

4-1-2017

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Recommended Citation

Deborah A. DeMott, *Corporate Officers as Agents*, 74 Wash. & Lee L. Rev. 847 (2017),
<https://scholarlycommons.law.wlu.edu/wlulr/vol74/iss2/11>

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Corporate Officers as Agents

Deborah A. DeMott*

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I. Introduction

This Essay celebrates the scholarly insight of Professors Lyman Johnson and David Millon into an essential component of contemporary corporate law and governance, beginning in 2005 with their co-authored cornerstone article, *Recalling Why Corporate Officers are Fiduciaries*.¹ By emphasizing the salience of common law agency, Lyman and David recast the scholarly understanding of corporate officers into broader terms that enrich

* David F. Cavers Professor of Law, Duke University School of Law. For comments on an earlier draft, I thank Keith Bishop, Richard Burt, Elisabeth de Fontenay, Ofer Eldar, Andrew Gold, Lyman Johnson, and Emily Strauss. The Essay benefited as well from discussions at the Symposium conference.

1. Lyman P.Q. Johnson & David K. Millon, *Recalling Why Corporate Officers Are Fiduciaries*, 46 WM. & MARY L. REV. 1597 (2005). Preparing to write this Essay, I found in my computer files a memo consisting of comments I sent to Lyman and David after they'd sent me a draft manuscript. The memo begins: "I think the basic point made in this paper is sound and that the paper . . . fills a significant gap in the literature." Memorandum from Deborah A. DeMott to Lyman Johnson and David Millon (undated) (on file with author). I'm grateful for a fitting occasion to celebrate their prescience in this body of scholarship.

theoretical accounts of corporate governance while also reorienting theory closer to the law itself. Later publications by Lyman, several co-authored with Robert Ricca, made a case for the inaptness of the business judgment rule as applied to officers and addressed the importance of lawyers' advice to officers about their fiduciary duties.² In this Essay, I examine further implications of Lyman and David's fundamental insight, including developments in Delaware law that it foreshadowed.

Although officers are crucial to explaining how corporations function, scholarly and theoretical accounts of corporate law and governance tend to slight officers' positions as well as the distinctive quality of their duties. Following Johnson and Millon, this Essay anchors corporate officers within the common law of agency, as does black-letter law. Making agency central to understanding officers' positions and responsibilities helps to differentiate officers from directors. Like a director, an officer is a fiduciary, but distinctively so, not as a mere instance of a generic "corporate fiduciary" who owes duties of loyalty and care to the corporation. As this Essay explains, officers' duties of care are more particularized than a director's general duty of care, consisting of distinct duties of care, competence, and diligence. Moreover, officers owe additional duties to the corporation: a duty to comply with a reasonable interpretation of lawful instructions received from the board or a superior officer, plus a duty to share material information with the board or others within the corporation.³ An officer's decision whether to comply with these duties is not a judgment call for the officer, just as it is not for agents more

2. See generally Lyman P.Q. Johnson, *Corporate Officers and the Business Judgment Rule*, 60 BUS. LAW. 439 (2005); Lyman P.Q. Johnson & Robert V. Ricca, *(Not) Advising Corporate Officers About Fiduciary Duties*, 42 WAKE FOREST L. REV. 663 (2007); Lyman P.Q. Johnson, *Having the Fiduciary Duty Talk: Model Advice for Corporate Officers (and Other Senior Agents)*, 63 BUS. LAW. 147 (2007); Lyman P.Q. Johnson, *Are Corporate Officers Advised About Fiduciary Duties*, 64 BUS. LAW. 1105 (2009); Lyman P.Q. Johnson & Robert V. Ricca, *Reality Check on Officer Liability*, 67 BUS. LAW. 75 (2011) [hereinafter Johnson & Ricca, *Realty Check*]; Lyman P.Q. Johnson, *Dominance by Inaction: Delaware's Long Silence on Corporate Officers*, in CAN DELAWARE BE DETHRONED: EVALUATING DELAWARE'S DOMINANCE IN CORPORATE LAW (Stephen Bainbridge ed. forthcoming 2017) [hereinafter Johnson, *Dominance*].

3. For these duties, see RESTATEMENT (THIRD) OF AGENCY §§ 8.09 & 8.11 (AM. LAW INST. 2006).

generally. Officers' distinct duties as agents are crucial to a corporation's ability to exercise control over their actions.

Venturing into more contested territory, this Essay argues that when acting as agents—representing a corporation in dealings with third parties or performing functions internal to the corporation—officers should be subject to the same liability standard applicable to third-party agents who provide comparable services.⁴ Thus, an officer's breach of her duties of care, competence, and diligence should be assessed against a standard of ordinary or simple negligence, as is the case for agents generally, not the less demanding standard of gross negligence applicable under Delaware law to directors' breaches of their more generalized duty of care. Agency law focuses on whether an agent's performance matched the expectations underlying the principal's choice to be represented by a particular agent, a perspective that reflects the skills and knowledge that an agent possesses or claims to possess. Corporate officers, a cohort of agents situated internally within their principals, warrant no different treatment from externally-situated agents. To be sure, some corporate officers (especially ones very high in the hierarchy) occupy positions that require exercising, not specialized or technical expertise, but more generalized management skills. Membership in this senior managerial cohort does not displace the officer's status as an agent

Additionally, to equate officers with directors for liability purposes undercuts directors' right to rely on officers as well as the corporation's ability to control its officer-agents, wherever situated within the corporation's hierarchy. The equation of officers with directors also effaces some of the significance of the different roles occupied by directors in contrast with officers. And a board of directors might well wonder whether the corporation's interests would be best served by supplementing its officers' work with advice and other work product from third-party agents and advisors. But supplementing or supplanting work done by agents situated inside a corporation with comparable services rendered by

4. For an earlier comparative treatment of a few of these points, see generally Deborah A. DeMott, *Inside the Corporate Veil: The Character and Consequences of Executives' Duties*, 19 AUSTL. J. CORP. L. 251 (2006).

third-party agents may carry implications for efficiency.⁵ More generally, situating corporate officers within the ambit of agency relationships clarifies the contrast between legally-imposed (and relatively immutable) duties of loyalty and an agent's duties of performance. Subject to some fundamental limits, a principal and an agent may define duties of performance through agreement, including the standard against which the agent's performance will be assessed.

