# Question 01

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

## Answer

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

CEOs are expected to provide strategic direction to an organization while keeping the business environment, organizational 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.
* **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 criticized 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 by 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.

# Question 02

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

## Answer

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 regarding 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 included clauses in the executed contract for Murthy's termination "for cause" and indemnity to lessen risk in 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 the other party may sustain in each situation.

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

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 defense against losses.

Included in clawbacks are Deductions, nonpayment, 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 forfeits deferred pay

# Question 03

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

## Answer

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 explain.

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 several amendments to this employment agreement, and further provisions for bonuses were added based on the company's performance.

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

Murthy would be eligible for 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 is committed to covering the cost of his and his family's long-term health insurance.

# Question 04

Q4: Why do organizations need to eliminate ambiguity in employment agreements with senior executives?

## Answer

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. Many high-level employment contracts include sizable severance pay and benefits if the employee is terminated "without cause," but no such provisions if the individual is terminated for cause. Conflicts center 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, examining the employee agreement's definition of cause is necessary.

Murthy was obligated to follow all corporate rules, guidelines, instructions, policies, practices, and procedures, as occasionally changed, and publicized 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 that desire to prevent post-termination conflicts can learn from this instance. It is 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.

# Question 05

Q1: What repercussions did Ensighten have to face in terms of their agreement (SLA) with GMI? What do you learn about the importance of negotiation from this scenario?

## Answer

Ensighten needed to complete the transaction because GMI was a Fortune 50 firm. Manion has encountered numerous occasions since the beginning of their business where he had to make concessions to the agreement. In the case of GMI, certain significant changes were made in the redline version of GMI, including the addition of data security, confidentiality, transition, filing restrictions, termination by the customer, and termination by the firm both: under a separate provision.

The CEO Manion was concerned that the amendments made by GMI to the agreement could result in a disastrous situation in the future, which compelled him to develop, with Quinn, the most crucial negotiating tactic.

The comment made by Manion about the negotiation process serves as a lesson to everyone that if one strikes a deal with a firm, regardless of how large that company is, negotiation should be allowed up until a point where your own company's interests are not jeopardized and affected. Otherwise, the business may be forced to bear severe consequences at the expense of the benefit for a very brief period.