
Construction of Authority in Corporate Contracts: Tension Between Formal Structure and Practical Flexibility in the Perspective of General Law

William Chandra

Tarumanagara University, Jakarta, Indonesia

Gunardi Lie

Tarumanagara University, Jakarta, Indonesia

ABSTRACT

Purpose - This study aims to analyze the legal boundaries of authority in corporate contracts and examine how Indonesian civil law principles address the enforceability of agreements made by individuals without formal authorization.

Methodology - The research employs a normative juridical approach, drawing on the interpretation of statutory regulations, doctrinal legal literature, and general principles of law. The analysis is also informed by the author's professional experience in corporate legal practice.

Findings - The study finds that while Indonesian positive law imposes a strict requirement for formal authority, practical business transactions often accept contracts executed under apparent authority, implicit acceptance, or good faith, especially when commercial continuity is at risk. This inconsistency results in a persistent legal gap that may lead to contractual disputes, inadequate protection for third parties, and operational ambiguity.

Novelty - By reconstructing the normative framework of authority, this paper proposes an adaptive legal approach that aligns more closely with the dynamic conditions of modern corporate transactions while preserving legal certainty. The study bridges the gap between rigid legal doctrine and the realities of corporate governance and contract enforcement.

Keywords: Corporate Authority, Contract Validity, Apparent Authority, Good Faith, Civil Law

JEL Classification: K12, K22, K41

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INTRODUCTION

Contracts constitute a foundational component of civil law, functioning as legally binding instruments that formalize transactions across individual and institutional contexts. In corporate environments, contracts serve not only as expressions of mutual consent but also as mechanisms to ensure legal certainty and accountability in business operations. The enforceability of contracts is inextricably tied to the legitimacy of the authority held by the signing party. In this regard, the internal structure of corporate authority significantly influences the legal validity of business agreements.

In practice, however, legal challenges often arise when contracts are signed by individuals lacking formal authorization under corporate governance instruments such as the articles of association. These circumstances frequently result in legal disputes over contract enforceability, even when both parties have acted in good faith. The recurring nature of such problems underscores a structural disconnect between formal legal expectations and pragmatic business practices. This legal-commercial tension is particularly evident in Indonesia, where the doctrine of authority is governed by codified statutes but often interpreted rigidly, without full consideration of business realities.

To address these concerns, this study adopts a normative juridical approach that examines authority in corporate contracts through the lens of general legal principles derived from Indonesia's civil law tradition. The term "general law" in this context refers not to comparative jurisdictional analysis, but to a framework rooted in statutory interpretation, doctrinal commentary, and judicial reasoning. The study is further enriched by the author's professional experience as in-house legal counsel in both service-provider and client-side corporate settings.

Accordingly, the research is designed to answer the following questions: (1) How does the authority structure within a corporation affect the validity of contracts entered into by corporate organs? (2) How does the general legal approach explain the relationship between limits of authority and enforceability of a contract? (3) What legal challenges emerge when agreements are executed by parties who lack formal authority? By addressing these issues, this paper aims to contribute to both doctrinal development and practical governance in corporate contracting.

LITERATURE REVIEW

The concept of authority in corporate contracts has been examined from both doctrinal and practical perspectives in the Indonesian legal context. Foundational texts such as Subekti (2008) and Satrio (1995) emphasize that legal capacity *kecakapan hukum* is one of the essential elements of a valid contract, as stipulated in Article 1320 of the Indonesian Civil Code. Within corporations, this legal capacity must be interpreted through the lens of institutional authority, where only designated organs (such as directors) possess formal competence to bind the company in legal acts.

Contemporary academic works have explored the implications of unauthorized acts (often referred to as *ultra vires*) in corporate transactions. Kinanti, Saptono, and Mahmudah (2016) and Waruwu (2022) provide important analysis on the limits of board authority and the consequences when individuals exceed these limits. Their research highlights the legal uncertainty faced by third parties and the tension between statutory authority and practical needs in business operations.

From a theoretical standpoint, Salim (2013) advances the understanding of legal development by integrating normative consistency with evolving social demands, while Zamroni (2019) discusses the need to limit contractual freedom when it threatens equity and legal clarity. These perspectives underscore the inadequacy of rigid formalism in addressing dynamic corporate transactions and call for a more flexible, trust-based legal doctrine.