Apart from the issues that engaged Lyman and David as scholars, this Essay explores implications of a further feature distinguishing officers from directors, which is the relative fluidity in meaning associated with "officer." Agency doctrine, by engaging the externally-oriented consequences of an agency relationship as well as those that are inward-facing, provides an analytic framework that can be a source of insight. This Essay concludes by identifying an implication for more general or theoretical accounts of fiduciary obligation. Accounts of fiduciary obligation premised on the fiduciary's possession of discretion clash with agency, centered as it is on the principal's power to control the agent. Including agency within fiduciary taxonomy—as does the law—thus implies the need for a more inclusive definition.

II. Officers and Their Duties

Contemporary corporation statutes articulate much about the functions directors serve and the powers they hold. For example, the Delaware Corporation Law (DGCL) prescribes a function for directors, stating that the business and affairs of a corporation shall be managed "by or under" its board of directors.⁶ Other statutory prescriptions concern directors' terms of office, committees of the board, shareholders' power to remove directors, and much more.⁷ In contrast, the statute treats officers more

5. Assessing these potential implications is beyond the scope of this Essay. On efficiency implications associated with transactional intermediaries situated externally to their clients, see Kathryn Judge, *Intermediary Influence*, 82 U. CHI. L. REV. 573, 590 (2015).

6. DEL. CODE ANN. tit. 8, § 141(a) (2017).

7. *Id.* §§ 141(d) (explaining directors' terms of office); 141(c) (discussing

briefly and less prescriptively. DGCL section 142 states that a corporation shall have “such officers with such titles and duties” as stated in the corporation’s bylaws or a resolution of the board not inconsistent with the bylaws, “and as may be necessary” to enable the corporation to sign instruments and stock certificates in compliance with other provisions in the statute.⁸ Section 142 mandates only one function to be served by an officer, which is recording “the proceedings of the . . . stockholders and directors in a book to be kept for that purpose.”⁹ Section 142 also permits the same person to hold multiple offices unless the corporation’s certificate of incorporation or bylaws provide otherwise.¹⁰ Thus, the person charged with the secretarial function of recording proceedings could also serve as a Treasurer, a Chief Legal Officer, or a Vice-President.¹¹

Although the Model Business Corporation Act (MBCA) treats officers more extensively as a formal matter in five separate sections, as in the DGCL only the secretarial function is prescribed.¹² Additional MBCA provisions are noteworthy. First, the MBCA explicitly acknowledges that the rights and duties originating in appointment as an officer are not identical to those stemming from any contract between the officer and the corporation. Under section 8.44, appointment as an officer “does not itself create contract rights” nor does an officer’s removal or resignation from office affect contract rights that the officer or the corporation may have against the other.¹³ In Part III, this Essay

committees of board); 141(k) (2017) (describing shareholders’ power to remove directors).

8. *Id.* § 142(a).

9. *Id.*

10. *Id.*

11. On the agency-law implications for apparent authority of particular offices and their titles, see RESTATEMENT (THIRD) OF AGENCY § 3.03, cmt. e(5) (AM. LAW INST. 2006). For further discussion, see *infra* text accompanying notes 126–128.

12. See MODEL BUS. CORP. ACT § 8.40(c) (AM. BAR ASS’N 2010) (explaining that the bylaws or board of directors “shall assign to one of the officers responsibility for preparing the minutes of directors’ and shareholders’ meetings and for maintaining and authenticating” records of the corporation mandated by the statute).

13. *Id.* § 8.44.

elaborates further on relationships between contracting and an officer's rights and duties. Second, MBCA section 1.40(8)—which has no DGCL counterpart—defines an officer (but not a director) as an employee of the corporation, regardless of other incidents of the relationship between the officer and the corporation.¹⁴ Only by accepting additional duties would a director also become an employee.

In Part IV, this Essay explores the implications of indeterminacy in the definition of “officer,” including those stemming the practice of assigning “officer” titles to employees whose job functions are not executive or managerial.¹⁵ For present purposes, note that section 1.40(8) constitutes a formal recognition of a potential distinction between directors and officers.¹⁶ More generally, as Johnson and Millon emphasize, scholarly discourse that amalgamates officers and directors into an undifferentiated category, “managers,” ignores critical differences in their respective roles (and duties).¹⁷ Also elided is the basic point that “officers are accountable to directors.”¹⁸ Directors act as or on behalf of the principal in a relationship with officers as the corporation's agents.¹⁹

Legal implications of terminology aside for a moment, contemporary accounts of corporate governance conventionally assign functions and positions to persons designated as a corporation's officers. For John Armour and Jeffrey Gordon,

14. See *id.* § 1.40(8) (“Employee includes an officer but not a director.”).

15. See *infra* notes 122–125 and accompanying text (explaining the problems inherent to this business practice).

16. The wisdom of defining all officers as employees has been questioned. See RESTATEMENT (THIRD) OF AGENCY § 3.03, cmt. e(1) (AM. LAW INST. 2006) (citing N.C. GEN. STAT. § 1.40, Amended North Carolina Commentary (iv) (deleting MBCA definition of “employee” as “unnecessary and undesirable”). In Delaware, whether an officer is also an employee is likely a question of fact turning on the incidents of the officer's relationship to the corporation. See *Haft v. Dart Grp. Corp.*, 841 F. Supp. 549, 569–72 (D. Del. 1993) (predicting that the Delaware Supreme Court would hold that, under Delaware law, whether an officer is an employee depends on the incidents of the officer's relationship to the corporation).

17. See Johnson & Millon, *supra* note 1, at 1625 (“Managers were, and are, routinely described to include directors and officers, often with little or no distinction being made between them.”).

