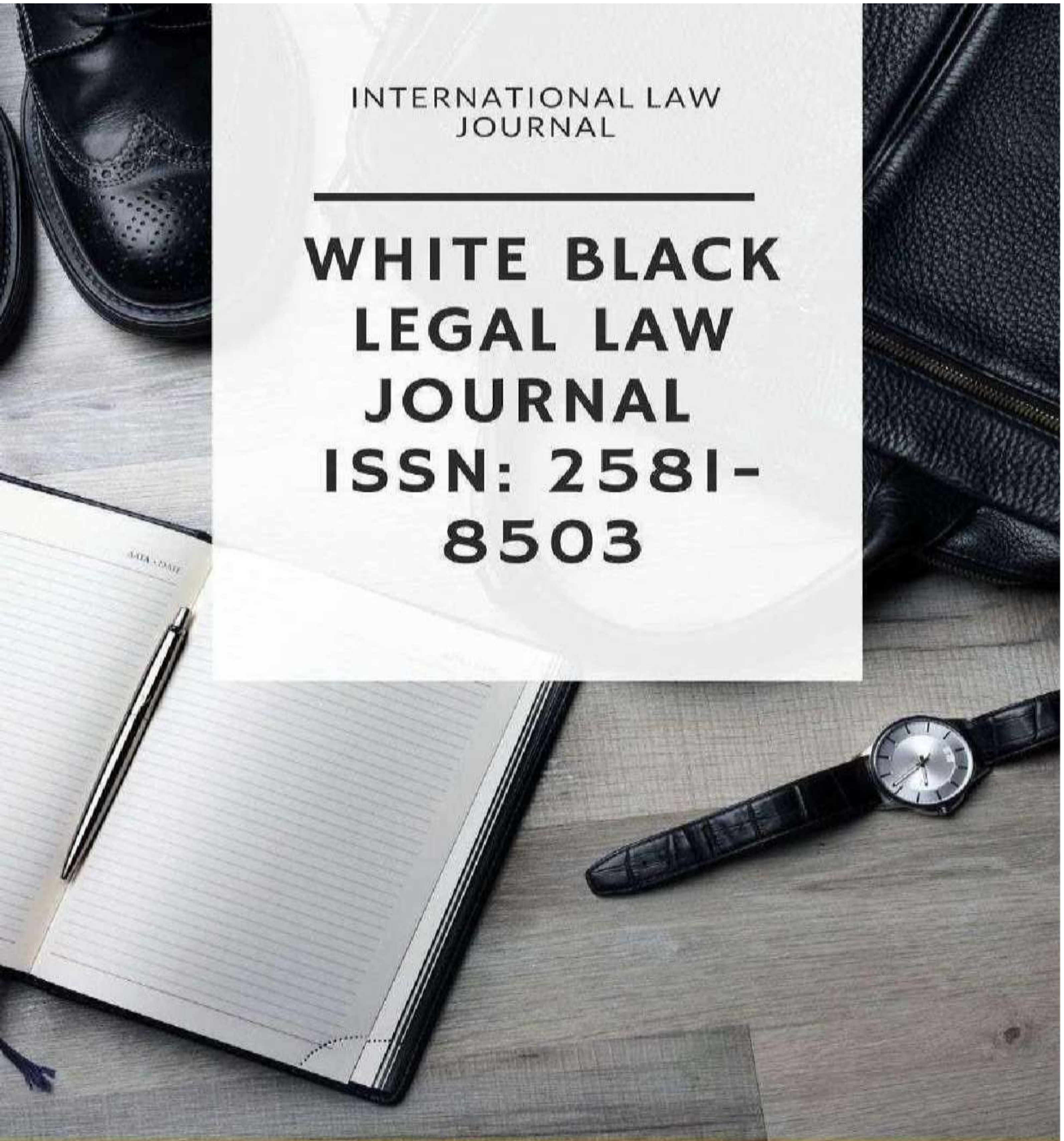

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ABOUT US

WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

EXAMINING THE SCOPE AND IMPLICATIONS OF CORPORATE OPPRESSION AND MISMANAGEMENT

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ABSTRACT

A key component of how companies operate is corporate governance, which maintains a balance between ethics, equity, and profitability. Corporate governance is undermined when dominant owners misuse their influence, leaving minority shareholders open to tyranny and poor management. Although the phrases "oppression" and "mismanagement" are not well defined, the Companies Act, 2013, Sections 241 to 246 offer a legal framework for minority shareholders to pursue remedies against such unfair actions. The concepts of corporate tyranny and mismanagement are examined in this research study, along with their consequences for corporate governance in India.

It assesses how Indian jurisprudence and the Companies Act protect minority shareholders and the larger corporate integrity by looking at significant cases like Tata Sons v. Cyrus Mistry[1] and Byju's investors' suit. The study illustrates the difficulties in safeguarding shareholder interests, maintaining equity in governance, and resolving mismanagement through case studies. In addition, it talks about how Indian courts have come to interpret injustice and poor management, highlighting how important it is for businesses to follow fair business practices in the competitive business sector.

Key words: Corporate Governance, oppression, Mismanagement, unfair actions, Companies Act

[1] *Tata consultancy services Limited v. Cyrus Investment private Limited* (2021) 9 SCC 449

1) INTRODUCTION

Corporate governance is the backbone of any business, ensuring that stakeholders' interests are balanced and that organizations operate profitably and morally. Minority shareholders' rights and interests are jeopardized when corporate persecution and poor management ensue from the tipping of the governance balance in favour of some parties, particularly majority shareholders. In the Companies Act, 2013, the terms "oppression" and "mismanagement" are not clearly defined but are crucial in protecting shareholders and ensuring fair corporate governance. The term 'oppression' is defined as 'the act or an instance of unjustly exercising power' is defined in Black law dictionary. In general, oppression is defined as behaviour that substantially departs from universally recognised norms of justice, especially when it comes to the