

Annual General Meetings: In search of the shareholder

While the number of shareholders continues to rise, investor participation in AGMs has been steadily declining.



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Writing about the East India Company in the 1700's, Nick Robins in his book 'The Corporation that changed the world' wrote that 'the (East India) Company operated as a limited property-based democracy that was run for and by its shareholders.....(The) companies' shareholders, that had to have UKP500 of nominal stock, before they could vote either in the quarterly meetings of the Court of Proprietors held in March, June, September and December, or at the annual meeting in April.

This was the high point in the company's calendar, when over a thousand shareholders would gather to elect a slate of 24 directors.'

Three-centuries later, that time of the year is on us again. As Indian companies have a March year-end, and six months after that to hold their shareholder meeting, we are heading into the Annual AGM season. Most of the 4300 listed companies, and innumerable more unlisted companies will soon be holding their annual general meeting (AGM). But the disconnect between the potential and actual shareholder participation is striking. Just 12,155 of the 69.24 million shareholders in the Nifty-50 companies attended the AGM either physically or virtually. The statistics alone begs the question, have shareholder meetings outlived their usefulness?

Till before the pandemic enveloped us, the considered view was that virtual meetings held the key to their remaining relevant. Physical meetings had their drawbacks including distance, time and cost of travel to attend a meeting. Driven by newer technologies, virtual or remote meetings gave shareholders better access, eliminating the need to travel, allowed investors to juggle more than one in a day, and were nearly always costless. Allowing a larger set of shareholder access to meetings, was to mark the end of shareholder tourism, and reaffirm the primacy of the AGM. And for a brief moment this seemed true. 307,630 investors virtually attended the Reliance Industries meeting. This was more than double the 147,620 investors who attended the 2019 AGMs of the Nifty-50 companies.

But the Reliance 2020 meeting was a blip, as the numbers subsequently collapsed. Even the shift to hybrid meetings, i.e. both physical and virtual attendance has not helped, despite the increase in retail ownership. Less than 0.02% of shareholders now attend meetings.

AGMs matter because in addition to a slice of the company's cash flow proportionate to your equity ownership, a company's shares come with certain rights. These include the right to call for a general meeting, to elect their representative on the board, to access company documents, and to engage with the board and management on critical issues. And as Indian regulations offer a low degree of delegation to the board, investors get to vote on innumerable items, such as approving accounts, signing off on related party transactions or appointing a cost auditor. These rights – for the most, are exercised at the AGM.

The sequence of the meeting was designed with this purpose. Investors received the shareholders' notice and had the right to attend an AGM, seek clarifications and ask questions. This afforded companies an opportunity to plead their case directly with their shareholders and convince the undecided. It was only after hearing what the management proffered that shareholder voted. Today the process has, for all intents and purposes, put the cart before. Now e-voting closes before the date of the AGM. Other than the handful of retail shareholders who may vote at the meeting venue, institutional investors send their vote to the custodians well before the meeting. Consequently, an important reason to show up at the AGM no longer exists. And while changing these timelines seems an obvious solution, these too are suboptimal.

Moving on, while investors see value in the vote (- voting shares trade at higher valuations than those with lower voting rights), given their limited ability to influence voting outcomes, they most prize the opportunity to interact with senior management that AGMs provide. This engagement gave investors an opportunity not just to understand firsthand from management its business strategy and outlook but to read the mood. AGMs also served a social purpose by providing investors with a forum to exchange ideas with other shareholders.

The quality of discourse at AGMs, hybrid included, also is of concern. To simply get done with the AGM, managements sidestep issues, leaving serious investors weary of attending. More so as they have there are many more opportunities to meet management. For institutional investors there are quarterly calls and meetings, sell side broker conferences, direct one-on-one meetings, non-deal road shows and investor days. Each of these provides them with an opportunity to engage with management in a format that is richer than what an AGM might offer. Retail investors also participate in investor calls, hear management speak on business channels, and a lucky few even manage face-to-face meetings. What was once a very important reason to show up at the AGM, no longer holds. As these interactions bring greater transparency to the market, regulators cannot force such interactions to take place only during an AGM.

Today the two primary purposes of a shareholder meeting - voting and engagement with management, fall outside the box. After over 350 years of being fit for purpose, AGMs today are broken and need a cure.

Views are personal.

A modified version of this column appeared in Business Standard on 28 April 2025 under the title "AGMs: Where are the shareholders despite a surge in investor base?"