18. *Id.*

19. *Id.*

officers are “executives, tasked with making decisions about the running of the company.”²⁰ Directors, in contrast, serve as monitors of officers’ performance, typically through board decisions on proposals that officers initiate, as well as by monitoring performance reporting and overseeing compensation structures and retention decisions for senior managers.²¹ Tasked with decisions about running the company, officers hold “power to initiate corporate decision-making.”²² All true, but centering the account of officers on their status as agents supplements inward-looking treatments of corporate governance by underlining the externally-oriented functions that officers serve. As its agents, officers represent the corporation in dealings with third parties, serve as high-level conduits through which the corporation learns facts about the world external to its own boundaries, and speak authoritatively on behalf of the corporation. For example, an officer’s power to initiate conduct attributable to a corporation encompasses conduct that is tortious.²³

20. John Armour & Jeffrey N. Gordon, *Systemic Harms and Shareholder Value*, 6 J. OF LEGAL ANALYSIS 35, 65 (2014). An officer regarded as an “executive” in some contexts is not necessarily also an “executive officer” for purposes of the federal securities laws, defined as a corporation’s “president, any vice president . . . in charge of a principal business unit, division or function (such as sales, administration or finance), any officer who performs a policy making function or any other person who performs similar policy making functions” 17 C.F.R. § 240.3b-7. Some requirements apply only to executive officers. *See, e.g.*, Item 402(a)(3) of Regulation S-K, 17 C.F.R. § 229.402(a)(3) (mandating disclosure in proxy statement of chief executive officer and four most highly compensated executive officers other than CEO).

21. *See* Armour & Gordon, *supra* note 20, at 65 (“*Directors*, in contrast, are tasked with acting as monitors of the performance of the officers.”). Likewise, for Robert Thompson, the primary role of directors is “monitoring managers,” who “are the key decision makers in corporate decisions, a point that reflects the influence of market and economic realities more than a command from law.” Robert B. Thompson, *Anti-Primacy: Sharing Power in American Corporations*, 71 BUS. LAW. 381, 404 (2016).

22. Armour & Gordon, *supra* note 20, at 65.

23. For a recent example, see *Facebook, Inc. v. Power Ventures, Inc.*, 828 F.3d 1068, 1079 (9th Cir. 2016) (subjecting the defendant’s CEO to personal liability, in addition to corporation’s liability, because the CEO initiated and directed a promotional campaign that unlawfully accessed plaintiff’s website to send unsolicited and misleading emails to users of plaintiff’s social networking site).

The background against which Johnson and Millon wrote in 2005 had little to say about the legally distinct position occupied by corporate officers. Emphasizing officers' status as agents, by providing a "pre-existing set of expectations," helps to flesh out officers' duties in the absence of a "widely recognized conceptual grounding for the frequent doctrinal assertions that officers are fiduciaries."²⁴ Enhancing the absence, only rarely did judicial opinions need to articulate the basis for an officer's duties to the corporation, distinct from those of directors.²⁵ Post-2005 opinions from the Delaware Supreme Court and the Court of Chancery answer a series of questions, inevitably leaving others unaddressed. Like these cases, this Essay does not examine potential implications for determinations about choice of law in disputes focused on officers' duties and liabilities.

In *Gantler v. Stephens*,²⁶ the Delaware Supreme Court in 2008 resolved a question of first impression, holding that corporate officers "owe fiduciary duties" and that those duties "are identical to those owed by corporate directors."²⁷ *Gantler* nicely illustrates

24. Johnson & Millon, *supra* note 1, at 1636. As Lyman and David noted, officers' status as agents was almost always treated as significant when the issue was their power to "affect the corporation's relationship with third parties," not the basis for their inward-looking duty to the corporation as principal. *Id.* at 1609.

25. Compare Lyman P.Q. Johnson, *Corporate Officers and the Business Judgment Rule*, 60 BUS. LAW. 439, 440 (2005) [hereinafter Johnson, *Business Judgment Rule*] (explaining the judicial confusion as to the distinction between officers and directors), with Lawrence A. Hamermesh & A. Gilchrist Sparks, III, *Corporate Officers and the Business Judgment Rule: A Reply to Professor Johnson*, 60 BUS. LAW. 865, 870–75 (2005) (arguing that officers and directors are sometimes the same and it is difficult to distinguish when conduct occurs in the capacity as an officer versus a director, and that a due care standard makes officers more cautious so they will seek second and third opinions and incur unnecessary costs). In later writing, Lyman characterized this absence as a "silence." See Johnson, *Dominance*, *supra* note 2, at 3. Alternatively, Delaware law was not silent about officers' duties, just reliant on the common-law backdrop of agency, which rarely occupied the foreground.

26. 965 A.2d 695 (Del. 2009).

27. *Id.* at 708 (citing *Ryan v. Gifford*, 935 A.2d 258, 266 (Del. Ch. 2007)). A few lines on, *Gantler* characterizes officers' fiduciary duties as "the same as those of directors." *Id.* at 709. See, e.g., *Guth v. Loft, Inc.*, 5 A.2d 503, 510 (Del. 1939) (discussing the duty of loyalty applicable to officers and directors); *Cede & Co. v. Technicolor, Inc.*, 634 A.2d 345, 361 (Del. 1993) (same); see also *In re Dole Food Co. S'holder Litig.*, CONSOLIDATED C.A. No. 8703-VCL, CONSOLIDATED C.A. No. 9079-VCL, 2015 WL 5052214, at *40 (Del. Ch. Aug. 27, 2015) (holding that,

the connection between officers' externally-oriented status as agents and their internally-oriented fiduciary duties to the corporation. In *Gantler*, after a bank's board decided it should be put up for sale and hired an external advisor for insight into strategic opportunities, the bank's senior management resisted and instead urged that the bank be "privatized" via a share reclassification.²⁸ But the board persisted with the sales process and eventually directed that its financial advisor and the corporation's senior management conduct due diligence as requested by two potential purchasers.²⁹ The two officers in charge did not furnish due diligence materials to one potential purchaser after promising to do so, leading the potential purchaser to withdraw its bid.³⁰ The board remained uninformed until the bidder withdrew; management scheduled a due diligence session with the second bidder only after the first withdrew.³¹ Although the second bidder increased its offer price via an improved exchange ratio and the external advisor assessed the bid positively, the board rejected the offer and proceeded with the reclassification.³²

The *Gantler* court held that the facts alleged by the plaintiff were sufficient to establish disloyalty on the part of a majority of the corporation's directors because they stood to benefit from the reclassification as shareholders in ways not available to other shareholders.³³ Additionally, on the facts alleged, the two officers breached their duties of loyalty by sabotaging their due diligence assignment.³⁴ One officer—who also served as the board's chair

as an officer, the corporation's General Counsel owed "the same duties that he owed as a director"). For further discussion of *Dole Foods*, see *infra* note 87.

