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AN EMPIRICAL INVESTIGATION INTO THE CONSTRUCTS INFLUENCING SHAREHOLDER ENGAGEMENT

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Abstract
Shareholder engagement used to consist of attending analyst conference calls, quarterly earnings calls and the annual meeting of shareholders; now, more often, shareholders are meeting one-on-one with representatives of the companies in which they invest. Recently, shareholders have begun to demand personal interaction with directors and not just the investor relations officer (IRO) or members of the management team. This reflects a new era in corporate governance.

Today, shareholders can use different pressure tactics if the dialogue approach does not prove effective. However on one hand, even though it is widely agreed that engagement of shareholders with boards and management fosters successful and effective governance, on the other hand, it is taken that excess shareholder intervention may result in dissipation of valuable management time or loss of freedom of action of the boards. So, while the company boards have responsibility towards safeguarding the interest of shareholders and increasing transparency, management may not always prefer to be driven by shareholder sentiments or give in to all shareholder demands, thus making it difficult to quantify the precise extent or 'appropriate' levels of shareholder engagement that will allow to achieve effective governance and add value to business.

Boards that have strategically increased shareholder engagement have found it to foster direct communication from shareholders. This study strives to make an empirical investigation into the determinants of constructs influencing shareholder engagement among IT/ITES, Automobile and FMCG firms in Chennai City which would ultimately lead to implementing, monitoring and continuing good corporate governance practices so as to benefit the company and its shareholders. It also studies what is the authority and resources made available to shareholders and the impact of shareholder engagement on firm.

Keywords: Shareholder Engagement Constructs, Authority, Resources and Impact.

Introduction

Shareholder Engagement is a strategy used to open channels of communication between a shareholder and a company to improve the environmental, social and governance (ESG) performance of the company.In other words it refers to shareholders' stance on environmental, social and corporate governance (ESG) issues, requiring that the companies in which they invest improve their practices. These requirements take the form of a structured approach based on direct dialogue with the company and long-term monitoring.

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one with representatives of the companies in which they invest. Recently, shareholders have begun to demand personal interaction with directors and not just the investor relations officer (IRO) or members of the management team. This reflects a new era in corporate governance.

Boards that have strategically increased shareholder engagement have found it to foster direct communication from shareholders. Although it has become more common, organisations still have a lot of questions about how to begin shareholder engagement, how frequently this contact should be made, who should be making contact and what the discussion should entail. Thus it is important to understand the benefits and opportunities that can result from engaging shareholders, such as establishing a respectful relationship, increasing transparency and developing a rapport.

The engagement process begins with thoughtful preparation to ensure the dialogue is effective. As a first step, organisations should assess shareholder ownership. Direct engagement with all shareholders is unlikely to be achievable, but it is beneficial to understand where significant ownership lies and to target specific shareholders.

Once an organisation understands its shareholder base, it is essential to outline an effective strategy to successfully communicate with shareholders. This includes thinking through issues such as the parties to be involved, methods of communication, objectives, frequency and documentation of shareholder concerns during and after the engagement process. Many organisations consult a third party to help establish these parameters. A proactive, documented approach, as opposed to responding to ad hoc shareholder demands, is becoming a more common approach among organisations that engage with their shareholders.

Review of Literature

The literature on shareholder engagement has covered different issues, such as the link between engagement and financial performance (Becht et al. 2006; Smith 1996; Strickland et al. 1996; Wahal 1996), the effectiveness of shareholder engagement (Gifford 2008; Piani 2009; Hachigian 2011), the role of NGOs in shareholder engagement (Guay et al. 2004; Waygood and Wehrmeyer 2003) and engagement from the investor relations company's perspective (Hockerts and Moir 2004; Hachigian 2011).

However, no study known in India has aimed at identifying the determinants of shareholder engagement. Although some literature deals with the factors that drive engagement (Clark and Hebb 2004; McLaren 2002), there is a lack of systematic analysis on the constructs affecting shareholder engagement in organisations in India.

Need for the Study

This particular research topic was selected because the researcher found a gap in the literature on investor engagement with respect to studies conducted in India. Although studies on corporate governance and shareholder activism in India have been covered, studies on shareholder engagement in India are virtually non-existent in the academic field. Despite the limited literature on the topic, the level of shareholder engagement is growing, requiring a better understanding of this area.

Objective of the Study

This study strives to make an empirical investigation into the determinants of constructs influencing shareholder engagement among IT/ITES, Automobile and FMCG firms in Chennai City which would ultimately lead to implementing, monitoring and continuing good corporate governance practices so as to benefit the company and its shareholders. It also studies what is the authority and resources made available to shareholders and the impact of shareholder engagement on firm.

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Methodology

This study has used the online survey method and responses received from 178 shareholders of Chennai based companies belonging to three sectors namely IT/ITES, Automobile and FMCG are included in the study.

