
FREE SPECTATORS TO STEWARDS: INSTITUTIONAL INVESTORS AND THE RESHAPING OF CORPORATE GOVERNANCE IN INDIA

Anushka Patil, B.A.LL.B., Sinhgad Law College, Pune, Savitribai Phule Pune University

ABSTRACT

The convergence of corporate governance and securities law has evolved rapidly in recent decades, particularly with institutional investors playing an increasingly important role in determining internal and external corporate accountability mechanisms. This transformation has accelerated in India as financial markets mature and the regulatory environment adjusts to global standards. Institutional investors, including mutual funds, pension funds, insurance companies, and alternative investment funds, now own significant stakes in publicly traded companies, giving them both the power and responsibility to steer governance practices in the direction of transparency, long-term value creation, and stakeholder protection.

This article examines the changing role of institutional investors in the Indian corporate governance framework via the prism of securities law. It begins by looking at the fundamental principles of governance and the role of securities regulation in enforcing and improving those values. It dives deeper into institutional investors' transition from passive financiers to active stewards of governance, particularly through proxy voting, board scrutiny, and ESG advocacy.

In India, regulatory tools such as the SEBI (Listing Obligations and Disclosure Requirements) Regulations, the Stewardship Code, and SEBI's mutual fund regulations demonstrate a growing expectation that institutional investors will act as diligent gatekeepers of corporate behaviour. This optimism is tempered by structural problems such as conflicts of interest, short-termism, a lack of vote openness, and insufficient legislative mandates.

The paper attempts to assess the actual impact of institutional investors on corporate governance outcomes in India by conducting a critical review of law developments, regulatory frameworks, and case studies. It concludes with proposals for strengthening these investors' fiduciary responsibility and accountability systems, ensuring that their growing influence leads to genuine improvements in corporate governance.

1. Introduction:

The modern corporate entity is embedded in a complicated web of legal conventions, market pressures, and governance expectations. As economies have globalized and capital markets have developed, corporate governance has become increasingly important in ensuring that corporations function transparently, ethically, and in the interests of their shareholders. Simultaneously, securities legislation has developed as a potent regulatory tool for protecting investors, maintaining market integrity, and reinforcing good governance practices. Within this legal framework, institutional investors have emerged as key players in influencing how companies are managed, particularly in India's quickly rising financial sector.

Historically, Indian corporate governance has grown through reactive regulatory reforms, frequently in response to corporate scandals and market failures. However, the twenty-first century has seen a paradigm shift; governance is no longer entirely the purview of management and promotion. Instead, the distribution of ownership via institutional investment has created new dynamics in the power structure of Indian firms. Institutional investors, with their large shareholdings and long-term investment perspectives, have both the incentive and the capacity to monitor business performance, criticize management decisions, and demand accountability. Their role has thus expanded beyond capital provision to include active participation in board decisions, environmental, social, and governance (ESG) activism, and the enforcement of ethical corporate behaviour.

India's securities regulatory structure, largely managed by the Securities and Exchange Board of India (SEBI), has gradually adopted worldwide best practices to govern and empower institutional investors. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the SEBI (Mutual Funds) Regulations, 1996, and the 2020 Stewardship Code have established the foundation for institutional investor stewardship. However, obstacles such as regulatory inconsistency, limited shareholder activity, and potential conflicts of interest continue to reduce their impact.

2. Corporate Governance: Theory and Principles:

Corporate governance is a set of rules, procedures, and processes that direct and manage a company's operations. It refers to the procedures by which corporations, particularly their management, are held accountable to shareholders and other stakeholders. Corporate

governance is fundamentally about balancing economic and social goals by harmonizing the interests of individuals, organizations, and society.

2.1. Evolution and Historical Foundations:

The agency theory, which emphasizes the potential conflict between owners (shareholders) and those who manage their assets (directors and executives), serves as the theoretical foundation for corporate governance.¹ The separation of ownership and control in large organizations necessitates a governance framework that can monitor, incentivize, and if required, restrain managerial behaviour.