28. *Gantler*, 965 A.2d at 700.

29. *See id.* (breaking down the details of each buyer's proposal).

30. *See id.* ("The due diligence materials were never furnished, and [the potential purchaser] withdrew its bid.").

31. *See id.* at 701 (pointing out that management was resisting setting a date for due diligence with the second buyer until the first buyer withdrew).

32. *See id.* (noting that the board rejected the offer "without any discussion or deliberation").

33. *See id.* at 707 (remarking that courts should proceed with caution in cases like *Gantler* to ensure a plaintiff's claim pled facts sufficient to establish a cognizable claim of disloyalty).

34. *See id.* ("From these alleged facts it may reasonably be inferred that what

and the bank's CEO—by breaching his duty of loyalty as a director would also breach “the same duty” as an officer.³⁵ The second officer—the corporation's Treasurer and Vice President who did not serve as a director—aided and abetted the CEO's breach of loyalty.³⁶ The Vice President/Treasurer, owing his job to the CEO, breached his duty of loyalty by assisting with the sabotage.³⁷ Thus, the officers' externally-directed actions (and instances of inaction) as the corporation's representatives in due diligence with third parties breached the fiduciary duties they owed to the corporation itself.³⁸ Given the facts alleged, the *Gantler* court lacked occasion to canvass the field of officers' duties more extensively to consider whether those duties might extend beyond those “identical to” the duties of care and loyalty owed by directors.³⁹ *Gantler* left open the possibility that defining officers' duties required a binary choice between duties that replicate those of directors (and no more) versus the fuller suite of duties owed by agents.

The Court of Chancery addressed this latter point in 2015 in *Amalgamated Bank v. Yahoo! Inc.*,⁴⁰ holding that officers owe the same fiduciary duties as directors as “corporate fiduciaries” but additionally serve as “agents who report to the board of directors,” the corporation's governing body.⁴¹ As agents, officers have a duty to comply with directives from the board as well as a duty “to provide the board of directors with the information that the

motivated Stephens' unexplained failure to respond promptly to Cortland's due diligence request was his personal financial interest, as opposed to the interests of the shareholders.”).

35. *Id.* at 709.

36. *See id.* at 709 (describing the Vice President/Treasurer's dependence on the CEO for his own livelihood). On aiding and abetting another actor's breach of fiduciary duty, see Deborah A. DeMott, *Culpable Participation in Fiduciary Breach*, in RESEARCH HANDBOOK ON FIDUCIARY LAW (Andrew S. Gold & D. Gordon Smith, eds.) (forthcoming 2017).

37. *See Gantler v. Stephens*, 965 A.2d 695, 709 (Del. 2009) (drawing the connection between the Vice President/Treasurer's reliance on the CEO and his assistance in the sabotage).

38. *See id.* at 708 (finding that the lower court's analysis of the officers' actions was improper under a motion to dismiss standard).

39. *Id.* at 708–09.

40. 132 A.3d 752 (Del. Ch. 2016).

41. *Id.* at 780.

directors need to perform their statutory and fiduciary roles.”⁴² On the facts alleged in *Gantler*, the two officer-defendants breached both agency-law duties; they failed to comply with the board’s directives by sabotaging the board-mandated due diligence process⁴³ and they failed to provide information the board needed by not promptly informing it that a crucial component of the sale process had been frustrated, resulting in a bidder’s withdrawal.⁴⁴ Overshadowing these breaches, though, are the officers’ evident breaches of their duties of loyalty.⁴⁵

In *Amalgamated Bank*, by contrast, what motivated the officer’s actions remains open for further factual exploration. A stockholder demanded—and the court granted—inspection into the corporation’s books and records concerning the hiring and firing fourteen months later of a senior executive, the corporation’s chief operating officer (COO).⁴⁶ Under the terms of his employment agreement, the COO’s firing without cause triggered a nearly \$60 million severance payout.⁴⁷ On the facts alleged in the stockholder’s demand for inspection, the court found “a credible basis to suspect possible breaches of fiduciary duty” by the corporation’s CEO. The CEO had led the hiring process, took actions that materially increased the COO’s potential compensation, and decided to terminate the COO’s employment without cause.⁴⁸ Allegedly, the CEO “cryptically” withheld the prospective COO’s name from the relevant board committee early in the hiring process while seeking its approval for a large compensation package and then provided inaccurate information about the terms of the initial offer to the COO, while asking the

42. *Id.* at 781.

43. *Supra* notes 26–30 and accompanying text.

44. *Supra* notes 26–30 and accompanying text.

45. *See Gantler v. Stephens*, 965 A.2d 695, 709 (Del. 2009) (“The only question presented here is whether the complaint sufficiently detailed acts of wrongdoing by Stephens and Safarek to state a claim that they breached their duties as officers. We conclude that it does.”).

46. *See Amalgamated Bank v. Yahoo! Inc.*, 132 A.3d 752, 772 (Del. Ch. 2016) (commenting that the media provided extensive coverage of the COO’s termination).

47. *See id.* at 773 (providing an itemization of the \$59.96 million payout).

48. *Id.* at 782.

committee to approve a change that doubled the offer's payout from options and incentive stock units.⁴⁹ And the CEO made changes to the final offer letter to the COO that the board committee had not authorized and did not inform the committee about the changes.⁵⁰ In the court's assessment, why the CEO did these things is relevant to whether they constitute a breach of fiduciary duty.⁵¹ Articulating a range of potential motivations, *Amalgamated Bank* begins with "innocent mistake," one potentially inconsequential; then negligence in some degree; then an improper motive, perhaps tied to the fact that the CEO and COO shared the same former employer.⁵² But the opinion cautions the court draws no inference that the CEO acted intentionally to withhold information or to lie to the board.⁵³

Amalgamated Bank illustrates the significance of identifying agency law as a source of officers' duties. Showing that an officer breached a duty grounded in agency law does not require showing that the officer, additionally, breached a duty of loyalty, as did the two officers in *Gantler*.⁵⁴ Thus, an officer would breach duties owed as an agent by deliberately failing to comply with a board directive although the officer acted in the belief that the officer knew better than the board what to do but did not otherwise act to further the officer's own interests.⁵⁵ Applying plain vanilla agency doctrine, by disregarding the board's directive, the CEO exceeded the scope of

49. *Id.*

50. *See id.* (explaining the unauthorized changes to the offer letter materially increased the potential compensation of the COO).