rights of shareholders. On the other side, mismanagement entails conducting the business in an unfair, dishonest, or inept way. Members who encounter tyranny or discover that the business is being mismanaged can seek remedies under Sections 241 to 246 of the Act. If the Central Government or any resentful member feels that the company's conduct are harmful to its members, the public interest, or the company itself, these sections give them the authority to apply to the tribunal. After reviewing the case, the tribunal has the authority to make any decisions it thinks fit, including closing the business. With a focus on the remedies provided by Indian company law, this study examines the legal structure and ramifications of oppression and poor management in the corporate setting.

In order to ensure that corporations operate fairly and transparently, corporate oppression and mismanagement are crucial issues, particularly in situations where power imbalances between majority and minority shareholders may occur. Protecting minority shareholders' interests and fixing governance flaws are crucial for upholding corporate integrity in the fast-paced business world. The instance of Byju's, a well-known edtech business, is a modern illustration of claims of tyranny and poor corporate management. Under the provisions of the Companies Act, 2013, a group of investors who are unhappy with the financial management and corporate governance difficulties under the direction of CEO Byju's Raveendran and his family have filed a lawsuit. There has been investment concern about non-compliance with the law, absence of financial discipline, and the rights problem Concerned investors have expressed their disbelief that non-compliance with regulatory requirements, financial mal-governance, and a rights issue might indeed cause harm not only to the value of a company but also to stakeholders and employees whose trust was betrayed. The same fretting relates to earlier issues under head corporate governance- like Tata Consultancy Services Limited v. Cyrus Investments Pvt. Ltd., in where the Supreme Court addressed comparable allegations of mistreatment and oppression. This study looks at the extent and effects of corporate mismanagement and oppression in India, with a particular emphasis on how the Companies Act, 2013's Sections 241-244 are being interpreted in light of recent, well-known examples like Byju's and Tata Sons. The legal definition of coercive behaviour, shareholder remedies, and the wider ramifications for corporate governance will all be examined in this research.

