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Original Research

The Rights of Third Parties Under the Principles and Rules Governing the Decision-Making Process in Joint Stock Companies in Iranian and English Law

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One of the key players in the economic landscape of Iran and England is joint-stock companies. After their establishment, these companies gain independent legal personality, and the decisions made by their general assemblies and boards of directors significantly affect the rights of third parties. In Iranian and English law, principles and rules can be identified that govern the relationships among participants in the legal framework of commercial law, specifically in regulating the interactions between joint-stock companies and third parties. Some of these principles and rules are applicable to the decision-making processes within joint-stock companies. Iranian law, regarding decision-making processes in joint-stock companies, focuses on the codified principles established by the legislator in the Amended Bill on Commercial Code and other laws. These principles address the rights of third parties impacted by the decision-making processes of joint-stock companies. However, in practice, given the outdated nature of the Amended Bill on Commercial Code as the primary and foundational legislation, alongside the dispersion of other related requirements across various laws, third parties often face challenges. Conversely, in England, the principles and rules governing joint-stock companies, particularly their decision-making processes, are adapted to contemporary needs and shaped by the judiciary as one of the primary sources of law. These rules provide more effective solutions for regulating relationships between joint-stock companies and third parties, as well as their respective rights. Specifically, identifying these principles and rules offers third parties practical guidance in pursuing claims related to violations of their rights resulting from the decisions of joint-stock companies.

Keywords: *Joint-stock companies, third parties, principles, decision-making, Iranian law, English law.*

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1. Introduction

To understand the rights of third parties in light of the principles and rules governing the decision-making processes in joint-stock companies in Iranian and English law, it is first necessary to examine the differences in the perspectives of the lawmakers and legal scholars of these countries regarding joint-stock companies, third parties, and the obligations that regulate the relationships between these two concepts.

The Iranian legislator, in the Amended Bill on Commercial Code of 1968, introduced two main characteristics for joint-stock companies: the method of capital accumulation and the type and extent of shareholders' liability. The joint-stock company was broadly defined, and in Article 4 of this bill, the type of joint-stock company—whether public or private—was determined based on the method of capital accumulation at the time of establishment. In 2008, with the enactment of the Law on the Implementation of General Policies under Article 44 of the Constitution, a definition of a company was presented in Section 5 of Article 1 of the law, which according to Dr. Issaei Tafreshi is considered an incomplete definition. According to this provision, a company is defined as "a legal entity formed in accordance with the Commercial Code or specific law as appropriate" (Issaei Tafreshi, 2021).

It appears that the Iranian legislator has not provided a precise definition of joint-stock companies in legal texts. However, characteristics for understanding the concept of joint-stock companies can be inferred from these legal provisions. Iranian legal scholars have also provided various arguments for explaining the nature and concept of joint-stock companies.

In contrast, in English law, due to the country's need to quickly recover from the economic crises of the 1970s and 1980s, a series of reforms were made in the laws related to various economic sectors. Among these, particular attention was given to the issue of companies, as a historical and core element of England's economic development. The enactment of the Companies Acts of 1980 and 1985, the Companies (Winding Up) Act of 1986, and numerous reports published by the Law Reform Committees, including the "White Paper" and "Green Paper" issued by the Parliament, all underscore the importance of capital consolidation and participation in economic growth in the country (Griffin, 2006).

In England, company law is one of the primary sources of business law, with many of the principles articulated in the Companies Act having initially been recognized in judicial precedents. Legal scholars in this country argue that understanding the Companies Act 2006 requires reference to judicial precedents (McLaughlin, 2013).

Once a joint-stock company is established, an independent legal personality is recognized for it. As the company continues its life in both Iran and England, one of the key actions involves decisions made by the company's organs for its management. Among these decisions are changes to the company's capital, selection of directors and auditors, amendments to the articles of association, oversight of the company's performance, profits and losses, and even company transformation, which in both Iranian and English law fall under the jurisdiction of the general assembly or the board of directors. These decisions can directly or indirectly affect the rights of third parties. Therefore, answering the question of which principles and rules govern the decision-making process in joint-stock companies and how these principles and rules affect the rights of third parties is the main objective of the present research.

2. Materials and Methods

This article is descriptive-analytical in nature. The materials and data are qualitative, and note-taking was employed for the collection of materials and data.

3. Findings and Discussion

There is a need to revise the laws and regulations governing the decision-making process in joint-stock companies in Iranian law and to pay greater attention to the role of judicial precedents in assessing the applicability and feasibility of these laws, in line with the reforms and changes implemented by English lawmakers concerning the principles and rules governing decision-making in joint-stock companies.

