



Mains Practice Question

Q. Sanjit started a business from scratch and ended up as substantial owner of a mid-sized engineering company. The position of technical director in the company fell vacant when its incumbent resigned to take up another assignment. To the surprise of the board, Sanjit proposed that his young son Subhash should be made the technical director. One member openly expressed his opposition to the proposal and doubted Subhash's credentials. Sanjit replied that his son has studied engineering in Remote Westbrook Technical University. In reply to the member's question, he added that Remote Westbrook Technical University is an accredited University in USA. Subhash, he added, also took training in some workshops near Detroit. When there was further opposition from other members as well, he pleaded that his health was poor and that he would like someone from his family to take reins if he became too ill, and would like to see his son to be elected as a technical director on the basis of company's share held by him.

Assume that you have been the Secretary of the company for many years and have the ears of Sanjit. What would be your advice to him?

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Stakeholder involved in the case:

- Sanjit as an owner of company.
- Subhash, son of Sanjit and shareholder of the company.
- Secretary of the company.
- Employees of the company.
- Shareholders of the company.

Ethical issues involved:

- **Lack of Integrity:** Sanjit trying to induct his son Subhash in the senior position because he is from his family.
- **Misuse of Power/Official position (Self-aggrandizement):** Being an owner of the company it is his prime responsibility to see that he should use the resources and power in the interest of company rather than personal interest.
- **Lack of Impartiality:** As an owner of the company, he should treat all the employees equally without favouring one over another but his act of giving priority to his son over others even if the latter is from his family shows lack of impartiality.
- **Corporate Governance:** in case of family run companies, there is need for separation of ownership and to avoid any conflict of interest.

What are the options available to secretary:

- I would advise Sanjit that such opposition from Independent Directors is routine in corporate life. Subhash should not change his position.
- I would advise that Subhash should start from entry level position and then gradually take up higher responsibility.
- I would recommend Company should appoint an elderly technocrat with management experience who is nearing retirement and he should be appointed with specific mission to groom Subhash.
- I would suggest Sanjit that you should stay away and defer the decision to induct Subhash in the

company because in family matters people do not pay heed to reason.

- As a secretary I am required to act in interest of the company. Keeping Sanjit happy may be important for my career advancement, but obviously ignoring the opinion of Independent Director as routine is not a sensible approach. Independent Directors are required precisely for such purpose of balancing interest of the promoter and the interest of other shareholders who are not controlling the affairs of the company. Secretary needs to pay heed to valuable opinion of Independent Director(s). Clearly, Subhash does not have the requisite experience and even education to start from that level of management. That precisely is the issue here.
- Further, Sanjit would want to see tangible result in a time frame because he may not be keeping good health and is anxious to have a successor from family. This option is somewhat vague as Subhash may take long time to move up the ladder. This option does not meet with the demand of the situation.

Course of action:

- No doubt Sanjit is personally concerned about this issue. However, the matter affects the whole company. Since Sanjit has controlling interest in the company and he is not keeping good health, the succession anxiety is understandable. In that situation good advice surely has value. If the Secretary shies away from tendering that advice, he would be failing in his duty. He is no stranger either to the company or to Sanjit. He cannot afford to remain a mute spectator.
- The suggested step would be that when the company brings in an executive with sound experience and maturity, its current operations will not suffer. Since the incumbent is near retirement, he would not try to extend his career horizon but instead sincerely groom Subhash. In about two years, it should be possible to groom Subhash. After that Subhash may take over substantial responsibility. If the incumbent still wants to continue for some more time, he may be given some advisory position wherefrom also he can support Subhash. This is the pragmatic course of action.

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