BALANCING MAJORITY RULE AND MINORITY RIGHTS: THE EVOLUTION OF SHAREHOLDER PROTECTION IN INDIA

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ABSTRACT

In the modern corporate world, people invest their money in companies by buying shares, expecting good returns and financial security. However, most of these companies are controlled by the management or majority shareholders who have the power to appoint most of the directors. As a result, the interests of minority shareholders are often left unprotected. While minority shareholders benefit when the company performs well, problems arise when those in control act for their own benefit rather than for the company's welfare.

The landmark case of Foss v. Harbottle (1843) laid down the rule that the company is the proper plaintiff and that majority rule prevails in internal company matters. Though this principle supports corporate democracy, it often leaves minority shareholders powerless against wrongs committed by those in control. To overcome this, legal systems have developed remedies like derivative suits, where minority shareholders can sue on behalf of the company when the majority commits a wrong.

In India, however, derivative actions remain unclear and underused. With the rise of dispersed shareholding and growing investor participation, there is a strong need to adopt effective mechanisms to strengthen and popularize derivative suits. Doing so will ensure better protection for minority shareholders and promote fairness in corporate governance.

Keywords: Minority shareholders, Proper Plaintiff rule, Internal company.

INTRODUCTION

The foundation of modern company law is the doctrine of corporate personality laid down in Salomon v. Salomon & Co. Ltd. 1897, whereby a company is recognized as an individual legal body apart from its shareholders, enjoying perpetual succession and an independent legal status.

It is in this shifting paradigm of corporate governance that minority shareholders play an important role to ensure transparency, accountability, and ethical behavior. They serve as a check on the domination of the majority, ensuring that the corporate powers are exercised in the common good of the company and not for sectional aims. The protection of minorities is thus not just essential to uphold individual rights but also investor confidence, fairness, and integrity of the corporate system.

Historically, the Foss v. Harbottle rule of 1843 provided that the proper plaintiff for any wrong committed to the company is the company itself. Courts then hesitated to intervene in company management if the act sought to be enforced might be ratified by a majority, insulating corporate management but at the same time putting minority shareholders at risk of abuse by controlling factions.

Over time, both judicial interpretation and legislative reform have joined to right this imbalance by adding protection against oppression and mismanagement. Thus, the development of minority rights shows a progress from the stern majoritarian rule of Foss v. Harbottle to the more balanced and inclusive system of company law today.

This article, therefore, charts the development of minority shareholder rights-from early common law principles to modern statutory protection-with particular reference to the Indian context, considering significant judicial developments, provisions within the Companies Acts of 1956 and 2013, and comparative insights from jurisdictions such as the United Kingdom. The aim is to photograph the moving equilibrium among majority power and protection of minorities, illustrating the move toward a more just, accountable, and responsive company system.

THE RULE IN FOSS VS HARBOTTLE (1843)

Facts of the Case

Foss and Turton, who were the minority shareholders of the Victoria Park Company, instituted an action against the directors of the company. The plaintiffs accused the directors of misusing the property of the company and committing acts detrimental to the interests of the company.

They instituted the action in their own right and on behalf of other shareholders. The action was rejected by the court, which held that an action of this kind could be instituted by only the company itself since it was the rightful party to bring action for wrongs committed against it.

Principle Formulated

(a) The Company as the Right Plaintiff

The court held that where a wrong is done against the company, then solely the company, as a distinct legal entity, may sue. This upholds the doctrine of corporate personality, that is, the company is separate from its shareholders.

(b) The Rule of Majority

The court also pointed out that where the alleged wrong can be ratified by a majority of shareholders, then the courts will not intervene. This protects democratic decision-making and upholds the will of the majority in corporate control.

Reasons Behind the Rule

The rule in Foss v. Harbottle is underpinned by principles that ensure corporate efficiency and democracy. The rule ensures that different shareholders do not file different suits in regard to the same problem, ensuring the avoidance of litigation and that the litigation does not receive contradictory judgments. It also reflects judicial respect for internal management, emphasizing corporate disputes should be resolved via the internal machinery of the company through majority decision-making. The rule ensures corporate democracy, maintaining the principle of the majority and the company's distinct legal persona.

