



OPPRESSION AND MISMANAGEMENT: LEGAL FRAMEWORK IN INDIA

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Abstract

The doctrine of oppression and mismanagement constitutes a critical safeguard within corporate law, designed to protect minority shareholders from the abuse of power by majority stakeholders. While the principle of majority rule is fundamental to corporate governance, its unchecked application can lead to inequitable outcomes, including exclusion, financial prejudice, and erosion of shareholder confidence. The Companies Act, 2013, particularly Sections 241–246, provides a structured mechanism to address such concerns by enabling aggrieved shareholders to seek remedies before the National Company Law Tribunal (NCLT).

This paper critically examines the legal framework governing oppression and mismanagement in India, analyzing statutory provisions, judicial interpretations, and the role of adjudicatory bodies. It further evaluates the effectiveness of the current regime in balancing corporate autonomy with minority protection. By incorporating comparative insights from jurisdictions such as the United Kingdom, the study highlights both strengths and deficiencies in the Indian system. The paper concludes with recommendations aimed at enhancing procedural efficiency, clarifying legal standards, and strengthening corporate governance mechanisms.

Keywords: Oppression, Mismanagement, Minority Shareholders, Corporate Governance, NCLT, Companies Act, 2013

1. Introduction

Corporate governance is premised on the idea that companies function democratically, with decisions taken based on the will of the majority shareholders. This principle, often termed as “corporate democracy,” ensures efficiency and facilitates decision-making within corporate entities. However, the dominance of majority shareholders can sometimes lead to abuse of power, resulting in unfair treatment of minority shareholders.

The doctrines of oppression and mismanagement emerge as legal responses to such situations. They aim to ensure that corporate power is exercised in a fair, transparent, and accountable manner. Oppression refers to conduct that is burdensome, harsh, and wrongful towards minority shareholders, whereas mismanagement relates to improper handling of the company's affairs that may harm the company or public interest.

Historically, minority shareholders had limited remedies, primarily confined to winding up the company under the "just and equitable" clause. However, this remedy was often impractical, as it could destroy the very enterprise in which shareholders had invested. Recognizing this limitation, the legislature introduced specific provisions to address oppression and mismanagement without resorting to liquidation.

The Companies Act, 2013 represents significant advancement in this regard. It provides a comprehensive framework enabling minority shareholders to seek relief through the NCLT. The Act emphasizes equitable remedies, preventive measures, and corporate governance principles.

This paper seeks to critically evaluate whether the existing legal framework effectively protects minority shareholders or whether structural reforms are necessary to address its shortcomings.

2. Historical Evolution of the Law

The concept of minority protection in corporate law has its roots in English jurisprudence. The landmark case of *Foss v. Harbottle* (1843) established the principle that courts would not interfere in the internal management of companies, as such matters were to be decided by the majority shareholders. This rule, while promoting corporate autonomy, often left minority shareholders without effective remedies.

Over time, exceptions to this rule were developed, allowing minority shareholders to approach courts in cases involving fraud, illegality, or actions beyond the powers of the company. However, these exceptions were limited in scope and failed to address situations where majority conduct was oppressive but technically lawful.

To address this gap, the United Kingdom introduced the concept of "unfair prejudice," allowing courts to grant relief in cases where the conduct of the majority was unfairly detrimental to minority shareholders.

India adopted similar principles through legislative developments. The Companies Act, 1913 did not provide specific remedies for oppression. The Companies (Amendment) Act, 1951 introduced provisions enabling shareholders to seek relief against oppressive conduct. These provisions were further refined under Sections 397 and 398 of the Companies Act, 1956 and expanded these provisions under Sections 241–246, providing a more comprehensive framework for addressing oppression and mismanagement. The inclusion of public interest as a ground for intervention reflects a broader approach towards corporate accountability.

The evolution of the law thus reflects a shift from strict adherence to majority rule towards a more balanced approach that safeguards minority interests.

3. Conceptual Framework of Oppression and Mismanagement

3.1 Meaning and Nature of Oppression

Oppression in corporate law refers to conduct that is burdensome, harsh, wrongful, and lacking in fairness and probity towards minority shareholders. The courts have consistently held that oppression must involve a visible departure from standards of fair dealing.

A key element of oppression is continuity. Isolated incidents, unless part of a broader pattern, do not generally constitute oppression. The conduct must be such that it creates a sustained pattern of unfair treatment towards minority shareholders.