The capital and formation of the company from the collection of shareholders' contributions, along with the limited liability of shareholders to the amount of shares they hold, is the main feature that distinguishes joint-stock companies from other types of business entities in both Iran and England.

The greater the number of partners in a company, the more likely it is that diverse opinions will emerge. If the company adopts a path significantly different from the desires of its shareholders, it may face capital withdrawal, bankruptcy, or dissolution. This is particularly likely in joint-stock companies, which are primarily established with the view of facilitating the transfer of shares and making it easier for members to enter and exit the company, more so than other forms of business entities. This phenomenon can be easily observed in the stock exchange markets of major international financial centers such as London, New York, and even Tehran. For this reason, joint-stock companies play a significant role in the economy of countries and, in some cases, in international trade and relations. Moreover, as a joint-stock company's capital increases and its economic activities expand, it naturally adds more creditors and employees to its ranks. This indicates that decisions made within joint-stock companies will have a special impact on the rights of third parties.

In both Iranian and English law, there are certain principles and rules that govern the decision-making process in joint-stock companies. Some of these principles are similar in both jurisdictions, while others, due to differences in legal systems and the policies governing the economies and leadership of the two countries, differ. Consequently, one would expect to see differences in how the rights of third parties are affected by the decision-making process in joint-stock companies. This suggests that the legislator, particularly after the enactment of the Companies Act 2006 in England with its special amendments, has sought to protect the rights of third parties.

3.1. The Role of Protecting the Rights of Third Parties in the Principles and Rules Governing the Decision-Making Process in Joint-Stock Companies in Iranian Law

According to Article 583 of the Iranian Commercial Code, the principle of the legal independence of the commercial company from its shareholders is established. Given that joint-stock companies are considered one of the types of commercial companies in Article 20 of the same law, and in reference to Article 17 of the Law Decree Amending Parts of the Commercial Code, joint-stock companies, after their formation, possess independent legal personality, this issue may lead to challenges regarding the rights of third parties in practice. Some of these challenges relate to the decisions made within the company.

Furthermore, according to Article 270 of the aforementioned Law Decree, all actions taken within Iranian joint-stock companies are process-oriented, and the heavy legal consequences, such as annulment, are applied in cases of non-compliance. Identifying the governing principles of the decision-making process in Iranian joint-stock companies within the context of procedural law and litigation regarding the annulment of company decisions and compensation for damages resulting from them is crucial for third parties who bring the company or violators of the company’s process requirements to court. This is aside from the fact that all these principles are effective in preventing the violation of third-party rights. The principles include the principle of participation, formality, organizational structure, supervisory role of managers in company administration, the generality of managers' powers, the independence of auditors, the collegiality of decision-making, the real capital of the company, and the specificity principle in Iranian joint-stock companies; these principles are akin to the principles of participation, formality, generality of managerial powers, collegiality, good faith of managers, professionalism, approval, and guidance in the law of English joint-stock companies.

3.1.1. The Principle of Participation

The first principle that governs the decision-making process in joint-stock companies after the principle of the legal independence of the company is the principle of participation. Companies are formed for the participation of individuals. Therefore, for the company's performance to be credible, the decisions made within the company must certainly and primarily have the support of its members, or at least the majority of the individuals gathered to participate in the company. To reach a final outcome, there must be an organizational structure governing the participation process in the company, where each branch has defined areas of competence, and within these areas, individuals elected by shareholders and partners must make decisions collectively.

The protection of third-party rights under the principle of participation in public joint-stock companies holds special significance. The obligation to hold an annual general meeting and obtain the majority votes of the attendees—except for issues related to the election of managers and the election of the chairman of the board as CEO—serves to legitimize the meeting, highlighting the importance of the principle of participation in preserving the interests and rights of shareholders. Some legal scholars consider general meetings as a constitutive element of the company rather than an administrative one. In other words, these scholars argue that if the general meetings of joint-stock companies are not held, one of the fundamental components of the company's formation is absent (Issaei Tafreshi, 2021).

In this regard, the requirement for holding general meetings of joint-stock companies in Iranian law, according to Article 72 of the Law Decree Amending Parts of the Commercial Code, should be seen as a fundamental effect of the principle of participation in the decision-making process of joint-stock companies in Iran. Moreover, one of the effects of shareholders' participation in the formation of the annual general meeting, as provided by this Law Decree, includes decision-making on the company's annual accounts in Article 254 and decisions related to changes in the company's articles of association and capital as outlined in Article 83, as explained by the legislator (Saghri, 2022).

