SHAREHOLDER ACTIVISM IN INDIA'S ESG ERA: BALANCING INVESTOR DEMANDS WITH LONG TERM CORPORATE STRATEGY

Dr. E. Ramya, Assistant Professor of Law, Chennai Dr. Ambedkar Govt. Law College, Pudupakkam, Tamil Nadu

ABSTRACT

The rise of Environmental, Social, and Governance (ESG) considerations has fundamentally reshaped the landscape of corporate governance globally, and India is no exception. This paper examines the evolving dynamics of shareholder activism in India through an ESG lens, analysing how institutional and retail investors are increasingly leveraging their rights to influence corporate strategy on sustainability issues. While shareholder activism serves as a vital mechanism for promoting corporate accountability and aligning business practices with societal expectations, it simultaneously presents complex challenges for Indian boards striving to balance short-term investor demands with long-term sustainable growth objectives. This research explores the legal avenues available for ESG-focused shareholder activism under Indian corporate law, assesses the practical implications for board decision-making and corporate strategy, and proposes a framework for proactive engagement to foster a synergistic relationship between activist shareholders and corporate management in the pursuit of genuine sustainability.

Keywords: Shareholder Activism, ESG, Corporate Governance, Sustainable Strategy, Institutional Investors.

1. Introduction

The traditional focus of corporate governance, primarily focused on maximizing shareholder wealth, is undergoing a profound transformation. The growing recognition of environmental crises, social inequalities, and governance failures has propelled ESG factors from marginal concerns to mainstream imperatives for businesses worldwide[1]. This paradigm shift is driven by a confluence of factors, including mounting scientific evidence of climate change, increasing societal expectations for ethical business conduct, and a growing consensus among investors that robust ESG performance correlates with long-term financial resilience and reduced risk[2].

In India, a burgeoning economy with unique developmental challenges and a rapidly evolving regulatory environment, this shift is particularly pronounced. The nation's dual imperative of economic growth and sustainable development places unique demands on its corporate sector, making the integration of ESG principles not just a global trend but a local necessity. Concurrently, shareholder activism, once a relatively nascent phenomenon in India, has gained significant traction, fuelled by increased investor awareness, stricter governance norms, and the strategic use of legal and regulatory tools. This rise in activist engagement reflects a maturing capital market where investors are no longer passive capital providers but active stewards of corporate value and responsibility.

This paper argues that the convergence of ESG and shareholder activism creates a double-edged sword for Indian corporations. On one hand, it represents an opportunity for enhanced accountability, driving companies towards more sustainable and responsible practices by spotlighting areas of improvement and demanding concrete action. It can serve as a vital external check, accelerating the adoption of best practices that might otherwise be delayed. On the other hand, it can lead to tension, as boards grapple with activist demands that, while often well-intentioned, may clash with carefully crafted long-term corporate strategies, potentially diverting resources or forcing premature decisions. Such friction can arise from differing time horizons, a lack of shared understanding of complex ESG issues, or the pursuit of narrow agendas that do not fully align with the holistic well-being of the corporation and its broader stakeholders. This research seeks to dissect this complex interplay, offering insights into the

[1] 12.Pdf, https://www.icsi.edu/media/webmodules/CSJ/October/12.pdf (last visited July 14, 2025).
[2] The Eco-Agency Problem and Sustainable Investment by Moran Ofir, Tal Elmakiess :: SSRN, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4652981 (last visited July 14, 2025).

legal frameworks, practical challenges, and potential solutions for navigating this new era of corporate governance in India.

2. The Evolution of Shareholder Activism in India

Historically, shareholder activism in India was largely confined to issues of financial mismanagement, related party transactions, or boardroom control battles, often driven by promoter groups or large institutional investors[3]. Early instances frequently revolved around safeguarding minority shareholder interests against potentially self-serving actions by dominant promoters or challenging undervalued Mergers and Acquisitions deals[4]. The focus was predominantly on direct financial impacts and control dynamics, rather than broader ethical or sustainability concerns[5]. However, several factors have contributed to its profound evolution and diversification, particularly towards ESG concerns, marking a significant shift in the corporate governance landscape:

2.1 Regulatory Reforms

The promulgation of the Companies Act, 2013, represented a watershed moment in Indian corporate governance. This comprehensive legislation significantly enhanced shareholder rights and transparency by introducing a range of progressive provisions[6]. Key among these is Section 245, which enabled the filing of class-action suits for the first time in India, providing a powerful collective redressal mechanism for investors against company mismanagement or fraud. Furthermore, mandating e-voting for listed companies democratized the proxy voting process, enabling even small retail investors to participate actively in crucial corporate decisions, previously dominated by physical presence[7]. The Securities and Exchange Board of India (SEBI), a proactive regulator, has complemented these legislative changes with various regulations, most notably the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR). LODR introduced stricter norms for independent directors, related

