INTERNATIONAL JOURNAL FOR DISPUTE RESOLUTION

ISSN NO.: 2583-8989

RESOLUTION IS JUSTICE!

VOLUME 2 ISSUE 2

PIERCING CORPORATE BOUNDARIES: THE GROUP OF COMPANIES DOCTRINE IN MODERN COMPANY LAW

Marthala Joshika Reddy[1] & Durga Sriram Sai Siddartha[2]

ABSTRACT

The group of companies doctrine indicates an important turn in both arbitration and corporate law. The doctrine challenges the traditional concept of corporate separateness, recognizing that in practice many companies that exist within a corporate group behave as though they are all one company economically speaking. In corporate law, the doctrine of separate legal personality has long been a cornerstone - the law sees each company as separate and protects each company from the liabilities or obligations of other companies in the group. But in today's commercial practices, with cross-border negotiations and transactions, and the relatively extensive complexity of corporate structures, we can no longer assume these separations are real. The group of companies doctrine creates a mechanism for fairness and justice to be achieved by allowing courts and arbitral tribunals to see behind the "corporate veil" and into the true intentions and actions of related entities. The group of companies doctrine has an analogue in the arbitration context. For example, a company that is not a signatory to an arbitration agreement may be subject to the arbitration agreement and benefit from it, even though it never signed an agreement to arbitrate if that company was involved in the discussions prior to the agreement or had been engaged in performing the obligations of the contract itself. As a result, this doctrine can be described as a method to curb companies from avoiding legal liability by hiding behind a corporate structure. The group of companies doctrine is supporting equitable outcomes and commercial justice; however, it does have some drawbacks with respect to predictability and legal certainty. Therefore, a carefully considered application of this doctrine should occur, weighing the principle of separate corporate identity against the practical realities of modern group enterprises. This article will address the development, judicial recognition and practical application of the group of companies doctrine within the context of modern company law.

[1] The author is a student of law at Sastra Deemed University.
[2] The co-author is a student of law at Sastra Deemed University.

INTRODUCTION

The notion of the corporation as a separate legal entity is a basic principle in corporate law, which is always evolving. After ***Salomon v. Salomon & Co. Ltd. (1897)***, courts in England and other jurisdictions have adhered to the principle of a company existing in and of itself apart from its shareholders and related companies. This principle supports the foundations of limited liability and corporate personhood. Today, with the evolution of corporate forms, and the complexity of companies as economic entities (primarily conglomerates and multinational enterprises), the idea of the separation of businesses has been challenged. In practice, several companies generally under the same direction of management or ownership operate as a single commercial entity with shared resources, control, and decision-making processes. Thus, the Group of Companies Doctrine was created to bridge the gap between the corporation as a conceptual entity, and the world of actual commerce.

The Group of Companies Doctrine states that, regardless of being separate legal entities, a group of companies may act in a common intention when it comes to commercial relationships, including in arbitration agreements. The Group of Companies Doctrine permits you to pull in non-signatory companies if it can be established that the group, as a whole, wanted to be bound by the arbitration agreement. The Group of Companies Doctrine is particularly relevant in international arbitration because a parent company and subsidiary may regularly deal with each other in furtherance of the same underlying economic purpose evidenced in cross-border contracts.

While the Group of Companies Doctrine endorses the notions of fairness and accountability ad infinitum, it also raises issues of infringement on the general principles of corporate law. Critics contend an over-reliance on the Group of Companies Doctrine devalues the certainty provided by limited liability and the simplicity of the contractual relationship. Nonetheless, the proponents of the Group of Companies Doctrine maintain, in an increasingly global economy in which companies are intentionally interrelated with one another and organized for reliance on one or more entities of the group, simply adhering to the separate legal personality still ultimately leads to different injustices, or an altogether abuse of legal form.

Thus, the doctrine of the group of companies is a judicial and doctrinal effort to find balance between conflicting values of upholding corporate identity as a matter of law and delivering commercial justice. The article will illustrate how the doctrine evolved, its recognition by judges in different jurisdictions, and the depth through which the Groups of Companies Doctrine manifests in light of the modernization of company law.

EVOLUTION AND CONCEPT OF THE GROUP OF COMPANIES DOCTRINE

The concept of separate legal personality is one of the cornerstones to company law. As decided in the case of ***Salomon v. Salomon & Co. Ltd***, a company has a legal identity distinct from its shareholders and associated entities[3].The concept of separate legal personality is important because, as a general principle, a company's debt or liability will not, in general, be attributed to those individuals who own or operate the company. Separate legal personality provides a foundation upon which limited liability, corporate autonomy, and certainty in commercial dealings are underpinned. However, an absolute approach to corporate separateness often operates inconsistently with the realities of contemporary business practices-particularly as conglomerates, subsidiaries, and multinational or cross-border companies come into existence or expand their field of operations across borders.