51. *See id.* ("Again, based on the current record, it is not clear why [the CEO] did these things, and the explanation may well be innocent or innocuous. Regardless, further investigation is warranted.")

52. *Id.* For discussion of motivations for action that may breach the good faith component of an officer's duty of loyalty, see *infra* text accompanying notes 95–98.

53. *See Amalgamated Bank v. Yahoo! Inc.*, 132 A.3d 752, 772 (Del. Ch. 2016) ("At this stage, I am not suggesting, nor inferring, that [the CEO] intentionally hid information or lied to the committee.")

54. *Supra* notes 27–39 and accompanying text.

55. For further discussion of agents' duties in interpreting and following instructions, see generally Deborah A. DeMott, *The Fiduciary Character of Agency and the Interpretation of Instructions*, in PHILOSOPHICAL FOUNDATIONS OF FIDUCIARY LAW 321 (Andrew S. Gold & Paul B. Miller, eds. 2014) [hereinafter DeMott, *Fiduciary Character*].

the actual authority conferred by the corporation as principal.⁵⁶ So to act subjects the officer—like any agent—to liability to indemnify the principal for any loss it suffers.⁵⁷ In the terminology of an earlier era in agency law, the officer breached a duty of “service and obedience.”⁵⁸ Indeed, an agent is not spared liability for an unauthorized act when the act results from the agent’s misinterpretation of an unambiguous instruction received from the principal.⁵⁹ When the agent’s misinterpretation is negligent, the agent has fallen short of fulfilling duties of care, competence, and diligence,⁶⁰ which does not excuse the agent’s departure from the duty to follow the principal’s instructions.⁶¹ More generally, like an agent’s duty to provide material information to the principal, the duty to comply with instructions is an integral component of the principal’s ability to exercise control over its agents.⁶² Agents who disregard the principal’s instructions or withhold material information from the principal undermine its legitimate powers of control.⁶³

These implications underscore the significance of officers’ status as agents, as well as the distinctiveness of agency as a body of law. Corporate law itself includes no separate duty of obedience;

56. See RESTATEMENT (THIRD) OF AGENCY § 8.09, cmt. b (AM. LAW. INST. 2006) (describing the scope of an agent’s actual authority).

57. See *id.* (“If an agent takes action beyond the scope of the agent’s actual authority, the agent is subject to liability to the principal for loss caused the principal.”).

58. RESTATEMENT (SECOND) OF AGENCY § 383 (AM. LAW. INST. 1958). This section states one of a series of duties within a title “Duties of Service and Obedience.”

59. See RESTATEMENT (THIRD) OF AGENCY § 8.09, cmt. b (AM. LAW. INST. 2006) (providing an example to illustrate this situation); accord *id.* § 8.09 cmt. c (remarking that an agent’s interpretation of a principal’s instructions must be reasonable).

60. See *id.* § 8.08 (defining the scope of an agent’s duty of care, competence, and diligence).

61. *Id.* § 8.09.

62. See *id.* (listing an agent’s duty to provide material information to the principal as a component of an agent’s broader duty to follow the principal’s instructions).

63. On the relationship between the principal’s control over agents and their duties to interpret and comply with instructions received from the principal, see *id.* § 1.01, cmt. e; DeMott, *Fiduciary Character*, *supra* note 55, at 325–26 (providing multiple examples illustrating an agent’s duty to follow instructions).

as Megan Wischmeier Shaner terms it, the duty is “peculiar to agency law.”⁶⁴ The duty is integral to the principal’s right to control its agents, itself a defining feature of an agency relationship.⁶⁵ How broadly or narrowly to formulate instructions is the principal’s choice.⁶⁶ In the corporate context the board determines, as it finds appropriate under the circumstances, the extent to which its directives confer discretion on senior officers.⁶⁷ The board may confer broad discretion on senior officers, communicating general corporate goals or objectives but leaving questions of implementation and execution to the officers’ discretion.⁶⁸ But a board may also furnish tightly or narrowly drawn instructions.⁶⁹ Additionally, the board’s ability to furnish instructions to officers trumps contractual provisions that define an officer’s position.⁷⁰ By providing such instructions, the board—reacting perhaps to new circumstances or its reassessment of an ongoing situation—may cause the corporation to breach its employment agreement with the officer, but the officer’s duty as an agent still requires compliance with lawful instructions.⁷¹ The board’s right to provide

64. Megan Wischmeier Shaner, *Restoring the Balance of Power in Corporate Management: Enforcing an Officer’s Duty of Obedience*, 66 BUS. LAW. 27, 44–45 (2010).

65. See *Hollingsworth v. Perry*, 133 S. Ct. 2652, 2666 (2013) (finding the parties’ relationship to lack the hallmarks of an agency relationship, including the principal’s right to control the agent).

66. See Shaner, *supra* note 64, at 49 (noting the importance of this flexibility).

67. See *id.* at 49–50 (“[T]o the extent the that the board wanted to constrain management’s decision making, it could do so through narrowly tailored, explicit directives on how to act.”).

68. See Johnson & Ricca, *Reality Check*, *supra* note 2, at 90 (remarking that boards often articulate corporate goals broadly, in terms such as profitability).

69. Although it’s likely true that the duty of obedience rarely has much bite against officers, *Gantler* and *Amalgamated Bank* illustrate the significance of the basic duty. See *id.* at 89 (explaining the inherent difficulties in making negligence determinations against officers). See generally *Amalgamated Bank v. Yahoo! Inc.*, 132 A.3d 752 (Del. Ch. 2016); *Gantler v. Stephens*, 965 A.2d 695 (Del. 2009).

70. See RESTATEMENT (THIRD) OF AGENCY § 8.09 cmt. c (AM. LAW. INST. 2006) (noting that a principal always has the power to provide an agent with interim instructions).