2) MISMANAGEMENT AND OPPRESSION

Majority and minority shareholders' authority must be balanced, which gives rise to the concepts of Oppression and mismanagement in corporate governance. The Companies Act of 2013's Sections 241 and 242 safeguard minority shareholders' rights even though majority shareholders normally have the last say in business decisions. If shareholders believe that the firm is conducting its business in a way that is oppressive or harmful to their interests, these rules give them the ability to pursue legal recourse.

Mismanagement is the term used to describe acts that negatively impact a company's operations or finances, whereas oppression is usually associated with behavior that is oppressive, harsh, or inappropriate. Indian jurisprudence on this topic has developed as a result of numerous rulings that emphasize the necessity of justice, openness, and equal treatment in corporate governance frameworks

A. OPPRESSION

When a majority of shareholders misuse their voting power to harm minority shareholders, this is referred to as corporate oppression.

When "oppression" was first described as the absence of integrity and fair dealing in the business dealings to the prejudice of certain members, it was discussed in the case of Elder v. Elder & Watson Limited[2]. It was also made clear in Re Harmer (H.R.) Limited that oppression had to be aimed towards employees of the company and involve persistent activities that were unfair, onerous, and oppressive.

[2] *Elder v. Elder & Watson Limited* 1965 AIR 1535

Members may file a complaint with the National Company Law Tribunal (NCLT) under Section 241 of the Companies Act, 2013 if they believe that the company is being run in an oppressive or biased way. But only members may file claims of oppression; directors or creditors are not permitted to file such claims. In Shanti Prasad Jain v. Kalinga Tubes Limited[3]. The Supreme Court stressed that oppression must be a part of an ongoing narrative of wrongdoing by majority shareholders.

Additionally, the court ruled in Needle Industries (India) Limited vs. Needle Industries Newey (India)[4] Holding Limited that just incompetent act on the part of directors does not constitute tyranny. Rather, it must be actions that are unjust and jeopardize the petitioner's shareholder rights. In a similar note, the court noted in Rao (V.M.) vs. Rajeshwari Ramakrishnan[5] that the oppressive conduct had to involve ongoing actions and must impact the member in their capacity as a shareholder.

Additionally, the courts have stated unequivocally that isolated incidents do not constitute as an act of oppression. As was the case in Hungerford Investment Trust Limited v. Turner Morrison & Co. Limited[6], continuous misconduct must be proven. A few specific examples of oppression are stealing money, holding meetings without giving notice, improperly nominating or dismissing directors, and unlawful share transfer.

The Supreme Court ruled in Chatterjee Petrochem Private Limited vs. Haldia Petrochemicals Limited[7] that the definition of oppression is ambiguous and that it is up to the courts to decide whether a particular conduct is severe and burdensome enough to trigger action under Section 241 of the Companies Act, 2013.

a) Kinds of Oppression

I. Allotment of Shares to Create a New Majority:

The Supreme Court ruled in Dale and Carrington Invt. P. Ltd. v. P.K. Prathapan[8] that it is oppressive to reduce a majority shareholder to a minority by issuing new shares in bad faith by the board. Similar to this, selectively sending out

[3] *Shanti Prasad Jain v. Kalinga Tubes Limited* AIR 1965 SC 1535
[4] *Needle Industries (India) Limited vs. Needle Industries Newey (India)* (1981) 3 SCC 333
[5] *Rao (V.M.) vs. Rajeshwari Ramakrishnan* (1976)1MLJ393.
[6] *Trust Limited v. Turner Morrison & Co. Limited* 1972 AIR 1311
[7] *Chatterjee Petrochem Private Limited vs. Haldia Petrochemicals Limited* 2014 (14) SCC 574
[8] *Rajendra Kumar Tekriwal v. Unique Construction Private Ltd* (2005) 1 SCC 212

notices for board meetings when shares were to be allotted—which decreased the petitioners' shareholding—was deemed the worst kind of tyranny in Rajendra Kumar Tekriwal v. Unique Construction Private Ltd., and the allotments were revoked.