In practice, companies today do not operate in isolation. Companies are functioning as parts of interconnected and overlapping structures termed "groups of companies" when two or more companies under common control or ownership share a common economic purpose or objective. Companies are often interconnected by shared resources, management, branding, and overall strategic direction which can streamline operational functions regardless of jurisdictional differences. Nevertheless, each company, viewed through a legal lens, is considered a distinct legal entity and personality; ie. the law treats each separate company as a distinct entity, irrespective of the commercial relationships between companies. This dichotomy between legal form and commercial substance presents expansions on the understanding of and options for addressing such transactions or business operations to fulfill commercial purposes. The commercial practice of and legal theory for the Group or Conglomerate of Companies Doctrine

[3] Salomon v. Salomon & Co. Ltd., A.C. 22 (H.L.) (U.K.).

is now evolving to both address and bridge the realities of modern business and principles of corporate law.

The doctrine developed as a result of the growing recognition of the limitations inherent in the application of traditional corporate concepts. Courts and arbitral tribunals recognized that in some situations it would be unjust or unfair to allow the legal identities of group members to obstruct culpability. Instead, it was accepted that sometimes companies will all be members forming one economic unit, and in some cases can be treated as one company for some legal purposes. This perspective has special significance in international arbitration, where group companies often negotiate and execute contracts as a group, even when only one company is the signatory.

Globalization and increasing complexity in the corporate structure also supported an increased need to allow flexibility around the application of the corporate veil. The doctrine does not sound the death knell for the principle of separate legal personality, but rather accommodates it in a modern context. The doctrine presupposes that the distinct legal formations of group members will – at some times and in some circumstances – give way to the substance of their relationship so that the law upholds justice (rather than blindly following formality). The Group of Companies Doctrine stands as a modern change in law that creates a balance between a commitment to corporate independence with a recognition of economic interdependence.

APPLICATION OF THE DOCTRINE IN ARBITRATION AND COMPANY LAW

The Group of Companies Doctrine has become more relevant in arbitration, but it can potentially apply in a wider sense to various issues of company law. It is important for determining disputes between entities which are connected to each other in one or more ways and which are, or are not, parties to an arbitration agreement. Arbitration is fundamentally based on consent and an arbitration agreement binds only the parties who agree to arbitrate[4]. Nevertheless, modern commerce often involves parent and subsidiary companies negotiating, performing or benefitting from the same contract. In this context, tribunals and courts have increasingly recognized that

[4] Gary B. Born, International Commercial Arbitration 1415 (3d ed. 2021).

entities who did not sign the arbitration agreement can still be bound by the arbitration provision if there is common intention of the corporate family, for example[5].

The standards for utilizing the doctrine depend on establishing factual indicia, including whether the parties' intent, behavior in negotiations, or performance of contract terms demonstrates either cohesiveness or separateness. Those indicia suggested that the companies acted as a unit, without formal separateness. The principle was first articulated in Dow Chemical v. Isover-Saint-Gobain[6], wherein the tribunal stated that non-signatory companies could also be treated as parties to an arbitration agreement if the conduct of the companies would evidence a mutual intent to be bound. Later, in **CHLORO CONTROLS INDIA PVT. LTD. V. SEVERN TRENT WATER PURIFICATION INC**.[7], the Supreme Court endorsed this reasoning by allowing non-signatories from a related corporate group to participate in arbitration proceedings if a strong organizational and functional connection existed.

Aside from arbitration, the doctrine has practical applications in company law, especially in relation to joint ventures, mergers, intra-group transactions, or corporate restructuring. It protects parties from an associated corporate entity abusing rights afforded by their separate legal personality to avoid performance of contractual or statutory obligations[8]. By recognizing a group as a single economic unit in appropriate cases, courts ensure that justice is not lost to technical formalities. This attitude remains, as it should, extraordinary, and only invoked when equity and commercial morality so requires. The doctrine serves the dual purpose of protecting the sanctity of an incorporated legal identity, at the same time as ensuring that corporate abuse is prevented, reiterated in the principle that the law must be a reflection of the substance of commercial relationships as opposed to the mere form[9].

[5] Nigel Blackaby et al., Redfern & Hunter on International Arbitration 128 (6th ed. 2015).
[6] Dow Chemical Co. v. Isover-Saint-Gobain, ICC Case No. 4131, Interim Award (1982), Final Award (1984).
[7] Chloro Controls India Pvt. Ltd. v. Severn Trent Water Purification Inc., (2013) 1 S.C.C. 641 (India).
[8] Ameet Lalchand Shah v. Rishabh Enterprises, (2018) 15 S.C.C. 678 (India).
[9] Renusagar Power Co. v. General Electric Co., 1994 Supp. (1) S.C.C. 644 (India).

