

Legal Effects of Obligations Undertaken Beyond the Scope of Corporate Purpose and Managerial Authority in Joint-Stock and Cooperative Companies

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The legal consequences of obligations undertaken beyond the scope of corporate purpose or managerial authority constitute a significant issue in company law because they involve a direct tension between internal corporate governance and the security of transactions with third parties. This study examines the legal nature and effects of acts performed by directors beyond the limits of corporate purpose or managerial authority in joint-stock and cooperative companies, with particular emphasis on Iranian law and a comparative analysis of French and German legal approaches. The research adopts a descriptive-analytical and comparative method and focuses on the distinction between the company's legal capacity, the scope of directors' internal authority, and their external representative power. The findings indicate that treating every unauthorized or ultra vires act as invalid is incompatible with the requirements of modern commercial transactions and may unjustifiably transfer the risk of internal governance failures to third parties. A more coherent approach requires a distinction between internal and external legal effects. Under this model, restrictions arising from the articles of association, internal resolutions, or managerial instructions should primarily operate within the relationship between directors and the company, while transactions concluded with bona fide third parties should generally remain binding. Directors who exceed their authority may nevertheless incur internal liability for resulting losses. The study also finds that cooperative companies require specific rules because of their member-oriented and participatory structure, although the principle of protecting transaction security should still apply. The article concludes that Iranian law, particularly the rules governing directors' powers, would benefit from clearer statutory differentiation between internal managerial limitations and external representative authority, stronger protection of bona fide third parties, recognition of apparent authority, and more explicit rules governing directors' liability in both joint-stock and cooperative companies.

Keywords: *Corporate Purpose, Managerial Authority, Ultra Vires Acts, Transaction Security, Joint-Stock Companies, Cooperative Companies, Comparative Company Law*

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1. Introduction

The legal consequences of acts undertaken by corporate directors beyond the scope of the company's purpose or beyond the limits of managerial

authority constitute one of the most persistent and theoretically complex issues in company law. The problem lies at the intersection of several foundational principles: the autonomy of the legal person, the allocation of managerial power, the protection of



shareholders and cooperative members, the stability of commercial transactions, and the legitimate expectations of third parties dealing with corporate representatives. A commercial company, once incorporated, acquires a legal personality distinct from that of its shareholders or members, and this personality provides the conceptual foundation for the attribution of rights, obligations, assets, and liabilities to the company itself rather than to the individuals participating in it (Saffar, 2016). Yet the practical exercise of corporate legal capacity necessarily occurs through natural persons, particularly directors and managers, whose acts may bind the company in its external relations. The resulting tension becomes particularly acute when such persons enter into transactions that exceed the company's stated object or violate restrictions imposed by statute, the articles of association, shareholder resolutions, internal regulations, or specific delegations of authority. Iranian company law has long grappled with this tension, particularly in relation to joint-stock companies and the interpretation of Article 118 of the Commercial Code, while the position of cooperative companies remains even less clearly articulated in legislation and legal doctrine (Eskini, 2022).

The corporate purpose traditionally performs several functions within the structure of company law. It identifies the field of economic activity for which the company has been formed, informs investors and members of the general destination of corporate capital, and provides a standard against which directors' conduct may be evaluated. In classical doctrine, the company's purpose was closely associated with the scope of its legal capacity, with the result that an act falling entirely outside that purpose could be treated as beyond the company's capacity itself (Pasban, 2010). This conception reflects an older understanding of the corporation as a specialized legal person possessing only those powers necessary for the achievement of its constitutive objectives. Modern commercial law, however, has gradually moved away from a rigid identification between corporate purpose and legal capacity, especially where such rigidity threatens the security of transactions with third parties. Contemporary scholarship increasingly distinguishes between the external legal capacity of the company and the internal authority of directors, recognizing that the company may remain bound by a transaction even when

its directors have violated internal restrictions or acted contrary to the corporate purpose (Isaee Tafreshi, 2016). Such a distinction is especially important in complex markets, where third parties cannot reasonably be expected to investigate every internal rule, resolution, or limitation governing corporate management before concluding a transaction.

The legal status of directors is central to this debate. Under an agency-based approach, directors derive their powers from the company and act as representatives whose authority is limited by the terms of their mandate. If the director acts outside that mandate, the act may fail to bind the principal unless ratified or otherwise validated under principles of apparent authority, estoppel, or protection of good-faith third parties. Iranian civil law concepts of agency and representation have historically influenced analyses of company directors, particularly because contractual representation provides an established conceptual framework for understanding acts performed by one person on behalf of another (Katouzian, 2016). Yet the analogy is imperfect. Directors are not merely private agents appointed to carry out isolated instructions; they constitute a statutory organ through which the company forms and expresses its commercial will. This organic conception has been increasingly emphasized in company law, particularly in systems where the board of directors is regarded as part of the corporate institutional structure rather than as an ordinary mandatary (Kaviani, 2014). The difference is not merely theoretical. If directors are treated primarily as organs, their external representative power may be regarded as inherent in their office and therefore less susceptible to internal restrictions being asserted against third parties. Iranian legal doctrine reflects this duality. Some analyses emphasize that the board derives its authority from the law and the company's constitutive arrangements, while others insist that the directors' powers should be understood through the broader institutional logic of legal personality and corporate governance (Sotoudeh Tehrani, 2017). Article 118 of the Iranian Commercial Code is particularly important because it grants the board broad authority to carry out acts necessary for managing the company, except for matters expressly reserved to the general meeting. The provision has been interpreted as favoring extensive managerial authority, but uncertainty remains concerning the effect of acts

performed outside the company's purpose and the enforceability of restrictions contained in the articles of association or resolutions of corporate organs (Eskini, 2015). The ambiguity becomes more serious when the interests of a third party conflict with those of shareholders. A transaction may be commercially legitimate and relied upon in good faith by an outsider, yet internally unauthorized. If the transaction is invalidated automatically, third parties bear substantial transactional risk. If it is always upheld, shareholders may effectively lose the protection provided by the corporate purpose and internal allocation of powers.