Furthermore, Sari, Kusuma, and Kurnia (2019) explore how the principle of good faith can serve as a corrective mechanism in situations involving unauthorized signatories. They argue for the recognition of *apparent authority* or *implied ratification* to protect bona fide third parties. Similarly, Akbar (2020) demonstrates through case analysis how the misuse of corporate identity by unauthorized individuals can be mitigated through preventive legal safeguards and clearer corporate governance protocols.

Despite these contributions, the literature remains divided on whether Indonesian jurisprudence has adequately accommodated practical complexities in authority-based disputes. Many studies adopt a normative orientation without providing a systematic synthesis that connects legal doctrine to business risk governance. This paper addresses that gap by integrating doctrinal sources with firsthand insights from corporate legal practice to construct a cohesive framework for evaluating authority in contract formation.

METHODS

This study adopts a normative juridical approach that focuses on the analysis of legal norms as contained in statutory regulations, doctrinal literature, and general principles within the Indonesian civil law tradition. The objective is to construct a conceptual understanding of how authority within a corporation affects the validity of

contracts, especially when such contracts are signed by individuals who do not possess formal authorization.

Primary legal sources used in this research consist of the Indonesian Civil Code (Kitab Undang Undang Hukum Perdata) and Law Number 40 of 2007 concerning Limited Liability Companies. These are complemented by secondary sources such as textbooks written by Indonesian legal scholars including Subekti and Satrio, as well as peer-reviewed journal articles and doctrinal commentaries. Tertiary sources, such as legal dictionaries and encyclopedias, are also utilized to clarify terminology and support interpretative accuracy.

The research relies entirely on library-based data collection. There is no use of empirical or field-based methods. Legal reasoning in this study is conducted through qualitative analysis, which emphasizes deductive reasoning, conceptual clarity, and systematic interpretation of normative legal frameworks. Comparative insight is provided where necessary to highlight differences within Indonesian jurisprudence on authority and contract law.

This paper is further informed by the author's experience as an in-house legal counsel, both in companies providing services and in companies acting as clients. This practical exposure allows for contextual illustration of how authority is delegated and exercised in corporate transactions, including the legal risks that arise when informal or undocumented authority is relied upon in practice.

The scope of this research is limited to normative legal analysis. It does not extend to procedural aspects of dispute resolution, evidentiary standards in litigation, or comparative analysis with legal systems outside Indonesia. The focus remains on the doctrinal structure of authority in Indonesian corporate law and its practical implications in modern contract formation.

RESULTS

This study finds that the validity of corporate contracts in Indonesian law is strongly determined by the formal structure of authority held by corporate organs. Under Law Number 40 of 2007 concerning Limited Liability Companies, only the board of directors has the legal capacity to represent the company in binding legal acts unless otherwise

stated in the articles of association. Contracts executed by individuals who do not possess such authority are vulnerable to legal challenge, even when performed in good faith or based on internal company practice.

Based on doctrinal analysis and review of legal provisions, this research identifies three principal findings. First, the legal system emphasizes the formal aspect of authority, requiring that it be explicitly derived from internal corporate instruments. Second, there is a recurring pattern in business transactions where individuals below director level sign contracts without documented authority, often resulting in post-execution validation or dispute. Third, the courts and legal practice in Indonesia have inconsistently applied doctrines such as apparent authority or implied ratification, leading to legal uncertainty for third parties who rely on institutional representations.

These findings are further illustrated through comparative examples from the author's experience as an in-house legal counsel. In companies with weak verification systems, unauthorized signings were common, particularly in service or procurement agreements. In contrast, companies with structured governance required legal validation before any signing, including scrutiny of board resolutions and corporate registry documents. This contrast reveals a fragmented approach to authority across industries, contributing to an uneven standard of contract enforcement in practice.

Finally, the study maps the conceptual framework of authority in corporate contracts into two domains: formal legal rules and practical business conduct. The legal rules define who may represent the company and under what conditions, while business conduct often adapts or circumvents these requirements in the name of efficiency. This duality explains the persistent legal gap between formal validity and operational reality in corporate contracting.

