
ARTICLE OF ASSOCIATION: LEGAL SIGNIFICANCE IN CORPORATE GOVERNANCE

Diksha Sharma, Gitarattan International Businesses School

Madhav Kalra, Vivekananda Institute of Professional Studies

Introduction

In the intricate framework of corporate law, the Articles of Association (AOA) occupy a central and indispensable role. While the Memorandum of Association (MOA) delineates the company's external parameters, objectives, scope, and relationship with the outside world, the AOA concerns the business organisation's internal machinery. It acts as the company's internal constitution, laying down the rules and procedures governing the conduct of directors and shareholders and the functioning of various corporate bodies.

The AOA is not merely a procedural document; it is a legally binding instrument that determines how a company operates daily. Its significance is especially evident during internal disputes or when corporate decisions are challenged in courts. One such landmark instance is the Tata-Mistry dispute, where the interpretation of the company's articles became a focal point of litigation. This article undertakes a detailed exploration of the legal import of the AOA, its binding nature, and the judicial stance on its alteration and enforcement, particularly in the context of the Tata-Mistry judgment.

The Articles of Association: A Binding Corporate Constitution

The AOA, as mandated by Section 5 of the Companies Act, 2013, is a required constitutional document for every company. It functions as a statutory contract between the company and its members, and also inter se among the members.¹ This statutory contract governs essential aspects such as:

- The appointment, powers, and remuneration of directors,

¹ Ltd, A.A. (2025) *Contract between company and members*, LawTeacher.net. Available at: <https://www.lawteacher.net/free-law-essays/contract-law/contract-between-company-and-members.php> (Accessed: 22 May 2025).

- The conduct of general and board meetings,
- The issuance, transfer, and transmission of shares,
- Procedures for declaring dividends,
- Rights and responsibilities of shareholders.

Its enforceability arises from Section 10 of the Companies Act, 2013, which stipulates that the MOA and AOA, once registered, bind the company and its members as if each had physically signed the documents. This binding nature implies that no member can act in contravention of the articles, nor can internal arrangements override them unless duly incorporated through a prescribed legal procedure.

The Supreme Court's ruling in *V.B. Rangaraj v. V.B. Gopalakrishnan*² (1992) established a critical precedent in this concern. The Court held that any shareholder agreement inconsistent with the articles cannot bind the company unless it is formally included in the AOA. This judgment underscored that the AOA serves as the ultimate reference point for resolving internal inconsistencies and disputes.

Alteration of Articles: Procedural Framework and Legal Constraints

Section 14 of the Companies Act, 2013, empowers companies to amend their Articles by passing a special resolution.³ While this provision affords companies a degree of flexibility in adapting their governance frameworks, it is circumscribed by certain legal boundaries:

- Amendments must not contravene provisions of the Companies Act or any applicable legislation.
- Changes must be made bona fide, in the interest of the company as a whole.
- For public companies, regulatory oversight may apply, especially where the alteration

² *V.B. Rangaraj v. V.B. Gopalakrishnan* (1991) *Casemine*. Available at: <https://www.casemine.com/commentary/in/v.b-rangaraj-v.-v.b-gopalakrishnan:-upholding-articles-of-association-over-private-agreements/view> (Accessed: 23 May 2025).

³ *Section 14* (no date) *India Code Section*. Available at: https://www.indiacode.nic.in/show-data?actid=AC_CEN_22_29_00008_201318_1517807327856&orderno=16 (Accessed: 22 May 2025).

impacts public shareholders or converts a public company into a private one.

Judicial guidance in *Shanti Prasad Jain v. Kalinga Tubes Ltd*⁴. (1965) emphasized that although the power to amend articles is broad, it is not absolute. The Court held that any such change must be motivated by genuine business purposes and not designed to alienate or oppress minority shareholders. Thus, the scope for amendment is tempered by principles of equity and fairness.

Tata-Mistry Dispute: Judicial Interpretation of AOA

The Tata-Mistry corporate conflict stands as a defining moment in Indian corporate jurisprudence. It cast a spotlight on the legal authority of the AOA in shaping boardroom decisions and protecting shareholder rights. The dispute arose in 2016 when Cyrus Mistry was abruptly removed from his position as Executive Chairman of Tata Sons, leading to a prolonged legal battle initiated by the Shapoorji Pallonji Group, which held a minority stake in Tata Sons.