The distinction between internal and external effects therefore lies at the heart of the problem. Internal restrictions concern the relationship between directors and the corporation, including duties owed to shareholders or members and compliance with resolutions, the articles of association, statutory limitations, and fiduciary or managerial standards. External effects concern whether the transaction binds the company in relation to the third party. Modern corporate law frequently seeks to separate these two planes. A director may be internally liable for exceeding authority while the company remains externally bound toward a third party who acted in good faith (Pour Rashid, 2015). This separation promotes commercial certainty while preserving internal accountability. It also shifts the legal consequence of unauthorized management away from automatic invalidity and toward liability, indemnification, removal, or other internal corporate remedies.

The protection of third parties is grounded in the need for transaction security. Commercial activity depends upon predictability, speed, and confidence in corporate representation. Requiring counterparties to verify the full internal authority of directors for every transaction would raise transaction costs and undermine commercial efficiency. Economic analysis of company law demonstrates that legal rules governing managerial authority should minimize the costs of information acquisition and allocate risk to the party better positioned to control it (Tousi, 2014). The corporation is generally better placed than an external counterparty to supervise its directors, design internal approval mechanisms, disclose relevant restrictions, and seek recourse against managers who violate those restrictions. For this reason, a legal regime that protects

bona fide third parties while imposing internal liability upon directors may achieve a more efficient allocation of risk. At the same time, this protection cannot be absolute. Transactions involving fraud, collusion, actual knowledge of lack of authority, manifest conflicts of interest, or fundamental violations of mandatory law require differentiated treatment.

The issue assumes particular importance in cooperative companies because the cooperative structure rests upon principles that differ from those governing conventional capital companies. Cooperative enterprises are characterized by member participation, mutual benefit, democratic control, and the pursuit of economic objectives through collective organization. The legal status of directors in cooperatives must therefore be evaluated not only through the lens of managerial efficiency but also through the need to preserve member control and the cooperative purpose (Hassani, 2020). The absence of a detailed statutory framework governing the external consequences of unauthorized managerial acts in cooperatives creates uncertainty over whether rules developed for joint-stock companies can be applied by analogy. Cooperative directors may engage in transactions exceeding internal mandates, departing from the registered activities of the cooperative, or disregarding approvals that are required under the cooperative's statutes. The legal system must determine whether such violations invalidate the transaction, render it unenforceable against the cooperative, or merely generate internal liability.

Comparative law provides valuable guidance because different legal systems have developed distinct mechanisms to reconcile corporate autonomy with third-party protection. French law has historically moved from a strict conception of corporate purpose toward broader protection of third parties, particularly through doctrines associated with appearance, reliance, and statutory limitations on the opposability of internal restrictions (Aubry & Rau, 2022). German company law, by contrast, has developed a strong distinction between internal managerial authority and external representative power, emphasizing the institutional position of directors as corporate organs. Comparative commercial law demonstrates that despite doctrinal differences, both systems increasingly favor the security of external transactions while maintaining rigorous mechanisms of internal liability (Erfani, 2019). These

developments provide useful benchmarks for evaluating Iranian law and identifying possible reforms.

The problem is also connected with the broader civil-law distinction between legal capacity, authority, representation, and validity. Iranian civil-law scholarship differentiates the existence of a legal act from the authority of the person performing it on another's behalf, and this distinction offers important analytical tools for company law (E. Safaei, 2017). An unauthorized act need not necessarily be void in the same sense as an act contrary to mandatory law or public order. Instead, it may be suspended, relatively ineffective, capable of ratification, or binding under rules protecting reliance. Such conceptual distinctions become especially important where corporate acts are concerned because the relevant legal relationship is tripartite: the company, the director, and the third party. A rule directed solely toward the director-company relationship cannot automatically determine the position of the third party.

The present research seeks to clarify the legal nature and consequences of obligations undertaken outside the corporate purpose or beyond the limits of managerial authority in joint-stock and cooperative companies, with particular emphasis on the distinction between internal and external effects. It further aims to identify the deficiencies of Iranian law through comparison with French and German approaches and to formulate a coherent framework that simultaneously protects shareholders and cooperative members, preserves managerial accountability, and safeguards the legitimate expectations of third parties.

2. Conceptual and Theoretical Foundations of Acts Beyond Corporate Purpose and Managerial Authority

The analysis of obligations undertaken beyond corporate purpose or managerial authority requires an initial distinction between several concepts that are often conflated in company law. Corporate purpose refers to the economic, commercial, or institutional activities for which a company has been created and which are reflected in its constitutive documents. It is distinct from the company's broader legal personality, from the precise distribution of powers among corporate organs, and from limitations imposed upon individual directors. The legal personality of the company allows it to hold

rights and obligations independently of its members, and this legal autonomy provides the doctrinal basis for distinguishing acts of the company from acts of its directors in their personal capacity (Saffar, 2016). A company may therefore possess the legal capacity to enter into a transaction even when the particular director concluding that transaction lacks internal authority to do so. Conversely, a transaction may be approved by all directors but still raise questions concerning whether it lies outside the company's institutional object.