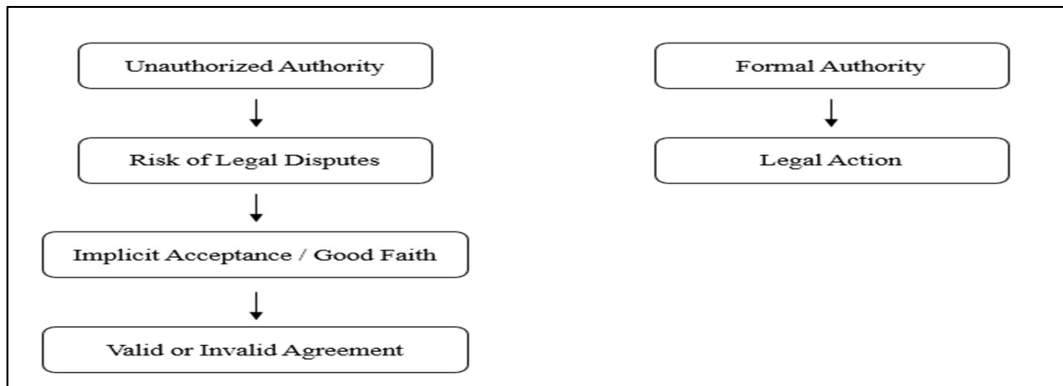


Figure 1. Conceptual Relationship between Authority and Contract Validity

This figure illustrates the normative connection between corporate authority and contract validity. It shows that legally authorized actions result in binding contracts, while actions taken without authority may lead to disputes unless mitigated by good faith or implicit ratification.

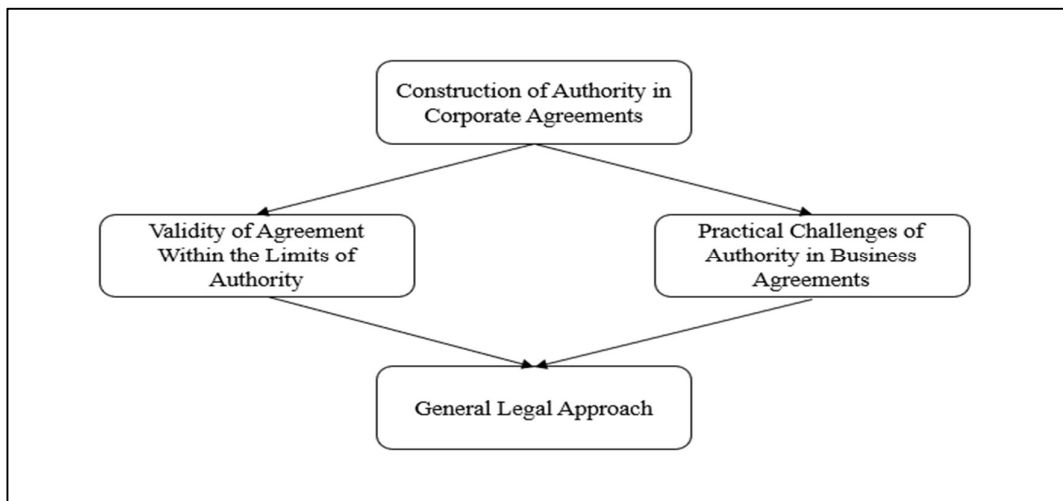


Figure 2. Framework of Authority Construction and General Legal Reasoning

This framework summarizes how the study analyzes corporate authority. It divides the inquiry into formal legal structure and practical deviations, both examined through general legal reasoning. The figure reflects the dual approach taken in this research by combining statutory doctrine with business realities.

DISCUSSION

The findings of this study reaffirm the central role of formal authority in determining the legal validity of contracts entered into by corporate organs. The emphasis placed by Indonesian civil law on formal delegation of authority aims to ensure institutional discipline and legal certainty. However, the persistent occurrence of unauthorized signings in business practice demonstrates a mismatch between normative expectations and operational realities.