Additionally, the necessity of forming a board of directors, which is itself a result of shareholder participation in decision-making, as well as limiting the board's powers in Article 118 of the Law Decree Amending Parts of the Commercial Code to all matters not within the jurisdiction of the general meetings, demonstrates the principle of participation in the decisions made by the company and ensures that shareholders who do not hold positions in the company can prevent the violation of their rights by relying on this principle. This issue also affects other third parties, such as creditors and employees of the company, who may benefit or be harmed by the governance of the principle of participation. For example, if the extraordinary general meeting of the company makes decisions regarding changes to the company's articles of association or capital reduction, this decision may increase the risk of rights violations for these third parties. Therefore, the role of general meetings in joint-stock companies under the principle of participation has a significant impact on the rights of third parties.

3.1.2. The Principle of Formality

Most of the principles that influence the decision-making process in Iranian joint-stock companies pertain to formalities in these companies. One of the terms explicitly used in Article 270 of the Law Decree Amending Parts of the Commercial Code is the term "decisions." Additionally, the phrase "each of the company's branches" in this article clearly indicates that if any branch of the company takes a decision without complying with the formalities of this law, the legal consequences specified in this article can be applied to their actions. The formalities regarding the publication of the meeting notice, its contents, adherence to the required quorum for legitimacy, and decision-making, as stated in various parts of the Law Decree, highlight the importance of formality in the decision-making process in joint-stock companies.

With the legal independence of the joint-stock company's personality from the shareholders and, by extension, from the individuals managing such companies, the issue of the company's limited liability toward third parties becomes a challenging matter. The legislator, by outlining the requirements and formalities in the decision-making process within joint-stock companies, including topics such as the formalities of invitation, determining the minimum quorum of shareholders or directors for legitimacy, organizing and conducting meetings, establishing the minimum quorum of votes for approval, and registering the decisions of the meetings with the Company Registration Office, aims to ensure transparency and correctness in decision-making within joint-stock companies. Essentially, transparency serves as the necessary tool for enabling legal follow-up actions, thereby facilitating the protection of third-party rights.

Regarding the regulations governing the formalities of inviting shareholders to general meetings, the legislator aims to protect the rights of shareholders while considering the necessary requirements. One of these requirements is the inclusion of the meeting agenda in the invitation notice. According to some professors of corporate law in Iran, if this subject is vaguely stated, such as when "etc." is used in the meeting's agenda, and shareholders who did not attend the meeting are confronted with unforeseen matters, the decisions made in the meeting, if not directly related to the topics stated in the invitation, could be annulled (Pasban, 2021).

Furthermore, one of the areas where the Commercial Code explicitly establishes an irrevocable rule under the principle of formality—one that even the company's articles of association cannot override—relates to the formalities for electing the board of directors during decisions regarding their election. According to Article 101 of the Law Decree Amending Parts of the Commercial Code, "…when the election or dismissal of some or all of the directors is part of the general meeting's agenda… in this case, the chairman of the meeting will be elected by a relative majority of the shareholders present at the meeting" (Eskini, 2019).

3.1.3. Principle of Organization

In the legal framework governing Iranian joint-stock companies, the principle of organized decision-making processes is evident in the powers and competences outlined by the legislator in the *Commercial Code Reform Act*. This is particularly evident in the provisions regarding the jurisdiction of each assembly, with the extraordinary general meeting being tasked with making decisions about issues that concern the company's existence, its articles of association, and the fundamental rights of shareholders. Furthermore, Article 86 of the *Commercial Code Reform Act* illustrates an aspect of the principle of organization in granting general authority to the general assembly to make decisions.

3.1.4. Principle of Supervision of Company Directors

Various legal requirements are established within the corporate law of joint-stock companies regarding the actions of their directors. Given that the scope of authority of company directors is generally outlined in Article 118 of the *Commercial Code Reform Act*, they can only intervene in matters where decision-making authority has been granted to the general assembly. Therefore, an independent body must exist within the company to monitor the actions of the directors without being influenced by their power. This means that just as the directors' powers are general, their actions must also be subject to general supervision. Consequently, the principle of accountability of company directors in managing the company is recognized as a fundamental principle in Iranian corporate law.

Shareholders of joint-stock companies must have access to the auditors' report before the annual general meeting is held. Additionally, matters such as the approval of the company's balance sheet and the evaluation of the directors' performance at the end of the financial year by the assembly can only be carried out effectively with accurate and thorough reports from the auditors. This illustrates the importance of the principle of supervisory accountability of company directors in decision-making processes, and the protection of third-party rights in Iranian corporate law (Issaei Tafreshi, 2021).