The corporate purpose performs both internal and external functions. Internally, it limits the legitimate deployment of corporate assets and defines the broad range of activities to which shareholders or members have consented. This is especially significant in joint-stock companies because shareholders commit capital on the assumption that management will operate within a particular line of business. A radical departure from the corporate object may therefore alter the risk profile of the investment and undermine the basis upon which shareholder consent was originally given. Iranian commercial-law doctrine has repeatedly emphasized that the object clause is not merely descriptive but contributes to the definition of the company's sphere of activity and to the assessment of directors' conduct (Eskini, 2022). Externally, however, the significance of the corporate purpose is more controversial. If every transaction outside the object clause were automatically treated as invalid, counterparties would be required to scrutinize corporate constitutions and evaluate whether each transaction falls within a sometimes broadly drafted purpose. Such a rule would undermine commercial certainty and could produce disproportionate consequences.

The concept of managerial authority must also be divided into external representative authority and internal decision-making competence. The former concerns the legal capacity of directors to bind the company toward outsiders, whereas the latter concerns whether the directors complied with internal corporate rules. This distinction is indispensable because a director may possess external authority to sign a contract even though internal rules required prior board approval or authorization by the general meeting. The failure to obtain internal approval may amount to a breach of duty without necessarily affecting the validity of the external

contract. Iranian scholarship has increasingly recognized that the powers of directors cannot be analyzed solely through the categories of ordinary agency, because company directors act within a legal structure governed by mandatory statutory rules and institutional competences (Kaviani, 2014). The board's authority is therefore simultaneously statutory, organizational, and representative.

The classical agency theory remains influential because it provides a familiar framework for understanding the relationship between a company and those who act in its name. Under the agency model, the director is viewed as acting for the corporation, and the binding effect of the act depends on whether the director remains within the scope of authority. Civil-law principles concerning mandate and representation thus appear relevant, particularly when a director exceeds expressly delegated powers (Katouzian, 2016). Yet corporate management differs from contractual agency in important respects. Directors are appointed through statutory corporate mechanisms, exercise continuing managerial powers, and participate in forming the company's will rather than merely communicating a pre-existing will. Accordingly, the organic theory conceptualizes directors as constitutive organs of the corporation. Under this model, their acts are in a meaningful sense acts of the company itself, provided they are undertaken in an official capacity and within the general sphere of corporate representation.

The organic theory provides a stronger doctrinal foundation for protecting third parties because it separates the existence of representative power from restrictions governing the internal exercise of that power. German legal thinking has been particularly influential in developing this distinction, and comparative studies frequently contrast this institutional approach with more mandate-oriented models (Erfani, 2019). When external authority is defined by law and attached to corporate office, internal limitations are ordinarily incapable of restricting the rights of outsiders who reasonably rely upon the director's official position. The company remains bound externally, while the director may be liable internally for violating instructions or exceeding authorized limits. This structure creates a clear allocation of risk and reduces the burden on third parties.

The theory of apparent authority provides another mechanism for protecting legitimate reliance. Even where a representative lacks actual authority, a company may be bound if its conduct created a reasonable appearance that the representative possessed the necessary power. French private law has developed sophisticated doctrines regarding appearance and reliance, particularly where the represented person has contributed to the creation of a misleading but reasonable appearance of authority (Aubry & Rau, 2022). In the corporate context, the public position of a director, the company's prior dealings, the use of corporate documents, or the absence of disclosed restrictions may justify a third party's reliance. Apparent authority therefore serves as a corrective doctrine in cases where strict application of internal authority rules would generate unfair or commercially disruptive results.

Good faith occupies a central position in this analysis. A third party who is unaware of internal restrictions and has no reasonable basis to suspect a lack of authority presents a stronger claim to protection than a person who knowingly participates in the circumvention of corporate rules. General civil-law doctrine recognizes the importance of good faith and legitimate reliance in assessing legal relations, even where such principles are not always formulated as explicit statutory rules (S. H. Safaei, 2017). In company law, the good-faith standard helps distinguish ordinary transactions from collusive or abusive ones. However, the standard must be carefully formulated. If third parties are deemed to have constructive knowledge merely because corporate documents are publicly registered, protection may become illusory. Modern commercial practice generally resists imposing on counterparties a broad duty to investigate every internal restriction that might be discoverable through registration.

Another important distinction is that between acts beyond the corporate purpose and acts beyond the director's authority. An ultra vires act in the strict sense concerns the relationship between the transaction and the company's object, while an unauthorized act concerns the relationship between the transaction and the director's competence. These two categories may overlap but should not be treated as identical. A director might enter into a transaction fully within the company's purpose but above a monetary threshold requiring

board approval. Conversely, the entire board might unanimously approve a transaction outside the stated purpose. The first case concerns authority; the second concerns object. Iranian scholarship has sometimes treated the two problems together, but analytical clarity requires separate treatment because their legal consequences may differ (Pasban, 2010).

The issue of corporate legal capacity further complicates the ultra vires doctrine. One view holds that a company's legal capacity is limited by its purpose, so that acts falling outside that purpose are legally impossible or invalid. Another view regards the company as possessing general private-law capacity comparable to that of a natural person, while the purpose merely limits the legitimate exercise of managerial powers. The latter approach is more compatible with modern commercial realities because it avoids invalidating transactions on purely internal grounds. Iranian civil-law doctrine recognizes that legal personality is a technique for attributing rights and duties to collective entities, and nothing inherent in the concept necessarily requires a narrow subject-matter limitation on legal capacity (Langroudi, 2020). From this perspective, the corporate purpose should primarily structure internal governance rather than operate as an absolute external limit.

The choice between these approaches has significant practical consequences. If a transaction outside the corporate purpose is void, neither subsequent ratification nor good-faith reliance may be sufficient to save it, depending on the legal system's understanding of nullity. If the transaction is merely unauthorized, it may be capable of ratification. If it remains binding on the company but constitutes a breach of duty by directors, the third party is protected while internal accountability is preserved. Iranian company-law commentary has generally favored interpretations that protect commercial security where statutory language permits such a result (Saghri, 2014). This tendency reflects the recognition that corporate law must serve the needs of markets rather than merely reproduce formalistic categories derived from classical private law.