The core legal question was whether Mistry's removal violated corporate governance norms and the company's AOA. The petitioners alleged that the action amounted to oppression of minority shareholders under Sections 241 and 242 of the Companies Act, 2013. They further contended that the decision lacked transparency and procedural fairness, thereby breaching the principles embedded in the AOA.

On the other hand, Tata Sons argued that the removal was well within the board's rights under the AOA, which delineated the powers vested in the board of directors, including matters concerning appointment and removal.

The National Company Law Appellate Tribunal (NCLAT), in a surprising turn, ruled in favour of Mistry and ordered his reinstatement.⁵ However, this decision was later overturned by the Supreme Court in *Tata Consultancy Services Limited v. Cyrus Investments Pvt. Ltd.* ⁶(2021).

⁴ kanoon, indian (no date) *Shanti Prasad Jain vs Kalinga Tubes Ltd. on 14 January, 1965, Indiankanoon*. Available at: <https://indiankanoon.org/doc/157045791/> (Accessed: 23 May 2025).

⁵ Bureau, F. (2019) *Financialexpress, Industry News | The Financial Express*. Available at: <https://www.financialexpress.com/business/industry-nclat-rules-in-cyrus-mistrys-favour-tatas-in-trouble-1798296/> (Accessed: 23 May 2025).

⁶ Desk, C.E. (2024) *Tata Consultancy Services Ltd. v. SK Wheels Pvt. Ltd.: Supreme Court establishes limits on NCLT's residuary jurisdiction under IBC*, <https://www.casemine.com>. Available at:

The apex court held that:

- The board had acted within its legal rights as defined by the AOA;
- There was no demonstrable evidence of oppression or mismanagement;
- Courts should not interfere with business decisions unless they are legally untenable or made with mala fide intent.

The judgment reaffirmed the sanctity of a company's internal governance instruments. It held that unless there is a clear breach of statutory provisions or evident injustice, courts should defer to the mechanisms and procedures outlined in the AOA.

This case not only validated the legal autonomy conferred by the AOA but also clarified the extent to which minority shareholder rights can be protected under corporate law. It highlighted the delicate balance courts must maintain between safeguarding minority interests and respecting the legitimate functioning of the company's internal governance.

Broader Implications for Corporate Governance

The Tata-Mistry case serves as a cautionary tale for corporate stakeholders, particularly concerning the drafting and enforcement of AOAs. Several broader lessons emerge:

1. **Precision in Drafting:** The AOA must be drafted with clarity, foresight, and precision. Ambiguous provisions can lead to prolonged disputes and judicial interpretation, which may not always align with the drafters' intentions.
2. **Integration of Shareholder Agreements:** To avoid legal uncertainty, all essential shareholder rights and obligations must be incorporated into the AOA rather than existing solely as separate contractual arrangements.
3. **Protection of Minority Rights:** While the AOA empowers majority stakeholders, it must not be wielded to suppress or marginalize minority interests. Any amendment or

<https://www.casemine.com/commentary/in/tata-consultancy-services-ltd.-v.-sk-wheels-pvt.-ltd.-supreme-court-establishes-limits-on-nclt%25E2%2580%2599s-residuary-jurisdiction-under-ibc/view> (Accessed: 23 May 2025).

board action that appears targeted or discriminatory may attract judicial scrutiny.

4. **Judicial Deference to Internal Autonomy:** Courts have shown restraint in interfering with business decisions when taken following the AOA. This underscores the document's status as a quasi-constitutional instrument in corporate functioning.

Conclusion

The Articles of Association specify the regulations that guide a company's operations and establish its legal identity. They act as a contract between the company and its members, outlining decision-making processes, conflict resolution methods, and management practices. The Tata-Mistry dispute highlighted the essential role of these articles in corporate governance and accountability.

For practitioners, scholars, and corporate leaders alike, the key takeaway is that the AOA is more than a procedural necessity—it is a powerful legal document with significant implications for control, strategy, and compliance. Its careful drafting and strict adherence are crucial for maintaining corporate integrity, preventing conflict, and ensuring that business decisions are grounded in legality and fairness.

As Indian corporate law continues to evolve in response to globalization, technological change, and regulatory demands, the AOA will remain a vital reference point for legal compliance, shareholder democracy, and institutional governance.