Analysis & Findings

On the data collected through the online survey a content analysis was conducted to analyse the role played by shareholder engagement in implementing, monitoring and continuing good corporate governance practices to the benefit of the company and its shareholders at large.

Table 1, Demographics of Respondents

Demographics of Respondents			
Sector	**Percentage**	**Holding among sector chosen**	**Percentage**
IT/ITES	36%	Own shares of only one sector	8%
Automobile	42%	Own shares of two sectors	52%
FMCG	22%	Own shares of all three sectors	50%
Age of respondents	**Percentage**	**Experience**	**Percentage**
Less than 30 years	12%	Less than 10 years	6%
30 - 40 years	24%	10 – 20 years	16%
40 - 50 years	28%	20 – 30 years	24%
More than 50 years	36%	More than 35 years	54%

The study is restricted to only three sectors namely IT/ITES, automobile and FMCG. The average age of the respondents is more than 45 years and most of the respondents hold the position of member (director) or non-executive director and most of them have put in more than 25 years of experience.

Table 2, One Sample Statistics - Constructs Influencing Shareholder Engagement

Constructs Influencing Shareholder Engagement	N	Mean	Std. Deviation	Std. error mean	t-test	Significance
Legislation	178	3.7420	1.036	.0467	12.041	.000
Industry associations & self-regulation	178	3.0640	0.968	.0435	1.686	.142
Consumer pressure	178	3.4580	0.978	.0448	8.458	.000
Civil Society and Media pressure	178	3.8560	.97013	.04339	14.930	.000
Shareholder pressure	178	3.9140	.86493	.03868	18.991	.000

From the above table, it is found that the t-values 12.04, 8.458, 14.930, and 18.991 are statistically significant at 5% level for the statements 1, 3, 4, and 5. Therefore, it can be concluded that the respondents moderately agree that the Shareholder engagement when properly constituted has better impact on good corporate governance practices. Apart from this, the study also discloses that legislation, consumer pressures, civil society and media pressure and shareholder pressure could play a significant role in ensuring good corporate governance practices. The t-value of the 2nd statement is

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insignificant which shows that respondents are not able to decide as to whether the Industry associations and self-regulation could lead to shareholder engagement.

Table 3, One-Sample Statistics - Authority and Resources made available to Shareholders

Authority and Resources made available to Shareholders	N	Mean	Std. Deviation	Std. error mean	t-test	Significant
Shareholders have timely and widespread access to information regarding the general meeting	178	3.5834	.84651	0.3789	14.377	.000
Shareholders have the right to put items on the agenda	178	3.8950	.84734	0.3750	22.114	.000
Shareholders have the right to table draft resolutions	178	3.9960	.83992	0.4114	24.516	.000
Shareholders have the right to ask questions (and expect answers) on agenda items	178	4.0168	.91973	0.3432	23.709	.000
Shareholders receive full support of management in exercising their rights	178	3.6300	.76845	0.3554	17.338	.000

The respondents have favorably responded to the factor that Shareholders have the right to ask questions (and expect answers) on agenda items with a high significance showing a mean value of 4.0168. On the other hand with respect to the remaining four aspects it can be seen that they have a moderate significance with t-values of 14.377, 22.114, 24.516 and 17.338 respectively signifying the fact that the shareholders have sufficient authority and resources at their disposal to exercise their rights.

Table 4, One-Sample Statistics - Impacts of Shareholder Engagement on Corporate Governance Practices

Impacts of Shareholder Engagement	N	Mean	Std. Deviation	Std. error mean	t-test	Significant
Improves financial performance	178	3.4740	.93116	.04164	11.383	.000
Improves ability to generate equity capital	178	3.4760	.93765	.04193	11.351	.000
Improves access to new capital	178	3.6940	.94560	.04229	16.411	.000
Increases market value of shares	178	2.7389	1.02391	.04579	-5.744	.000
Reduces share price volatility	178	3.4500	.92802	.04150	10.843	.000
Reduces political or regulatory intervention	178	3.9220	.83265	.03724	24.760	.000
Reduces cost of capital	178	4.0560	.71686	.03206	29.834	.000
Improves corporate social responsibility	178	3.6520	.88570	.03961	16.461	.000

The above table reveals that factor 4 which deals with employee engagement impacting an increase in market value of shares with a mean value of 2.7389 and a t-value of -5.744 is insignificant. All other factors are moderately significant. The highly impacting factor of shareholder engagement is seen to be reduction in cost of capital for the firm with a t-value of 29.834.

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Conclusion

Shareholder engagement activities will most probably continue to increase among organizations and boards. A proactive and well-planned shareholder engagement strategy can be an effective tool to help foster relationships, enhance transparency. Properly planned and executed effectively, shareholder engagement can be beneficial for management, the board and the organization at large.

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