Globally, high-profile company catastrophes such as Enron (United States), Parmalat (Italy), and Satyam (India) have illustrated the devastation caused by inadequate governance and the critical need for regulatory reform. In India, corporate governance emerged as a regulatory priority as a result of liberalization in the 1990s, followed by a series of committee reports, including the Kumar Mangalam Birla Committee (1999) and the Naresh Chandra Committee (2002), which resulted in the incorporation of governance norms into listing regulations and company law.²

2.2. Key Principles of Good Governance:

Contemporary governance frameworks are based on some broadly understood principles:³

- **Accountability:** Corporate boards and management must be accountable to shareholders and stakeholders
- **Transparency:** Providing complete and timely disclosure of financial and operational information creates confidence and decreases information asymmetry.
- **Fairness:** Treating all shareholders equally, particularly minority investors, is critical to maintaining systemic equity.
- **Responsibility:** Companies must behave ethically and responsibly in their interactions with stakeholders such as employees, creditors, customers, and the community.

These principles are included in the international framework, such as the OECD Principles of

Corporate Governance (2015), and also inform Indian norms such as SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015.

2.3. Indian Legal Framework for Corporate Governance:

India's governance architecture combines obligatory rules and soft-law norms. Key components are:

- The Companies Act, 2013: Establishes guidelines for board composition, audit committees, related party transactions, and director responsibilities.⁴
- SEBI (LODR) Regulation, 2015: Enforce governance standards for listed businesses, including provisions on independent directors, risk management, and disclosures.⁵
- Voluntary Guidelines (2009) and National Guidelines on Responsible Business Conduct (NGRBC): Encourage self-regulation and ethical behaviour.

2.4. The Role of the Board and Independent Directors:

The board of directors is the primary body responsible for corporate governance. In India, the law requires at least one-third of listed businesses' boards to be comprised of independent directors.⁶ These directors are expected to use objective judgment, avoid conflicts of interest, and protect minority shareholders' interests.

However, concerns remain, such as low autonomy for independent directors, promoter domination, and insufficient board diversity. This emphasizes the importance of institutional investors, who can utilize their shareholding power to influence board composition and promote significant reform.

3. Securities Law: An Enabler of Governance:

Securities law and corporate governance are two sides of the same coin, with both seeking to improve market efficiency, investor protection, and corporate accountability. While corporate governance establishes internal norms for corporate behaviour, securities law creates an external legal and regulatory framework to enforce those standards in public markets. In India, securities legislation has a significant impact on listed businesses' governance practices,

particularly through disclosure requirements, investor systems, and enforcement powers.

3.1. Purpose and Scope of Securities Law:

Securities legislation is primarily concerned with regulating the issuing and trading of securities in order to maintain fair and efficient capital markets. It aims to:

- Prevent fraud and market manipulation;
- Promote transparency with timely disclosures;
- Protect investors, especially retail and minority stockholders;
- Promote capital formation and market integrity;

In terms of governance, securities laws impose stringent requirements on public firms and market intermediaries to enhance accountability, reduce information asymmetry, and enable shareholders to make informed decisions.

3.2. The Indian Securities Law Framework:

The securities law regime in India is controlled by three statutes and regulatory mechanisms:

- I. The Securities and Exchange Board of India Act, 1992: Established SEBI as the major regulator of capital markets, with quasi-legislative, executive, and judicial functions.⁷
- II. The Securities Contracts (Regulation) Act, 1956 (SCRA): Regulates stock exchanges and securities listings.⁸
- III. The Companies Act, 2013: Governs business structures and establishes statutory obligations for financial reports, audits, and governance responsibilities.

SEBI's expansive regulatory framework includes:

- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR);
- SEBI (Prohibition of Insider Trading) Regulations, 2015;

- SEBI (Substantial Acquisition of Shares and Takeovers) Regulation, 2011;
- SEBI (Mutual Funds) Regulations, 1996.

These regulations form the backbone of India's securities governance architecture.

3.3. Disclosure: A Governance Mechanism:

Disclosure is the cornerstone of securities regulation. It lowers information asymmetry and allows shareholders, including institutional investors, to assess the company's performance and hold management accountable.⁹ Under the LODR Regulations, listed entities must disclose:

- i. Financial statements and audit reports;
- ii. Board meeting outcomes;
- iii. Related party transactions;
- iv. Shareholding patterns;
- v. Voting outcomes and material events.