The internal function of restrictions should nonetheless be taken seriously. Directors are entrusted with corporate assets and are required to act within the framework established by law, the articles of association, and properly adopted resolutions. Broad external authority should not become a license for managerial

arbitrariness. Where directors exceed their authority, they may be required to compensate the company for resulting losses, return benefits obtained through unauthorized acts, or face removal and other governance sanctions. The liability of directors thus becomes the principal mechanism for reconciling broad external authority with internal discipline (Eskini, 2015). This framework is especially appropriate where the third party has acted in good faith and the company itself was better positioned to prevent the breach.

Economic analysis strengthens this position by focusing on risk allocation. The company can design internal control systems, impose signature requirements, establish board committees, purchase managerial liability insurance, and supervise directors. A third party, by contrast, may lack access to internal information and would incur substantial costs if required to verify managerial authority for each transaction (Tousi, 2014). Assigning the risk of internal irregularity to the company therefore often minimizes total transaction costs. However, where the third party possesses actual knowledge of the restriction or collaborates with the director to evade corporate rules, the informational advantage shifts, and legal protection becomes less justified.

The same conceptual issues appear in cooperatives, though the underlying policy considerations are partially different. Cooperatives combine enterprise activity with democratic member participation, and their directors are expected to pursue not merely profitability but the collective interests of members in accordance with cooperative principles (Hassani, 2020). Consequently, internal restrictions may reflect a particularly strong participatory interest. Nevertheless, allowing every breach of cooperative governance rules to invalidate transactions would expose outsiders to excessive uncertainty. A balanced approach should therefore preserve the distinction between internal managerial accountability and external transactional validity while recognizing certain categories of fundamental acts that may require member authorization.

The theoretical foundation most capable of reconciling these considerations is a differentiated model. The company should generally be recognized as possessing broad legal capacity; directors should possess externally effective representative authority derived from their statutory corporate office; internal restrictions should

primarily regulate the director-company relationship; and third parties should be protected unless they acted in bad faith, colluded with the director, or participated in a transaction that was manifestly incompatible with mandatory corporate rules. Such a framework neither eliminates the corporate purpose nor renders managerial restrictions meaningless. Instead, it relocates their primary operation from the external validity of transactions to the internal sphere of governance and liability.

3. Legal Effects of Acts Beyond Purpose and Authority in Iranian Joint-Stock and Cooperative Companies

The Iranian legal framework governing directors of joint-stock companies is principally shaped by the Commercial Code and, in particular, by Article 118, which has traditionally been read as granting the board of directors broad managerial powers except in matters expressly reserved to the general meeting. The wording of the provision is significant because it suggests that the board is not confined to a narrow list of enumerated powers but is vested with general authority to conduct the company's affairs. Iranian commercial-law scholars have therefore described the board as the principal managerial organ of the joint-stock company, possessing all powers necessary for the conduct of corporate business subject to statutory exceptions ([Sotoudeh Tehrani, 2017](#)). At the same time, Article 118 has generated persistent debate concerning the legal effect of restrictions imposed through the articles of association or shareholder resolutions and the extent to which the corporate purpose itself constrains directors in relation to third parties.

The starting point in Iranian law is that directors must act within the corporate purpose. The object clause defines the economic activities for which the company was constituted and therefore provides an important benchmark for determining whether a particular transaction falls within the legitimate sphere of managerial activity. A transaction directly related to the stated purpose ordinarily presents no difficulty. The problem arises when the relationship between the transaction and the corporate object is indirect, ancillary, or entirely absent. Because modern business activities frequently involve financing, guarantees, investments, asset transfers, and strategic arrangements that are not

expressly listed in corporate constitutions, an excessively narrow interpretation of purpose could impede ordinary management ([Eskini, 2022](#)). For this reason, the company's purpose should not be interpreted mechanically. Acts that are reasonably incidental or instrumental to the achievement of the corporate object should generally be regarded as falling within managerial competence.

Article 118 also raises the question whether limitations imposed on directors through the articles of association may be asserted against third parties. Iranian doctrine has often distinguished restrictions established by statute from those created by internal corporate instruments. Statutory restrictions are generally considered more significant because they define the mandatory allocation of competence among corporate organs. By contrast, internal restrictions may primarily govern the relationship between directors and the company ([Isaee Tafreshi, 2016](#)). For example, the articles of association might require board approval for contracts exceeding a particular value, or a shareholders' resolution might prohibit certain investments. If a director violates such a restriction, the company may have a claim against the director. Whether the company can also deny liability toward an innocent third party is a separate question.

The dominant policy consideration favors limiting the external effect of internal restrictions. A third party dealing with a formally authorized director should normally be entitled to rely on the director's corporate position, particularly where the transaction falls within the ordinary commercial activities of the company. Requiring third parties to verify compliance with every internal resolution would undermine commercial security and impose disproportionate informational burdens ([Pour Rashid, 2015](#)). In this respect, Article 118 may be interpreted as supporting a broad external authority of the board while leaving internal restrictions to operate within the company. This reading is consistent with the institutional conception of the board and with the commercial need to protect legitimate reliance.

The situation is less clear where the transaction falls outside the corporate purpose itself. Some doctrinal approaches treat the purpose as an external limit on legal capacity, with the result that ultra vires acts cannot bind the company. Others distinguish between the company's general legal capacity and the internal limits of

managerial authority. Pasban's analysis of corporate capacity and directors' powers highlights the importance of this distinction and the difficulty of reducing both questions to a single doctrinal category (Pasban, 2010). If the company is recognized as possessing broad legal capacity, the ultra vires act should not automatically be void. Instead, the relevant inquiry becomes whether the director was authorized to undertake the act and whether the third party deserves protection.

