

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

Naser. Salimzadeh¹, Yousef. Molaei^{2*}, Mehdi. Sheidaei Gorchin²

¹ Student, Department of Law, Ur.C., Islamic Azad University, Urmia, Iran

² Department of Law, Ur.C., Islamic Azad University, Urmia, Iran

* Corresponding author email address: Yousef.molaei@iau.ac.ir

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EDITOR: Asghar Jafari Associate Professor, Department of Psychology, Kashan University, Iran. Email: as_jafari@sbu.ac.ir				
REVIEWER 1: Asghar Jafari Associate Professor, Department of Psychology, Kashan University, Iran. Email: as_jafari@sbu.ac.ir				
REVIEWER 2: Asghar Jafari Associate Professor, Department of Psychology, Kashan University, Iran. Email: as_jafari@sbu.ac.ir				

1. Round 1

1.1. Reviewer 1

Reviewer:

The paragraph stating that “The corporate purpose traditionally performs several functions within the structure of company law” requires a more rigorous conceptual distinction between corporate purpose, legal capacity, corporate interest, and the scope of directors’ powers. At present, these concepts are discussed in close proximity and occasionally appear interchangeable. The authors should define each concept independently and explain their legal relationship, especially because the article’s main thesis depends on distinguishing an act outside the company’s purpose from an act within the company’s capacity but outside a director’s internal authority.

The discussion of Article 118 in the Introduction, particularly the sentence “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,” should be legally refined. The manuscript should reproduce or closely analyze the operative elements of Article 118 and distinguish restrictions arising directly from statute from restrictions established through the articles of association or resolutions of the general meeting. The current discussion risks presenting all limitations as functionally equivalent, while their legal consequences toward third parties may differ substantially.

The paragraph beginning with “The legal status of directors is central to this debate” presents agency theory and organic theory as the two principal theoretical alternatives, but the analysis remains largely descriptive. The authors should identify the doctrinal criteria by which one theory produces different legal consequences from the other. In particular, the manuscript should explain whether acceptance of the organic theory necessarily entails the external enforceability of directors’ acts despite internal restrictions and whether agency concepts retain residual relevance for delegated officers or managers below the board level.

The manuscript should more carefully analyze the legal position of the board collectively versus individual directors. The sentence “A third party dealing with a formally authorized director should normally be entitled to rely on the director’s corporate position” is potentially overbroad because the authority to represent a joint-stock company may depend on board resolutions, authorized signatories, or statutory requirements governing representation. The article should distinguish the managerial powers of the board as a corporate organ from the external signature authority of individual directors, managing directors, or other corporate officers.

The paragraph stating that “The internal liability of directors provides the principal corrective mechanism” should specify the elements of such liability. The manuscript should discuss the required breach, standard of care, causation, recoverable loss, possible joint and several liability, defenses, and the identity of the claimant. Without explaining these elements, the proposal to shift unauthorized conduct from an external validity problem to an internal liability problem remains incomplete from a remedial perspective.

Authors revised the manuscript and uploaded the document.

1.2. Reviewer 2

Reviewer:

In the second section, the sentence “The corporate purpose performs both internal and external functions” should be followed by a more systematic taxonomy of those functions. The manuscript would benefit from separating the protective function toward shareholders or members, the informational function toward third parties, the governance function in evaluating directors’ conduct, and the possible capacity-limiting function. Without this classification, later conclusions that corporate purpose should operate “primarily internally” appear normatively plausible but insufficiently derived from the earlier doctrinal analysis.

The paragraph discussing the ultra vires doctrine should more carefully distinguish absolute nullity, relative invalidity, non-opposability, unenforceability, suspension pending ratification, and director liability. These are legally distinct consequences, yet the manuscript sometimes uses “invalid,” “void,” and “unauthorized” in a broad manner. Since the article is expressly concerned with the “legal effects” of conduct beyond purpose and authority, it should provide a precise remedial taxonomy and specify which consequence is applicable under which category of defect.

The sentence “A director might enter into a transaction fully within the company’s purpose but above a monetary threshold requiring board approval” is a useful example and should be developed into a structured analytical matrix. The authors should compare at least four situations: acts within purpose but beyond internal authority, acts beyond purpose but approved internally, acts contrary to mandatory statutory competence rules, and acts undertaken with third-party knowledge of the defect. Such a matrix would materially improve the article’s analytical precision and would prevent different legal problems from being treated under a single generalized concept of unauthorized conduct.

The section on good faith requires greater doctrinal specificity. The manuscript states that “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,” but it does not clarify whether good faith is subjective, objective, or mixed. The authors should explain whether protection depends upon actual ignorance, reasonable ignorance, absence of gross negligence, or the nonexistence of circumstances creating a duty of inquiry. This is particularly important if the article proposes legislative reform, because vague reliance on good faith may merely relocate uncertainty rather than resolve it.

The discussion of constructive knowledge should be substantially expanded. The statement that “public registration does not necessarily mean that counterparties have actual awareness of every internal clause” is persuasive, but the manuscript should examine whether publication or registration of the articles of association creates any legally relevant presumption in Iranian law. The authors should distinguish actual knowledge from deemed or constructive knowledge and explain whether registered corporate documents should ever be opposable to third parties, especially in transactions involving extraordinary or non-routine corporate acts.

In the section on Iranian joint-stock companies, the paragraph beginning with “The starting point in Iranian law is that directors must act within the corporate purpose” requires greater support through direct doctrinal analysis of Iranian company law. The authors should identify whether the corporate purpose is understood in Iranian law as a limitation on the legal capacity of the company itself or merely as a limitation on directors’ powers. This is arguably the article’s central legal question, and the manuscript currently reports competing views without clearly reconstructing their doctrinal foundations or consequences.

Authors revised the manuscript and uploaded the document.

2. Revised

Editor’s decision: Accepted.

Editor in Chief’s decision: Accepted.