These disclosures enable investors to exercise real governance monitoring and advocacy.

3.4. SEBI's Function as Governance Facilitator:

SEBI plays a dual role- it regulates the market and it enforces governance requirements. Its enforcement toolbox includes the ability to:

- Impose penalties and disgorgement orders.
- Suspend trading or prevent individuals from accessing the market.
- Implement improvements using circulars and guidelines.

SEBI has proactively employed this jurisdiction in several high-profile instances, including the NSE co-location scam, the Fortis Healthcare case, and Satyam, proving how securities law can be an effective enabler of governance reform.¹⁰

3.5. Security Law and Shareholder Empowerment:

Modern securities regulation empowers shareholders, especially institutional investors, by allowing:

- Proxy voting and electronic voting technologies;
- Public shareholder resolutions;
- Class actions under Section 245 of the Companies Act, 2013;
- Access to information for questioning or replacing directors.

This empowerment turns investors from passive dividend beneficiaries to active governance participants, paving the way for institutional investors to emerge as guardians of accountability.

4. Institutional Investors' Rise and Influence:

Institutional investors have emerged as dominant actors in capital markets, not just because of the amount of capital they control, but also because of their ability to influence company conduct. Unlike regular investors, institutional investors – such as mutual funds, pension funds, insurance companies, sovereign wealth funds, and foreign portfolio investors – have the analytical tools, scale, and long-term investment perspective to influence corporate governance through informed involvement.

4.1. Defining Institutional Investors:

Institutional investors are organizations that invest on behalf of others and manage pooled funds, typically spreading them across a variety of financial instruments, including shares.¹¹ Their relevance stems from their capacity to collect significant shareholdings, allowing them to influence business decisions, vote on board nominees, and demand greater transparency and responsibility.

In the Indian context, key institutional investors include:

- Life Insurance Corporation of India (LIC);

- Mutual Funds regulated by SEBI under AMFI;
- Pension funds such as EPFO and NPS;
- Foreign Portfolio Investors (FPIs);
- Alternative Investment Funds (AIFs).

Their expanding presence has contributed to a shift in corporate power – from concentrated promoter holdings to more dispersed, professional, and institutional shareholding arrangements.

4.2. From Passive Ownership to Active Stewardship:

Historically, institutional investors were passive, preferring to withdraw rather than speak out against terrible governance practices – a tendency known as “Wall Street Walk”.¹² However, the paradigm has evolved significantly.

The emergence of the stewardship model encourages institutional investors to act responsibly by:

- Engaging with corporate boards and management;
- Exercising voting rights meaningfully;
- Disclosing voting rationales;
- Participating in ESG (Environmental, Social, and Governance) initiatives;
- Demanding board diversity and independence.

SEBI introduced the Stewardship Code for mutual funds and insurance companies in 2020, continuing the global trend of fostering long-term interaction with investee companies.¹³

4.3. Mechanisms of Influence:

Institutional investors use a variety of channels to exert their influence:

A. Proxy Voting and Shareholder Resolutions

Voting on shareholder resolutions is an important tool for investor influence. SEBI requires mutual funds to disclose vote outcomes and rationales, thereby improving accountability and transparency.¹⁴

B. Board Oversight and Director Appointments

Institutional investors are increasingly active in influencing board composition, particularly in advocating for independent directors and gender diversity. In India, this may be seen in shareholder activism lawsuits like Infosys, Tata Sons, and Zee Entertainment.

C. Activist Shareholding

Shareholder activism – once uncommon in India – has gained traction, notably among international investors and sophisticated domestic funds. Notable cases include:

- IndusInd Bank: Institutional shareholders opposed the CEO's reappointment due to governance problems.
- Tata Group: Institutional investors were important in Cyrus Mistry's departure as Chairman.¹⁵

D. ESG Advocacy

ESG considerations are increasingly being considered while making financial decisions. Indian institutional investors are progressively incorporating ESG factors into portfolio selections, albeit ESG investing is still in its early stages when compared to Western competitors.