Iranian civil law provides analogies that can assist in resolving this issue. Rules concerning unauthorized representation distinguish between the absence of authority and the validity of the underlying transaction, allowing certain acts to become effective through ratification (Katouzian, 2016). Yet the direct transplantation of these rules into company law is problematic because corporate directors are statutory organs, not occasional representatives. Nevertheless, the distinction between authority and validity remains useful. It suggests that a managerial violation should not necessarily be equated with substantive invalidity of the transaction itself.

The internal liability of directors provides the principal corrective mechanism. Directors who disregard the company's purpose, violate the articles of association, ignore mandatory approval procedures, or expose the company to unjustified risks may incur civil liability for resulting losses. Iranian commercial-law literature has treated directors' liability as arising from violation of statutory obligations, corporate rules, and duties associated with responsible management (Eskini, 2015). Liability may therefore arise even where the transaction remains binding upon the company. This separation is important because it prevents the company from shifting the consequences of its internal governance failures onto innocent outsiders while preserving effective remedies against managers.

The nature of the director's fault will often influence the internal consequences. A minor procedural irregularity may justify a different response from a deliberate act undertaken for personal benefit or in conscious disregard of shareholder interests. General principles of civil liability and corporate governance support differentiation according to the seriousness of the breach, the foreseeability of loss, causation, and the director's degree of fault (E. Safaei, 2017). Where several directors participated in the decision, questions of

collective and individual liability may also arise. Board decision-making should not automatically immunize individual directors who knowingly support unlawful or unauthorized acts.

Third-party good faith should play a decisive role in determining external consequences. A person who had no knowledge of the internal restriction and could reasonably rely on the director's apparent corporate authority presents a compelling case for protection. By contrast, a third party who knew that the director lacked authority, participated in circumvention of the board, or conspired to prejudice the company should not benefit from transaction-security principles. Iranian legal doctrine concerning good faith, abuse of right, and fraudulent conduct supports such distinctions even where detailed statutory rules are lacking (S. H. Safaei, 2017). The difficulty lies in determining whether mere access to registered documents should be treated as knowledge. A modern commercial approach should reject broad constructive-knowledge presumptions, because public registration does not necessarily mean that counterparties have actual awareness of every internal clause.

The distinction between restrictions deriving from law and those deriving from corporate documents should also be maintained. Where the law expressly reserves a decision to the general meeting, the board cannot normally circumvent that allocation of competence. Examples include fundamental structural matters such as amendments to the articles of association, capital changes, and dissolution. Such rules protect the institutional balance of the company and may carry stronger external implications than ordinary internal restrictions. Iranian company-law scholarship recognizes that mandatory statutory competences cannot simply be neutralized by managerial practice (Kaviani, 2014). Nevertheless, even in such cases, careful analysis is required to determine whether the external transaction itself should be invalidated or whether different remedies can preserve both statutory governance and third-party security.

The situation of cooperative companies is more complex because their management is shaped by both general corporate concepts and specific cooperative principles. Cooperative law emphasizes democratic control, equality of members, and collective participation in decision-making. Directors therefore operate within a

governance structure that may impose significant constraints on managerial autonomy (Hassani, 2020). The cooperative's statutes commonly define the scope of activities, the authority of the board, the role of the general assembly, and conditions for major transactions. Yet the legislation does not always provide clear answers concerning the external effect of violations of these limitations.

The temptation to apply joint-stock company rules directly to cooperatives should be resisted where the institutional differences are material. Joint-stock companies are primarily capital-oriented entities, whereas cooperatives are membership-oriented organizations. This distinction may justify stronger internal oversight in cooperatives and greater emphasis on the general assembly in major decisions. However, it does not follow that third parties should bear the risk of every internal irregularity. The cooperative itself selects its directors, establishes internal controls, and benefits from external transactions. Accordingly, many of the policy considerations supporting third-party protection in joint-stock companies apply equally to cooperatives.

A cooperative director may exceed authority in several ways. The director may conclude a contract beyond a monetary ceiling, enter into a transaction requiring general-assembly approval, depart from the cooperative's registered activities, dispose of essential assets, provide guarantees unrelated to cooperative interests, or enter into a contract involving conflicts of interest. The legal consequences should not be uniform. Ordinary breaches of internal competence should primarily generate internal liability, whereas transactions involving fundamental changes to the cooperative's legal structure or fraudulent collusion may justify stronger consequences. Such differentiation is consistent with the broader principle that corporate law should calibrate remedies according to the nature of the violated rule rather than relying on a single category of invalidity.

The cooperative context also underscores the importance of member protection. Because members may simultaneously be users, workers, producers, or beneficiaries of the cooperative, unauthorized managerial conduct can directly affect their economic interests. The board should therefore be accountable not merely for profitability but for adherence to the cooperative purpose and democratic governance

structure (Hassani, 2020). Nevertheless, protecting members does not require destabilizing transactions with innocent outsiders. Internal remedies such as director liability, dismissal, restitution, and governance reform may often protect members more effectively than external invalidation.

Another important issue concerns ratification. Where a director has exceeded internal authority but the transaction is otherwise lawful, subsequent approval by the competent corporate organ may cure the defect. Ratification is consistent with civil-law principles and preserves transactional continuity (Katouzian, 2016). In joint-stock companies, ratification may be given by the board or general meeting depending on the nature of the original restriction. In cooperatives, the general assembly may have a similar role where member approval was initially required. However, ratification should not validate acts prohibited by mandatory law or transactions undertaken through fraud.

