No double standards, please

Investors want companies to behave themselves. About time the same yardstick applied to them too

Prithvi Haldea

Corporate governance is actively talked about in the context of listed companies. Rarely is it discussed in the context of unlisted companies or intermediaries. And never with reference to investors, especially small investors. We tend to project them as sacred cows -- the powerless, oppressed lot who need to be protected -- and set lower standards of conduct for them.

Free for all

An annual general meeting (AGM), any shareholder meeting for that matter, is supposed to be a serious event intended to discuss a company's business matters. That objective, regrettably, remains on paper. Most shareholders who attend are either uninterested or incompetent to ask intelligent questions about the company. In fact, in most AGMs, not a single question on the company is asked.

Most shareholders who attend these meetings do so less out of interest in their company and more with the objective of personal gratification -- free food and beverages, gifts and other freebies, they even demand conveyance allowance. Companies can do little. Some who have tried to stop giving gifts, for example, have had to face hostile shareholders, even leading to ugly scenes.

This menace has increased manifold with the advent of demateralisation. Even if an individual holds just one share, he can attend an AGM with two other shareholders by virtue of a joint shareholding, and all of them can walk away with freebies. Many investors do just that. In a recent AGM I attended, 83 per cent of the shareholders present were of the joint profile. Some are even worse…they get proxies of, say, 10 shareholders (all with a nominal holding), and then demand 10 packets of snacks and 10 gifts. The return on investment is outstanding: buy one share for, say, Rs 50; get gifts and snacks worth say Rs 500! In about a month!

Another issue is annual reports. Under existing laws, a company is required to send a copy of its annual report and/or postal ballots to every shareholder, irrespective of the number of shares he or she owns. It's a big expense for the company. Considering that several shareholders hold just one share, either to get a copy of the annual report or for other reasons, isn't this stipulation unfair to companies?

Ring in the changes

The larger point is that corporate governance shouldn't be applied just to companies. It should also apply to shareholders. That means not having philanthropic expectations from companies they are invested in. That means supporting their company's moves to cut needless costs on AGMs and annual reports, even if it means giving up on gift vouchers.

The practice of companies giving gifts at AGMs should be banned. Further, a minimum holding requirement, by number or by value, should determine who all can attend an AGM and who should get a copy of the annual report. This minimum lot requirement can be on the same lines as that in public issues. Those who don't make the cut can see the annual report on the website of the company, EDIFAR or stock exchanges. Also, only one copy of an annual report should be sent to one address. That will eliminate needless duplication, as some investors have more than one folio in a company or several members of a family hold its shares.

I understand my suggestions will be criticised as being unfriendly to minority shareholders. I am all for empowering small investors, but not if all such protection does is breed inefficiencies in the system or promote unreasonable expectations among investors. In fact, the J.J. Irani Committee on company law has recommended that small companies be given the option to do away with the requirement of holding an AGM and instead pass resolutions by circulation.

There are many other areas where small investors don't follow best practices. They continue to open multiple bank and depository accounts, primarily to avoid detection by tax authorities. In public issues, multiple applications continue to be rampant. There is, reportedly, also a huge incidence of dabba trading -- off-market deals done using screen prices as benchmarks.

It is clearly unfair to expect a regulatory framework that makes listed companies accountable, but lets small investors, who collectively number millions, to indulge in unethical and fraudulent practices. It is good to catch a big thief, but there should be enough deterrents even for small investors.