Criticism of the Rule

The rule in Foss v. Harbottle has been severally criticized for offering weak protection to minority shareholders. It leaves them exposed when wrongdoers control the company, leading to unchecked fraud or mismanagement. The rule also enables majority shareholders to

legitimize wrongful acts for their own benefit, resulting in oppression of the minority. To address these flaws, courts introduced exceptions allowing minority action where the act is ultra vires or illegal, involves fraud on the minority, violates individual rights, or where a special majority requirement is wrongfully bypass.

Exceptions to the Rule in Foss v. Harbottle

The rule formulated in Foss v. Harbottle (1843) provided that the company itself is the right plaintiff where any wrong has been caused to it. In turn, the courts will usually not intervene in issues of internal administration where the act involved can be validated by a majority vote by the shareholders.

Though this doctrine preserves the doctrine of corporate autonomy and rule by majority, it has traditionally functioned unreasonably at the expense of minority shareholders, particularly where the dominant shareholders have conducted oppressively or in bad faith. In order to avoid such majority abuse, courts have developed well-established exceptions that allow minority shareholders to sue notwithstanding the general principle.

1. Acts that are Ultra Vires or Illegal

Where the complained-of act is ultra vires (beyond the powers of the company) or illegal, it cannot be justified even by a unanimous shareholder vote. Under such situations, minority shareholders have the right to invoke judicial relief to prevent the company from doing so.

A prime example is Ashbury Railway Carriage and Iron Co. v. Riche (1875)[1], in which a contract made beyond the company's objects clause was held to be void as it was ultra vires. Accordingly, where the majority tries to perform an act not legal for the company to do, the minority may appeal to the court to stop or invalidate it.

2.Fraud on the minority

When the individuals running the firm defraud the minority, courts allow minority shareholders to sue. This exception is only applicable when the culprits are in majority so that they are able to steal corporate assets or benefits or prevent the firm from taking action.

[1] Ashbury Railway Carriage and Iron Co. v. Riche (1875) LR 7 HL 653

In Daniels v. Daniels (1978)[2], directors sold property of the company to themselves at an undervalue, thus inflicting a loss on the company. The court considered the actions such as a fraud on the minority, and the minority shareholders were permitted to sue for recovery of losses. Where, therefore, majority utilizes its dominance for personal benefit to defeat the interests of the company, minority members can seek redress.

3. Special Majority Acts Conducted with a Simple Majority

Some corporate actions, by company law, have to be approved through a special resolution—usually three-fourths majority—like changing the articles of association, change in registered office, or decreasing the share capital.

Should such action be taken by a mere majority, minority shareholders should be able to challenge the validity of the action. This exception aims to ensure statutory process and protection of all shareholders' rights. The court can thus invalidate or enjoin action taken without statutory majority sanction.

4. Interference with Shareholders' Personal Rights

The rule in Foss v. Harbottle does not apply where there is a violation of individual or personal rights of shareholders. These include rights such as the right to vote, the right to receive notice of general meetings, the right to declared dividends, and the right to inspect company records.

In Pender v. Lushington (1877)[3], the chairman unjustifiably declined to cast a shareholder's votes. The court established and protected the shareholder's individual right to vote, and held the refusal invalid and actionable. On this basis, when such individual rights are violated, shareholders can sue in their own name without leaving the company to do so.

5. Offenders in Control or Management of the Company

A further major exception is where the perpetrators themselves own or are in management or control of the company, so the company cannot sue in its own name. In these instances,

[2] Ashbury Railway Carriage and Iron Co. v. Riche [1978] Ch 406
[3] Pender v. Lushington [1877] 6 Ch D 70

minority shareholders can bring a derivative action in the company's name to enforce justice and vindicate corporate rights.