4.4. Comparative Perspective:

Institutional investors hold greater influence over governance in countries like the United States and the United Kingdom.

- U.S.: Asset managers like BlackRock and Vanguard lead ESG efforts and produce full

stewardship reports every year;

- UK: The Financial Reporting Council's Stewardship Code outlines specifies responsibilities for institutional investors.
- Japan: Government Pension Investment Fund (GPIF), the world's largest, actively advocates governance change in investee enterprises.¹⁶

While India has implemented similar arrangements, local institutional investors continue to lag in terms of transparency, voting participation, and long-term stewardship. Nonetheless, the transition from passive investment to active governance participation is gathering momentum.

5. Legal and Regulatory Frameworks for Institutional Investors:

As institutional investors' influence in corporate governance has grown, so has the need for strong legal and regulatory frameworks to oversee their behaviour, fiduciary responsibilities, and interactions with investee businesses. In India, the Securities and Exchange Board of India (SEBI) has played a critical role in developing a structured regulatory environment to guarantee that institutional investors act in accordance with their fiduciary duties and enhance long-term shareholder value.

5.1. Regulatory Framework in India:

I. SEBI (Mutual Funds) Regulations (1996)

The Mutual Funds Regulation provides the governance structure of asset management firms (AMCs), comprising trustees, custodians, and fund managers.¹⁷ Regulation 25 requires disclosure of voting records, which aligns with global best practices for transparency in shareholder decision-making. Furthermore, SEBI has issued circulars directing mutual funds to implement voting policies, publish vote rationales, and actively engage in shareholder meetings.¹⁸

II. Stewardship Code (2020)

India has implemented a Stewardship Code for mutual funds and all types of Alternative Investment Funds (AIFs), which requires them to:

- Develop a stewardship policy;
- Observe investee firms;
- When appropriate, act in collaboration with other investors;
- Manage conflicts of interest;
- Disclose voting activity and engagement results.¹⁹

Although the code is based on principles, it constitutes an important regulatory step toward institutionalizing responsible ownership and responsibility.

III. The Insurance Regulatory and Development Authority of India (IRDAI)

In 2017, IRDAI issued its own Stewardship Code for Insurers, which closely mirrored SEBI's framework. Annually, insurers are required to report on their stewardship duties, including how they exercise their voting rights and interact with investee companies.²⁰

IV. SEBI (Alternative Investment Fund) Regulations, 2012

The requirement requires institutional investors operating through AIFs to be transparent, conflict-free, and accountable in their dealings with investee enterprises. AIFs must publicly disclose their investment strategy, risk profile, governance structure, and related-party transactions.²¹

V. SEBI (Foreign Portfolio Investors) Regulations, 2019

FPIs, which are frequently the largest group of institutional shareholders in India, are regulated to prevent opaque ownership structures and to ensure beneficial ownership disclosures.²² Though FPIs are not now required to follow stewardship norms, their growing importance is causing SEBI to seek more active monitoring and regulation of their governance roles.

5.2. Fiduciary Duty and Conflict Management

Institutional investors are supposed to operate in the best interests of their clients and

beneficiaries. Fiduciary responsibilities include:

- Loyalty must prevent conflicts of interest;
- Prudence entails making informed, logical investment decisions;
- Transparency entails being open about votes, policy, and engagement.

However, conflicts frequently develop when institutional investors have business links with the companies in which they invest, such as insurers giving insurance to investee companies or mutual funds owned by banks that are influenced by corporate clients. Current regulations demand disclosure of conflicts, but enforcement is patchy.

5.3 Mandatory Disclosure and Transparency Standards

SEBI requires broad disclosure responsibility to guarantee transparency:

- Quarterly disclosure of shareholding patterns;
- Annual Business Responsibility and Sustainability Reporting (BRSR);
- Disclosure of mutual funds' votes cast and abstentions;
- Disclosure of involvement with boards and resolutions.

The launch of the Business Responsibility and Sustainability Report (BRSR) in 2021 was a key step in integrating ESG and governance reporting for publicly traded entities, indirectly improving institutional investors' monitoring capacity.²³

5.4 Global Influence and Soft Law Mechanisms

India's regulatory architecture has drawn on international best practices:

- The UK Stewardship Code (2020) emphasizes purpose-driven stewardship and active ownership.
- US SEC Guidelines require disclosure of proxy voting practices and outcomes.

