IICA organized a Power Panel discussing the “Role of Proxy Advisors in Corporate Governance Standards”. The panel featured the promoters of prominent proxy advisory firms of the country. The objective behind the discussion was to orient the Independent Directors (IDs) about the role proxy advisors play in upholding the standards of corporate governance standards in the country. Dr. Niraj Gupta moderated the discussion and acknowledged that proxy advisors are relatively a new phenomenon in the Indian landscape. Their role is to match and meet the expectations of the shareholders. They also have to be judicious in scanning the corporate governance practices of the companies and provide appropriate recommendations to shareholders from time to time. The expert speakers of the program were introduced and invited to set the tone of the discussion by sharing their perspectives.

Mr. Amit Tandon, Managing Director, Institutional Advisory Services India Limited (IiAS) in his initial remarks elaborated the task of proxy advisors holding proxies on behalf of institutional advisors. Conceptually, proxy advisors had its origin in USA and still regarded as a relatively new concept in any investor support system. In USA they cast vote on behalf of institutional investors. Proxy advisory system came into being in India around 2010-11. Contrast to USA, proxy advisors do not vote on behalf of investors in India but advise them time to time. Their main task is to study shareholders resolutions and give them voting recommendation.

Mr J.N. Gupta, Managing Director, Stakeholder Empowerment Services (SES), in his initial address, stated that initially the proxy advisory firms in India had few takers. Later, there is a sea change in the perception of companies and they are willing to seek recommendations from the proxy advisors. Proxy advisors send their reports to investors and to the companies simultaneously. He urged the companies to view proxy advisors not as adversaries but as partners in the company to develop good corporate governance standards. Adding to this notion,
Dr. Niraj Gupta said … it is very important for the independent directors to read the reports of proxy advisors very carefully besides the other financial and non-financial reports.

Mr. Shriram Subramanian, Managing Director, InGovern Research Services Private Limited, in his initial remarks said that proxy advisors play role of governance solution companies and act as a medium and intermediary to engage with investors by providing them advice on various issues. He gave an example on capital restructuring where the minority shareholders need their advice because it may impact the value of their shares. He further expressed that Mutual Funds hold hundreds and thousands of portfolios and sometimes need specific advice. For instance, the companies do not give a detailed explanation about the Employee Stock Option Plan (ESOP) to their investors. Though ESOP is an employee benefit measure, it may still have cost impact on investors. Besides advising on compliance issues, proxy advisors can help the investors to be more judgmental in their approach. He opined that directors face more challenges in promoter owned companies, than those professionally managed by MNCs.

After the initial comments from the esteemed speakers, the power panel moved forward with the Question and Answer Session, some of which are briefly summarized as under:

The Question and Answer (Q&A) session started with the query – what do a company see in a professional to be considered for the independent director’s position. In response, Mr. Amit Tandon stated that main points to be considered in this respect are - someone who can exercise judgement for the benefit of the company and the ability to meet conflicting demands of the shareholders. The secondary aspect may be the required skill set like, knowledge about the industry, communication skills and professional skills.

The other question participant asked - what a professional should do to make himself ready for the position of Independent Directors. Mr. J.N. Gupta responded that common sense and the ability to withstand pressure is important. But, equally significant is the skill of the aspiring professional to market himself.

The next question was on throwing some light on the perspective of family governed companies as to how passionate they are in meeting the requirements with relation to independent directors. In this respect, Mr. Shriram advised that the spirit of the regulation has to be followed. For the sake of their own benefit, these companies should be better off increase the diversity of the board by way of skill and experience; gender wise by inducting more women directors and age wise – by induction of some young directors on the board. He also added that a board should be forward looking and they need to abreast themselves of the latest happenings. In this backdrop, another interesting question was with regard to consciousness of the public and private sector companies on Environmental, Social and Governance (ESG) issues. Mr. Amit Tandon stated that distinction between Corporate Social Responsibility (CSR) and ESG is important as some companies have lack of awareness in this respect. He further suggested the
participants to focus on few data points and also to go through the Business Responsibility Report (BRR) and the Sustainability Report thoroughly. If the companies are not sharing such reports, they should insist upon the availability of such reports.

Another question was regard to the extent of the importance of Corporate Governance (CG) ratings of Indian companies. Mr J.N. Gupta responded by saying that the companies should read the CG report very carefully. In India, the preparation and dissemination of such report are still in its infancy. However, he emphasized that the governance aspect should also be appreciated in the same way as do the financials and the management aspects of the company.

Moving forward, the next question was – what are the challenges the directors face when they resign? Mr. Shriram replied that the biggest fear which lurks their mind is the risk of fraud. So, it is imperative that the director should know the promoters and the company well. Proper due diligence on their part before joining the company is also important.

The session ended with a Vote of Thanks to the speakers and the participants.

Program Link:

https://www.youtube.com/watch?v=zXoyxsKpnn0&t=125s