ADVANTAGES AND JUSTIFICATIONS OF THE DOCTRINE

The Group of Companies Doctrine is a practical and fair mechanism that connects the strict rules of corporate law with today's business realities. Its greatest benefit is its ability to foster equity and fairness, preventing corporations from utilizing the veil of separate legal personality to avoid actual obligations[10]. The doctrine recognizes that in modern global business, companies constituting a corporate group frequently operate as one economic unit, sharing control, management and purpose[11]. Acknowledging this interrelatedness allows courts and arbitral tribunals to do justice that is in keeping with expected commercial behavior and moral responsibility.

One reason for using this doctrine is to prevent the evasion of liability[12]. Corporate groups sometimes organize subsidiaries in a manner for the expense of defaults or to avoid other contractual obligations. By treating the corporate group as a single entity when reflecting the true facts, this doctrine protects against the abuse of the corporation[13]. The doctrine is also in line with the larger judicial approach of lifting, or piercing, the corporate veil, especially in circumstances where applying the fiction of separation would impose injustice[14]. The Indian Supreme Court's decision in ***Chloro Controls India Pvt. Ltd. v. Severn Trent Water Purification Inc.*** depicted an example of the judicial reasoning that "the entities within a group that took part in the negotiation or execution of a contract cannot later deny being a party to escape arbitration[15]." The thinking for this doctrine springs from the logical principle that "one cannot both endorse and deny the same commercial contract."

The doctrine's contribution to commercial efficiency presents another reason to uphold it. This reduces the chances of adjudicating disputes concerning connected companies in a piecemeal manner by not diverting claims to separate courts and avoiding multiple proceedings and having conflicting legal result. The doctrine directly facilitates a conflict-free pretextual forum to resolve your claims concerning connected companies. This serves as a principle of judicial

[10] Nigel Blackaby et al., Redfern & Hunter on International Arbitration 130 (6th ed. 2015).
[11] Phillip I. Blumberg, The Law of Corporate Groups: Problems in the Substance of Corporate Law 52 (1983).
[12] Gary B. Born, International Commercial Arbitration 1438 (3d ed. 2021).
[13] Renusagar Power Co. v. General Electric Co., 1994 Supp. (1) S.C.C. 644 (India).
[14] Prest v. Petrodel Resources Ltd., UKSC 34 (U.K.).
[15] Chloro Controls India Pvt. Ltd. v. Severn Trent Water Purification Inc., (2013) 1 S.C.C. 641 (India).

economy; and procedural economy. Moreover, the avoidance of claims outside of the company also promotes confidence in transparency and accountability because parent companies have incentives to keep their subsidiaries in check knowing that they may have additional liability for the actions of the group if one of them cross the line or engage in a troublesome dispute.

Finally, it reinforces the idea that the law should be reflective of economic reality over, and not merely legal form. Courts and arbitral tribunals use the doctrine to close off, not the corporate form, but in cases when it is artificially being used. Thus, the Group of Companies Doctrine is a necessary modern-day doctrine, striking a balance between the formal legal conventions with economic realities of transnational commerce without impairing the contractual integrity that undergirds all business transactions.

CRITICISMS AND LIMITATIONS OF THE DOCTRINE

Although the Group of Companies Doctrine has developed as an equitable principle, it is not beyond criticism. Scholars have stated that it destabilizes predictability and stability within corporate law by dismantling the historical idea of separate legal identities created in ***Salomon v. Salomon & Co. Ltd***[16]. This unpredictability alone may deter corporate groups from structuring international ventures, particularly in regard to possible exposure of liability.

A more serious concern is that the doctrine destroys corporate boundaries, governing where the duty of one company ended and the responsibility of another began[17]. Critics warn that operating too visibly and consistently will weaken the independence of subsidiary companies, reducing their ability to limit exposure of risk based on their contract intentions[18]. There is also concern about the potential for the tribunals and courts overextending the doctrine without necessity, in the simple interests of good service convenience, allowing the equitable doctrine to be misused and lead to judicial over-extension of power[19].

[16] Salomon v. Salomon & Co. Ltd., A.C. 22 (H.L.) (U.K.).
[17] Phillip I. Blumberg, The Law of Corporate Groups: Problems in the Substance of Corporate Law 52 (1983).
[18] Gary B. Born, International Commercial Arbitration 1441 (3d ed. 2021).
[19] Mahanagar Telephone Nigam Ltd. v. Canara Bank, (2020) 12 S.C.C. 767 (India).

Finally, there is an absence of consistency in world recognition[20]. While arbitral tribunals and Indian courts have accepted the doctrine, many jurisdictions—especially in the U.K. and U.S.—remain skeptical and adamantly follow the separation of corporations[21]. This inconsistency creates legal uncertainty and limits the exclusionary scope of application of mercantile trust doctrine.