- The OECD Principles of Corporate Governance call for active shareholder involvement and oversight.

Through India's stewardship frameworks are non-binding (soft law), regulators, proxy advice firms, and civil society are putting pressure on institutional investors to embrace these values and serve as de facto corporate watchdogs.

6. Institutional Investors' Impact on Corporate Governance Outcomes:

Institutional investors are increasingly influential in affecting governance outcomes in India. Their influence has gone beyond boardroom votes to include changing company cultures, increasing transparency, and advocating for accountability. While this transition is still in its early stages, important events reveal that institutional investors have had a tangible impact on several crucial governance elements.

6.1. Enhanced Accountability and Monitoring

Because of their size and access to information, institutional investors can effectively oversee management and hold boards accountable. Shareholder activism, hitherto reserved for forging investors, is now being widely adopted by Indian institutional players.

One of the most high-profile examples is the Tata-Mistry dispute, in which institutional investors played an important part in Tata Sons' governance battle, raising concerns about transparency, board independence, and conflict resolution.²⁴ Similarly, institutional shareholders have expressed worry about remuneration policies, audit anomalies, and questionable acquisitions at companies such as Infosys, Fortis Healthcare, and Yes Bank.

These discussions convey a signal to management teams across the market that shareholders are no longer passive bystanders, but rather active stewards of governance.

6.2 Executive Compensation Reforms

Institutional investors are growing concerned about excessive CEO compensation, particularly when it is not in line with corporate performance. SEBI's LODR Regulations require shareholder approval for pay that exceeds stipulated limitations. In 2020, shareholders, including mutual funds, voted against proposed salary increases for Eicher Motors' Managing

Director, citing a misalignment of compensation and financial performance.²⁵

This illustrates a developing trend in which institutional investors serve as checks on management self-enrichment, promoting performance-based incentive structures.

6.3 Board Independence and Diversification

Institutional investors have pushed for:

- Greater independence in board appointments;
- Separation of the CEO and Chairperson duties;
- Gender diversity and expertise.

In 2019, SEBI mandated that the Chairperson of the boards of the top 500 listed businesses be a non-executive director who is ideally independent.²⁶ Though the rule was later amended, institutional investor agitation had a substantial impact on its proposed implementation.

Furthermore, investor pressure has contributed to the greater appointment of women directors, as required by Section 149 of the Companies Act, 2013. While the objective has been pushed by investors.

6.4. Risk Management and Long-Term Strategies

Long-term investment objectives are frequently pursued by institutional investors, who prioritize long-term value development over short-term earnings. As a result, they have gained significant influence in:

- Risk mitigation strategies;
- Cybersecurity Preparedness;
- Capital Allocation and Dividend Policy;
- Incorporation of ESG factors into corporate strategy.

This move is especially significant in light of increased ESG investment in India. Asset

managers are increasingly screening investee companies based on sustainability measures, climate risk disclosures, and ethical governance, frequently requiring significant board monitoring on these concerns.

6.5. Prevention of Governance Failures

Several times, institutional investors have taken proactive steps to prevent corporate governance failures:

- During the Yes Bank crisis, mutual funds and institutional lenders cut their exposure once governance concerns arose, prompting regulatory action.²⁷
- In the Fortis Healthcare case, institutional investors rejected directors' reappointment and demanded a forensic examination into fund embezzlement, which resulted in board restrictions.²⁸

Such efforts, albeit reactionary, have increasingly served as a deterrent to misgovernance and opaque promotional practices.

6.6. Impact on ESG and Non-Financial Disclosures

The demand for non-financial disclosures, like as sustainability, human capital, and governance procedures, has been mostly driven by institutional investors. SEBI introduced the Business Responsibility and Sustainability Report (BRSR) framework in response to increased investor expectations for assessing not just financial returns but also corporate responsibility and ethical behaviour.

Large asset managers are building internal ESG indices and stewardship methods to inform their voting decisions and investment priorities. While India trails behind countries such as the United Kingdom and Norway in terms of institutional ESG integration, there is clear momentum growing.

