**Professional Practices in IT FALL 2022**

**Assignment No. 2**

**Start time: 21st October 2022- 11:30 am**

**Submission due: 28th October 2022 - 6 pm**

Answer the following questions after reading the shared case studies of “iGate and the CEO: A Breach of Agreement” and “Ensighten”.

Q1: Discuss the importance of compensation for a CEO as a strategic tool for aligning a company's key talent with overall business strategy

The case discussion could start with a look at the larger context, emphasising the importance of CEOs in organisations.

CEOs are expected to provide strategic direction to an organisation while keeping the business environment, organisational history, and past performance in mind. CEOs develop and implement company strategies and are thus held largely responsible for the company's performance and outcomes.

Senior executives, such as CEOs and CFOs, are typically paid differently than employees at lower hierarchical levels.

Base Salary: This is a fixed component of compensation that is typically benchmarked against the market and set at a competitive level.

• Bonuses: There are four typical types:

Target Plan Bonus - Discretionary Bonus - Performance-Related Bonus - Pre-Determined Allocation Bonus

• Short-Term Incentives: These are typically offered through gain- or profit-sharing plans.

• Long-Term Incentives: Incentives include phantom stocks, stock appreciation rights, restricted stock, and stock options.

• Advantages:

Benefits of the Enhanced Protection Program - Perquisites

• Payments for Loss of Office Protecting interests, inspiring people, and facilitating quick replacements

Executive Compensation and Strategy Alignment

Executive pay is frequently criticised as being exorbitant and controversial.

• Driver and Outcome Metrics - A CEO and the organization's board members must agree on a suitable standard for evaluating performance, and appropriate compensation should be determined in accordance with the success in achieving these goals.

• Alignment & Accountability - The board must exercise due diligence to ensure that equity compensation and pay for performance align with the company's goals and objectives.

Q2: How can organizations design executive compensation to align with business strategy using risk and reward distribution

The current business climate necessitates a thorough compensation strategy that considers competition, corporate governance, and market volatility.

Optimal Contracting Approach These contracts specify the terms of employment in relation to performance standards, determining current and deferred compensation packages, and are based on the agency theory of corporate governance. The Board acts on behalf of its stakeholders (the principals).

**Managerial Power Approach**

* Demand vs. supply of outstanding talent in top management • CEO's pay may be set as high as possible and subsequent amendments made that are not constrained by principal-agent problems. • Murthy played a crucial role in turning a loss-incurring, mid-tier company into a billion-dollar entity.
* Murthy increased his salary through negotiations from US $3.14 million in 2010 to $8.82 million in 2011, and the board approved extending his notice of termination from 6 to 12 months.

**Board of Directors' Role**

In its complaints against Murthy, iGATE insisted that it had included clauses in the executive contract for Murthy's termination "for cause" and indemnity to lessen risk in the event of emergencies.

**Compensation Clause**

An indemnity clause allows one party to shift potential costs to the other by requiring that party to cover the costs or losses that other party may sustain in a given situation.

The business demanded that Murthy pay iGATE compensation for any losses incurred as a result of his failure to disclose his relationship with a subordinate, citing the indemnity provision in Murthy's contract.

In order to resolve Roiz's claims against Murthy and the business, iGATE incurred legal fees in addition to other expenses.

**Claw-back Provision**

Compensation "clawbacks" are a form of indemnity clause that may be included in CEO contracts, giving the business another line of defence against losses.

Included in clawbacks are Deductions, nonpayments, and severance pay. payments for "ethical misconduct" violations that result in "for cause" termination. In the event of an occurrence, it helps to reduce risk.

In the case that financial statement errors occur, it gives the employer permission to:

• Demand that the employer forfeit deferred pay

Q3: Examine the employment agreement between Murthy and iGate and highlight the causes that led to the dispute between the parties.

Murthy sued iGATE for wrongful termination after being fired from the company for allegedly breaking company rules by failing to disclose his relationship with a junior employee.

**False Termination**

"A wrongful termination is commonly considered as a party terminating a contract without good cause"

Neither the provisions of the contract itself nor the fundamental rules of contract law that apply to the contracting parties give an explanation.

Murthy was terminated by iGATE for "cause" because he had violated company policy.

Murthy would not be eligible to receive 12 months of severance compensation if the [employee] agreement's justification of iGATE was approved. Additionally, Murthy would lose his stock options.

**Agreement for Senior Executive Employment**

Murthy was guaranteed the following in the employment contract: an annual base wage and performance-based incentive bonuses.

The annual basic salary and performance-based incentive bonus for Murthy were raised through a number of amendments to this employment agreement, and further provisions for bonuses were added based on the company's performance.

Murthy was entitled to 12 months of notice of termination, according to the revised employment agreement.

Murthy would be eligible for a severance compensation equal to 12 months of his annual salary as well as a performance-based incentive if iGATE neglected to give him prior written notice.

Other factors included: • Murthy's Stock Options: According to reports, iGATE forbade Murthy from selling his stock options before May 2013 since doing so may convey the wrong impression and hurt the value of iGATE's stock.

• Family Benefits: Should Murthy decide to leave iGATE, the company committed to cover the cost of his and his family's long-term health insurance.

Q4: Why it is important for organizations to eliminate ambiguity in employment agreements with senior executives.

Murthy's lawsuit against iGATE is a classic illustration of a conflict arising from the firing of a high-level employee from a corporation for reasons that were unsatisfactory to the fired employee. The majority of high-level employment contracts include sizable severance pay and benefits in the event that the employee is terminated "without cause," but no such provisions if the individual is terminated for cause. Conflicts centre on whether the events that led to the employee's termination satisfied the accepted definition of cause; as a result, a conflict may have its roots in an ambiguous, murky, or contentious definition.

Murthy's termination was deemed to be justified by iGATE. Murthy disagreed with this finding, claiming that there was no justification for his dismissal.

As a result, it is necessary to examine the employee agreement's definition of cause.

Murthy was obligated to follow all corporate rules, guidelines, instructions, policies, practises, and procedures, as occasionally changed and publicised on the company intranet, according to Section 6. Murthy broke the agreement by failing to disclose the relationship, according to iGATE, hence his dismissal was justified.

In conclusion, iGATE anticipated Murthy to explicitly reveal his relationship with the younger employee, but Murthy never believed that was necessary since the board members already knew about the relationship.

Businesses who desire to prevent post-termination conflicts can learn from this instance. It is evidently crucial to take extra attention when defining cause in employment contracts with senior-level personnel. These documents, concepts, and sources must also be described clearly if the employment agreement refers to other documents, ideas, or sources (such as business policy). In this instance, the company's policy purportedly posted on the intranet said that no employee could materially violate the policy's terms while still receiving severance. The policy also required any employee having a romantic relationship with a subordinate to disclose the relationship to the employer.

Although company policy did not specify how employees were to disclose these relationships (such as the one Murthy had with Roiz), it was unclear whether an informal disclosure was sufficient or whether the employee was required to report the relationship in a letter to the following senior employee. As a result, the company's policy had some ambiguity.

**Agreement:**

Both sides agreed not to reveal specifics on the terms and nature of the out-of-court settlement that resolved the dispute between Murthy and iGATE. According to reports, the business paid a flat sum to resolve Murthy's claims of contract violation and slander. 24 iGATE included a $4.6 million expense for legal settlements to Murthy in its annual financial report for 2014, however it withheld further information.

Q5: What repercussions did Ensighten had to face in terms of the their agreement (SLA) from GMI. What do you learn about the importance of negotiation form this scenario?