[3] Lakshya Kothari, Corporate Governance Failures And The Rise Of Shareholder Activism: A Special Emphasis On India (Mar. 20, 2024), https://papers.ssrn.com/abstract=4781391.
[4] Umakanth Varottil, The Advent of Shareholder Activism in India, SSRN ELECTRON. J. (2012), http://www.ssrn.com/abstract=2165162.
[5] Susmita Biswas & Subhajit Chakraborty, The Existence of Shareholder Activism in India: A Factual Occurrence or a Deceptive Perception?
[6] Manupatra, Casting Light on the Shadows of Corporate Governance: Unravelling Oppression and Mismanagement in India's Companies Act of 2013, https://articles.manupatra.com/article-details?id=undefined&ifile=undefined (last visited July 15, 2025).
[7] Bhumika Indulia, Section 245 - The Road Less Travelled, SCC TIMES (Oct. 17, 2024), https://www.scconline.com/blog/post/2024/10/17/section-245-the-road-less-travelled/.

party transactions, and board committees, while also pioneering expanded disclosure requirements, such as the Business Responsibility and Sustainability Reporting (BRSR). The subsequent introduction of BRSR Core in 2023, requiring assurance on key ESG metrics, has further solidified the regulatory push towards greater transparency and accountability on sustainability performance, directly empowering investors with actionable ESG data[8].

2.2 Rise of Institutional Investors

The increasing presence and influence of both domestic and international institutional investors have been a pivotal force behind the evolution of shareholder activism. Large asset managers, mutual funds, pension funds, and dedicated ESG-focused funds now collectively hold substantial and often strategic stakes in India's public companies. Driven not just by domestic fiduciary duties but also by global mandates, best practices, and a growing understanding of the material financial risks and opportunities associated with ESG factors, these investors are increasingly engaging in active stewardship. They view engagement as a critical tool for long-term value creation and risk mitigation, moving beyond simple 'exit' strategies. SEBI's proactive stance is evident in its Stewardship Code for institutional investors (2020), which formally encourages these investors to play a more active and responsible role in monitoring and engaging with their investee companies on governance, social, and environmental issues. This code has fostered a culture of proactive dialogue and expectation-setting from the investor community[9].

2.3 Proxy Advisory Firms

The emergence and growing influence of proxy advisory firms in India, such as Institutional Investor Advisory Services (IIAS) and Stakeholder Empowerment Services (SES), have significantly professionalized and streamlined shareholder activism. These firms provide independent, in-depth research and recommendations on critical corporate governance and ESG issues ahead of shareholder meetings[10]. Their analyses cover everything from executive compensation and board appointments to related party transactions and increasingly, climate

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[8] The BRSR Framework: Towards Ethical And Sustainable Corporate Governance, https://www.mondaq.com/india/corporate-governance/1635738/ (last visited July 15, 2025).

[9] Khalid Azizuddin, India's ESG Funds: Championed by Managers, Snubbed by Investors, RESPONSIBLE INVESTOR (Oct. 21, 2024), https://www.responsible-investor.com.

[10] (PDF) PROXY ADVISORY INDUSTRY-CHANGING FACE OF SHAREHOLDER & CORPORATE GOVERNANCE, https://www.researchgate.net/publication/379483477 (last visited July 17, 2025).

change strategies and social impact. By offering standardized assessments and clear voting recommendations, proxy advisory firms enable institutional investors, who often manage vast portfolios, to make more informed and coordinated voting decisions without having to conduct extensive in-house research for every company. This collective influence can often sway crucial votes and amplify the message of activist shareholders[11].

2.4 Increased Public Awareness and Media Scrutiny

The digital age has profoundly impacted corporate transparency and public discourse. High-profile corporate scandals, instances of financial fraud, significant environmental disasters (like industrial pollution incidents), and growing awareness of social issues (such as labour rights violations or lack of diversity) have heightened public and media scrutiny of corporate conduct. This intensified spotlight creates immense reputational pressure on companies to act responsibly and transparently. Negative media coverage can quickly erode public trust, impact consumer preferences, and alienate employees. This increased scrutiny, in turn, often translates into greater investor engagement on ESG matters, as investors recognize the direct link between a company's social license to operate and its long-term financial viability. Activist shareholders are adept at leveraging public sentiment and media attention to build support for their campaigns, further amplifying their impact[12].

This key milestones in Indian shareholder activism, tracing its evolution from a focus on financial and governance issues to the current emphasis on environmental and social performance, illustrating how these factors have collectively empowered the investor community.

3. ESG as a New Frontier for Shareholder Activism

ESG factors have unequivocally provided activist shareholders with new and potent themes for engagement, fundamentally broadening the scope of corporate accountability. Investors are increasingly recognizing that strong ESG performance is not merely an altruistic endeavour or a tick-box compliance exercise, but is intrinsically linked to long-term financial resilience, effective risk management, enhanced competitive advantage, and ultimately, sustainable value

[11] Guidance note on Meetings of the Board of Directors (based on Revised SS-1).Pdf, https://www.icsi.edu/media/webmodules/ (last visited July 17, 2025).