7. Challenges and Criticism:

Despite their expanding importance, India's institutional investors face several structural, regulatory, and behavioural constraints that limit their ability to act as effective corporate stewards. While regulatory reforms have provided the framework, a number of obstacles

persist, including inherent conflicts of interest, systematic apathy, and the lack of binding enforcement tools.

7.1. Short-Termism and Herd Behaviour

A prominent criticism levelled at institutional investors is the prevalence of short-termism – the inclination to favour quarterly earnings and short-term gains over long-term value creation.²⁹ This behaviour reduces their ability to promote sustainable governance practices. Furthermore, herd mentality, in which institutional investors follow each other's plans rather than exercising independent judgment, frequently results in inflated stock prices and reactive governance engagement.

For example, during the IL&FS crisis, numerous mutual funds had significant exposures to the firm despite early warning indications, indicating a collective failure in risk management.³⁰

7.2. Conflicts of Interest

Conflicts of interest are endemic in the institutional investing ecosystem, especially in vertically integrated financial conglomerates. For example:

- Mutual funds owned by banks may be reluctant to vote against companies that are clients of their parent banks.
- Insurance companies may avoid governance involvement in companies with which they have underwriting connections.
- Cross-holding and strategic partnerships may influence proxies' voting decisions.

Although the SEBI and IRDAI stewardship rules demand the declaration of conflicts, there is little regulatory clarity on how such conflicts should be resolved, and enforcement is inadequate.³¹

7.3. Tokenism in Shareholder Activism

A lot of institutional investors in India have taken a checklist approach to stewardship, completing disclosure obligations without engaging in real governance reform.³² Many funds just release their voting records without providing explanations or communicating with

management. Furthermore, domestic institutional investors have fallen behind international institutional investors in initiating shareholder motions and opposing management resolutions.

7.4. Weak Enforcement and a Lack of Stewardship Culture

Unlike in the United Kingdom, where stewardship codes are legally binding and overseen by regulatory bodies, India's stewardship code is still based on principles and is not mandatory; there are no actual repercussions of non-compliance, resulting in a culture of cosmetic adoption that lacks accountability.

Furthermore, India lacks a unified oversight organization to monitor compliance with stewardship principles. The absence of a Stewardship Advisory Committee and frequent stewardship audits adds to regulatory paralysis.

7.5. Limited Role for Smaller Firms and Unlisted Entities

Institutional investors primarily concentrate on large-cap or blue-chip firms, where their investments are significant and liquidity is considerable. Their influence is negligible at small and mid-cap enterprises, where governance problems are just as common, if not more so.³³ This creates an uneven governance environment, allowing promoter-driven opacity in smaller enterprises to continue unabated.

7.6. Greenwashing and Performance-Based ESG

With increased interest in ESG investing, some institutional investors have been accused of greenwashing, or appearing to support sustainable practices without taking actual actions.³⁴ For example, funds may openly vote in support of ESG-related motions while failing to oppose unsustainable practices in their other assets.

Furthermore, the lack of common ESG metrics, ESG rating transparency, and different ESG strategies across funds makes it difficult for regulators and investors to determine whether institutional investors are truly dedicated to governance reform or simply complying.

8. Future Outlook and Recommendations

As Indian capital markets evolve and the demand for ethical, transparent, and sustainable corporate practices grows, institutional investors' involvement will become increasingly

important. However, in order to fully realize their potential for improving corporate governance, legal and regulatory reforms, capacity building, and culture adjustments are required. This section presents major forward-looking proposals to improve the effectiveness of institutional investors in India's governance landscape.

8.1. Strengthening the Legal Framework for Stewardship

India's current Stewardship Code, established by SEBI for mutual funds and Alternative Investment Funds (AIFs), is mostly voluntary and principles-based.³⁵ To increase responsibility and consistency:

- Convert the Stewardship Code into a required regime, similar to the UK Stewardship Code, 2020.
- Empower the SEBI to monitor and audit stewardship disclosures.
- Establish sanctions or negative consequences for non-compliance with stewardship standards, such as naming and shaming non-compliant organizations in public disclosures.