II. **Illegal Removal of Directors:**

Under Section 169 of the Companies Act, 2013, the court determined that it is oppressive to remove a director without following the proper legal procedure in Ms. Varshaben S. Trivedi v. Shree Sadguru Switch Gears (P) Ltd[9]. The company's memorandum and articles of organization cannot be used to circumvent the director's statutory entitlement to a notice and hearing.

III. **Board Meetings Without a Proper Quorum:**

Any decisions made at a board meeting—including the appointment of new directors—are null and void if a proper quorum is not present. A director's dismissal without proof of sufficient notice being served for meetings was deemed oppressive in Sushma Harish Sharma v. Hotel Hoxicon Private Ltd[10], because the director was denied the chance to attend and participate in the decision- making process.

B. MISMANAGEMENT

The reliefs granted by Sections 397 and 398 of the Companies Act, 1956, which addressed both oppression and mismanagement, are combined under Section 241 of the Companies Act, 2013. Furthermore, Section 242 delineates the Tribunal's jurisdiction in handling those instances. A new basis for submitting an application—gross mismanagement of the company's affairs—is introduced in Section 241(1)(b). When a major shift in the company's management or control is made against the interests of the shareholders, debenture holders, or creditors, it is considered mismanagement. This could entail changes to the company's management, ownership of shares, or Board of Directors. If they have the potential to cause harm to the firm or its members, substantial changes in membership or other important areas may also be categorized as mismanagement for companies without share capital.

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[9] *Ms. Varshaben S. Trivedi v. Shree Sadguru Switch Gears (P) Ltd* (2013) 116 CLA 153
[10] *Sushma Harish Sharma v. Hotel Hoxicon Private Ltd* [2007]139COMPCAS261(CLB)

The Companies Act, 2013 has expanded the definition of mismanagement to encompass any significant developments that are harmful to shareholders or a particular class of shareholders. Under this clause, minority shareholders may seek a preemptive remedy, but only if they can demonstrate that the proposed changes will be detrimental to their interests. Dishonest, inept, or fraudulent actions, such as breaking the company's memorandum and articles of association, are all considered forms of mismanagement. However, ineffective management or even foolish or costly company decisions do not meet the criteria for being considered mismanagement.

Mismanagement can also take the form of transferring shares without first offering them to current shareholders, calling meetings without informing participants, issuing shares for non-cash consideration that isn't backed by comparable assets, and forcing the company to incur extra costs by moving its headquarters. A proposition or conduct that violates the law fundamentally may also be considered oppression or mismanagement, which would support a Section 241 application.

Even though they turn out to be incorrect in retrospect or result in losses, choices made in good faith in accordance with the company's Memorandum and Articles of Association shouldn't be viewed as examples of mismanagement. As long as the business is being run honestly, the courts will not permit minority shareholders to abuse Section 241 in order to coerce the majority into giving in.

3) CASES

1. IN ***Tata consultancy services Limited v. Cyrus Investment private Limited***[11]

   In this case Cyrus Pallonji mistry was removed from his position as executive chairman of tata sons limited by a board of directors resolution on following this , minority shareholders Cyrus investments private limited and sterling investments corporation limited filed an application under section 241-242 of the companies act, 2013 alleging prejudicial and oppressive behaviour by the tata group, the majority shareholders.

   The dismissal of Cyrus Mistry and other proceedings against him were deemed oppressive and harmful by the National Company Law Appellate Tribunal (NCALT),

[11] Supra note 1

which reserved its verdict. The NCALT mandated that the ministry be restored to his positions as director and executive chairman of the Tata Group of Companies and Tata Sons. The minority shareholders' petition was denied by the NCLT, which concluded that Tata Sons actions were neither discriminatory nor oppressive.