Several legal scholars have acknowledged this disjunction. Subekti and Satrio highlight that while legal capacity is a mandatory element of contract formation, the reality of business often involves informal delegation and discretionary decision making. Salim and Zamroni further argue that rigid enforcement of formal authority requirements may hinder transactional efficiency and disregard the reasonable expectations of third parties. These perspectives support a shift from a strictly formalistic approach toward a more adaptive interpretation of corporate representation.

Doctrines such as apparent authority and implied ratification have emerged as corrective mechanisms to reconcile legal doctrine with commercial practice. In cases where a company benefits from a contract signed by an unauthorized individual, or fails to promptly repudiate such acts, courts may uphold the agreement in the interest of equity and good faith. However, the absence of clear legislative guidance has resulted in inconsistent judicial applications, leading to uncertainty for both companies and counterparties.

From a practical standpoint, this study illustrates how varying governance standards among companies influence the treatment of authority. In firms that lack formal verification procedures, reliance on assumed authority increases legal exposure. Conversely, firms that implement systematic checks, such as requiring board resolutions and notarial documentation, tend to minimize legal risk and avoid disputes. This observation suggests that internal corporate policy plays a vital role in complementing statutory authority provisions.

The implications of these findings extend beyond corporate law into the broader sphere of legal development. A legal system that fails to account for the dynamics of

business practice risks becoming detached from its regulatory function. Therefore, legal reform and judicial interpretation should aim to balance the principles of legal certainty with the practical needs of commercial actors. This requires a doctrinal evolution that maintains institutional legitimacy while recognizing the role of good faith and reliance in contract enforcement.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study concludes that corporate authority functions as a foundational legal mechanism in determining the enforceability of business contracts. Indonesian law requires that corporate legal acts be carried out by individuals who possess formal and documented authority, as defined by internal governance instruments and statutory provisions. However, in actual business practice, this requirement often collides with commercial urgency, resulting in contracts executed by individuals lacking formal authorization.

The analysis demonstrates that while legal certainty remains a core objective, rigid adherence to formal authority may lead to unjust outcomes, particularly for third parties acting in good faith. The doctrines of apparent authority and implied ratification offer potential pathways to accommodate business realities, yet they remain underdeveloped in Indonesian jurisprudence. A more balanced legal doctrine is needed, one that reconciles the principles of institutional legitimacy with the operational dynamics of modern corporate transactions.

Recommendations

To strengthen the legal enforceability of contracts and reduce disputes, companies should institutionalize robust verification procedures at the contract formation stage. This includes ensuring that signatories possess appropriate authority supported by up-to-date corporate documents, board decisions, and legal mandates. Legal literacy among non-legal personnel should also be enhanced to reduce reliance on informal practices.

At the regulatory level, legal reform should be considered to clarify the applicability of doctrines such as apparent authority and good faith reliance in corporate acts. Judicial training and academic discourse must also evolve to reflect the practical complexities

faced by modern businesses. By doing so, Indonesian contract law can progress toward a more adaptive and equitable framework that respects both legal structure and commercial necessity.

LIMITATION

This study is limited to normative legal analysis and does not incorporate empirical data or field-based research. As a result, it does not measure how often unauthorized contracts occur in practice or how Indonesian courts statistically decide such disputes. The research relies on doctrinal interpretation, statutory analysis, and the author's professional experience, which, while insightful, may not capture the full diversity of practices across different corporate sectors.

Another limitation lies in the jurisdictional scope of the study. The analysis is focused exclusively on Indonesian law and does not offer a comparative perspective with other legal systems, such as common law jurisdictions that may adopt more flexible doctrines of authority. This limited scope may affect the generalizability of the study's conclusions for international readers or cross-border corporate transactions.

Additionally, this study does not explore procedural aspects of dispute resolution, such as evidentiary burdens or court practice in proving authority. These aspects could have enriched the analysis by showing how theory is applied in litigation. The absence of case-by-case examination also limits the study's ability to assess the consistency of judicial decisions on authority-related contract issues.

Despite these limitations, the study contributes to the conceptual understanding of authority in corporate contracts and offers practical insights that may inform both legal doctrine and business policy. Further research involving empirical case analysis and cross-jurisdictional comparison would help expand and validate the findings presented in this paper.

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