This doctrine was confirmed in Edwards v. Halliwell (1950)[4], where trade union members sued committee members who had acted beyond their authority. The court acknowledged that where abusers hold sway over the organization, members of the minority are within their rights to take action to protect the interests of the organization. This is meant to prevent the perpetrators from escaping accountability simply because they hold a majority of votes.

Evolution in Indian Company Law

The doctrine enunciated in Foss v. Harbottle (1843), that a company is a legal entity distinct from its shareholders and the right plaintiff as far as wrongs are done to it, has been a mainstay of Indian company law too. Indian courts have increasingly applied and interpreted this doctrine to the Indian business context, attempting to balance majority ownership with minority protection. The application of this rule in India was first authoritatively espoused in Rajahmundry Electric Supply Co. v. Nageshwara Rao (1956)[5], when the Supreme Court adopted the doctrine of majority rule but at the same time recognized exceptions when dealing with cases of oppression, fraud, or ultra vires. This decision provided the basis upon which Indian courts could adapt the strict common law rule of Foss v. Harbottle to ensure justice and fairness.

One of the foremost developments has come in the case of Needle Industries (India) Ltd. v. Needle Industries Newey (India) Ltd. (1981)[6], wherein the Supreme Court has emphasized equitable considerations and protected minority shareholders' rights. The Court has noted that though majority rule is essential to corporate governance, it cannot be used so as to be harsh, burdensome, or wrongful to the minority. This case marked a clear move in the direction of a more inclusive and equal interpretation of corporate democracy in India. The approach was reaffirmed further in Life Insurance Corporation of India v. Escorts Ltd. (1986)[7], wherein the Supreme Court reasserted the independence of corporate management but at the same time also stressed the importance of safeguarding shareholders' rights. The ruling reconciled the doctrine

[4] Edwards v. Halliwell [1950] 2 All ER 1064
[5] Rajahmundry Electric Supply Co. v. Nageshwara Rao (S) AIR 1956 SC 213
[6] Needle Industries (India) Ltd. v. Needle Industries Newey (India) Ltd. AIR 1981 SC 1298
[7] Life Insurance Corporation of India v. Escorts Ltd.1984 SCR (3) 643

of majority rule with wider principles of corporate accountability and transparency, indicative of increasing maturity of Indian company law.

Embracing the requirement for statutory protection, the legislature dealt with these matters in entirety by way of the Companies Act, 2013, which contains clear remedies for oppression and mismanagement under Sections 241 to 246. These provisions allow minority shareholders to approach for redress when the affairs of the company are conducted in a manner not being in their or public interest.

The institution of the National Company Law Tribunal (NCLT) has also improved the efficacy of these safeguards by offering a dedicated and effective forum for company disputes. The NCLT is very important in ensuring that fairness, transparency, and good governance become an essential part of company operations.

Therefore, the history of Indian company law shows a gradual shift from the rigid application of the majority rule to a more balanced system protecting minority interests through legislative intervention.

Legislative Responses in India

The strict enforcement of the majority rule principle tended to leave minority shareholders devoid of an efficacious remedy when the control group committed oppressive acts or mismanagement. In order to respond to these issues, the Indian parliament established effective remedies for minority shareholders under the Companies Act, 2013, specifically from Sections 241 to 246 and Section 245.

Sections 241–246: Protection against Oppression and Mismanagement

Under **Section 241**, any member of a company can makes an application to the National Company Law Tribunal (NCLT) if it is discovered that the business of the company is being run in a way that is oppressive towards any member or members, or against public interest or in the interests of the company. This requirement allows that protection can be sought by the shareholders even where the wrong is technically to the company, thus capturing the essence of a derivative action in a statutory framework.

Under **Section 243**, any managerial staff who are removed by the NCLT in such proceedings

are prohibited from re-appointment and from claiming compensation against the company for the said removal. This serves as a deterrent to abusive management practices and safeguards the integrity of corporate management.

