

- **Doctrine of Indoor Management**

The doctrine of indoor management is an exception to the earlier doctrine of constructive notice. It is important to note that the doctrine of constructive notice does not allow outsiders to have notice of the internal affairs of the company.

If an act is authorized by the Memorandum or Articles of Association, then the outsider can assume that all detailed formalities are observed in doing the act. This is the Doctrine of Indoor Management or the Turquand Rule.

This is based on the landmark case between The Royal British Bank and Turquand. In simple words, the doctrine of indoor management means that a company's indoor affairs are the company's problem.

Therefore, this rule of indoor management is important to people dealing with a company through its directors or other persons. They can assume that the members of the company are performing their acts within the scope of their apparent authority. If an act which is valid under the Articles is done in a particular manner then the outsider dealing with the company can assume that the director and other officers have worked within their authority.

Explain the Rule laid down in Royal British Bank v. Turquand. It imposes an important limitation on the doctrine of constructive notice.

According to this doctrine, a person dealing with a company is bound to read only the public documents. He will not be affected by any irregularity in the internal management of the company.

The directors of the company borrowed a sum of money from the plaintiff. The company's articles provided that the directors might borrow on bonds such sums as may from time to time be authorized by a resolution passed at a general meeting of a company. The shareholders claimed that there was no such resolution authorizing the loan and therefore it was taken without their authority.

The company was however held bound for the loan. Once it was found that the directors could borrow subject to a resolution, the plaintiff had the right to assume that the necessary resolution must have been passed.

The rule is based on public convenience and justice and the following obvious reasons

1. The internal procedure is not a matter of public knowledge. An outsider is presumed to know the constitution of a company, but not what may or may not have taken place within the doors that are closed to him.

2. The lot of creditors of a limited company is not a particularly happy one; it would be unhappier still if the company could escape liability by denying the authority of officials to act on its behalf.

The rule/doctrine is applied to protect persons contracting with companies from all kinds of internal irregularities. It has been applied to cover the acts of de facto directors, who have not been appointed but have only assumed office at the acquiescence of the shareholders or whose appointment is defective, or have exercised authority which could have been delegated to them under the Act but actually not delegated, or who have acted without quorum.