[12] (PDF) White-Collar Crimes in India: An Analysis of Corporate Criminal Liability, RESEARCHGATE (June 8, 2025), https://www.researchgate.net/publication/392506947

creation[13]. This growing conviction is fuelled by evidence linking robust ESG practices to lower cost of capital, improved operational efficiency, stronger brand reputation, and better talent retention. Consequently, shareholder proposals and engagement strategies have shifted from purely financial metrics to a more holistic evaluation of corporate impact and future-proofing capabilities[14].

3.1 Environmental Activism

This dimension of activism targets a company's impact on the natural world and its preparedness for environmental transitions and risks. It includes demands for ambitious targets for reduced carbon emissions (Scope 1, 2, and increasingly Scope 3), accelerated adoption of renewable energy sources, and the implementation of robust, sustainable supply chain practices (e.g., responsible sourcing, waste reduction across the value chain). Activists are also pushing for enhanced water conservation and management strategies, particularly for water-intensive industries. A critical area of focus is transparent reporting on climate-related financial risks and opportunities, often aligning with frameworks like the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. While the TCFD disbanded in late 2023, its recommendations on governance, strategy, risk management, and metrics and targets for climate-related disclosures remain highly influential and form the basis for many new reporting standards (like ISSB). Activists may strategically target companies in high-emission sectors such as power, manufacturing, or heavy industry, or those perceived to be lagging in adopting net-zero pathways and transparent environmental stewardship. In India, this has manifested in increased scrutiny of energy transition plans for large conglomerates and demands for greater disclosure on environmental compliance and remediation efforts in sectors like mining and chemicals[15].

3.2 Social Activism

This facet of activism center on a company's relationship with its employees, customers, suppliers, and the broader communities in which it operates. It encompasses urgent calls for

[13] (PDF) The Impact of Environmental, Social, and Governance (ESG) Reporting on Corporate Financial Performance, RESEARCHGATE, https://www.researchgate.net/publication/384533952 (last visited July 17, 2025).
[14] (PDF) The Importance of ESG in Corporate Strategy and Investment Decisions with Patagonia as an Example, RESEARCHGATE, https://www.researchgate.net/publication/373896619 (last visited July 17, 2025).
[15] OECD, RESPONSIBLE BUSINESS CONDUCT FOR CLIMATE ACTION: STRENGTHENING THE CONTRIBUTION OF BUSINESS TO CLIMATE GOALS (2024), https://www.oecd.org/en/publications/.

improved labour practices, including fair wages, safe working conditions, the elimination of child labour or forced labour in supply chains, and adherence to international human rights standards. Diversity, Equity, and Inclusion (DEI) have emerged as a significant area, with demands for greater representation across gender, caste, and other dimensions on boards and in leadership, and transparent reporting on pay equity. Shareholder activists are also advocating for enhanced community engagement, ethical product development (e.g., responsible marketing, data privacy in consumer products), and robust grievance redressal mechanisms. Cases involving worker safety in manufacturing units, allegations of gender pay gaps within large corporations, or controversial product lines (e.g., those impacting public health or privacy) can swiftly trigger social activism, often amplified by media scrutiny and public sentiment. The recent emphasis on supply chain due diligence, influenced by global regulations, has led investors to question Indian companies' oversight of social issues in their extended value chains[16].

3.3 Governance Activism

While foundational corporate governance issues (such as board independence and audit committee oversight) have always been central to activism, the Governance in ESG has evolved to reflect its critical role in underpinning credible ESG performance. It extends to demands for truly independent boards with diverse skill sets (including ESG expertise), executive compensation packages that are demonstrably linked to achieving specific, measurable ESG metrics (not just financial ones), and robust ethical conduct frameworks. Transparency in corporate political spending and lobbying activities is also increasingly under scrutiny, as investors seek to ensure that corporate influence aligns with stated ESG commitments. The focus shifts from merely having a governance structure to how effectively that corporate governance framework genuinely supports, oversees, and integrates the broader ESG strategy into the company's core business model. Activists are pushing for robust internal controls, whistle-blower protection mechanisms, and a culture of accountability from the top. In India, this has often translated into calls for separation of Chairman and MD roles, strengthening independent director committees, and ensuring greater transparency in related

[16] Priyanka Dwivedi et al., A Stakeholder Perspective on Diversity Within Organizations, 51 J. MANAG. 383 (2025).

party transactions to prevent conflicts of interest that could undermine ESG initiatives[17].

These ESG-related shareholder proposals and campaigns in India, highlighting the issues raised, the strategies employed by activists, and critically, the impact (or lack thereof) on corporate decision-making and subsequent changes in company practices or disclosures. This will provide a tangible understanding of the evolving dynamics of shareholder activism in India's ESG era[18].