The allocation of the burden of proof is also important. If a company seeks to avoid a transaction on the ground that the third party knew of the director's lack of authority, the company should ordinarily bear the burden of establishing such knowledge. This approach is consistent with transaction security and prevents companies from using undisclosed internal restrictions opportunistically after a transaction becomes unfavorable. A presumption of third-party good faith would therefore promote stability while allowing the company to rebut that presumption with evidence of actual knowledge or collusion.

The deficiencies of Iranian law arise largely from the absence of a systematic distinction between internal and external effects. Article 118 provides an important foundation but does not fully resolve the relationship among legal capacity, corporate purpose, internal authority, statutory competences, and third-party protection. The cooperative legislation contains even fewer explicit rules addressing these questions. Iranian law would therefore benefit from a legislative framework stating that internal restrictions on managerial authority are generally ineffective against bona fide third parties, while directors remain accountable internally for violations. For ultra vires transactions, the law should clarify that departure from corporate purpose does not automatically nullify a transaction unless mandatory law or a fundamental

structural rule is violated. Such clarification would reduce uncertainty, align corporate law with modern commercial practice, and provide a coherent basis for judicial decision-making.

4. Comparative Analysis of French and German Law and a Proposed Framework for Iranian Law

Comparative analysis demonstrates that the modern law of managerial authority has increasingly moved away from rigid *ultra vires* doctrines and toward protection of third-party reliance. French law provides a particularly instructive example because it historically combined civil-law concepts of representation with a progressively stronger emphasis on transactional security. Classical French private law recognized the importance of mandate and the limits of representative authority, but commercial law gradually developed mechanisms to protect those who reasonably relied on the appearance of authority (Aubry & Rau, 2022). The theory of appearance became especially significant where the principal's conduct, institutional arrangements, or outward representation created a legitimate belief that the purported representative possessed authority.

In the corporate sphere, French law has increasingly distinguished between internal limitations on directors and the external effectiveness of their acts. The general tendency is to prevent companies from invoking internal restrictions against third parties who acted in good faith. This approach reflects a broader policy choice in favor of commercial certainty. The articles of association may regulate the internal distribution of managerial powers, but their provisions should not ordinarily undermine the security of external transactions. Comparative scholarship on French corporate law highlights the importance of this distinction, particularly in relation to the powers of corporate officers and the protection of external counterparties (Pour Rashid, 2015).

The French approach also demonstrates the declining external significance of the corporate object. Historically, acts outside the corporate purpose could raise serious questions about capacity. Modern law, however, generally favors binding the company toward third parties while preserving internal responsibility where directors depart from the company's object. The company's purpose continues to matter for corporate governance, but it no longer functions as an automatic basis for invalidating transactions. This evolution

reflects the need to prevent internal corporate arrangements from destabilizing commercial dealings. The theory of appearance reinforces this tendency by protecting reasonable reliance. Where a person occupies a position normally associated with authority and the company has contributed to that appearance, third parties may be entitled to rely on it. The concept is especially useful where formal authority is ambiguous or where internal irregularities are not visible externally (Aubry & Rau, 2022). The doctrine does not protect fraud or manifest bad faith, but it limits the ability of companies to benefit from appearances they themselves created.

German law reaches a similar practical result through a somewhat different doctrinal path. The German conception of directors as organs of the corporation leads to a sharp distinction between managerial competence and representative power. Internal limitations may regulate how directors should exercise their functions, but the external power to represent the company is generally defined by law and is not easily restricted against third parties. Comparative commercial-law literature identifies this distinction as one of the central features of German corporate organization (Erfani, 2019). The company is therefore protected internally through director liability and governance mechanisms rather than by permitting internal restrictions to defeat third-party rights.

This organic model offers conceptual clarity. Rather than asking whether the director possessed a contractual mandate for each act, German law focuses on whether the person was legally vested with representative capacity by virtue of corporate office. Once that external capacity exists, internal instructions normally concern the director-company relationship. This distinction substantially reduces transactional uncertainty because outsiders need not investigate internal corporate procedures. At the same time, directors remain subject to rigorous duties and may incur liability for unauthorized or harmful decisions.

The German approach is especially valuable for Iranian law because Article 118 already contains elements compatible with an organic conception. The board of a joint-stock company is established by law as the principal managerial organ and possesses broad statutory powers. Treating those powers as externally effective while distinguishing internal restrictions would

therefore not require a complete doctrinal departure from Iranian law. Rather, it would clarify the existing structure and align it with the institutional nature of the board (Eskini, 2022).

The comparison between France and Germany reveals convergence despite theoretical differences. French law places greater emphasis on appearance and protection of reliance, while German law emphasizes the statutory character of external representative power. Both systems, however, seek to prevent undisclosed internal limitations from destabilizing transactions. This convergence supports a broader principle: corporate governance rules should generally operate internally unless the third party knew of the violation or the transaction contravened a mandatory rule of company law.

A comparative framework should also distinguish several categories of restrictions. The first category consists of ordinary internal limitations, such as monetary ceilings, approval procedures, internal delegations, or board instructions. These should rarely affect third parties. The second category includes restrictions associated with the corporate purpose. These should primarily operate internally, although a third party's actual knowledge of a manifest departure from purpose may justify different treatment. The third category consists of mandatory statutory allocations of competence concerning fundamental corporate decisions. These deserve stronger protection because they define the constitutional structure of the company. The fourth category involves fraud, collusion, self-dealing, or deliberate abuse, where third-party protection should be reduced or denied.

Iranian law currently lacks sufficiently precise differentiation among these categories. Commercial-law doctrine recognizes the broad powers of directors but remains divided over the effect of acts beyond purpose or authority (Saghri, 2014). A comparative reform should therefore avoid relying on a single abstract formula. Instead, the law should classify restrictions according to their source, purpose, and relationship to third-party expectations.