Furthermore, in line with this principle, one of the mandatory measures implemented by the legislator to protect third parties is the registration of assembly resolutions. In this regard, the registration of decisions made by the general assembly regarding changes in the board of directors and the overall management of the company is particularly significant. This is expressed in several articles of various laws.

Article 106 of the *Commercial Code Reform Act* states: "In cases where the decisions of the general assembly involve any of the following, a copy of the meeting minutes must be sent to the company registry office for registration: 1) Appointment of directors and auditors. 2) Approval of the balance sheet. 3) Reduction or increase in capital, or any changes to the articles of association. 4) Dissolution of the company and the manner of its liquidation." This provision directly or indirectly reflects the influence of the company's management actions, and the legislator's intent in mandating the registration of such resolutions is to ensure the supervisory accountability of directors and to protect third-party rights.

Moreover, Article 7 of the *Company Registration Law* expresses this requirement: "Changes regarding company representatives or branch managers must be notified in writing to the registration office. Until such notification is made, actions carried out by the former representative or manager in the company's name will be considered as company operations, unless the company proves to third parties, who claim rights under this provision, that the representative or manager has been changed."

3.1.5. *Principle of General Authority of Directors*

The board of directors is another essential body that must make decisions in managing the company. Accordingly, certain principles govern the decision-making process within joint-stock companies. One of these principles is the general authority of the board of directors in managing the company, as outlined in Article 118 of the *Commercial Code Reform Act*. Undoubtedly, the management and execution of the company's actions would not be possible without decisions made by this body (Eskini, 2019).

The principle of general authority for company directors, under the theory of the board's essential role, allows third parties to hold the company accountable in claims for compensation for damages caused by the decisions and actions of the company's directors. As stated: "The management organization of a joint-stock company is its essential body, and the will and decisions of this organization, made in the name and on behalf of the company, reflect the will and decisions of the company itself" (Issaei Tafreshi, 2021).

3.1.6. *Principle of Auditor Independence*

Considering the sensitive role of auditors in decision-making within joint-stock companies and the principle of their operational independence, even though auditors are appointed by the general assembly, they must not be influenced by the wishes of other company bodies. The performance of the auditing body should not be influenced by other company organs in a way that misrepresents the facts. Auditors in joint-stock companies have a significant responsibility in safeguarding third-party rights, particularly those of minority shareholders and creditors, by providing honest assessments regarding the company's financial statements, exposing misleading information from directors at the general assembly, and generally ensuring effective oversight of the company (Saghri, 2022).

By applying the key principles of consistency and comparability, which are fundamental to accounting science, auditors help protect third-party rights by assisting in making informed decisions regarding the company's financial performance at the annual general meeting. If the honesty and independence of the auditors are not upheld in preparing the company's balance sheet, it could lead to the invalidation of the annual general assembly's decision regarding the approval of the balance sheet and the distribution of dividends to shareholders (Hajiha & Chenari, 2023).

3.1.7. Principle of Collegiality

Article 107 of the *Commercial Code Reform Act* introduces another principle that influences the decision-making process within joint-stock companies. It states: "The joint-stock company shall be managed by a board of directors elected from among the shareholders, who may be fully or partially dismissed. The number of members in the board of directors in public joint-stock companies must not be fewer than five." This article embodies the principle of collegiality, meaning that the board of directors, whether in private or public joint-stock companies, must be structured in a collective manner, and individual management is not permissible (Eskini, 2019).

In some lawsuits, it has been observed that plaintiffs, referencing the principle of collegiality in the board of directors, have challenged the validity of the chairman's unilateral invitation to a meeting without a board resolution, despite the explicit provisions of Article 120 of the *Commercial Code Reform Act*. This is because decision-making in a board of directors, as per the principle of participation in managing the company by the general assembly, expresses the specific will of the joint-stock company in its dealings with third parties (Issaei Tafreshi, 2021).

3.1.8. The Principle of Authentic Capital in the Company

Third parties—usually experts in commerce—consider the company's capital, which, based on various provisions of the Legal Decree Amending Parts of the Commercial Code, is one of the key features in the formation and operation of a joint-stock company, before deciding to enter into a transaction with the company or buy shares and participate in it.