4. Legal Avenues for ESG-Focused Shareholder Activism in India

Indian corporate law provides several robust mechanisms that activist shareholders can leverage to push their ESG agenda, reflecting a deliberate legislative and regulatory intent to foster greater corporate accountability. Understanding these avenues is crucial for both activists seeking to influence change and boards aiming to manage stakeholder expectations and mitigate risks[19].

4.1 Shareholder Resolutions and Proxy Voting

This remains the most common and accessible avenue for shareholders to express their views and push for ESG-related changes. Shareholders can propose ordinary or special resolutions at Annual General Meetings (AGMs) or Extraordinary General Meetings (EGMs) concerning a wide array of ESG matters, ranging from adopting specific climate targets to increasing board diversity or enhancing social impact initiatives. The e-voting facility, mandated for listed companies under Indian law, has significantly democratized this process, allowing wider participation beyond physical attendance at meetings. This has enabled institutional investors and even fragmented retail shareholders to collectively voice their opinions. Activists often use shareholder resolutions not just to pass measures, but also as a powerful signaling tool, forcing boards to acknowledge and publicly respond to ESG concerns, even if the resolution itself doesn't secure majority approval. The increasing focus on ESG by proxy advisory firms further

[17] (PDF) Corporate Governance Mechanisms to Prevent Conflicts of Interest, RESEARCHGATE (Mar. 14, 2025), https://www.researchgate.net/publication/389818581

[18] Directors' Institute, The Impact of Shareholder Activism on Corporate Decisions: How Shareholder Demands Are Reshaping Board Priorities and Corporate Strategies, DIRECTORS INSTITUTE (Sept. 25, 2024), https://www.directors-institute.com/post/.

[19] Vanshika Kapoor, Shareholder Activism and Its Influence on Corporate Decision-Making, IPLEADERS (Sept. 3, 2024), https://blog.ipleaders.in/shareholder-activism-and-its-influence-on-corporate-decision-making/.

amplifies the potential impact of such resolutions, as their recommendations often guide institutional investor votes[20].

4.2 Right to Information and Inspection

Shareholders possess statutory rights to access certain company documents and information, which can be crucial for uncovering ESG-related concerns or verifying disclosures. This includes inspecting registers of members, debenture holders, annual returns, and minutes of general meetings. While these rights are often general, they can be strategically utilized by activists to gather evidence of potential non-compliance with ESG standards or to identify areas for improvement. For instance, an activist might request to inspect board meeting minutes related to a controversial environmental project or review records pertaining to employee grievances if social issues are suspected. However, the scope of "information" that can be requested is often subject to the company's articles of association and judicial interpretation, and the information must be genuinely necessary for the shareholder's legitimate interest[21].

4.3 Class Action Suits (Section 245, Companies Act, 2013)

This powerful provision, a relatively recent introduction in Indian corporate law, allows a group of shareholders (or depositors) to initiate legal proceedings against the company, its directors, auditors, or experts for acts that are prejudicial to the interests of the company or its members/depositors. The scope of "prejudicial interests" is broad enough to potentially include significant ESG failures. For example, a company's egregious environmental pollution leading to substantial fines and reputational damage could be argued as prejudicial to the company's interests. Similarly, consistent and systemic human rights abuses within a supply chain that expose the company to legal liabilities or loss of contracts could fall under this purview. While actual class-action suits under Section 245 specifically for ESG breaches are still nascent in India, the mere existence of this provision acts as a significant deterrent, compelling boards to take ESG compliance more seriously due to the increased threat of collective legal action and

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[20] (PDF) Shareholders Engagement and Annual General Meetings of Australian Listed Companies: An Empirical Analysis of Corporate Governance, RESEARCHGATE (2025), https://www.researchgate.net/publication/388442078

[21] Umakanth Varottil, Shareholder Inspection Rights in India: Restricted Scope and Diminished Effect (Nov. 18, 2023), https://papers.ssrn.com/abstract=4636946.

the associated financial and reputational penalties[22].

4.4 Oppression and Mismanagement (Sections 241-242, Companies Act, 2013)

Provides crucial recourse for minority shareholders who believe the affairs of the company are being conducted in a manner prejudicial or oppressive to them, or to the public interest. While traditionally used for issues like siphoning of funds or unfair share allotments, the interpretation of "prejudicial to public interest" is expanding. A company's persistent and severe disregard for environmental regulations, resulting in widespread pollution, or a pattern of gross human rights violations, leading to significant societal harm, could potentially be argued as prejudicial to public interest, allowing minority shareholders to approach the National Company Law Tribunal (NCLT) for relief. The NCLT has wide powers, including setting aside transactions, regulating conduct of affairs, or even directing changes in management. The potential for such action necessitates that boards consider the public interest implications of their ESG decisions[23].