Section 244 prescribes the requirements of eligibility for making an application under Section 241. Typically, an application can be submitted by not less than one hundred members or one-tenth of the aggregate number of members, whichever is lower, or by members holding not less than one-tenth of the issued share capital of the company. Notably, the NCLT can waive such requirements in suitable cases at its discretion, so that deserving minority shareholders are not deprived of relief simply because of numbers.

Last but not least, Sections 245 and 246 broaden the remedial scheme by authorizing class action suits and specifying how these provisions inter-relate with other remedies available under the Act. Collectively, these sections provide an integrated statutory vehicle to redress individual as well as collective grievances of minority shareholders.

Section 245 deals with Class Action Suits by Minority Shareholders. It is among the most forward-looking provisions of the Companies Act, 2013, bringing Indian company law up to international advances in shareholder protection. It is modeled on the English law concept of representative and derivative actions but adapted to Indian realities.

According to this provision, members, depositors, or any class of them can make an application to the NCLT if the running of the company's business is prejudicial to the company's interests, its members, or its depositors. Reliefs available under this powerful provision are restraining the company from ultra vires acts according to its memorandum or articles, prevention of violations of statutory requirements, declaring resolutions void, and recovery of damages or compensation against directors, auditors, experts, or advisors for fraud, illegal, or wrongful acts.

To avoid abuse of this vast provision, the applicants must be verified by the NCLT to represent a class having a common interest. The section allows collective redressal and facilitates better access to justice for small investors who would otherwise lack the wherewithal to prosecute individually. Importantly, Section 245 brings in a statutory class action remedy on the lines of the derivative action under the UK Companies Act, 2006, but wider, as it includes rights not just to shareholders but also depositors—another distinguishing feature of the Indian system.

Role of the National Company Law Tribunal (NCLT)

The National Company Law Tribunal (NCLT) is the primary forum for adjudication of cases regarding oppression, mismanagement, and class actions under the Companies Act, 2013. It plays a central and proactive role, similar to the supervisory role of English courts in derivative action cases. The NCLT's responsibilities include examining whether the alleged acts constitute oppression or prejudice, assessing whether minority rights have been unfairly disregarded, and granting suitable remedies to uphold corporate democracy. It strives to maintain an equitable balance between the principle of majority rule and the protection of minority interests, thereby ensuring justice within the corporate framework.

Appeals against the NCLT can be preferred to the National Company Law Appellate Tribunal (NCLAT) and subsequently to the Supreme Court of India. This appellate framework provides for judicial supervision and consistency in adjudication of companies and avenues of redress at multiple tiers for distressed stakeholders.

Comparative Perspective

Comparative Analysis of Minority Shareholder Protection: United Kingdom, United States, and India.

Minority Shareholder Protection in the **United Kingdom**

The United Kingdom has an established regime for the protection of minority shareholders, underpinned by both equitable principles and statutory law. Of the remedies available to minority shareholders, arguably the most important is the right to petition the court for relief from unfair prejudice pursuant to Section 994 of the Companies Act 2006. This section allows shareholders to apply on the grounds that the company's affairs are being or have been conducted in a manner unfairly prejudicial to their interests.

Apart from statutory protection, the UK Corporate Governance Code also plays an important role in ensuring high standards of conduct in relation to companies. It emphasizes transparency, accountability, and fair treatment of all shareholders, irrespective of the size of shareholding. The Code furthers the promotion of independent oversight through non-executive directors and the active participation of institutional investors. Together, these mechanisms ensure a balance

between managerial discretion and shareholder protection that fosters trust and responsible management within the corporation.

Minority Shareholder Protection in the **United States**

In this respect, shareholder protection in the United States is, to a large extent, a product of state corporate law, in particular that of Delaware, and federal securities law. There is also a set of procedural mechanisms like derivative suits or class actions that enables minority shareholders to obtain redress for managerial misconduct or violations of fiduciary duties. Federal legislation, such as the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, further advances disclosure requirements and corporate accountability, thus increasing the transparency of management conduct. The SEC is the principal regulatory body, ensuring compliance and full and fair corporate disclosure. Shareholder activism, along with the right to vote by proxy, further empowers minority shareholders in influencing corporate governance and holding management to account.