Some requirements that must be followed in the decision-making process by the company relate to the registration of resolutions that are mandated by law. Among these resolutions are those made by the Extraordinary General Assembly regarding changes in the company's capital. This requirement not only adheres to the principle of formality but also ties back to the principle of the actual capital of the company, particularly with regard to the company's capital, as this capital serves as collateral for the company's creditors (Eskini, 2019). Additionally, in publicly traded joint-stock companies where share transfers occur without special formalities (Soltani, 2021), as well as in Iranian joint-stock companies operating in free trade zones, adhering to the requirements for registering capital changes is considered an effective step in protecting third-party rights.

One of the most important decisions concerning the company's capital and closely related to the rights of third parties is the mandatory reduction of capital due to a loss of more than half of the company's capital. This issue is governed by Article 265 and paragraph 1 of

Article 246 of the Legal Decree Amending Parts of the Commercial Code. In light of the principles of asset independence and the actual capital of the company, the company's actual capital serves as collateral for creditors. To protect creditors, Article 132 of the Legal Decree Amending Parts of the Commercial Code discusses the prohibition of distributing profits to partners when the company has incurred losses, and before these losses are compensated. Furthermore, the legislator provides for a legal reserve for the company, which, in addition to the initial capital, serves as a backup for stakeholders during fluctuations in the company's capital in the market (Nodoushan & Bagheri, 2016).

Among the financial rights of shareholders is their share in the company's profits and assets. According to Article 90 of the Legal Decree Amending Parts of the Commercial Code, if there are distributable profits, 10% of them must be divided among the shareholders. In line with the principle of authentic capital, these profits can only be distributed after the legal reserve has been allocated and kept in a bank account, as specified in Articles 140, 238, and 239 of the Decree. This provision is essentially a guarantee that the registered capital of the company acts as collateral for creditors, protecting the rights of third parties (Saghri, 2022). Implementing this, i.e., distributing profits after approval by the General Assembly, is the responsibility of the company's managers. If managers fail in this duty, according to Article 142 of the Decree, they will be held responsible for compensating the damages incurred.

3.1.9. *The Principle of Specialization*

The principle of specialization is one of the rules that must be considered in the decision-making process within joint-stock companies and in protecting the rights of third parties. This principle states that a legal entity can only operate within the scope for which it was created, and its eligibility is dependent on adhering to this scope.

It seems that the principle of specialization should be counted among the other principles governing the decision-making process in joint-stock companies. Although there is some disagreement among Iranian legal scholars about whether the company's subject matter restricts the actions of managers—at least in the case of private commercial companies—it appears that if the decisions made by the company, whether by the assemblies or the board of directors, are in line with the company's objectives, they will be valid (Eskini & Delfani, 2018). In the case of state-owned joint-stock companies, the principle of specialization is definitively practiced, particularly in decision-making, as it stems from the principle of non-delegation of authority (Barari, 2017).

3.2. *The Position of Protecting the Rights of Third Parties in the Principles and Rules Governing the Decision-Making Process in Joint-Stock Companies under English Law*

In examining the principles and rules governing the legal world, the impact of social phenomena cannot be overlooked. This is especially evident in countries like England, where economic factors and the transformations affecting them hold significant importance.

The experience of the country's financial crisis in the late 20th century, the collapse of the pound sterling, and the 2007-2008 financial crisis of the 21st century led to significant changes in the regulations governing the administration and control of both small and large private and public joint-stock companies (Hannigan, 2012). Therefore, it is logical to observe differences in the requirements governing decision-making processes in joint-stock companies based on whether the company is a private or public joint-stock company.

The aim of the English legislator in implementing all the amendments to the 2006 Companies Act was to facilitate the use of the joint-stock company structure. Consequently, it is anticipated that this law would include various measures for protecting third parties, particularly shareholders.

3.2.1. *The Principle of Participation*

The issue of participation in the management and control of companies in English company law, particularly in the case of joint-stock companies with many shareholders, is an important one. As a result, the principle of participation has been the subject of extensive discussions among legal scholars, particularly after the enactment of the 2006 Companies Act and the 2010 Corporate Governance Code. The approach taken by the English legislator in the 2006 Companies Act aimed to facilitate the establishment of companies, raising capital, and operating under a commercial structure. In this context, the participation of shareholders in small private joint-stock companies, where shareholders and managers are typically the same people, is not as challenging (Dignam & Lowry, 2012).