4.5 Regulatory Complaints to SEBI

As the primary regulator for listed entities, SEBI plays a crucial role in enforcing corporate governance and disclosure standards. Shareholders can file complaints with SEBI regarding non-compliance with the LODR regulations, which now explicitly include ESG disclosure norms (e.g., BRSR). Instances of inaccurate or misleading ESG reporting (greenwashing), failure to constitute required ESG-related board committees, or other governance lapses can be reported to SEBI. The regulator has the power to impose penalties, direct remedial actions, or initiate investigations, making it a significant avenue for pressuring companies on ESG compliance. The increasing scrutiny by SEBI on ESG disclosures suggests that such complaints will likely gain more traction over time[24].

4.6 Public Interest Litigation (PIL)

While not a direct mechanism for shareholder activism in the traditional sense, Public Interest

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[22] (PDF) CLASS ACTION SUITS – GENESIS, ANALYSIS AND COMPARISON, in RESEARCHGATE , https://www.researchgate.net/publication/311576056 (last visited July 23, 2025).

[23] Understanding Oppression and Mismanagement Under Companies Act 2013 | Zeus Law Associates | LiveLaw, https://www.livelaw.in/law-firms/law-firm-articles-/oppression-mismanagement-companies-act-2013-zeus-law-associates-257121 (last visited July 23, 2025).

[24] (PDF) The Regulatory Challenges of Environment Social Governance in India, in RESEARCHGATE , https://www.researchgate.net/publication/381394994 (last visited July 23, 2025).

Litigation (PIL) offers an indirect yet powerful route to pressure companies on environmental or social issues. Filed by public-spirited individuals or groups in high courts or the Supreme Court, PILs address issues of broader public concern, often relating to environmental protection, human rights, or public health. A successful PIL against a company for environmental damage or social injustice can indirectly influence its corporate strategy by compelling it to adopt more responsible practices, often leading to significant reputational and financial consequences. This, in turn, can galvanize shareholder action, as investors become increasingly concerned about the company's financial viability and long-term sustainability due to its challenged social license to operate.

These provides a detailed legal analysis of these avenues, including their strengths, limitations, and recent judicial or regulatory interpretations in the context of ESG, demonstrating the diverse legal toolkit available to ESG-focused activists in India[25].

5. Boards Under Pressure: Confronting ESG Activist Demands

The burgeoning wave of ESG activism, while a force for positive change, simultaneously poses significant and multifaceted challenges for Indian corporate boards[26]. Navigating these demands requires a delicate balance and a sophisticated understanding of both shareholder expectations and the complex realities of business operations and strategic planning.

5.1 Short-Term vs. Long-Term Perspectives

Perhaps the most enduring tension arises from the differing time horizons of certain activist demands and the often long-term, capital-intensive nature of meaningful ESG transitions. Activist demands, particularly those from hedge funds or investors focused on quick returns, can sometimes be driven by short-term financial gains or specific policy changes that might yield immediate PR benefits but do not align with a company's carefully planned, multi-year sustainability roadmap. For instance, an activist might demand an immediate divestment from fossil fuel assets, which for a diversified energy company, could disrupt its long-term energy transition strategy, jeopardize existing infrastructure, or create stranded assets prematurely. Boards must, therefore, articulate a clear and compelling vision for long-term value creation

[25] ESG Comparative Guide - - India, https://www.mondaq.com/india/corporatecommercial-law/1231978/esg-comparative-guide (last visited July 23, 2025).
[26] (PDF) ESG Journey of Corporate India: Challenges and Opportunities, https://www.researchgate.net/publication/383144596 (last visited July 24, 2025).

that seamlessly integrates ESG, demonstrating how current investments and strategic choices on sustainability will yield benefits over extended periods, even if they impact short-term profitability[27].

5.2 Resource Allocation

Implementing significant ESG changes, such as decarbonizing operations, investing in sustainable technologies, overhauling supply chain audits, or enhancing employee welfare programs, requires substantial financial, human, and technological resources. Boards face the complex challenge of allocating these finite resources effectively while balancing other critical strategic priorities, maintaining profitability, and ensuring competitive advantage. This often involves difficult trade-offs: should capital be deployed for immediate revenue-generating projects or for long-term ESG infrastructure that may not show immediate returns? This challenge is particularly acute for companies operating in capital-intensive sectors or those with tight margins, where ESG investments might be perceived as a burden rather than a value driver in the short term[28].

5.3 Managing Reputational Risk

The failure to adequately address valid ESG concerns raised by activist shareholders, or a perceived dismissiveness towards such demands, can lead to severe and rapid reputational damage. In the age of instant information dissemination and social media, a single negative news story or a widely publicized activist campaign can significantly impact a company's brand value, erode consumer loyalty, deter potential talent, and restrict access to capital from ESG-conscious investors. Boards must understand that reputational risk is no longer merely a PR issue but a material financial risk that can affect market capitalization and long-term viability. Proactive communication and genuine engagement, rather than reactive defensiveness, become paramount[29].