71. See RESTATEMENT (THIRD) OF AGENCY §§ 1.01 cmt. f(1); 8.09(2) (AM. LAW. INST. 2006) (examining the dynamics between contractual provisions laying out an agent’s duties and a principal’s instructions that go against those provisions).

binding instructions creates a flexible capacity to respond to changed circumstances without renegotiating (and repricing) an officer's employment agreement.⁷²

Finally, although corporate law itself does not create a separate duty to comply with instructions, a parallel doctrine constrains directors' discretion to depart from limits imposed by shareholders in approving stock option and other compensation plans. For example, when directors make an award of shares in excess of a numerical limit set in a stockholder-approved plan, the business judgment rule does not insulate the directors' decision from judicial scrutiny into its merits.⁷³ Likewise, directors lack discretion to backdate an award of stock options without authorization in a stockholder-approved plan.⁷⁴ But these outcomes do not turn on applying a distinctively corporate-law doctrine such as waste. They might be characterized as *sui generis* or as a "peculiar subset" of cases.⁷⁵ Alternatively, although directors are not agents within the common law definition,⁷⁶ directors, like officers and other agents, act subject to constraints that define the outer bounds of action that is rightful or authorized.⁷⁷ The rationale for this "peculiar subset," in other

72. See Shaner, *supra* note 64, at 49–50 (listing making changes to bylaw provisions as another, less flexible means of responding to changing circumstances that boards are not forced to use because they can give binding directives).

73. See *Sanders v. Wang*, No. 16640, 1999 WL 1044880, at *5 (Del. Ch. Nov. 10, 1999) (finding the facts alleged by the plaintiff sufficient to cast doubt on whether the board's action was a valid exercise of business judgment).

74. See *Ryan v. Gifford*, 918 A.2d 341, 357 (Del. Ch. 2007) (determining that back-dating without authorization was an act in bad faith worthy of rebutting the presumption of the business judgment rule).

75. See *Landy v. D'Alessandro*, 316 F. Supp. 2d 49, 69 (D. Mass. 2004) (characterizing *Sanders* as within "a peculiar subset of that case law where the violation of a contract is so clear that the violation alone creates a reasonable doubt that the board acted in good faith and honest belief").

76. See RESTATEMENT (THIRD) OF AGENCY § 1.01, cmt. f(2) (AM. LAW. INST. 2006) (explaining how the treatment of directors in contemporary United States corporate law justifies their not being treated as agents).

77. In the absence of such bounds, directors who benefit personally from decisions they make run the risk of losing the protection of the business judgment rule. See *Seinfeld v. Slager*, Civil Action No. 6462–VCG, 2012 WL 2501105, at *10–11 (Del. Ch. June 29, 2012) (determining that the directors' self-award of units under stockholder-approved restricted stock unit plan fell outside business

words, consists of limits on directors' authority bearing a family resemblance to constraints imposed by agency law.

III. Liability Frameworks and Standards

As the Court of Chancery noted in *Amalgamated Bank*, distinct from the content of officers' duties, a "vibrant debate" focuses on the framework for assessing an officer's liability stemming from a breach of duty.⁷⁸ When a director allegedly breaches a duty, the analytic framework deployed by corporate law does not conflate the standard of conduct, which specifies whether the director breached the duty, with the standard of review through which a court determines whether the director should be subject to liability.⁷⁹ In contrast, agency law conflates these questions, as do other bodies of law, including tort law.⁸⁰ Additionally, when an agent causes loss to the principal by breaching the agent's duties of care, competence, or diligence, the agent is subject to liability to the principal for simple negligence.⁸¹ But Delaware gears directors' liability for breaches of the duty of care to the less exacting standard of gross negligence.⁸² Separately,

judgment rule because the terms of plan were insufficiently defined to constitute a meaningful limit on board).

78. *Amalgamated Bank v. Yahoo! Inc.*, 132 A.3d 752, 780–81 n.24 (Del. Ch. 2016).

79. See Melvin A. Eisenberg, *The Divergence of Standards of Conduct and Standards of Review in Corporate Law*, 62 *FORDHAM L. REV.* 437, 448 (1993) (assessing the difference between standard of conduct and standard of review in the corporate context).

80. See *id.* at 437 (using an automobile accident as an illustration of this conflation).

81. See RESTATEMENT (THIRD) OF AGENCY § 8.08 (AM. LAW. INST. 2006) (elaborating on the specifics of liability for breaches of the duty of care, competence, and diligence); *Amalgamated Bank*, 132 A.3d at 780–81 (articulating these agency principles in reference to officers).

82. See *Aronson v. Lewis*, 473 A.2d 805, 812 & n.6 (Del. 1984) (characterizing standard as "less exacting" than simple negligence), *overruled on other grounds* by *Brehm v. Eisner*, 746 A.2d 244 (Del. 2000). Within tort law, "gross negligence" is defined through contrasts with other forms of culpable conduct, constituting wrongdoing in an aggravated form that falls short of an intentional tort and of reckless conduct but is "negligence that is especially bad." RESTATEMENT (THIRD) OF TORTS: LIABILITY FOR PHYSICAL AND EMOTIONAL HARM § 2, cmt. a (AM. LAW.

claims against directors are assessed with a deferential standard of review, the business judgment rule, which lacks a counterpart in agency law.⁸³ The business judgment rule consists of a presumption that in making a business judgment directors “acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company.”⁸⁴ Shareholders rebut the presumption by alleging facts that support a reasonable inference that a director breached either her duty of care (measured against a gross negligence standard) or her duty of loyalty.⁸⁵ Finally, like most other states, Delaware permits a corporation to adopt a charter provision exculpating directors—but not officers—against monetary liability resulting from breaches of the duty of care.⁸⁶ As a consequence, when an officer also serves as a director, the capacity in which the officer took the claim’s underlying actions determines the availability of exculpation.⁸⁷

INST. 2010).

83. See *Amalgamated Bank*, 132 A.3d at 780–81 n.24 (Del. Ch. 2016) (noting the debate over whether the business judgment rule should be extended to officers as agents).

84. *Aronson*, 473 A.2d at 812.

85. See *Gantler v. Stephens*, 965 A.2d 695, 706 (Del. 2009) (“On a motion to dismiss, the pled facts must support a reasonable inference that in making the challenged decision, the board of directors breached either its duty of loyalty or its duty of care.”).