One of the innovations in the 2006 Companies Act to further protect third parties was granting voting and participation rights to indirect investors. In this modern approach, investors invest in a company through an intermediary. In principle, a company only grants participation rights to shareholders who are legally registered. Indirect stakeholders, who may have provided the funding for these registered shareholders, do not have the right to participate in the company. It is often argued that shareholder participation requires a mechanism allowing indirect investors or actual capital providers to engage with and be recognized by the company. However, the issue of granting voting rights to indirect shareholders became a major topic of debate in Parliament during the drafting of the 2006 Companies Act. On one hand, primary investors may be foreign entities, while on the other, investment companies with a large number of registered shareholders and countless indirect beneficiaries are concerned that a liberal approach to granting voting rights to indirect stakeholders could lead to major administrative chaos and skyrocketing maintenance and registration costs. As a result, the provision in Section 9 of the 2006 Companies Act represented a modest step forward in supporting third parties and indirect stakeholders, as opposed to the view of only recognizing registered shareholders. Thus, two solutions were introduced in this law. One, as stated in Section 145, allows a company to permit a registered shareholder to designate someone else to benefit from or exercise certain rights related to the shareholder's shares, such as delegating voting rights. Section 146 provides a solution for investment companies (parent companies), allowing them to permit their shareholders to designate someone else to benefit from the rights related to company information, thereby obligating the investment company to communicate directly with the shareholder's representative (Sealy & Worthington, 2013).

3.2.2. *The Principle of Formalities*

For private joint-stock companies that are formed and managed with a small number of shareholders and modest capital, the principle is that the establishment and adherence to formalities are not mandatory, except in limited cases. However, for private joint-stock companies with a large number of shareholders or substantial capital, and for public joint-stock companies that raise their capital from the public or operate in financial markets such as the London Stock Exchange, adherence to formalities, especially those related to transparency, is crucial. These requirements have influenced the organization and control systems in joint-stock companies in the UK through various laws and regulations (Hannigan, 2012).

According to Article 295 of this law, if a company or any individual suffers damage due to the failure to adhere to formalities and requirements in decision-making processes through written resolutions, this matter can be heard by the court. Additionally, if the failure to comply with these requirements is identified as being the company's fault, according to Sections 1 and 5 of Article 293, the manager responsible for this violation will be penalized. Moreover, violating the requirement to register resolutions in the company's register within a 15-day deadline is considered a criminal act under Section 2 of Article 30 of the 2006 Companies Act (Sealy & Worthington, 2013).

An interesting aspect of English company law regarding the protection of third parties in light of the principle of formalities is that, in case law, when a court finds that shareholders deliberately avoid attending a meeting to prevent a quorum and, consequently, the adoption of a specific decision that might harm the company or shareholders, this constitutes an abuse of their rights. For instance, when shareholders are aware that attending the meeting and reaching a quorum would reveal unfavorable financial reports to the public, and they abstain from attending the meeting to prevent third parties from learning about the company's situation, they misuse their rights to the detriment of third parties. This principle was applied in the cases of *Watson v. Union Music Ltd.* and *South Entertainment Ltd. v. Wexton Entertainment Ltd.* (Hannigan, 2012).

3.2.3. The Principle of General Powers of Managers

The role of managers in corporate governance and decision-making is rooted in the fact that corporate law is based on partnership law, which operates on the principle of the managers' fiduciary duties. The powers of managers to run the affairs of the company are governed by the laws in place at the time of the company's formation and, later, by the decisions of the general meetings. This approach in English law has evolved from case law into a principle. However, the power and role of general meetings in managing and controlling companies changed in the 20th century due to social phenomena and their influence on judicial practices. At present, the authority of general meetings to make decisions related to the company is limited by the specific provisions in the law and the agreements among shareholders in the company's articles of association. The default principle is that the managers hold general powers to make decisions for the company (Dignam & Lowry, 2012).

3.2.4. The Principle of Collegiality

One of the governing principles of decision-making in joint-stock companies under English law is the first principle of the Corporate Governance Code of 2010, which states that the responsibility of the board of directors is collective and collegial (McLaughlin, 2013). This can be seen as an extension of the principle of participation.

The first principle of the UK Corporate Governance Code begins by acknowledging the broad responsibilities of the board and emphasizes that every company should be managed by an effective board that is collectively responsible for the long-term success of the company. Each director, in line with their legal duty, must act in the best interests of the company while participating in the board's collective decision-making. One of the main duties of the board, in light of the principle of collegiality, which affects third parties, is to ensure that the internal control systems for risk management operate effectively, as approved by the board (Hannigan, 2012).