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[27] (PDF) Hedge Fund Activism and ESG: Examining the Role of Activist Hedge Funds as Protagonists in Capital Markets, RESEARCHGATE, https://www.researchgate.net/publication/327884194 (last visited July 24, 2025).
[28] (PDF) Exploring the Integration of Sustainable Materials in Supply Chain Management for Environmental Impact, ResearchGate (2025), https://www.researchgate.net/publication/ 373860728
[29] Maxime L. D. Nicolas et al., ESG Reputation Risk Matters: An Event Study Based on Social Media Data (July 21, 2023), https://papers.ssrn.com/abstract=4517269.

5.4 Navigating Disclosure Complexity

The increasing demand for granular, verifiable, and comparable ESG data, coupled with the heightened risk of "greenwashing" claims, places a heavy and often complex burden on boards. Companies are expected to report not just on their financial performance but also on a myriad of environmental metrics (e.g., Scope 1, 2, 3 emissions, water usage), social indicators (e.g., diversity statistics, employee turnover), and governance details. Ensuring the accuracy, completeness, and consistency of this data, especially across complex global supply chains, is a significant operational and technological challenge. The risk of greenwashing – making misleading or unsubstantiated claims about environmental performance – exposes companies and their directors to legal action from regulators (like SEBI or the Consumer Protection Authority) and even shareholders, necessitating robust internal controls and assurance processes for all publicly stated ESG claims[30].

5.5 Board Competence and Composition

To effectively oversee ESG strategy, identify emerging risks, and engage meaningfully with increasingly sophisticated activist shareholders, boards need members with relevant ESG expertise. Many traditional boards may lack sufficient understanding of complex climate science, social impact measurement, or cutting-edge sustainable finance. This gap in expertise can hinder effective oversight and lead to a reactive rather than proactive approach to ESG challenges. This challenge may necessitate changes in board composition (e.g., recruiting directors with specific sustainability backgrounds), enhanced training programs for existing board members, or greater reliance on expert advisory committees to bridge knowledge gaps[31].

5.6 Promoter vs. Public Shareholder Dynamics

India's corporate landscape is characterized by its concentrated ownership structures, where promoter groups often hold significant controlling stakes. This creates a unique dynamic where balancing the interests of the dominant promoter groups with those of public and institutional shareholders, particularly on ESG issues, can be a delicate act. Promoter families might

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[30] (PDF) Environmental, Social, and Governance (ESG) and Artificial Intelligence in Finance: State-of-the-Art and Research Takeaways, RESEARCHGATE, https://www.researchgate.net/publication/378552801 (last visited July 24, 2025).

[31] Icsi.Edu/Media/Webmodules/Academics/ENVIRONMENTAL_SOCIAL_AND_GOVERNANCE_ESG_PRINCIPLES_PRACTICE.Pdf, https://www.icsi.edu/media/webmodules/Academics/ (last visited July 24, 2025).

prioritize long-standing business relationships, established practices, or specific family interests, which may not always align with the ESG demands of public shareholders pushing for global best practices. Activists targeting promoter-driven companies on ESG matters often face greater resistance, requiring more sustained and strategic engagement to effect change. This inherent structural characteristic adds another layer of complexity to the challenges faced by Indian boards.

These challenges, providing real-world examples (anonymized if necessary) from the Indian corporate landscape where these tensions have played out, illustrating the difficult decisions boards often face in reconciling diverse stakeholder demands with their strategic imperatives[32].

6. Strategies for Proactive Engagement

To effectively navigate the complexities of ESG-driven shareholder activism and mitigate potential conflicts, Indian boards need to transition from a reactive stance to adopting proactive and sophisticated engagement strategies. The goal is not merely to withstand activist pressure, but to transform potential challenges into opportunities for shared value creation and genuinely enhanced sustainability. This requires a holistic approach that integrates ESG into the very fabric of corporate strategy and operations[33].

6.1 Robust ESG Governance Frameworks

A fundamental first step is to establish and continually strengthen clear, well-defined board-level oversight for ESG. This involves integrating ESG responsibilities directly into the mandates of existing board committees, such as the Audit Committee (for ESG reporting assurance), Risk Management Committee (for climate and social risks), and Nomination & Remuneration Committee (for board diversity and ESG-linked compensation). Beyond committee mandates, it is crucial to clearly define the roles and responsibilities of individual directors, the Chairperson, and the CEO concerning ESG, ensuring accountability from the top down. This includes regular board discussions on material ESG risks and opportunities, dedicated ESG training for board members, and potentially the appointment of a Chief

[32] (PDF) The Role of Corporate Finance in Maximizing Shareholder Wealth and Driving Sustainable Growth, RESEARCHGATE, https://www.researchgate.net/publication/383166348 (last visited July 24, 2025).

