

Yes, Governance Matters.

August 24, 2021

ESG: THE INCREASING IMPORTANCE OF STAKEHOLDER ENGAGEMENT

WHAT ARE ESG CRITERIA

Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates.

Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

THE COMPANY:

Eicher Motors Limited was incorporated in 1982 and is listed on the National Stock Exchange. It manufactures commercial vehicles and motorcycles. One of its brands, Royal Enfield, is extremely well known in the world of motorcycling aficionados. The Managing Director of the Company, Mr. Siddhartha Lal, was considered responsible for leading a massive turnaround for the Royal Enfield brand and spearheading its global foray.

THE ISSUE:

At its 39th Annual General Meeting held on August 18, 2021, Mr. Siddhartha Lal, was up for reappointment as (i) Director; and also as (ii) Managing Director for a period of 5 years and payment of remuneration (which ostensibly incorporated a 10% pay hike). While the vote for reappointment as Director sailed through, the vote to consider and approve re-appointment of Mr. Siddhartha Lal as Managing Director of the Company for a period of 5 years with effect from May 1, 2021 and payment of remuneration did not pass with requisite majority.

Out of 217467139 votes cast, 158849543 (73.04%) voted in favour and about 58617596 (26.95%) voted against the said resolution. On further examination, it appears that a large number of public institutional shareholders of the Company did not vote in favour of the special resolution on the grounds of a proposed increase in remuneration at a time when sales of the company's products and overall operational performance have remained subdued.

Interestingly, the Nomination & Remuneration Committee, which consists of three non-executive directors which includes two independent directors, had reportedly approved the reappointment on Mr. Siddhartha Lal at the increased salary in February 2021.

ESG IMPACT:

In this case, while the stakeholders did not seem to have any objection to the appointment of Mr. Siddhartha Lal as Director and Managing Director of the Company, the only concern appears to be that of the proposed increase in the compensation. As the resolution appears to be a consolidated one, the consequence was that the resolution was unable to garner sufficient majority to carry through; the baby came to be thrown out with the bath water.

While the solution in this case may be to engage with the stakeholders, demonstrate the background and the rationale for the proposed increase in the salary and arrive at a mutually acceptable way forward, the inability of this resolution to garner sufficient majority would be considered as an embarrassment in the eyes of a superstar promoter managing director and company and only goes to demonstrate the increasing power of shareholder activism and governance. In fact, as of August 24, 2021, news reports have emerged² that the Board of Directors of the Company have unanimously agreed to reappoint Mr. Siddhartha Lal as Managing Director, albeit on a revised remuneration package and of course, subject to shareholder approval.

Globally, shareholders have started demanding greater accountability through additional information and justification. Scrutiny on a corporation's activities and conduct is ever-increasing. For an example of how shareholder activism can take a company's board by storm, one need not look beyond the issue of ExxonMobil shareholder vote in May 2021, where ESG issues were leveraged in order to obtain three board seats and the ability to direct the strategic direction of the company.

This issue once again brings to the fore the tight rope that needs to be walked between shareholder activism and corporate governance and the ever-shifting balance towards increased transparency and engagement. The tone at the top highlights the corporate culture on key issues such as transparency and meaningful disclosures. A company must spend time and effort in engaging with its stakeholders.

– Sahil Kanuga & Vyapak Desai

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¹ <https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp>
² https://www.business-standard.com/article/companies/eicher-motors-re-appoints-enfield-s-tumaround-man-siddhartha-lal-12108a2300975_1.html

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