After observing the NCALT's ruling, the Supreme Court dismissed all claims of mismanagement and oppression against Tata Sons, reserving the NCLAT's decision. It stated that the removal of Cyrus Mistry as Executive Chairman of Tata Sons was not oppressive or prejudicial to minority shareholders and that there were no just and equitable grounds for winding up Tata Sons.

2. In ***Needle Industries (India) Limited vs Needle Industries Newey (India) Holding Limited***[12]
The Supreme Court decided that relief under Section 397 of the Companies Act, 1956 (now Section 241 of the Companies Act, 2013) is not available for measures taken by a director that are foolish, ineffective, or careless. It must be proven that the in issue behavior is dishonest, unjust, and detrimental to the petitioner's legal and proprietary rights as a shareholder in order to be granted remedy.

3. IN ***Naresh Dayal & Ors vs The Delhi Gymkhana Club Ltd***[13]
The Delhi Gymkhana is a limited membership club with 5,600 permanent members that was founded 107 years ago and is registered under Section 8 of the Companies Act. Its main purpose is to encourage sports and leisure activities. The Ministry of Corporate Affairs (MCA), acting on a complaint, prosecuted the club on charges of mismanagement and conducting its operations against the public interest. Under Section 241(2) of the Companies Act, the government filed a motion with the National Company Law Tribunal (NCLT). According to the NCLAT, the Central Government must prove that the company's operations are hurting the public interest in order to submit a complaint under Section 241(2).
The Tribunal cannot question the adequacy of the material upon which the government formed its opinion, especially in the absence of any bad faith attributed to the

[12] Supra note 4
[13] *Naresh Dayal & Ors vs The Delhi Gymkhana Club Ltd* AIRONLINE 2021 DEL 79

government. Additionally, the term "public interest" does not require that the issue affects all citizens of India; it is sufficient if a smaller group, such as individuals seeking membership, is impacted. The NCLAT ultimately upheld the government's application, confirming that the club's conduct was deemed prejudicial to public interest.IN

4. IN ***Shanti Prasad Jain v. Kalinga Tubes Limited***[14]

According to the ruling, in order for there to be "oppression," the majority of shareholders must be subjecting the minority to member oppression. Additionally, the acts must be viewed as a sequence of events rather than as isolated incidents. Therefore, the majority stockholders' actions must be ongoing and their behavior must be onerous, severe, and wrong. A simple lack of trust between majority and minority shareholders would not be sufficient unless the minority were being oppressed by the majority.

5. IN ***Rajhmundry Electric Supply corpn.Ltd v. Nageshwara Rao***[15]

The court said that the allegations of a director's loss of confidence in their leadership have to be true and reasonable in order for the legislation's "Just and equitable clause," as stated in section 242, to apply. It also brings into the surface the necessity of disputes or conflict of minor nature in the matter of the level of trust between majority and minority shareholders of the corporation to make the specific provision effective.

6. *In Byjus case*

I. INTRODUCTIION

In 2023 Prosus, General Atlantic, Sofina, and Peak XV—four significant Byju's investors—filed a petition before the NCLT's Bengaluru bench in 2023, requesting that the company's founders—including CEO Byju Raveendran—be ruled unfit to manage the business. Financial mismanagement is alleged in the petition, along with the loss of control over important assets, the omission of hiring crucial staff, and noncompliance with legal requirements. A $200 million rights issue is also contested in the lawsuit, which claims it is repressive and harmful to shareholder interests. A forensic audit, increased financial transparency, and the replacement of the incumbent board are among the demands made by investors, which represents a noteworthy example of shareholder activism towards corporate governance reform in India. Byjus has been accused of financial mismanagement by the founders and that the share allotment violated Section 62(1)(a) and (c) of the

[14] Supra note 3
[15] *Rajhmundry Electric Supply corpn.Ltd v. Nageshwara Rao* 1956 AIR 213

Companies Act and was alleged to pass the same without a board resolution as required by Sections 175 and 179 of the Companies Act.

According to sources, the plea asks for the recently finished USD 200 million rights offer to be declared null and void as well as a directive that the business should refrain from doing any business measures that could jeopardize investor's rights.