86. See DEL. CODE ANN., tit. 8, § 102(b)(7) (2017). A few states authorize charter provisions that exculpate officers, as well as directors, from monetary liability. See Ofer Eldar & Lorenzo Magnolfi, *Regulatory Competition and the Market for Corporate Law* (Yale Law & Econ’s Working Paper Series, Research Paper No. 528, 2016), <https://ssrn.com/abstract=2685969> (mentioning Maryland and Nevada). See MD. CORPS & ASSN’S § 2-405.2 (1997); NEV. STAT. ANN. § 78.138(7) (2003). Additionally, under Nevada law, unless a corporation’s certificate of incorporation otherwise provides (and subject to a few explicit statutory exceptions), an officer is not subject to liability to the corporation, its shareholders, or its creditors on the basis that the officer breached any fiduciary duty, including the duty of loyalty, in the absence of fraud, intentional misconduct, or a knowing violation of law. NEV. REV. STAT. ANN. § 78.138(7).

87. See *In re Dole Foods, Inc. S’holder Litig.*, CONSOLIDATED C.A. No. 8703-VCL, CONSOLIDATED C.A. No. 9079-VCL, 2015 WL 5052214, at *40 (Del. Ch., Aug. 27, 2015) (recounting that the corporation’s General Counsel, who also served as a director, “primarily interacted . . . as an officer” with board committee created when corporation’s Chairman and CEO (also its controlling shareholder) proposed transaction to acquire all stock he did not own). As a consequence, that General Counsel was not protected by exculpatory clause; as a director, General

The vibrancy of the debate surrounding officers' liability owes much to the absence of definitive resolution from Delaware courts themselves. As the federal district court for Delaware noted in a recent bankruptcy case, the defendants cited no cases from Delaware courts holding that the business judgment rule applies to officers.⁸⁸ In *In re Tower Air, Inc.*, an earlier bankruptcy case, the Third Circuit assumed without discussion that the business judgment rule applies to officers as well as directors.⁸⁹ Given the centrality of Delaware courts to corporate litigation, this absence is itself open to competing explanations.⁹⁰ One is that claims against officers are more likely to be asserted by bankruptcy trustees or receivers in federal courts than by corporate directors in Delaware state courts. The hurdles that shareholders confront

Counsel committed acts not in good faith and breached his duty of loyalty. *Id.*

88. See *Palmer v. Reali*, Civ. No. 15-994-SLR, 2016 WL 5662008, at *8 n.8 (D. Del. Sept. 29, 2016) (“Defendants have cited no cases where a Delaware court has held that the business judgment rule applies to corporate officers . . .”). The same was true eleven years earlier. See *Johnson, Business Judgment Rule*, *supra* note 25, at 440 (noting in 2005 that Delaware “has yet to hold squarely that the [business judgment] rule applies to officers as well as directors”). In California, no judicial decision applies the business judgment rule to officers and the statutory business judgment rule expressly applies only to directors. See *FDIC v. Perry*, No. CV 11-5561-ODW, 2012 WL 589569, at * 4 (C.D. Cal., Feb. 21, 2012) (holding that business judgment rule does not apply to officers’ decisions under California law).

89. See *In re Tower Air, Inc.*, 416 F.3d 229, 238 (3d Cir. 2005) (finding that the plaintiff overcame the business judgment presumption through allegations that the company’s officers “did nothing” in the face of negative reports concerning aircraft maintenance and failed to process used airline tickets worth a million dollars).

90. One potential explanation was the historical difficulty of securing personal jurisdiction in a Delaware court over a non-resident officer, as opposed to a director. This potential obstacle was eliminated in 2004 through a statutory amendment that deems a person who accepts election or appointment as an officer of a Delaware corporation to consent to personal jurisdiction in suits brought in Delaware courts. DEL. CODE ANN., tit. 10, § 3114 (2017). See *Johnson, Business Judgment Rule*, *supra* note 25, at 440 (noting that “prominent judges” in Delaware expected litigation to be newly focused on officers following the statutory amendment). It is questionable whether implied-consent statutes like Delaware’s comport with constitutional limits on the assertion of personal jurisdiction. See *Verity Winship, Jurisdiction Over Corporate Officers and the Incoherence of Implied Consent*, 2013 U. ILL. L. REV. 1171, 1172–75 (criticizing Delaware’s use of implied consent and advocating a move to express consent as a solution).

as plaintiffs in litigation against non-director defendants also limit court's opportunities to speak on whether business judgment rule applies to officers as well as directors.⁹¹ And, like other principals, directors may have a rational preference to discharge or otherwise settle up with wrongdoing agents (which in the case of *Tower Air* were officers) or may be discouraged from pursuing claims against officers by inertia stemming from many sources.⁹² Separately, an allegation that a director breached a duty of performance may require more investigation into contextual specifics than would duty-of-loyalty claims, making duty-of-performance claims more vulnerable to motions to dismiss.

While acknowledging that much remains open to debate, I focus first on the application of the business judgment rule to officers and then turn to the substantive standard applicable to conduct by officers that breaches either a generally-formulated duty of care or a component of the agency law duties of care, competence, and diligence.⁹³ As noted above, the presumptions created by the business judgment rule do not apply when the plaintiff alleges facts that support a reasonable inference that in making a business decision, the actor in question breached either the duty of care or the duty of loyalty.⁹⁴ Delaware cases define the duty of loyalty as inclusive of a duty to act in good faith.⁹⁵ A failure

91. See Johnson & Ricca, *Reality Check*, *supra* note 2, at 88 (commenting on the barriers to director-initiated lawsuits against officers).

92. See *id.* at 87–88 (discussing range of potential intra-corporate sanctions). On inertia and claims against agents, see Harry S. Bryans, *Claims Against Lawyers by Bankruptcy Trustees—A First Course on the In Pari Delicto Doctrine*, 66 Bus. Law. 587, 590 (2011) (explaining that, especially in long-standing relationships, “various sources of inertia at the management and board levels of a solvent corporation . . . discourage claims against corporate counsel”).

93. See RESTATEMENT (THIRD) OF AGENCY § 8.08 (AM. LAW. INST. 2006) (defining the parameters of the agency duties of care, competence, and diligence).

94. A shareholder's complaint cannot survive a motion to dismiss by a director protected by an exculpatory provision when the complaint alleges only the underlying transaction would be subject to the entire fairness standard of review. See *In re Cornerstone Therapeutics, Inc., S'holder Litig.*, 115 A.3d 1173, 1179 (Del. 2015) (“We now resolve the question presented by these cases by determining that plaintiffs must plead a non-exculpated claim for breach of fiduciary duty against an independent director protected by an exculpatory charter provision, or that director will be entitled to be dismissed from the suit.”).