The proposed framework for Iranian joint-stock companies should begin by affirming the company's broad legal capacity. The legal personality of the company should not be narrowly confined to the wording of its object clause, because such a limitation is

inconsistent with modern commercial activity and creates unnecessary uncertainty (Saffar, 2016). The corporate purpose should remain relevant for internal governance, director liability, and shareholder protection, but should not ordinarily determine the external validity of transactions.

Second, the law should expressly distinguish between external representative power and internal managerial authority. Directors should possess external authority by virtue of their statutory position, while the articles of association and corporate resolutions should regulate the internal exercise of that authority. This model would provide a clear doctrinal basis for preserving the validity of transactions while holding directors accountable for internal violations.

Third, Article 118 should be clarified to provide that restrictions on directors' powers contained in the articles of association or corporate resolutions are not enforceable against third parties acting in good faith. Such a rule would codify a principle already supported by commercial logic and comparative practice. It would also prevent companies from invoking undisclosed internal arrangements opportunistically after a transaction has been concluded.

Fourth, the concept of good faith should be defined narrowly enough to avoid excessive uncertainty. A third party should lose protection where actual knowledge of the restriction is established or where the circumstances demonstrate collusion or deliberate evasion. Mere availability of corporate documents should not automatically amount to knowledge. Otherwise, the protective rule would be undermined by a broad constructive-knowledge doctrine.

Fifth, the law should recognize apparent authority as a supplementary principle. Where the company, through its conduct, institutional arrangements, or prior dealings, creates a reasonable appearance of authority, it should bear the consequences of that appearance toward an innocent third party. This principle would be particularly useful in cases involving delegated managers, branch directors, or officers whose exact statutory status may be unclear. The theory of appearance developed in French law offers a persuasive comparative foundation for such protection (Aubry & Rau, 2022).

Sixth, mandatory statutory competences should remain protected. Transactions involving matters exclusively reserved to the general meeting should not automatically

receive the same treatment as ordinary managerial acts. However, even here, the law should carefully distinguish the internal corporate decision from the external transaction implementing it. In some cases, internal invalidity may coexist with external protection, while in others the mandatory character of the rule may justify invalidation. The legislature should identify these situations expressly rather than leaving them to inconsistent judicial interpretation.

Seventh, director liability should be strengthened as the principal internal enforcement mechanism. If the company remains bound by an unauthorized transaction, directors who violated their duties should compensate the company for resulting losses where the elements of liability are established. Iranian corporate law already recognizes managerial liability, but greater clarity is needed concerning standards of care, conflicts of interest, collective board responsibility, and allocation of damages (Eskini, 2015). Strengthening internal liability would make broader external authority more acceptable because shareholders would retain effective remedies.

The same principles should be adapted to cooperatives, though not mechanically transplanted. Cooperative legislation should expressly identify which decisions require general-assembly approval and should distinguish those fundamental decisions from ordinary managerial acts. Directors should possess sufficient external authority to ensure transaction security, but internal duties should reflect the cooperative's member-centered purpose. Unauthorized departures from member-approved policies should therefore trigger internal liability even where the external transaction remains binding.

The proposed cooperative framework should also recognize that the cooperative's purpose carries special importance. Unlike many capital companies, a cooperative's activities are closely connected to the collective needs of its members. An unauthorized transaction may therefore undermine not only investment expectations but also the institutional identity of the cooperative. Nevertheless, this concern is better addressed through internal governance and director accountability than through routine invalidation of external transactions.

Comparative analysis also supports a more sophisticated remedy structure. Invalidity should be reserved for

transactions violating mandatory law, public order, fraudulent collusion, or fundamental structural rules. Relative unenforceability may be appropriate where the third party had actual knowledge of lack of authority. Ratification should remain available where the defect concerns internal competence. Director liability should address unauthorized but externally effective acts. Removal, restitution, and corporate governance remedies should supplement damages where necessary. Economic considerations support this differentiated model because it allocates the risk of internal irregularity to the party best positioned to manage it. The company can supervise directors, disclose restrictions, design approval systems, and insure against managerial misconduct (Tousi, 2014). Third parties cannot efficiently monitor internal corporate governance in every transaction. A legal system that protects reasonable reliance therefore reduces transaction costs and encourages commercial activity without abandoning internal accountability.

The proposed model also promotes doctrinal coherence across joint-stock and cooperative companies. The external protection of third parties should rest on common principles of legal personality, representation, good faith, and commercial security, while internal liability should be tailored to the specific governance structure of each company type. Joint-stock companies require protection of shareholders and capital; cooperatives require protection of members and democratic participation. These internal differences need not produce radically different external rules.

Ultimately, the comparative experience of France and Germany demonstrates that the central problem is not whether corporate restrictions should exist but where their legal consequences should operate. Modern company law increasingly locates those consequences inside the corporation rather than in the external transaction. This approach preserves the significance of corporate purpose and managerial authority while preventing them from becoming sources of commercial instability. Iranian law can adopt the same logic through clarification of Article 118, development of good-faith protection, recognition of apparent authority, strengthening of director liability, and enactment of specific rules for cooperative management.

5. Conclusion

The legal effects of obligations undertaken beyond the scope of corporate purpose or managerial authority reveal a fundamental tension within company law between internal governance and external transaction security. On the one hand, corporate purpose, statutory allocations of competence, articles of association, general-meeting resolutions, and internal managerial rules are necessary to preserve shareholder and member control over the enterprise. On the other hand, commercial transactions depend upon the ability of third parties to rely upon the apparent and institutional authority of corporate directors without conducting an exhaustive investigation into the internal governance of the company. A coherent legal system must therefore protect both dimensions without allowing either one to eliminate the other.