Oppression may manifest in various forms, including:

- Exclusion of minority shareholders from management
- Diversion of company funds
- Allotment of shares to dilute minority holdings
- Denial of dividends

3.2 Meaning and Scope of Mismanagement

Mismanagement refers to improper or negligent conduct in managing the affairs of a company. Unlike oppression, which focuses on harm to shareholders, mismanagement is concerned with harm to the company itself.

It includes:

- Gross negligence by directors
- Misuse of company assets
- Violation of statutory provisions
- Conduct detrimental to public interest

Mismanagement does not necessarily require mala fide intent; even negligent conduct may suffice if it adversely affects the company.

3.3 Distinction Between Oppression and Mismanagement

While both concepts aim to regulate corporate conduct, they differ in scope and focus. Oppression is primarily concerned with protecting minority shareholders from unfair treatment, whereas mismanagement addresses broader issues affecting the company's functioning.

However, in practice, the two often overlap, and petitions frequently invoke both grounds simultaneously.

4. Legal Framework under the Companies Act, 2013

The Companies Act, 2013 provides a detailed legal framework for addressing oppression and mismanagement, primarily through Sections 241 to 246.

4.1 Section 241: Right to Apply

Section 241 allows members to approach the Tribunal when the affairs of the company are being conducted in a manner prejudicial to:

- Public interest
- Interests of members

- Interests of the company

This provision significantly broadens the scope of intervention by including public interest as a ground.

4.2 Section 242: Powers of the Tribunal

The Tribunal is vested with wide powers to grant relief, including:

- Regulation of company affairs
- Removal of directors
- Appointment of new directors
- Purchase of shares
- Termination of agreements

These powers are equitable in nature and are aimed at preventing further oppression rather than punishing past conduct.

4.3 Section 244: Eligibility Criteria and Waiver

Section 244 of the Companies Act, 2013 prescribes the eligibility criteria for filing an application under Section 241. It requires that the application must be made by:

- At least 100 members of the company, or
- Members holding at least 10% of the issued share capital

In cases where the company does not have share capital, at least 20% of the total number of its members may apply.

While these thresholds are intended to prevent frivolous litigation, they often pose significant barriers for minority shareholders. Recognizing this limitation, the proviso to Section 244 empowers the Tribunal to waive these requirements. The discretion to grant waiver has been a subject of judicial interpretation and has played a crucial role in ensuring access to justice.

The waiver provision reflects the legislative intent to prioritize substantive justice over procedural technicalities. However, inconsistent application of these principles has raised concerns regarding predictability and fairness.

4.4 Section 245: Class Action Suits

One of the most significant innovations introduced by the Companies Act, 2013 is the concept of class action suits under Section 245. This provision allows a group of shareholders or depositors to collectively initiate legal proceedings against the following:

- The company
- Directors
- Auditors
- Experts or advisors

Class action suits can be filed to restrain acts that are:

- Ultra vires the company's constitution
- Fraudulent or unlawful
- Prejudicial to the interests of members or depositors

This provision enhances collective redress and reduces the burden on individual shareholders. It also

strengthens corporate accountability by enabling stakeholders to challenge systemic misconduct.

However, practical challenges such as procedural complexity, lack of awareness, and fear of retaliation have limited the widespread use of class action suits in India.

4.5 Sections 243 and 246: Ancillary Provisions

Sections 243-246 deal with consequential and procedural aspects, including the following:

- Termination of agreements with managing personnel
- Penalties for non-compliance
- Powers of the Central Government to initiate proceedings

These provisions ensure that the remedies granted under Sections 241 and 242 are effectively implemented.

5. Role of the National Company Law Tribunal (NCLT)

The establishment of the National Company Law Tribunal (NCLT) marked a significant institutional reform in corporate adjudication in India. It replaced the Company Law Board and consolidated jurisdiction over corporate disputes.

5.1 Jurisdiction and Powers

The NCLT exercises both judicial and quasi-judicial functions. Its jurisdiction includes:

- Adjudication of oppression and mismanagement cases
- Approval of schemes of arrangement
- Insolvency proceedings

In cases of oppression and mismanagement, the Tribunal exercises wide discretionary powers to grant equitable relief.

5.2 Nature of Jurisdiction

The jurisdiction of the NCLT is:

- **Preventive** – to stop ongoing oppression
- **Curative** – to rectify past misconduct
- **Equitable** – to ensure fairness

Unlike traditional courts, the Tribunal is not strictly bound by procedural technicalities and may adopt a pragmatic approach to achieve justice.

