

## Proxy advisory firms: A shareholder's guiding light

*Why proxy firms matter more than ever in India's governance journey*



The main task of a proxy or voting advisory firm is to analyse resolutions that are put to shareholders to vote, such as financial statements, director appointments, CEO remuneration, ESOP plans, M&A transactions, and more, by providing data and independent voting recommendations to investors. We are reaching the end of the FY25 India voting season - the four-month period between June and September - when most listed companies in India hold their annual general meetings (AGMs). As expected, this is the busiest time of the year and often brings with it, brickbats and criticism. While most companies voice concerns privately, a few air such grievances publicly, and in rare instances we face lawsuits or police complaints.

Critics argue that proxy advisory firms apply criteria that often differ from local regulatory requirements, leading to a lack of uniform recommendations across firms. Additionally, over time, institutional investors have increasingly "outsourced judgment" to proxy advisors, allowing them to overstep their advisory role. Such criticism, however, reflects the growing pains of a maturing market infrastructure rather than fundamental flaws with proxy firms themselves. More often these arise from a misunderstanding of the role proxy advisory firms play, overlooking the rapid evolution of our markets.

Recent Stanford research by David Larcker and Brian Tayan shows that proxy advisors' function simultaneously as information intermediaries (digesting and distilling shareholder meeting and governance data), issue spotters (highlighting matters deserving scrutiny), and agenda setters (influencing corporate practices through guidelines). This multifaceted role explains both their value and the controversy they generate.

Complementing this, Harvard Business School research by Aiysha Dey and colleagues provides compelling empirical evidence that proxy advisors strengthen corporate governance through improved shareholder engagement. Their findings demonstrate that proxy advisors act as valuable market intermediaries, facilitating more meaningful dialogue between companies and their shareholders, ultimately benefiting investors through better-informed decision-making. For instance, studies on executive compensation show that when a proxy advisory firm issues an "against" recommendation, companies are often prompted to engage more actively with shareholders to understand their concerns. This dialogue fosters a constructive feedback loop that aligns management actions more closely with shareholder interests. Far from being punitive, such engagement frequently drives reforms that strengthen governance practices over the long term. Companies in our market, too, stand to benefit from proactively engaging with their shareholders. Something that I cannot emphasise enough.

Corporate governance requires deep, specialized knowledge spanning corporate law, executive compensation design, accounting standards, and industry-specific operational considerations. Proxy firms give investors a voice and democratize access to this expertise, ensuring that both large and small funds - as well as retail investors - can participate meaningfully in governance alongside larger counterparts.

Because proxy firms serve global institutional investors, they apply consistent voting criteria across diverse jurisdictions. While local firms adapt their recommendations to reflect domestic practices, poor governance in India is also recognized as poor governance elsewhere. Consequently, recommendations are set not to the lowest bar or regulatory minimum, but to the highest standard. By developing consistent analytical frameworks and voting guidelines, proxy advisors establish market-wide expectations for governance practices, reduce uncertainty for both investors and companies, and provide systematic evaluation of governance risks. In doing so, they bring analytical rigor that often complements regulatory frameworks.

As regulations evolve, market practices change, and investor expectations shift, proxy firms continually update their guidelines. For example, IiAS' annual updates draw on revisions to regulation, data-driven thematic research, academic insights, and stakeholder consultations through draft policies and comment periods - showing clear responsiveness to market feedback and governance trends. All proxy firms in India share their recommendations with companies and as required by regulations, also circulate the company's response to investors, revising recommendations if new information emerges. By contrast, neither credit rating agencies nor sell-side research analysts are mandated to follow such processes.

As markets grow more complex and sophisticated, investors increasingly rely on external support - whether audits, credit ratings, investment research, or proxy recommendations - to make informed decisions. While proxy firms do influence shareholder votes, this influence is often overstated: most funds still decide independently which recommendations to follow and which to disregard.

A key question when institutions appear to rely heavily on proxy advisors is whether this reflects the genuine value of their services or simply regulatory requirements. In India, SEBI (Securities and Exchange Board of India), PFRDA (Pension Fund Regulatory and Development Authority), and IRDA (Insurance Regulatory and Development Authority) mandate institutional investors to vote on all resolutions, driving demand for voting services. In practice, however, institutional shareholders use proxy research as one input among many in their decision-making.

Today, proxy advisory firms have evolved into indispensable market infrastructure intermediaries, serving as vital connectors between institutional investors and corporate management. They make shareholder engagement more systematic, informed, and constructive. In an increasingly complex and globalized capital market, proxy advisors are not the problem - they are part of the solution.

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*A modified version of this blog was published in the print edition of Business Standard on 24 September 2025. The article is behind a paywall. The newspapers subscribers can access the blog through this [link](#) or typing the following url:*

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This article is a commentary on general trends and developments in the securities market.

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**Institutional Investor Advisory Services India Limited (IiAS)** is an advisory firm that provides capital markets with independent opinions, data, and analysis on governance and ESG, including voting recommendations and ESG ratings in India, through its wholly owned subsidiary IiAS Sustain.

IiAS offers voting recommendations on shareholder resolutions for approximately 1,200 listed companies, covering over 96% of the country's market capitalization. The company operates two proprietary platforms: **SMART**, which enables tracking and reporting of stewardship activities, and **ADRIAN**, a comprehensive database of shareholder resolutions and institutional voting data.

IiAS has collaborated with the International Finance Corporation (IFC) and BSE Limited, with support from the Government of Japan, and developed the **India Corporate Governance Scorecard** - a benchmarking tool that offers granular governance scores and peer comparisons to help investors and companies evaluate governance practices.

IiAS has expanded in ESG offerings through its wholly owned subsidiary set up a dedicated subsidiary, **IiAS Sustainability Solutions Private Limited (IiAS Sustain)** to focus on ESG. IiAS Sustain has published ESG Ratings on over 500 companies, issued Second Party Opinions for green bond issuances, and works closely with hedge funds, alternative investment funds (AIFs), and private equity firms to support ESG integration. IiAS is a signatory to the United Nations Principles for Responsible Investment (UN PRI).

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