[33] (PDF) Navigating the Challenges of Environmental, Social, and Governance (ESG) Reporting: The Path to Broader Sustainable Development, https://www.researchgate.net/publication/377317810 (last visited July 30, 2025).

Sustainability Officer (CSO) who directly reports to the board or a designated board committee[34].

6.2 Transparent and Timely ESG Disclosures

Moving beyond minimum regulatory compliance is paramount. Boards should strive for best-in-class ESG reporting that not only adheres to SEBI's BRSR framework (and the upcoming BRSR Core assurance requirements) but also aligns with globally recognized standards and frameworks like the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Proactive and comprehensive disclosures pre-empt activist concerns by providing investors with the granular, decision-useful information they demand. This builds trust, enhances transparency, and demonstrates a genuine commitment to sustainability, making it harder for activists to claim a lack of information or engagement. Accurate and consistent reporting also serves as a strong defense against potential "greenwashing" allegations[35].

6.3 Proactive Shareholder Engagement

Rather than waiting for an activist campaign to materialize, boards should foster regular, open, and two-way dialogue with their key institutional investors, including domestic and foreign asset managers, pension funds, and dedicated ESG funds. This proactive engagement extends to regular interaction with influential proxy advisory firms to understand their perspectives and recommendations. The goal is to articulate the company's long-term ESG strategy, explain the rationale behind key decisions, listen to investor concerns, and build consensus where possible. This consistent communication can de-escalate potential conflicts, clarify misunderstandings, and build strong relationships based on mutual respect and shared objectives, often transforming critics into constructive partners[36].

[34] Esg-Oversight-the-Boards-Role-and-Focus.Pdf, https://assets.kpmg.com/content/dam/kpmg/ng/pdf/esg-oversight-the-boards-role-and-focus.pdf (last visited July 30, 2025).
[35] (PDF) Mapping ESG Disclosure Regulations Globally: A Bibliometric Review, RESEARCHGATE (2025), https://www.researchgate.net/publication/391682919.
[36] (PDF) Sustainability and Corporate Governance, https://www.researchgate.net/publication/371902191(last visited July 30, 2025).

6.4 Materiality Assessment

Not all ESG issues are equally relevant to every company. Boards must conduct robust materiality assessments to identify and focus on the ESG issues that are most significant to the company's long-term value creation, financial performance, and risk profile. This involves understanding which ESG factors are critical to both the business (e.g., climate risks for a manufacturing company) and to its stakeholders. By prioritizing truly material issues, the company can develop a focused, defensible, and impactful ESG strategy that resonates with investors and allocates resources effectively, avoiding the pitfalls of trying to address every possible ESG concern superficially[37].

6.5 Boardroom Diversity and Expertise

A diverse and knowledgeable board is better equipped to oversee complex ESG challenges. Ensuring the board has sufficient diversity, not just in terms of gender but also in skills, professional backgrounds, and experience (e.g., environmental science, human rights, climate risk management, supply chain resilience), is critical. Directors with specific ESG competence can effectively challenge management, ask insightful questions, and provide strategic guidance on sustainability initiatives. This may necessitate a re-evaluation of current board composition, targeted recruitment for new directors, or investment in ongoing ESG training and education programs for existing board members to enhance their collective expertise[38].

6.6 Executive Compensation to ESG strategic

A powerful signal of genuine commitment to ESG is the alignment of management incentives with ESG performance. Boards should integrate specific, measurable, achievable, relevant, and time-bound (SMART) ESG metrics into executive compensation plans (both short-term bonuses and long-term incentives). This ensures that management's financial rewards are directly tied to achieving the company's sustainability goals, thereby motivating the true integration of ESG into core business operations and strategic planning, rather than treating it

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[37] (PDF) ESG Standards: Looming Challenges and Pathways Forward, https://www.researchgate.net/publication/343265964 (last visited July 30, 2025).

[38] (PDF) The Impact of Environmental, Social, and Governance (ESG) Reporting on Corporate Financial Performance, https://www.researchgate.net/publication/384533952 (last visited July 30, 2025).

as a separate or optional add-on[39].

6.7 Scenario Planning and Stress Testing

Given the increasing frequency and intensity of ESG-related activist campaigns, boards should undertake proactive scenario planning and stress testing. This involves anticipating potential activist demands related to various ESG issues (e.g., a climate-related resolution, a human rights critique, a governance challenge) and analysing their implications for the company's long-term strategy and financial performance. Boards should develop robust communication plans, including clear messaging, designated spokespersons, and prepared responses to likely activist narratives. Legal responses, potential mitigation strategies, and shareholder outreach efforts should be pre-planned to ensure a calm, coordinated, and effective response in the event of an actual campaign. The actionable strategies for Indian companies to transform potential conflicts with activists into opportunities for shared value creation and enhanced sustainability, ultimately leading to more resilient and responsible corporate citizens[40].