The distinction between acts outside the corporate purpose and acts outside managerial authority is essential. These categories may overlap, but they raise different legal questions. The first concerns the relationship between the transaction and the company's institutional object, while the second concerns the relationship between the transaction and the director's competence. Treating both as automatically invalid obscures the difference between legal capacity, representative authority, and internal governance. Modern company law requires a more differentiated approach capable of identifying the precise rule violated and determining whether its purpose is internal discipline, protection of members, protection of creditors, or preservation of the constitutional structure of the company.

The company should generally be understood as possessing broad legal capacity independent of the precise wording of its corporate purpose. The purpose clause remains legally significant, but its primary function should be internal. It defines the general economic orientation of the enterprise, structures the expectations of shareholders or cooperative members, and provides a standard for evaluating managerial conduct. It should not ordinarily operate as an absolute external limitation capable of invalidating transactions with third parties who acted in good faith.

The same distinction should govern managerial authority. Directors of joint-stock companies should be

regarded as corporate organs possessing external representative power by virtue of their statutory office. Internal limitations contained in the articles of association, shareholder resolutions, board instructions, or internal regulations should primarily regulate the relationship between directors and the company. A breach of those restrictions should expose directors to internal consequences, including civil liability, removal, restitution, or other governance remedies, without automatically depriving third parties of the benefit of the transaction.

This approach is particularly important in relation to Article 118 of the Iranian Commercial Code. The provision should be clarified so that the broad managerial authority of the board is explicitly separated from internal restrictions upon the exercise of that authority. The law should state that ordinary limitations imposed by corporate instruments cannot be asserted against a bona fide third party. Such clarification would reduce judicial uncertainty, strengthen confidence in corporate transactions, and prevent companies from using internal irregularities as a means of escaping unfavorable contractual obligations.

At the same time, the protection of third parties should not be absolute. A party who knew that the director lacked authority, deliberately participated in circumvention of corporate procedures, colluded with management, or engaged in fraudulent conduct should not benefit from the principle of transaction security. Actual knowledge and collusion should therefore constitute clear exceptions. The law should also recognize that certain mandatory statutory rules protecting the fundamental constitutional structure of the company may justify stronger consequences than ordinary internal restrictions.

The role of good faith should consequently become more explicit in Iranian company law. A third party dealing with a formally authorized director should ordinarily be presumed to act in good faith unless the company proves actual knowledge of the restriction or circumstances demonstrating bad faith. Mere registration of corporate documents should not automatically create constructive knowledge of every internal clause. Such a rule would reflect the realities of modern commerce and allocate informational burdens more efficiently.

The doctrine of apparent authority should also be recognized more clearly. Where a company creates or

tolerates an appearance that a director or manager possesses particular authority, it should normally bear the consequences of that appearance toward a third party who reasonably relied upon it. This principle is especially important for large companies with complex organizational structures, delegated managers, branches, specialized officers, and recurrent commercial relationships. It places the risk of misleading corporate appearances on the enterprise that created or maintained them rather than on outsiders lacking access to internal information.

The proposed model must also strengthen internal accountability. Broader external authority is legitimate only if directors remain responsible for unauthorized conduct within the company. Directors who violate corporate purpose, disregard required approvals, exceed managerial limits, or expose the enterprise to unjustified risks should be required to compensate resulting losses where the necessary elements of liability are established. Internal liability should therefore become the primary mechanism for reconciling managerial flexibility with shareholder and member protection.

Cooperative companies require a similar but institutionally adapted framework. Their distinctive features, including democratic member control, mutual purpose, and participation in governance, justify strong internal safeguards. The general assembly should retain authority over fundamental decisions affecting the identity, purpose, or essential assets of the cooperative. Nevertheless, external transaction security requires that bona fide third parties be able to rely upon directors acting within the apparent scope of their corporate office. The cooperative should therefore remain bound in ordinary unauthorized transactions, while directors incur internal liability for violating member-approved limitations.

The distinction between internal and external effects offers the most coherent basis for reforming both joint-stock and cooperative company law. Internal effects concern whether directors have complied with statutory duties, corporate purposes, articles of association, resolutions, and governance procedures. External effects concern whether the company is bound toward the third party. These questions should not be answered automatically in the same way. A transaction may be externally valid while internally wrongful, and

recognizing this possibility is essential to modern corporate law.

Legislative reform should therefore establish a clear hierarchy of consequences. Ordinary violations of internal authority should not affect third parties acting in good faith. Transactions outside the corporate purpose should generally remain effective externally unless accompanied by knowledge, collusion, fraud, or violation of a mandatory structural rule. Fundamental decisions reserved by law to the general meeting should receive stronger protection, but their external effects should be expressly defined. Ratification should remain available where the defect concerns internal authorization rather than mandatory illegality. Director liability should operate as the principal remedy for internal violations that produce externally valid obligations.

Such a reform would simultaneously advance commercial certainty, corporate accountability, shareholder protection, and cooperative democracy. It would also align Iranian company law with the broader evolution of modern corporate systems, which increasingly reject formalistic invalidity in favor of differentiated remedies based on the source and purpose of the violated rule. The central objective should not be to weaken internal corporate restrictions, but to ensure that their consequences are located in the legal relationship where they can operate most effectively.

A balanced legal model therefore requires recognition of the autonomy of the corporate legal person, the institutional authority of directors, the legitimate reliance of third parties, and the internal rights of shareholders and cooperative members. The law should protect transactions where outsiders reasonably rely upon corporate authority, while preserving strong remedies against directors who abuse or exceed their powers. In this way, the competing values of corporate self-governance and security of transactions can be reconciled within a coherent and predictable legal framework.

Authors' Contributions

Authors contributed equally to this article.

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In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

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