decisions are passed in the AGMs in favour of the management with little resistance from the shareholders.

Though it may be difficult for the retail shareholders to voice their grievances individually against the mammoth management of the company, in most occasions they do not even organize group protest. This lack of activism may be attributed to their low level of awareness.

It can be concluded from the study that contrary to the common belief, neither age nor income of the investors influences their level of awareness. Awareness is thus found to be an independent variable and does not vary among individuals with change in age or income. Awareness level may depend on other factors like attitude, education level, motivation, investment level, etc..

Activism is found to be dependent on Period of Investment. Investors with longest period of holding exhibit greater activism as the longer they keep their investments, the more connections they build up with other fellow shareholders which subsequently help them to form critical informal associations and groups. The people, who are new to the company, take time in understanding its operation and getting acquainted with other shareholders. In case of retail shareholders, protesting in groups is important for their voice to reach management. Further, to become more active than the others may be a genuine need for them. This further indicates that the small retail investors are susceptible. Actually, they need to protest in groups; otherwise there is a chance that their voice will be suppressed, given their minimal stake in a company. Here comes the role of investor associations. But where are these bodies in India? So, the regulators should be more alert and prompt to protect these investors and even come forward to promote investor associations which then will indirectly help the former to perform their role. The regulator will also have to monitor and actively guide the working of such associations so that they do not again become a club of the influential investors only.

The study also observes that activism is influenced by the level of awareness of the investors. Such awareness may in turn depend upon some factors including the guidance provided to them by the regulators. Hence, the role of the regulators in educating the investors is indispensable for aiding the investors to exhibit activism. Because, if the investors are aware, they will spell out their grievance against

violation of their rights. A proactive role has to be taken up by the regulators in educating the investors.

The study depicts that most of the individual shareholders with grievance had taken the trouble to lodge their complaint. This is attributable to the internet based redressal mechanism that allows the disgruntled shareholders to lodge their complaint online in a few easy steps. However, the rate of redressal received is only 52% which reveals that much more is desirable from the regulators. The regulators must make an effort to resolve all complaints irrespective of their importance and size to maintain the confidence of investors in the redressal mechanism. Ultimately, they should aim to minimize the reasons for such complaint so that the events leading to discontented shareholders do not occur at all. Of late, the SEBI had already formed a system, called SCORES (SEBI Complaints Redress System) for speedy redressal of grievance. All grievances will be in the electronic mode with facility for online updation of the action taken reports. The new system would also facilitate lodging of complaints pertaining to any regional SEBI office from anywhere. The new system would reduce grievance process time, as physical movements of the complaints would no more be required.

Large shareholders are well aware of their rights and grievance mechanisms. These shareholders, holding large equity positions in a company must be motivated by the regulators and fellow shareholders to actively participate in the company's strategic direction. The study highlights that 60% of the large shareholders never protest in an AGM. The activism level also reduces with higher investment size, which is alarming. The regulator needs to monitor along with the fellow shareholders that they do not lobby with the management of the company.

The fund managers are professionally trained to manage the wealth of their clients. They should be encouraged to spread awareness as they are the contact points with the retail shareholders. SEBI can decide on incentives to be provided to the fund managers for this activity.
