

## MAKING AGMs MORE MEANINGFUL 22ND APRIL, 2016 | MUMBAI

### SUMMARY OF DISCUSSIONS

#### BACKGROUND

In the past few years, it has been noticed that **some Annual General Meetings (AGMs) had degenerated into a calendar item where managements go through the motions of getting the resolutions passed, and the shareholders amount to a little more than an unsuspecting audience sometimes raising questions that managements either ignore or explain away in a facile fashion.** Resultantly, the only opportunity available for the small shareholders to voice their concerns, if any, becomes a non-event.

While the participants at the deliberation, who have different responsibilities in their respective entities, are expected to bring to the table their observations and experience, it might be useful not to lose sight of **a few significant issues in our attempt to make AGMs more meaningful:**

- 1. The problem of attendance, especially in the era of electronic voting.**
- 2. Fixing an appropriate date, time and venue to maximise shareholder participation.**
- 3. Non-attendance of some directors at AGMs.**
- 4. Inadequate time for shareholders to raise all relevant questions.**
- 5. Tendency of managements to respond to the relatively easier questions.**
- 6. Ensuring that the papers/material for the AGMs reach the shareholders sufficiently in advance.**

*(This is an indicative and not an exhaustive list).*

### DISCUSSIONS

#### CONTEXT SETTING

- Both in India and abroad, **AGMs are not given the importance that they deserve.** They are held because they are statutory meetings.
- Within a company, both persons with executive as well as with non-executive responsibilities are responsible for the AGM.
- **AGMs are a forum for shareholders**, especially retail shareholders, **to extract information from the Board and the management** about the company in whose stocks they have invested. However, managements often do not provide complete information to the investors.
- **For promoting true stakeholder democracy, AGMs should be taken seriously.** Unlike at present, retail investors should be more active and participative.
- The **seriousness has further reduced with e-voting.** Shareholders are aware that the resolutions at the AGMs have already been approved by major shareholders resorting to e-voting, and that the AGM is often a mere formality.

#### CURRENT SITUATION

- AGMs are approached by both the company managements and the shareholders as a **confrontational and not a collaborative exercise.** This is because **shareholders basically distrust the company management.** Both the management and the shareholders should appreciate the fact that they are on the same side, and have to promote the best interest of the company.
- AGMs are used as a forum by retail shareholders to seek attention, get their name(s) recorded as the proposers/ seconders for a resolution, bond with a few members of the management, articulate their views and sometimes seek gifts from the company.
- Many retail shareholders focus only on the arrangements (such as food, transport etc.) made for them by the company.

## Date and Venue of AGM

- The date and venue are **decided based on the availability of the hall** for the meeting.
- Owing to the time required in preparation of the annual report and in dispatching it to all the shareholders, most companies hold their AGMs in August/ September.
- The trend seems to indicate that **performing companies hold their AGMs in August, while the under-performing ones tend to hold them in September.**

## Attendance at AGMs

- While the attendance in the AGMs held in non-metro cities is better than in the meetings in metro cities, overall, the **attendance of shareholders is poor** and it has further reduced after e-voting was introduced.

## Questions of shareholders

- The number of shareholders who ask **questions** at AGMs has **gone down considerably**. This could be because they wrongly feel that e-voting has reduced their rights, and that they cannot ask questions.
- Also, the **quality of questions** asked by them is sometimes **poor**. Questions sometimes focus on the cost of printing of the report and typographical errors therein.
- One of the few items on which shareholders ask some serious questions pertains to payments made by the company to foreign collaborators, especially in the form of royalty.

## Management and AGMs

- **Managements have a defensive attitude** towards AGMs. They approach AGMs with possible answers to the likely questions that would be asked, as if they are preparing for an examination.
- In the guise of clubbing similar questions, a number of questions go answered.
- Managements also do not sometimes provide the complete information that is sought.

## Board of Directors and AGMs

- A Chairperson's style of handling an AGM depends on whether she is executive or non-executive, since it determines the reliance on management for responding to questions.
- While the regularity of attendance of Directors at AGMs is questionable, the **attendance of retail shareholders and the quality of their questions also fail to enthuse the Board members who are present to actively participate.**

## Annual Reports

- Retail shareholders give a lot of importance to physical copies of annual reports, with many of them insisting on physical copies. However, the quality of questions asked by them suggests that **not enough time is spent on reading the reports.**
- **Institutional investors and the Directors also do not spend adequate time reading the report.**

## AGMs of Public Sector Undertakings (PSUs)

- While all the Board members sit on the dais for AGMs, the **government nominee on the Board of the company often does not even attend the meeting**, even though the government is the biggest investor in the company.
- At best, one representative of the government (other than the director), sits in the audience.
- **The retail investor would derive a lot of comfort from the presence of the government nominee.**

## Tough AGMs

- In AGMs where difficult resolutions need to be passed, **management fills the hall with the company's employees**. The **speaking order** of the audience **is planned in advance**. Tactics, such as opening the food / snacks counter at the appropriate time to distract the audience, are also used.