3.2.5. The Principle of Good Faith of Managers

In the decision-making process within joint-stock companies, the principle of good faith of managers holds significant importance. According to Article 65 of the 2006 Companies Act of the UK, the actions of company directors must be carried out in good faith. The House of Lords has defined good faith as behavior that is fair, transparent, and without any concealment, and this can be identified through several characteristics in English law: "1- Sincerity in belief or purpose; 2- Adherence to assigned duties and obligations; 3- Adherence to reasonable business standards regarding fair dealing; and finally, 4- Absence of fraudulent intent or the seeking of undue benefits" (Lowry & Reisberg, 2014).

The effect of this principle can be observed in requirements related to information disclosure and transparency by company directors. The disclosure of financial information to shareholders and the facilitation of communication with the company, particularly for public companies and those listed on the stock exchange, is detailed in various provisions of the 2006 Companies Act. For instance, provisions exist for the use of electronic tools to send financial reports, meeting notices, and any other information that the company is obligated to communicate to its shareholders via email, or, where applicable, by publishing on the company's website. Shareholders also have access to printed versions available at the company (Lowry & Reisberg, 2014).

One of the cases in which criminal liability for company directors arises under Section 2 of Article 337 of the 2006 Companies Act is accounting fraud. If directors present a false picture of the company's financial position by manipulating accounts and preparing financial reports to benefit themselves at the expense of investors, they may face up to seven years of imprisonment, a fine, or both (McLaughlin, 2013).

Finally, under English law, if a company is in a financially precarious position, such as on the brink of bankruptcy, directors must consider the interests of creditors in their decision-making, in addition to the interests of shareholders. Although this perspective contrasts with the contractarian theory, which holds that the market and contractual freedom are sufficient to protect creditors, most English legal scholars, including the Law Revision Committee, support the contractarian approach (Dignam & Lowry, 2012).

3.2.6. The Principle of Professionalism

Commercial companies are recognized as professional entities for trade under English law. From this perspective, the principle of professionalism for directors should be considered in the decisions they make regarding their actions. Section 70 of the Companies Act 2006 of England stipulates that: "Directors of companies must exercise care, skill, and diligence in the performance of their managerial duties, as would be expected from a reasonable person, irrespective of the nature of the company, the type of decision, and their position." This means that if directors fail to observe this standard of care in their responsibilities related to company management, including decision-making processes, supervision, control, and communication, they must act with specific knowledge, skills, and capabilities in the company's particular activities. This duty is assessed in light of another principle in English commercial law, derived from judicial precedent, known as the "Business Judgment Rule." According to this rule, a director's commercial decision must be based on the information available to them, made in good faith, and aimed at promoting the company's interests. This duty of care is assessed according to the standards of what a reasonable and logical person would expect in the eyes of the judge (Dignam & Lowry, 2012).

3.2.7. The Principle of Approval (Duomatic Principle)

It has been stated that the principle of formality in the corporate law of England primarily pertains to the activities and decisions of public companies and some other companies whose activities are related to investment or listed in financial markets. However, the requirements for the registration of decisions and resolutions in the corporate law of this country may fall under the jurisdiction of another principle, depending on the type of resolution. Any resolution classified under this law as a special type of resolution, as well as any contract or other resolutions falling under sections 29 and 30 of the Companies Act 2006, must be registered. This principle, derived from judicial precedent and known as the "Principle of Approval," is considered a mandatory provision in English corporate law (Hannigan, 2012).

This principle, which is also explicitly referenced in Section 190 of the Companies Act 2006, states: "Any decision that company members may make through the adoption of a formal resolution in a general meeting, can, with the agreement of all of them, also be made informally." For the application of this principle, which is recognized by English lawmakers and courts as an initiative to increase shareholder participation, three conditions must be met. These conditions are: the company must not be on the verge of bankruptcy or in a state of cessation; the informal resolution must reflect an agreement; and finally, the company must not be in a situation that would imply dishonesty or bad faith regarding its status. If any of these conditions are violated or proven to be absent when the informal resolution is made, the resolution will be subject to annulment. In cases where dishonesty is established or decisions are made that are not permitted, this principle cannot be invoked. Therefore, the existence of this principle and the limitations on its applicability in decision-making processes within public companies is considered a step toward protecting the rights of third parties (Dignam & Lowry, 2012).

3.2.8. The Principle of Direction

Another principle, known as the "Principle of Direction," "Alter Ego Principle," or "Identification Theory," which governs the decision-making process in joint-stock companies in English law, is also of interest. If criminal decisions are made within a company, to assign criminal responsibility to the company, there must be an identification of the individual who is essentially the mastermind behind the criminal operations. Therefore, when decisions made by individuals within the company lead to the attribution of a crime to the company, those behind the decision will also be pursued under this principle. This principle, derived from case law originating from the cases of "Asiatic Petrochemical Company Limited v. Leonard Transport Limited" in 1915 and "Natress v. Tesco Supermarkets Limited" in 1972, concerning corporate criminal liability and the pursuit of decision-makers whose actions lead to criminal conduct, was established in English law (McLaughlin, 2013).

