

"A man is
great by
deeds, not by
birth"

-Chanakya

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Mutual funds' group connections and proxy voting – A study of Indian business group sponsored fund houses

S. Subramanian¹

¹Associate Professor, Strategic Management Area, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India; Email - s.subramanian@iimk.ac.in, Phone Number - 0495 2809112

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Abstract:

Research works indicate that mutual funds have greater potential for active corporate governance in their investee firms than other institutional investors like banks, insurance companies, or pension funds. It is because the other institutional investors may have other business relationship with the investee firms which may create conflicts of interests. However, in the Indian context, some mutual fund houses, sponsored by business groups also invest in the listed firms of the same business groups. This creates a potential conflict of interest when the mutual funds vote on the resolutions in the shareholder meetings of the sister firms. The mutual fund may choose to vote in support of the management in the resolution, even if the proxy advisory firms recommend otherwise. In this work, we analyse how the mutual fund houses sponsored by business groups, manage these conflicts of interest while voting on the resolutions put up for voting in the shareholder meetings. We consider the five year period from 2014-2019 to study the voting pattern of the Mutual Fund Houses belonging to business groups in their investee companies. We specifically focus on how these business group sponsored fund houses vote on the shareholder resolutions of the sister companies affiliated to the same group and also on their rival firms. The results indicate that the business group sponsored fund houses have partiality in their voting pattern. This finding has important implications for regulation of Mutual Funds

Research Office

Indian Institute of Management Kozhikode

IIMK Campus P. O.,

Kozhikode, Kerala, India,

PIN - 673 570

Phone: +91-495-2809237/ 238

Email: research@iimk.ac.in

Web: <https://iimk.ac.in/faculty/publicationmenu.php>