THE INDIAN CONTEXT AND COMPARATIVE PERSPECTIVE

India's attitude towards the Group of Companies Doctrine has been a cautiously progressive journey that equally weighs commercial practicality with legal orthodoxy. The decision in ***Chloro Controls India Pvt. Ltd. v. Severn Trent Water Purification Inc***[22]. symbolises India's recognition of the doctrine in a formal manner, when the Supreme Court held that non-signatory affiliates of a corporate group may be bound by an arbitration agreement if they had 'engaged in negotiations' or 'were involved in performance or termination' of the contract. The Chloro Controls court also repeated this interpretation in ***Ameet Lalchand Shah v. Rishabh Enterprises***[23], and modified this interpretation again in ***MTNL v. Canara Bank***[24], which was an indication of India's willingness to adopt principles of corporate law to suit the needs of modern commercial life.

However, compared to some arbitration-friendly jurisdictions, India’s adoption is still dependent on the court's direction, as opposed to corresponding statutory codification. Current legislation, the Arbitration and Conciliation Act, 1996, does not have any mention of the doctrine, meaning that its use remains reliant on judicial discretion[25]. Consequently, even though cases in India seem to take a more pragmatic approach, the absence of express statutory guidance continues to raise questions of predictability and consistency[26].

In contrast, the courts in the UK are still quite reluctant to go down this route, continuing to apply the Salomon principle firmly and restricting group liability to instances where the

[20] Nigel Blackaby et al., Redfern & Hunter on International Arbitration 138 (6th ed. 2015).
[21] Peterson Farms Inc. v. C & M Farming Ltd., EWHC 121 (Comm) (U.K.).
[22] Chloro Controls India Pvt. Ltd. v. Severn Trent Water Purification Inc., (2013) 1 S.C.C. 641 (India).
[23] Ameet Lalchand Shah v. Rishabh Enterprises, (2018) 15 S.C.C. 678 (India).
[24] Mahanagar Telephone Nigam Ltd. v. Canara Bank, (2020) 12 S.C.C. 767 (India).
[25] Arbitration and Conciliation Act, No. 26 of 1996, INDIA CODE (1996).
[26] Nigel Blackaby et al., Redfern & Hunter on International Arbitration 138 (6th ed. 2015).

company is fraudulently or sham conducted[27]. In the US, the courts similarly employ doctrines such as “alter ego” or “piercing the corporate veil, ” but they rarely use this in an arbitration context[28]. In contrast, international arbitral tribunals have more flexibility (especially under the ICC) and have allowed the doctrine to operate in order to give effect to the commercial intent of the parties[29].

Going forward, it is up to India to develop clearer statutory schemes or to develop a consistent judicial test for using the doctrine[30]. In a time where globalization and the cross border elements of corporate structures are on the rise, a harmonized approach would go a long ways towards fostering investor confidence and developing India’s image as a pro-arbitration jurisdiction that aligns itself alongside international norms in commercial arbitrations[31].

CONCLUSION

The Group of Companies Doctrine signifies an important advancement in modern corporate law and arbitration law that reflects the realities of existing business structures on a global scale. It recognizes that corporate entities belonging to a group typically operate as one commercial unit, closely aligned by collective intention, control, and beneficial purpose. Historically, principles like those established in Salomon v. Salomon & Co. Ltd stressed the importance of separateness in corporate decision-making under the law. Contemporary commercial realities necessitate a different approach, in order to prevent the misuse of the corporate veil, ultimately to promote fairness in commercial contractual relationships.

Indian judicial history, particularly in the context of Chloro Controls and MTNL v. Canara Bank, has also indicated a willingness to incorporate this doctrine. The need to reflect economic reality elucidates how the state can modify existing judicial reasoning. However, being concentrated in the hands of judges, the ability to identify predictability and scope under the doctrine is highly problematic. For further coherence and judicial recourse in practice, there needs to be either

[27] Prest v. Petrodel Resources Ltd., UKSC 34 (U.K.).
[28] Phillip I. Blumberg, The Law of Corporate Groups 115 (1983).
[29] Dow Chemical Co. v. Isover-Saint-Gobain, ICC Case No. 4131, Interim Award (1982), Final Award (1984)
[30] Gary B. Born, International Commercial Arbitration 1443 (3d ed. 2021).
[31] Julian D.M. Lew et al., Comparative International Commercial Arbitration 285 (2003).

statutory execution or consistent tests applied consistently by courts that allow for autonomous scrutiny linked to behind-the-scenes economic implementations.

In the end, the strength of this doctrine is its flexibility: to balance the autonomy of corporations with accountability. As India continues in its emergence as an international place for investment and arbitration, perfecting this doctrine will be important in building confidence, ensuring justice, and bringing Indian practice in line with the global standard of corporate and commercial law.