Independent board oversight, in turn, supplements this legal and procedural protection, forming a formidable check against managerial abuse.

Protection of Minority Shareholders in **India**: Companies Act, 2013 represents a modern evolution of corporate regulation impelled by international best practices and comparative legal developments. The Act carries various statutory provisions specifically aimed at protecting minority shareholders. Sections 241 to 246 provide for remedies against oppression and mismanagement, thus allowing shareholders to apply to the National Company Law Tribunal (NCLT) when corporate conduct is considered prejudicial to their interests or the welfare of the company. Furthermore, Section 245 provides for class action suits where shareholders and depositors can sue as a class against acts of the management that are fraudulent, oppressive, or have caused damage to the interests of the company. These statutory mechanisms reflect India's commitment toward aligning itself with international standards regarding shareholder protection while ensuring the effective representation of minority voices in corporate governance.

Global Convergence: Since the enactment of the Companies Act, 2013, there has been a significant amount of convergence in the Indian corporate governance framework with global standards of shareholder protection. The Indian legal system, today, integrates statutory

remedies with comprehensive governance codes, thus reflecting a balanced approach similar to that followed by the United Kingdom and the United States. Additionally, the setting up of specialized adjudicatory bodies such as the National Company Law Tribunal and the National Company Law Appellate Tribunal has strengthened institutional mechanisms for dispute resolution and minority protection. Further, SEBI has put in place more efficient regulatory mechanisms that ensure compliance, transparency, and accountability in corporate management. India's shareholder protection framework, therefore, provides security that is practically at par with advanced economies on most counts, thus instilling greater investor confidence and reinforcing the integrity of corporate governance. Continuous reforms and evolving jurisprudence continue to bring alignment in India's corporate regime with the best international practices, thereby promoting fairness, efficiency, and sustainable corporate conduct.

Challenges and Criticisms

The effective protection of minority shareholders in India remains subject to several persistent procedural and structural barriers despite major legislative and judicial advancements in recent decades. While the Companies Act, 2013 purportedly introduced comprehensive mechanisms between Sections 241 to 246 and Section 245, their actual enforcement remains encumbered with many difficulties in practice. This section will discuss critical issues concerning the major impediments affecting minority rights enforcement, considering avenues for reform.

Procedural and Practical Hurdles

The minority shareholders have often to face insurmountable procedural difficulties in seeking justice. Litigation under Sections 241 to 245 or class action provisions is prohibitively expensive, ultimately discouraging small investors from pursuing legitimate claims. Further, the functioning of the NCLT and the NCLAT is often plagued by backlog, repeated adjournments, and delays, leading to inordinately delayed proceedings and reduced relief.

A further hurdle is the evidentiary burden of proving oppression, mismanagement, or fraud—claims that by their very nature depend on access to internal corporate records that are commonly in the hands of the controlling majority. Thus, even in jurisdictions where such statutory rights do exist, their actual exercise remains more theoretical than practical. The limited judicial capacity of the NCLT further dilutes the deterrent effect and overall efficacy of

the minority protection framework.

Abuse of Oppression and Mismanagement Provisions

While Sections 241 and 242 were enacted to protect valid minority interests, abuses of these laws are becoming increasingly troublesome. Vexatious litigation, where dissatisfied shareholders lodge sham petitions simply to frustrate board decisions or to extort a settlement, has proliferated. In closely held or family-controlled corporations, intra-family or family-management rivalries and succession disputes are often cast in the guise of oppression and mismanagement claims to exploit the law as a tactical lever rather than an appropriate means of protecting a valid shareholder interest.

At the same time, judicial overreach in certain tribunal rulings has raised concerns about undue interference in business judgment. While the protection of minority interests is important, excessive intervention in managerial decisions risks undermining corporate autonomy. The challenge therefore lies in ensuring that judicial intervention remains proportionate, guided by stricter tests of maintainability, and supported by cost penalties to discourage abuse of process.