5.3 Role of NCLAT

Appeals from NCLT decisions lie before the National Company Law Appellate Tribunal (NCLAT), which ensures consistency and appellate oversight.

6. Judicial Interpretation and Case Law Analysis

Judicial interpretation has been instrumental in defining the contours of oppression and mismanagement. Courts have consistently emphasized fairness, probity, and equitable conduct.

6.1 Shanti Prasad Jain v. Kalinga Tubes Ltd. (1965)

This landmark judgment laid down the foundational principles of oppression. The Supreme Court held that:

- Oppression must involve a lack of probity
- The conduct must be burdensome, harsh, and wrongful
- Mere dissatisfaction or disagreement is insufficient

The Court emphasized that the remedy is not available for every grievance but only for conduct that is fundamentally unfair.

6.2 Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd. (1981)

In this case, the Supreme Court introduced the concept of **legitimate expectations**. It held that:

- Even if actions are legally valid, they may still be oppressive
- Courts must consider fairness and equitable considerations

This judgment significantly expanded the scope of oppression by recognizing that legality alone is not sufficient; fairness is equally important.

6.3 Dale & Carrington Investment Pvt. Ltd. v. P.K. Prathapan (2005)

The Court held that:

- Directors owe fiduciary duties to the company
- Abuse of fiduciary power amounts to oppression

The case involved manipulation of shareholding to gain control, which was held to be oppressive conduct.

6.4 Sangramsinh P. Gaekwad v. Shantadevi P. Gaekwad (2005)

This case emphasized:

- Oppression must be continuous
- Past acts alone may not suffice unless they have continuing effects

The Court also clarified that equitable considerations play a central role in granting relief.

6.5 V.S. Krishnan v. Westfort Hi-Tech Hospital Ltd. (2008)

The Supreme Court reiterated that:

- Conduct must be oppressive in nature
- The burden of proof lies on the petitioner

This case highlighted the importance of evidence in establishing oppression.

6.6 Emerging Judicial Principles

From the above cases, the following principles emerge:

1. Oppression requires lack of probity and fairness
2. Continuous conduct is essential

3. Courts adopt an equitable approach
4. Legitimate expectations must be protected
5. Technical legality does not justify unfair conduct

7. Remedies under the Legal Framework

The remedies available under the Companies Act, 2013 are flexible and designed to address specific situations.

7.1 Preventive Remedies

Preventive remedies aim to stop ongoing misconduct. These include:

- Regulation of company affairs
- Injunctions against oppressive acts
- Restrictions on share transfers

These remedies are crucial in preventing further harm.

7.2 Corrective Remedies

Corrective remedies aim to rectify past misconduct. These include:

- Removal of directors
- Appointment of new management
- Setting aside of agreements

These measures help restore fairness in corporate governance.

7.3 Compensatory Remedies

Compensatory remedies focus on providing financial relief, such as:

- Purchase of shares at fair value
- Compensation for losses

These remedies ensure that minority shareholders are not financially disadvantaged.

7.4 Winding Up as a Last Resort

Winding up of the company is considered only when:

- Oppression is severe
- No alternative remedy is effective

Courts have consistently held that winding up should be avoided if it harms the interests of stakeholders.

8. Minority Shareholder Protection: A Critical Perspective

Minority shareholders are inherently vulnerable due to their limited control over corporate decisions. Their interests may be compromised through:

- Exclusion from management
- Dilution of shareholding
- Misuse of company resources

The legal framework seeks to address these issues by providing:

- Access to remedies
- Protection of legitimate expectations
- Equitable treatment

However, the effectiveness of these protections depends on:

- Judicial interpretation
- Procedural efficiency
- Awareness among shareholders

8.1 Legitimate Expectations Doctrine

One of the most important developments in minority protection is the recognition of legitimate expectations. This doctrine ensures that:

- Shareholders are treated fairly
 - Informal understandings are respected
 - Sudden changes in management do not prejudice minority interests
- The doctrine has been

widely applied in quasi-partnership companies.

9. Corporate Governance and Oppression: An Interlinked Framework

Corporate governance and the doctrines of oppression and mismanagement are interlinked. Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It ensures accountability, transparency, and fairness in corporate decision-making.

The emergence of oppression and mismanagement provisions reflects the failure of internal governance mechanisms. Ideally, corporate governance structures (such as boards of directors, audit committees, and independent directors) should prevent oppressive conduct. However, when these mechanisms fail, legal intervention becomes necessary.

