

Corporate Signing Authority and Transactional Risk: Understanding Corporate Representation under Indian Law

By Aditya Pratap Singh

Introduction-

In today's commercial environment, corporate transactions are executed at an unprecedented pace. From routine supply agreements to high-value mergers and acquisitions, businesses enter into countless contracts every day. At the heart of each transaction lies a seemingly simple act—a signature. However, when the contracting party is a company, that signature carries far greater legal significance than merely indicating consent. Since a company is an artificial legal person, it cannot negotiate, make decisions, or execute contracts on its own. Every action undertaken by a company must therefore be performed through individuals authorized to represent it. Consequently, the validity of a corporate transaction often depends not only on the terms of the agreement but also on whether the person signing it possessed the legal authority to bind the company.

This issue has become increasingly important in modern commerce, where companies operate through multiple levels of management and frequently delegate decision-making powers. While delegation enhances operational efficiency, it also creates uncertainty regarding the extent of authority possessed by different corporate representatives. Disputes often arise when contracts are executed by individuals whose authority is questioned, raising concerns about whether the company can be held liable for their acts. Indian law addresses this challenge through a combination of statutory provisions under the Companies Act, 2013, and common law principles of agency. Together, these rules seek to strike a balance between ensuring effective corporate governance and protecting third parties who deal with companies in good faith.

Analysis-

The concept of corporate signing authority originates from the doctrine of separate legal personality, firmly established in *Salomon v. Salomon & Co. Ltd.* Under this principle, a company enjoys a legal existence independent of its shareholders and directors. It can own property, incur liabilities, sue, and be sued in its own name. Yet, despite possessing an independent legal identity, a company lacks physical existence and human agency. It cannot make decisions or express its intentions except through natural persons acting on its behalf. Consequently, determining who possesses the authority to represent the company becomes fundamental to every corporate transaction.

The Companies Act, 2013 identifies the Board of Directors as the primary source of corporate authority. Acting collectively, the Board functions as the company's decision-making body and exercises powers on behalf of the corporate entity. However, this authority is not unlimited. The Board must operate within the boundaries prescribed by the Companies Act, as well as the company's Memorandum and Articles of Association. Certain powers, such as approving financial statements, issuing securities, appointing key managerial personnel, or approving mergers and restructuring, are regarded as matters of significant corporate importance and therefore require formal board resolutions. By reserving these decisions to the collective wisdom of the Board, the law seeks to promote accountability, transparency, and sound corporate governance.

At the same time, modern corporations cannot function if every operational decision requires direct board involvement. Large companies execute hundreds of contracts daily, making delegation of authority both necessary and inevitable. Recognising this commercial reality, the Companies Act permits the Board to delegate specific powers to managing directors, committees of directors, managers, and other principal officers through valid board resolutions. This framework allows routine business operations to proceed efficiently while ensuring that strategic control remains with the Board.

The Act also establishes the statutory mechanism through which corporate documents and contracts are executed. Key Managerial Personnel, including the Managing Director, Chief Executive Officer, Chief Financial Officer, Company Secretary, and Whole-Time Director, are generally recognised as authorised signatories capable of authenticating corporate documents in the ordinary course of business. Additionally, the Board may authorise officers or employees to execute contracts on the company's behalf. Legislative amendments have further recognised the practical needs of modern business by permitting authorised employees, rather than only senior officers, to authenticate documents. This flexibility enables corporations to conduct routine commercial activities efficiently without compromising legal certainty.

Nevertheless, commercial transactions rarely unfold within such neatly defined boundaries. Businesses often interact with regional managers, procurement heads, or departmental officers who appear to possess authority, even though their powers may be internally restricted. Requiring every contracting party to verify board resolutions before concluding a transaction would significantly hinder commercial activity. To address this practical difficulty, Indian law

supplements statutory provisions with the principles of agency under the Indian Contract Act, 1872.

Under agency law, directors, officers, and employees act as agents of the company, which functions as the principal. Their authority may be express, arising from board resolutions, powers of attorney, or written authorisations, or implied, arising from the nature of their office and the ordinary course of business. A procurement manager, for example, may reasonably be expected to negotiate supply contracts because such activities ordinarily fall within the scope of that position. This distinction between express and implied authority reflects the practical realities of commercial dealings while ensuring that authority remains grounded in legal principles.

However, situations frequently arise where a representative exceeds their actual authority but appears to possess the power to act. In such cases, the doctrine of apparent authority protects third parties who have relied upon the company's representations in good faith. If a company, through its conduct, permits an individual to appear authorised, it may subsequently be estopped from denying that authority. This doctrine prevents companies from avoiding contractual obligations by relying on undisclosed internal restrictions that were never apparent to outsiders. In doing so, it promotes commercial certainty and strengthens confidence in corporate transactions.

Closely linked to this principle is the doctrine of indoor management, established in *Royal British Bank v. Turquand*. While parties dealing with a company are presumed to know its public constitutional documents, they are not expected to investigate whether every internal procedural requirement has been fulfilled. They may generally assume that necessary approvals, board resolutions, and internal formalities have been properly completed unless circumstances suggest otherwise. Without this protection, commercial transactions would become unnecessarily burdensome, as every counterparty would be compelled to scrutinise a company's internal governance before entering into even routine agreements.

These protections, however, are not without limits. The law does not shield parties who knowingly participate in irregular transactions, ignore suspicious circumstances, or rely upon forged documents. Similarly, Indian courts have consistently emphasised that statutory requirements governing corporate authorisation cannot be disregarded merely in the interests of convenience. Decisions such as *Narne Estates Pvt. Ltd. v. Gomedha Estates Pvt. Ltd.* reaffirm that compliance with statutory provisions governing corporate execution is mandatory.

While the law seeks to protect innocent third parties, it also safeguards companies from being bound by acts that were never properly authorised. This judicial approach reflects a careful balance between facilitating commercial transactions and preserving the integrity of corporate governance.

Conclusion-

Corporate signing authority is far more than an internal administrative requirement; it forms the legal foundation upon which corporate transactions rest. As companies continue to expand and delegate responsibilities across increasingly complex organisational structures, clearly identifying who possesses the authority to bind the company becomes essential for ensuring contractual certainty and minimising transactional risk. Indian law addresses this challenge through a comprehensive framework that combines statutory provisions under the Companies Act, 2013 with well-established principles of agency and equitable doctrines such as apparent authority and indoor management.

Ultimately, the law seeks to balance two competing objectives. On one hand, companies require flexibility to conduct business efficiently through authorised representatives. On the other, commercial certainty demands that third parties dealing with companies are not unfairly prejudiced by internal procedural irregularities beyond their knowledge. By carefully regulating the creation, delegation, and exercise of corporate authority, Indian corporate law ensures that businesses remain both commercially efficient and legally accountable. For companies and counterparties alike, verifying signing authority is therefore not merely a procedural safeguard—it is an essential aspect of effective risk management and sound corporate practice.