Balancing Minority Safeguards with Majority Efficiency

A central tension in corporate law is to balance minority protection with the efficiency of corporate operations under majority rule. Excessive minority veto rights or litigation frenzy might result in gridlocks that paralyze decision-making and discourage investment; on the other hand, too little protection diminishes investor confidence and undermines trust in corporate governance.

Therefore, the law has to aim at proportionality: remedies should be proportionate to the injury, and minority protection should not hinder legitimate business conduct. Corporate democracy necessarily rests on majority rule, but this needs to be qualified through appropriate equity provisions that allow redress for genuine cases without hurting managerial discretion or corporate efficiency.

Institutional Weakness and the Need for Reform

The strength of the minority protection regime in India would, therefore, depend on the institutional competence of its enforcement mechanisms. Understaffing, inadequate

infrastructure, and mounting caseloads in the specially created NCLT impede timely justice. Added to the problem is the general lack of awareness among the shareholders themselves about available remedies, leading to underutilization of the legal provisions and continued exposure to managerial abuses. Translating statutory rights into real remedies requires a focus on institutional capacity building, judicial restraint, and procedural reform in India. In addition, measurable gains will accrue from enhancing tribunal efficiency through digitalization, increasing judicial appointments, and introducing mechanisms to filter out frivolous petitions.

Encouragement of alternative dispute resolution-especially mediation and arbitration-can facilitate faster and less adversarial procedures for resolving shareholder disputes and alleviate the burden on tribunals. There is also an imperative need for sustained campaigns regarding shareholder rights and standards of corporate governance in order to empower investors and ensure responsible corporate behavior.

Therefore, for minority shareholder protection to really be effectively implemented in India, it is time to shift the focus from merely making new laws to making the existing laws practical and workable. It has to aim at faster and efficient tribunals, fair and well-balanced judicial decisions, and awareness among investors on their rights. Only then will the law-protected interests become actual and accessible, rather than mere paper promises. After all, one must ultimately aim to achieve a proper balance that allows the minority shareholders to be heard while at the same time not hampering the company's smooth functioning or decision-making process. Such a balance is essential for building trust, fairness, and confidence in India's corporate governance system.

Conclusion

The progression from Foss v. Harbottle (1843) to the contemporary framework under the Companies Act, 2013 is one of incremental but fundamental change in corporate jurisprudence—from absolute majority dominance to the acceptance of minority empowerment. Although the rule in Foss v. Harbottle was an affirmation of the principle that the company itself is the rightful plaintiff where there are corporate wrongs, judicial and legislative evolution in England as well as India has increasingly made exceptions to the rule so that wrongful conduct by controllers is not left unchecked. The development of derivative actions in English law and the statutory remedies contained in Sections 241–246 and Section

245 of the Indian Act are the legal system's attempts to strike a balance between corporate freedom and shareholder justice.

Yet, the success of these measures is contingent upon their effective implementation. Delays in procedures, exorbitant costs of litigation, and misuse of provisions at times dilute the purpose of minority protection. To fortify this system, some reforms can be thought of. Firstly, the ability and effectiveness of the NCLT must be augmented by improved staffing, tight case management, and technology to accelerate hearings. Second, cost and evidence obstacles to accessing justice can be addressed by allowing for limited pre-trial disclosure and offering financial help or cost indemnity provisions for bona fide minority claims. Third, more rigorous criteria must be established to screen out frivolous and mala fide claims early, avoiding abuse while protecting valid claims.

Finally, a balanced strategy is called for—one that maintains the correct principle of plaintiff to secure corporate personality but is sufficiently elastic to shield minorities from oppression and mismanagement. Genuine corporate democracy does not reside in total majority control but in guaranteeing fairness, responsibility, and trust among all shareholders. Making these mechanisms stronger will ensure a lasting balance between corporate effectiveness and fair shareholder protection.