## INSTITUTIONAL INVESTORS

- Since an institutional investor holds stocks of a number of companies, it is not possible for its representative(s)/ nominee(s) to attend all the AGMs. However, the investor nominee(s) attend the AGMs of the more important investee companies.
- It is felt that **institutional investors should be more active in AGMs** and ask questions, probably on some aspect of the business which has not been covered in the annual report, since this would give comfort to the retail shareholders that they have not ganged up with the company against them. **However, questions from the institutional investors in AGMs are often ignored or discouraged by managements.**
- E-voting is a welcome change since it gives the much needed confidentiality for some responses.
- Usually **institutional investors vote negatively only if they are against a resolution**. Otherwise they abstain from voting. However, their abstaining is treated as a negative by retail shareholders. While the **decisions of the institutional investor are published on their website, it is often difficult to find them, in the midst of an information explosion.**
- **In case the voting recommendations of various proxy advisory firms are in sync, it will give a leeway to the investors.** However, at times, they too are divided in their opinion since they sometimes follow the processes in letter and not in spirit. Internationally, foreign institutional investors go by the recommendations made by proxy firms.

## PORTFOLIO/ FUND MANAGERS

- **It is not compulsory that there should be a house view and that all the fund managers vote similarly on resolutions.** Each fund manager is answerable for her fund and her autonomy should be respected.

## ANSWERING THE QUESTIONS OF SHAREHOLDERS AT AGMs

- The shareholder has an expectation that her questions will be responded to by the Chairperson, even if non-executive, and not a member of the management. A Chairperson is overall in-charge of the company but she might not be aware of all the operational details, thereby adversely impacting the quality of the response.
- It is also felt that the person responsible for the aspect of business being questioned should respond to the question. This could be the Chairperson, the MD or any KMP. This would give greater comfort to the shareholder. However, the questions should not be routinely passed on to a senior functionary of the management since that would be perceived as a sign of weakness.
- **Ideally, the broad picture should be given by the Chairperson to give confidence to the shareholder, and the details can be given by the concerned senior member from the management.**
- Ultimately, whether or not a Chairperson responds to the shareholders' questions depends on whether or not she feels answerable to the shareholders.

## HOW TO IMPROVE THE EFFECTIVENESS OF AGMs

- The **focus of AGMs should be on discussion** between the shareholders and the company's Board and management.
- **AGMs should be celebratory** and should be in the news for the right reasons. This would enthrall investors to attend them.
- They can also be used to make errant companies behave.

- More effective AGMs will also improve the shareholding pattern in companies by improving the confidence of the investors in the company. Currently, retail shareholders buy stocks of a company for financial benefits and AGMs are incidental.

### Location/ Date of AGMs

- As of now, the law mandates a company to conduct its AGM in the city with its registered office. A number of companies have their registered office in non-metro cities and the meeting is held as per the convenience of the company and not of the shareholders. **While no company is known to have organized its AGM in a city other than that of its registered office, with permission from the central government, this can be done.** This could improve the attendance of investors.
- At present, **most AGMs are conducted in the months of August and September. Phasing them is important.** If retail shareholders are comfortable with e-versions of the annual report, AGMs can be held before August/ September because the time spent in printing and dispatching the reports will be greatly reduced.

### Shareholder awareness and information

- **Every retail shareholder has two needs from the company, information about the company and financial returns.** While the financial need is addressed by the dividend and bonus issues, the company must proactively address the need for information. A number of shareholders do not understand the business of the company or its role in society. Information about operations and future of the company should be given. Visits to plants could be one way of doing this. All these efforts would also positively impact the attendance of the shareholder at AGMs.
- While a lot of information is available to shareholders by way of research reports etc., most of it is too technical and therefore has limited use for them.
- **Equally important is educating shareholders,** especially retail shareholders. Companies should proactively take steps to educate them on issues such as dematerialization of shares.
- **Retail shareholders are the best brand ambassadors for a company.** Companies, especially retail companies, should use AGMs to whet their appetite about the company and give better information to them.
- **In addition to AGMs, townhalls could be used to promote conversation between the company and the shareholders.** However, ensuring proper attendance of investors at townhalls could be a challenge.
- **Managements and/ or institutional investors can make a presentation on the company, which could be circulated to retail shareholders in advance of the AGM.** This too could aid in improved quality of questions at the AGM.

### Technology

- AGMs were designed over 100 years ago. Changes in technology should be used to the advantage of the company to improve the effectiveness of AGMs.
- Ease of access is important. Location of the AGM should not be the cause of poor participation at AGMs. Before technology became advanced, a few companies bought dedicated airtime on Doordarshan channel to telecast their AGMs and found it to be a cost effective way to reach out to a wider audience. Now, **companies could put screens in different cities or webcast their AGMs.** In addition to improving participation, this would also improve the transparency at such meetings. This could start as a voluntary initiative by some companies and then be made compulsory, thereby providing adequate time for transition.
- **Companies could also post videos of their AGMs on their company website and on Youtube.** Before initiating this step, companies should have a proper social media strategy for themselves.