II. RIGHTS ISSUES

Additionally, investors in the company have filed a separate case alleging persecution and mismanagement with the National Company Law Tribunal (NCLT). One of the primary issues expressed by the investors is their request to negate the rights problem. The investors argue that the rights issue is unfair. They also fear that subscribing could result in financial losses because the rights issue's valuation is 99% lower than it was in the last round.

Byju's responds that it needs to resolve the rights issue in order to meet its operating demands, which include managing general business expenses, paying personnel, meeting obligations, and covering working capital.

III. LEGAL PRESCRIPTIVE ON RIGHTS ISSUE

The NCLT's decision to put a stop to Byju's rights petition until the petition for oppression and mismanagement is resolved has raised many concerns about the issue's legitimacy. According to English law, the bona fide test's statutory conformity and the appropriate purpose concept, which derives from section 171 of the UK Act, establish whether the rights issue is valid. In order to address the claims of oppression in the rights issue, Indian courts have also referred to similar tests. A rights problem must serve the company's interests and not be used unfairly, according to the combined requirements of both tests. The decision to issue shares cannot be reversed on the grounds that it has unintentionally benefited the directors in their role as shareholders if the shares are issued in the company's broader interest. This benefit, though, needs to be accidental and shouldn't be the main goal of the problem.

It is evident that the intent behind the rights issue and a director's adherence to their fiduciary duties to the corporation determine whether or not the claims of mismanagement and oppression are accepted. It is unclear if the NCLT will also rely on the "good faith" obligation under section 166 of the 2013 Act in the Byju case, even though the twin tests will be crucial in resolving the issue.

IV. CONCLUSION OF BYJU'S CASE

The primary question on the NCLT's agenda is whether the rights issue was made in the company's best interests for a justifiable reason or if it was a deliberate attempt to marginalize the petitioners by slashing their stake from 24.5 percent to 24.5%. The rights issue must be advantageous to the business in order to pass the bona fide test. According to Byju's this issue's ability to raise money is essential to its continued existence. Based on the information, the NCLT will have to decide if the corporation really needs money right now. If this is the case, minority shareholders may not find the matter oppressive merely because non-participating shareholders' shareholding has been significantly reduced; this is provided that they were afforded an equal chance to engage, that the correct procedures were followed, and that the directors did not act in a way that was improper.

Although it may be argued that Byju's might obtain the required funds through debt instruments or loans, there are two problems with this line of reasoning. First, getting a loan is challenging for Byju's because of her unstable financial status. Second, the benefits of increasing equity as opposed to taking on debt have generally been acknowledged by courts. The choice to obtain equity capital instead of debt is ultimately a business decision, and courts usually don't get involved in such kinds of decisions.

If there is no obvious illegality, the board's collective judgment about whether the firm urgently needs capital will determine if the rights offering is valid. The rights problem would no longer serve a purpose and would not pass both conditions if the answer to this question is no.

4) CONCLUSION

Protecting such minor shareholders is certainly a pre-condition to maintaining the trust of business environments and further promotion of fair corporate governance. Sections 241-246 of the Companies Act, 2013, precisely speak to these very shareholders against Mismanagement and Oppression. Notable examples that show how Indian courts handle the complexity of corporate governance and provide remedies when majority shareholders abuse their power are Tata Sons v. Cyrus Mistry and the Byju's investors' case. Nevertheless, courts are still weighing the company's interests against individual accusations of injustice as they continue to develop the legal standards for tyranny and mismanagement.

Indian law must change to give explicit protections against mistreatment and abuse while making sure that remedies do not unreasonably interfere with business decision-making in light of the increasingly complex corporate structures. The instances under examination show that although minority shareholders have legal options, the court's interpretation of corporate integrity, fairness, and transparency is crucial. This study emphasizes how crucial it is to keep a fair and balanced corporate governance framework in order to promote investor trust and economic progress.