9.1 Principles of Corporate Governance

The core principles include:

- **Transparency:** Ensuring timely and accurate disclosure of information
- **Accountability:** Holding management responsible for their actions
- **Fairness:** Protecting the rights of all stakeholders
- **Responsibility:** Ensuring ethical conduct in business operations

The Companies Act, 2013 incorporates these principles through various provisions, including mandatory disclosures, independent directors, and corporate social responsibility requirements.

9.2 Role of the Board of Directors

The board of directors plays a central role in corporate governance. Directors are fiduciaries who must act:

- In good faith
- In the best interests of the company
- With due care and diligence

Failure to adhere to these duties may result in mismanagement and, in some cases, oppression. In many instances, oppression arises due to:

- Concentration of power in a few individuals
- Lack of independence in the board
- Conflicts of interest

Thus, strengthening board independence is crucial in preventing such conduct.

9.3 Independent Directors and Audit Committees

The introduction of independent directors under the Companies Act, 2013 aims to provide objective oversight. Their role includes:

- Monitoring management decisions
- Protecting minority interests
- Ensuring compliance with legal standards Similarly, audit committees play a vital role in:
 - Detecting financial irregularities
 - Ensuring transparency in financial reporting

fail due to:

- Lack of true independence
- Influence of majority shareholders
- Inadequate enforcement

9.4 Corporate Governance Failures and Legal Intervention

Corporate scandals often highlight the failure of governance mechanisms. In such situations, oppression and mismanagement provisions act as corrective tools.

Legal intervention becomes necessary when:

- Internal remedies are ineffective
- Majority shareholders abuse their power
- There is systemic misconduct

Thus, oppression and mismanagement provisions serve as an external check on corporate governance failures.

10. Comparative Analysis: India, United Kingdom, and United States

A comparative analysis provides valuable insights into the strengths and weaknesses of the Indian framework.

10.1 United Kingdom: The Unfair Prejudice Remedy

The UK Companies Act, 2006 provides for the “unfair prejudice” remedy under Section 994. This provision allows shareholders to approach the court when the company’s affairs are conducted in a manner that is unfairly prejudicial to their interests.

Key Features:

- Broad and flexible interpretation
- Focus on fairness rather than legality
- Recognition of legitimate expectations

The UK courts have developed a rich jurisprudence, emphasizing equitable considerations.

Advantages over Indian Law:

- Clearer conceptual framework
- Extensive judicial guidance
- Greater flexibility in remedies

10.2 United States: Fiduciary Duty Framework

In the United States, minority protection is primarily achieved through:

- Fiduciary duty litigation
 - Derivative actions
 - Shareholder agreements
- Directors owe fiduciary duties of:
- Loyalty
 - Care
 - Good faith

Violation of these duties may result in legal action.

Key Differences:

- Greater reliance on litigation
- Strong emphasis on fiduciary duties
- Less reliance on statutory oppression remedies

10.3 Comparative Evaluation

Aspect	India	UK	USA
Legal Basis	Statutory (Sections 241–246)	Unfair Prejudice	Fiduciary Duties
Approach	Developing	Mature	Litigation-driven
Flexibility	Moderate	High	High
Judicial Role	Significant	Extensive	Central

India's framework is evolving but still lacks the clarity and depth seen in the UK.

11. Challenges in the Indian Framework

Despite a comprehensive legal structure, several challenges hinder the effective implementation of oppression and mismanagement provisions.

11.1 Ambiguity in Legal Definitions

One of the major issues is the absence of precise statutory definitions of “oppression” and “mismanagement.” Courts have relied on judicial interpretation, leading to:

- Inconsistent decisions
- Uncertainty for litigants

While flexibility is beneficial, excessive ambiguity may undermine legal certainty.

11.2 Procedural Delays in NCLT

The effectiveness of any legal remedy depends on timely resolution. However, the NCLT faces:

- Heavy caseload
- Limited infrastructure
- Procedural delays

Delayed justice often renders remedies ineffective, particularly in cases involving ongoing oppression.

11.3 High Threshold for Filing Applications

The eligibility criteria under Section 244 may prevent small shareholders from seeking relief. Although waiver provisions exist, they:

- Depend on judicial discretion
- Lack uniform application

This creates barriers to access to justice.

11.4 Limited Awareness Among Shareholders

Many shareholders are unaware of their rights under the Companies Act, 2013. This results in:

- Underutilization of legal remedies
- Continued exploitation

Awareness programs and legal education are essential to address this issue.