- However, companies would have to be careful of increased number of speakers at AGMs for their 2 minutes of fame, as also guarded responses from the management. Possible technical glitches should also be checked in advance.
- The Chairperson would have an increased role in ensuring that the proceedings are smooth and frivolous questions are not entertained.

## Voting

- **For effective voting, the resolutions, as also the commentary and notes, should be written in simple language, with proper punctuation and without any technical phrases or jargons.**
- **If e-voting is closed at the end of the AGM, the quality of response would improve since a number of shareholders could then benefit from the explanation offered by the management for each resolution.**
- **A contrary view is that only e-voting should be allowed, and it should be completed before the AGM.** Companies could have facilities for e-voting in various cities/ in different locations (in their own offices or in leased premises) to facilitate it. **The focus in AGMs would then only be on discussion,** and not on resolutions. This would enhance the time and quality of interaction between the company and retail shareholders, with sufficient time to explain about the business and significant transactions of the company.
- **An alternate view is that e-voting should only open after the AGM to encourage informed decision making.** This would also promote retail shareholders' confidence.
- Going forward, there could be an app for e-voting too so that shareholders can vote from any location.

## Annual report/ FAQs

- Letter to shareholders is a very important part of the annual report. It provides an excellent outlook of the economy and the sector in which the company operates.
- **The annual report can have a section on FAQs which could be used to address the important topics in the annual report.** They could *inter alia* focus on governance, value creation and the way forward for the company.
- If these FAQs are sent sufficiently in advance, these could aid in better quality questions being asked at the AGMs.

## Board of Directors and AGMs

- Some companies schedule a Board Meeting prior to the AGM to ensure the attendance of its Directors.
- **Directors should ensure that they go through the annual report carefully before the AGM.** At present, it is often taken as read in board meetings.
- **Engagement between IDs and shareholders too could be improved by organizing meetings between the two.** While it might be a tough meeting for some of the directors, it will go a long way in increasing the confidence of the investors.

## Managements and AGMs

- **Engagement of management and shareholders should improve.** Managements should put themselves in the shoes of the retail shareholders and then decide whether the amount of information that they are divulging is sufficient or not.
- **It should be mandatory to present at least the Management's Discussion and Analysis (MDA) at the AGM.** Shareholders would appreciate this move as it would reduce the gap in information provided to the institutional and to the retail shareholders.
- The more technical questions from the audience should be answered by senior members of the management. This would improve the quality of response and increase the exposure for senior management.

### Questions from shareholders

- **As in the case of analyst meetings, all questions raised by shareholders at AGMs should be answered, and the transcript should be uploaded on the company's website.**
- **Shareholders can be encouraged to ask their questions electronically in advance of the AGM** and it should be compulsory for the company to respond to all of them by the date of the AGM. Over a period of time, this could replace the need for asking questions at the AGM.

### Making AGMs more participative

- **Newer attendees can be encouraged to attend the AGM. Companies could selectively allow non-shareholders to attend AGMs** or allow them if accompanied by a shareholder. Students of management schools also could be invited since it will be informative for them. Law also does not prevent this. A separate block can be kept in AGMs for the invitees. This could be a parameter for governance ratings by measuring which could measure the confidence of a company in bringing newer participants to its AGM.
- **Social media too can be used to promote AGMs.**
- **Newer and more innovative locations**, such as factories of companies or malls in the case of retail companies, could be chosen as venues for AGMs.
- Shareholders should be encouraged to ask questions focused on the future, and not only on the past.

### Role of regulator

- **SEBI or a similar organisation could rank the quality of annual reports** of companies to give the report, and in turn the AGM will get the importance that it deserves.
- **They could send representatives to attend AGMs as observers to understand the dynamics.** However, managements could be hesitant about a regulator's representative attending their AGM.

### Feedback from AGMs

- **Feedback could be sought from shareholders on the quality of answers to their questions.** This will help improve transparency and accountability of management. This should be published on the company's website the following day and could be read as a precursor to the speech of the Chairperson the following year.
- **Responses to the questions which the Chairperson could not give, should be included in her speech for the next AGM.**
- **In the Board meeting after the AGM, some time should be devoted to identifying the key takeaways from the AGM**, including areas of improvement, and actions to be taken. The objective of this exercise should be to improve the quality of future AGMs.
- **Key takeaways and feedback from the previous AGM and actions taken thereon by management can be presented in the next AGM.** This will increase the goodwill and improve shareholder engagement.
- **The minutes of the AGM, responses to questions and feedback from the audience should be transparent and should be uploaded on the company's website.**

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