7. Conclusion

Shareholder activism in India, increasingly driven by ESG considerations, is unequivocally a powerful and transformative force for corporate change. While it undeniably serves a critical role in pushing companies towards greater environmental stewardship, social responsibility, and robust governance acting as a vital external check on corporate conduct it also demands a sophisticated, strategic, and proactive response from Indian boards. The era of ESG driven activism signals a permanent shift, where passive investor relations are no longer tenable.

Successfully balancing the immediate pressures of activist demands with the imperative of long-term sustainable corporate strategy requires more than mere compliance with existing regulations. It necessitates a fundamental shift in mindset and operations, moving towards proactive engagement, radical transparent communication, and the genuine integration of ESG principles into the very fabric of corporate governance and strategic decision-making. Boards must view ESG not as a separate compliance burden, but as a core driver of long-term value

[39] (PDF) Executive Compensation and ESG Performance, https://www.researchgate.net/publication/385272993 (last visited July 30, 2025).
[40] (PDF) Corporate Governance and the Legal Implications of Sustainability and Corporate Social Responsibility Initiatives, https://www.researchgate.net/publication/388652772 (last visited July 30, 2025).

and resilience.

These challenge, Indian corporations can not only mitigate potential legal and reputational risks associated with ESG failures and activist campaigns but also unlock new avenues for value creation, attract sustainable capital, enhance talent retention, and solidify their position as responsible and resilient entities in the increasingly interconnected global economy. This proactive approach will foster a more symbiotic relationship between companies and their investors, aligning short-term demands with long-term strategic imperatives.

8. Suggestions and Recommendations

Based on the analysis of the evolving landscape of ESG-driven shareholder activism in India, the following recommendations are put forth for various stakeholders:

Elevate ESG to a Board-Level Strategic Imperative: Move beyond delegating ESG to a functional department. Boards must actively set the ESG strategy, monitor performance against measurable targets, and integrate ESG considerations into all major business decisions (e.g., M&A, capital expenditure, product development).

Invest in Board ESG Competence: Boards should proactively assess their collective ESG knowledge gaps. This may involve recruiting new independent directors with deep expertise in areas like climate science, human rights, or sustainable finance, and providing ongoing, tailored ESG training for existing board members.

Enhance Proactive Stakeholder Engagement: Establish a structured, year-round engagement program with key institutional investors, proxy advisory firms, and other material stakeholders. This should include direct dialogue, investor roadshows focusing on ESG strategy, and transparent responses to investor queries and concerns before they escalate into activist campaigns.

Strengthen ESG Data Governance and Assurance: Recognize that robust and verifiable ESG data is paramount. Companies must invest in systems and processes to collect, analyze, and report accurate ESG data. Seeking independent assurance for critical ESG metrics (especially under BRSR Core) will significantly enhance credibility and mitigate greenwashing risks.

Align Incentives with Sustainability: Link a meaningful portion of executive and senior management compensation to the achievement of ambitious, measurable, and relevant ESG targets. This ensures that sustainability becomes a shared goal across the organization.

Develop Crisis Communication and Response Plans: Boards should anticipate potential ESG-related activist campaigns and prepare detailed communication and legal response strategies. This includes identifying key spokespersons, crafting clear messaging, and understanding potential legal avenues available to activists.

Deepen ESG Integration into Investment and Voting Policies: Institutional investors should further integrate ESG analysis into their fundamental investment decisions and voting policies, moving beyond generic ESG screens to sector-specific, material ESG factors.

Promote Constructive Engagement: While activism is crucial, investors should prioritize constructive dialogue with companies, offering specific and actionable recommendations rather than solely focusing on punitive measures.

Enhance Due Diligence on ESG Data: Investors should conduct thorough due diligence on corporate ESG disclosures and leverage proxy advisory research, but also develop their own robust analytical capabilities to discern genuine sustainability efforts from mere rhetoric.

Foster Collaboration Among Investors: Collaboration among like-minded institutional investors, where legally permissible, can amplify their voice and influence, particularly on systemic ESG issues.

Provide Further Clarity on Fiduciary Duties and ESG: While the Companies Act's "best interests of the company" is broad, regulatory guidance or clarifications on how ESG considerations explicitly fall within directors' fiduciary duties could strengthen accountability.

Strengthen Enforcement on Greenwashing: SEBI and the Consumer Protection Authority should collaborate to develop clear guidelines and robust enforcement mechanisms against misleading ESG claims and greenwashing, ensuring investor and consumer trust in sustainability disclosures.

Harmonize ESG Reporting Standards: While BRSR is a significant step, continued efforts to align Indian ESG reporting with evolving global standards (e.g., ISSB) will enhance comparability and attract global sustainable capital.

Support Capacity Building: Regulators could facilitate or promote programs for board members and companies to build their capacity in understanding and implementing robust ESG practices.

These recommendations, India's corporate sector can not only effectively manage the rising tide of ESG activism but also harness its energy to build a more sustainable, responsible, and resilient economy for the future.