A formalized stewardship reporting framework, complete with standardized forms and explanatory rationales for voting decisions, would improve transparency.

8.2. Implementing Proxy Advisory Mechanisms

Proxy advice services assist institutional investors in making educated judgements.³⁶ SEBI should:

- Further control and standardize the conduct of proxy advisors.
- Encourage diversity in proxy suggestions by avoiding monopolistic market control.
- Facilitate the public disclosure of vote rationales by advisors and institutional investors.

This will help to eliminate herd behaviour and promote autonomous, well-thought-out voting methods.

8.3. Encourage ESG Integration with Measurable Impact

Institutional investors must move beyond checkbox ESG compliance and develop impact-oriented strategies:

- Require disclosures of ESG risks, measurements, and engagement outcomes within the Business Responsibility and Sustainability Reporting (BRSR) framework;
- Requires mutual funds and insurers to defend their ESG votes concerning sustainability objectives;
- Promote third-party ESG audits to combat greenwashing and validate claims.

India can draw inspiration from European Union legislation like the Sustainable Finance Disclosure Regulation (SFDR) and tailor it to its own needs.

8.4. Encourage Long-term Shareholding and Active Engagement

To address short-termism, SEBI and RBI can create incentives for long-term investment:

- Offer tax benefits for funds that hold shares for more than a particular term;
- Introduce varied voting rights based on the holding duration;
- Set up regular engagement meetings between investors and company boards in addition to yearly general meetings.

This would increase investor commitment and deepen participation with governance concerns.

8.5. Increase participation in Smaller Firms and Unlisted Entities

Institutional investors should be encouraged, possibly through thematic or ESG-focused funds, to invest in small and mid-cap companies with significant governance gaps. The following mechanisms could facilitate this:

- SEBI can establish tiered stewardship rules based on firm size.
- Provide regulatory backing for collective engagement platforms that enable

institutional investors to work together on issues without breaching antitrust rules.

8.6. Developing a Stewardship Culture Through Capacity Building ³⁷

India lacks a strong stewardship ethos, and this cultural gap must be remedied via:

- SEBI-mandated training programs for fund managers, trustees, and compliance officials on corporate governance.
- AMFI (Association of Mutual Funds in India) has developed stewardship best practices guidance.
- Development of university-level modules on responsible investing and shareholder rights for law and business curricula.

9. Conclusion and Way Forward:

The convergence of corporate governance, securities regulation, and institutional investor activism is a vital area for influencing the future of corporate India. While India has made considerable progress in codifying governance standards and regulating capital markets, institutional investors' ultimate potential as custodians of responsible corporate behaviour remains untapped. Their power to influence business choices, demand openness, and promote ethical behaviour makes them critical players in increasing long-term shareholder value and public trust.

This article traces the theoretical and practical roots of corporate governance in India, maps the legal framework surrounding institutional investor rights, and examines their changing stewardship role. The rise of institutional investors has provided an important counterbalance to promoter control in Indian enterprises. However, the extent and consistency of their involvement vary greatly between industries, business sizes, and governance difficulties.

One major takeaway from this analysis is that regulatory purpose alone is insufficient. It must be balanced with institutional capacity, cultural reform, and market incentives. Voluntary compliance strategies, unless supported by regulatory teeth and investor education, are likely to yield cosmetic compliance. Furthermore, the increasing relevance of ESG issues, along with investor demand for responsibility, means that institutional investors can no longer be passive

or reactive participants.

To fully realize their governance potential, India's institutional investors must take a more proactive, principle-driven, and long-term stewardship approach. Regulators, such as SEBI, must adjust their frameworks to encourage genuine interaction rather than merely disclosure. Proxy advisory infrastructure, ESG standardization, and legal reforms must all work together to empower investors while avoiding unnecessary compliance obligations.

Looking ahead, the future of Indian corporate governance will most likely be dictated not by legislative requirements, but by the assertiveness and integrity of its institutional investors. If empowered and held responsible, they have the potential to bridge the gap between corporate power and public interest, transforming the Indian business ecosystem into one that is not only profitable but also egalitarian, sustainable, and just.

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