4. Conclusion

The formation of commercial companies, particularly joint-stock companies, in both Iranian and English law, although stemming from a common foundation of economics, has faced two distinct historical backgrounds and different economic systems from the outset and throughout their development. Therefore, what this comparative study highlights regarding the distinction between the laws of the two countries concerning the rights of third parties in light of the principles and rules governing the decision-making process in joint-stock companies is that the concept of joint-stock companies in these two jurisdictions needs to be understood in the context of their stage of formation and the economic environment in which they were born and have grown.

The decisions of joint-stock companies, due to their potential impact on society, the environment, shareholders, creditors, consumers, employees of the company, and generally third parties, have prompted governments to enact appropriate laws to strengthen and secure the rights of these stakeholders affected by the state of the companies.

English law is of the common law type, focusing on equity, with its rules emerging from judicial precedents in cases involving similar issues. Therefore, in recognizing the rights of third parties in cases of violations related to the decision-making process of joint-stock companies, in addition to referring to codified laws in the sources of this country's legal system, special attention is given to judicial precedents. English legal scholars argue that even with the enactment of laws solidifying principles derived from common law adjudications, there is still a need to refer to these rulings. This is because these long-established principles are very helpful in understanding and anticipating answers to potential questions to meet future needs. Additionally, the fundamental principles governing the corporate law system in England trace back to two roots: the country's economy and politics. Legislators, taking into account the economic goals of the country—such as mutual profitability, free-market transactions, optimal allocation of contractual resources, the transfer of resources to activities that create the highest value, and the decentralization of power that may be concentrated in the hands of business corporations—enact laws. The legal system in England moves in a direction that aligns with these economic and political goals.

Some principles governing the decision-making process in joint-stock companies in both Iranian and English law, such as the principle of participation, the general authority of managers, and the principle of collegiality, are shared, and their corresponding requirements are quite similar. These principles pertain to the general institution of the company, as one of the legal entities that enjoys legal personality and whose actions affect the rights of other legal entities, including third parties. Thus, in both Iranian and English law, the issue of shareholder participation in company decision-making, such as the selection of directors and the annual financial review, is particularly important. For example, in both Iranian and English law, legal and criminal penalties are imposed for failing to hold an annual general meeting.

However, the support of legislators in Iran and England has been influenced by differing perspectives on the role of small and private joint-stock companies in the market and economic systems of these countries. Consequently, we see that certain principles, such as the principle of formalities in English private joint-stock companies, which are typically small and active, have been altered. The requirements under Iranian company law for protecting third-party rights, such as the annulment of resolutions for failure to comply with formalities under Article 270 of the Commercial Code, no longer hold the same binding force in English law.

Meanwhile, other principles and rules, such as the principle of managerial oversight, the independence of auditors, the reality of corporate capital, and the rule of specialization, exist specifically within the context of Iranian corporate law to protect third-party rights regarding decision-making processes in these companies. These principles are largely based on procedural formalities, oversight, and negative or preventive support. The obligations arising from these principles in protecting third-party rights are regulated under the principle of oversight, and Iranian law has not specified criteria for the selection of individuals as managers or established qualitative frameworks for evaluating their actions. In contrast, in English law, the principles of good faith, professionalism (both for commercial companies as specialized traders and for their managers as professionals in management and decision-making), and oversight are intended to effectively safeguard the rights of third parties by setting transparent criteria. An example of this can be seen in cases such as *Watson v. Union Music Co Ltd* and *South Entertainment Ltd v. Wexford Entertainment Ltd*, where, when directors and shareholders used legal excuses based on procedural formalities to undermine third-party rights and invalidate the annual general meetings, the English court, in order to prevent the infringement of third-party rights, ordered the convening of the meeting without requiring mandatory formalities, relying on principles of good faith, professionalism, and oversight.

Therefore, it seems that, firstly, the laws and requirements governing the decision-making process in Iranian joint-stock companies need to be evaluated and reformed by the legislator to meet the needs of the modern economy. Secondly, a greater emphasis should be placed on judicial precedents regarding the needs assessment and the feasibility of implementing laws and regulations in this area. This will enhance the stability of financial markets, reduce the risk of third-party rights being violated, and provide more practical solutions for judges in the event of a dispute.

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.

Transparency Statement

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