

Abe's new rules may help change that culture, but adoption will be slow and companies may opt out of compliance if they can offer a reasonable justification. One change in particular seeks to move companies toward a US-style corporate structure by requiring that outside directors serve on auditing, nominating and compensation committees. Traditionally, Japanese companies strongly favor insider control. An amendment to the Company Act offers a compromise that puts outside directors on a single audit committee with supervisory functions that include nominations and compensation.

Corporate governance is being hailed as Abe's signature accomplishment. Getting such a contentious item on the political agenda at all is significant, a signal of the potential for change. Given entrenched resistance however, true structural reform will be a difficult, painful and slow process.

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## Minority stakes gain a new voice

By **AZHAR KHAN**

**TOUGHER REGULATIONS** and a trend toward better governance are giving rise to a new wave of activism in India by small, large and even foreign shareholders. Companies in India are typically owned by insiders who control all decisions in cooperation with management, often conflicting with the interests of other shareholders. However, some developments have given minority investors a powerful voice.

First, tougher rules set in 2010 by India's Securities and Exchange Board require mutual funds to disclose how they vote on shareholder resolutions. This accountability has led to voting by domestic institutions doubling in two years. Institutional funds even forced Maruti Suzuki, India's largest carmaker, to rewrite a deal for a new plant in western India. Second, a requirement that companies offer electronic ballots has greatly improved access by India's shareholders and the reliability of votes. Third, a rise in proxy advisory firms gives shareholders access to rigorous analysis to use as ammunition. Finally, as of 2013, majority shareholders are prohibited from voting where they have a potential conflict of interest. This measure strikes at the heart of owner-management impunity and gives minority shareholders a decisive say.

These elements came together when UK brewer Diageo acquired a controlling stake in India's United Spirits in 2014.

Minority shareholders, aided by proxy firm IiAS, were able to force management to disclose important financial details.

Foreign activists have also begun taking a close look at India. The Children's Investment Fund took on Coal India, a state-owned miner, in 2012. The UK-based activist hedge fund established a large position in the monopoly and launched a bold demand for changes, including a hike in coal prices. The campaign ultimately failed, but as a challenge to the status quo, it set a precedent that will be difficult to ignore.

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## Investors press for social change

By **CAROL ROOS**  
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**WHILE SOUTH AFRICA** doesn't have US-style activists yet, its culture of corporate transparency has encouraged a domestic form of activism, emphasizing social transformation.

South Africa was an early adopter of a set of world-class "best practice" principles for corporate governance called the King Reports. These include increases in reporting transparency that are required for a listing on the Johannesburg Stock Exchange.

To help reverse the dire socio-economic effects of apartheid, the government created the Black Economic Empowerment program, targeting areas such as black management control and ownership, and support for smaller black business.

Controlling assets of more than R1.6 trillion (\$115 billion) – comprising mostly government employee pension funds – South Africa's Public Investment Corporation is Africa's largest fund manager and engages in a form of socio-economic impact activism. While independent, the PIC has what it calls a "dual mandate, to generate returns on behalf of clients and to contribute to the developmental goals of South Africa."

The PIC has supported a number of state policies, including blocking Chile's CFR Pharmaceuticals' bid for local healthcare company Adcock Ingram, to keep control in South Africa. The PIC also supports income equality by voting against excessive pay, and has pressed for more black directors at companies such as fuel maker Sasol and industrial services supplier Barlorld.

As shareholder activism continues to grow in South Africa, it is likely that this intersection of politics and business will remain critically important, and the power of investors to act as agents of social policy will increase.

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