11.5 Enforcement Challenges

Even when relief is granted, enforcement may be problematic due to:

- Non-compliance by management
- Lack of monitoring mechanisms

This reduces the effectiveness of the legal framework.

12. Critical Evaluation of the Legal Framework

The Indian legal framework on oppression and mismanagement reflects a progressive approach towards minority protection. However, its effectiveness must be evaluated critically.

12.1 Strengths

- Comprehensive statutory provisions
- Wide powers of the Tribunal
- Recognition of equitable principles
- Inclusion of public interest

These features make the framework robust and adaptable.

12.2 Weaknesses

- Lack of definitional clarity
- Procedural inefficiencies
- Inconsistent judicial interpretation
- Limited practical accessibility

These weaknesses highlight the need for reforms.

12.3 Balancing Majority Rule and Minority Protection

A key challenge is maintaining a balance between:

- Majority rule (corporate efficiency)
- Minority protection (fairness)

Excessive intervention may hinder business decisions, while insufficient protection may lead to abuse of power.

The law must strike a delicate balance between these competing interests.

13. Reforms and Recommendations

While the Indian legal framework on oppression and mismanagement is comprehensive, its effectiveness can be significantly enhanced through targeted reforms. These reforms must address both substantive and procedural deficiencies.

13.1 Statutory Clarification of Key Concepts

One of the primary issues in the current framework is the absence of precise statutory definitions of “oppression” and “mismanagement.” Courts have relied heavily on judicial interpretation, leading to inconsistency.

Recommendation:

- Introduce statutory definitions or illustrative guidelines
- Codify principles such as “lack of probity” and “legitimate expectations” This would improve predictability and reduce litigation uncertainty.

13.2 Strengthening the NCLT Mechanism

The National Company Law Tribunal plays a central role in adjudicating disputes. However, it faces challenges such as delays and infrastructural limitations.

Recommendation:

- Increase the number of benches.
- Ensure timely appointments of members.
- Introduce strict timelines for disposal of cases.

A more efficient tribunal system would significantly enhance access to justice.

13.3 Reforming Eligibility Thresholds

The thresholds under Section 244 may prevent genuine claims by minority shareholders.

Recommendation:

- Reduce the numerical threshold.
- Provide clearer guidelines for waiver.
- Introduce alternative mechanisms for small shareholders. This would make the legal

framework more inclusive.

13.4 Promoting Awareness and Legal Literacy

Lack of awareness among shareholders is a major barrier.

Recommendation:

- Conduct awareness programs.
- Include corporate rights education in investor training.
- Strengthen disclosure mechanisms.

Informed shareholders are better equipped to protect their rights.

13.5 Encouraging Alternative Dispute Resolution (ADR)

Litigation is often time-consuming and costly.

Recommendation:

- Promote mediation and arbitration in corporate disputes.
- Establish specialized ADR mechanisms within NCLT. This would reduce the burden on tribunals and expedite resolution.

13.6 Strengthening Corporate Governance Practices Preventive measures are as important as corrective ones. **Recommendation:**

- Enhance independence of directors.
- Strengthen audit mechanisms.
- Enforce stricter disclosure requirements.

Strong governance reduces the likelihood of oppression and mismanagement.

13.7 Learning from International Practices India can benefit from comparative insights.

Recommendation:

- Adopt elements of the UK's "unfair prejudice" framework.
- Strengthen fiduciary duty enforcement similar to the USA. This would align Indian law with global best practices.

14. Conclusion

The doctrine of oppression and mismanagement represents a critical safeguard in corporate law, ensuring that the principle of majority rule does not devolve into majority tyranny. The Companies Act, 2013 has made significant strides in strengthening minority protection by providing a comprehensive legal framework and empowering the National Company Law Tribunal with wide discretionary powers.

Judicial interpretation has further enriched this framework by emphasizing fairness, equity, and legitimate expectations. However, challenges such as procedural delays, ambiguity in legal standards, and limited accessibility continue to undermine its effectiveness.

A balanced approach is essential—one that protects minority shareholders without unduly restricting corporate autonomy. The reforms suggested in this paper aim to achieve this balance by enhancing clarity, efficiency, and accountability.

Ultimately, the effectiveness of the legal framework depends not only on statutory provisions but also on their implementation. Strengthening institutional mechanisms, promoting awareness, and fostering a culture of ethical corporate governance are essential for ensuring that the doctrine of oppression and mismanagement fulfills its intended purpose.

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