95. See *Stone v. Ritter*, 911 A.2d 362, 369–71 (Del. 2006) (explaining the relationship between the duty of loyalty and the duty to act in good faith).

to act in good faith results when a fiduciary “intentionally acts with a purpose other than advancing the best interests of the corporation”⁹⁶ A fiduciary also fails to act in good faith by acting “with the intent to violate applicable positive law”⁹⁷ Additionally, and perhaps more broadly, “intentionally fail[ing] to act in the face of a known duty to act, demonstrating a conscious disregard for his duties” is an instance of a failure to act in good faith.⁹⁸

If applied to officers, the business judgment rule should have comparable limitations, making its protection unavailable when the facts support a reasonable inference of a breach of the duty of loyalty or the duties of care, competence, and diligence. The good-faith component of the duty of loyalty would deny protection to an officer who acted with the requisite knowledge, intention, or scienter for a proscribed purpose or in violation of positive law. More open to debate is conduct by an officer who consciously disregards a directive received from the board or withholds material information from the board or a board committee. Would an officer’s breach of a distinctively agency-law duty constitute conduct not in good faith, and thus breach the officer’s duty of loyalty? Or are these duties, like the duty of good faith, themselves components of the duty of loyalty?⁹⁹

96. *In re Walt Disney Co. Derivative Litig.*, 907 A.2d 693, 755 (Del. Ch. 2005), *aff’d*, 906 A.2d 27 (Del. 2006).

97. *Id.* For a recent application of this definition, see *In re Duke Energy Corp. Derivative Litig.*, C.A. No. 7705-VCG, 2016 WL 4543788 at *16–17 (Del. Ch. Aug. 31, 2016) (alleging in the complaint that directors violated state law by knowingly or willfully providing false information to utility commission concerning identity of corporation’s CEO following merger that required permission from commission).

98. *Disney*, 907 A.2d at 755. The instances stated in *Disney* expressly do not exhaust the possible forms that failure to act in good faith may take, only the “most salient” three. *Id.* at 756. Another identified by the court arises when disinterested directors, aware of all the facts concerning a colleague’s self-dealing transaction (including the colleague’s conflict of interest), approve the transaction “to reward a colleague rather than for the benefit of the shareholders.” *Id.* at 756 n.464. Delaware’s statutory safe harbor for transactions in which a director has a conflicting interest requires that the directors who approve the transaction act in good faith. DEL. CODE ANN., tit. 8, § 144(a)(3) (2017).

99. For these possibilities, see Shaner, *supra* note 64, at 49.

More generally, it's hard to see any justification for characterizing an officer's deliberate disregard of agency-law duties as an exercise of "business judgment." Like any agent, an officer lacks discretion to ignore unambiguous directives received from the principal, even when the officer disagrees with them, just as junior or subordinate officers or employees have a duty to comply with lawful instructions received from personnel higher in an organization's hierarchy.¹⁰⁰ Indeed, the most prominent defenders of applying the business judgment rule to officers acknowledge that its application should not extend to conduct "outside the scope of [officers'] delegated authority,"¹⁰¹ a concept delimited by officers' distinctive duties as agents. Put differently, as an agent an officer does not have a right unilaterally to redefine the scope of her authority.

That officers are agents is more significant when focus shifts to the substantive standard applicable to breaches of duties of care, competence, and diligence. As noted above, directors' alleged breaches of the duty of care are assessed against a liability standard of gross negligence, not the simple (or ordinary) negligence standard applicable to agents.¹⁰² But note that directors' and officers' duties differ in their relative generality ("care") or specificity ("care, competence, and diligence"). This difference is tied to the fact that officers, like other agents, are chosen on the basis of the skills and knowledge that they possess (or claim to possess), which range from highly specialized to very general.¹⁰³ Additionally, when courts evaluate whether directors breached duties of care, the focus is the process used, not the quality of the decision itself or, for that matter, of the decisionmakers themselves.¹⁰⁴

100. *Supra* notes 61–63 and accompanying text.

101. Hamermesh & Sparks, *supra* note 25, at 866.

102. *Supra* note 82 and accompanying text.

103. See RESTATEMENT (THIRD) OF AGENCY § 8.08 (AM. LAW. INST. 2006) ("Special skills or knowledge possessed by an agent are circumstances to be taken into account in determining whether the agent acted with due care and diligence.").

104. See Johnson & Ricca, *Reality Check*, *supra* note 2, at 92 (defining the duty of care for directors as process focused).

In contrast, agency law focuses on discrepancies between agents' performance and the expectations underlying a principal's choice to be represented by a particular agent.¹⁰⁵ Why apply a less demanding standard—gross negligence—to corporate officers as a particular cohort of agents? Applying a gross negligence standard is especially inapt when the officer in question performs functions as a member of a profession or particular discipline when comparable services are available from practitioners who are situated externally to the corporation.¹⁰⁶ For example, why should malpractice on the part of a chief legal officer be assessed against a standard of gross negligence, as opposed to the ordinary negligence regime applicable to departures from the standard of care by other lawyers who represent the corporation?¹⁰⁷ Along these lines, information internal to the corporation is more accessible (or more immediately accessible) to officers than to non-officer directors, which limits officers' right to rely on information furnished by others.¹⁰⁸ Just as directors and shareholders might reasonably expect an officer to have relevant on-the-ground knowledge about the corporation's affairs,¹⁰⁹ so they might reasonably expect performance in office that's consistent with the assumed skill set and capacity for diligence and care that constituted the premise for hiring that particular officer.¹¹⁰

105. See RESTATEMENT (THIRD) OF AGENCY § 1.01 (AM. LAW. INST. 2006) (outlining the general principles of agency law).

106. See A. Gilchrist Sparks, III & Lawrence A. Hamermesh, *Common Law Duties of Non-Director Corporate Officers*, 48 BUS. LAW. 215, 220–22 (1992) (discussing the duty of loyalty and how it differs between the agency context and the corporate context).

107. For the standard of care generally applicable to lawyers, see RESTATEMENT (THIRD) LAW GOVERNING LAWYERS § 52 (AM. LAW. INST. 2000).

108. See Sparks & Hamermesh, *supra* note 106, at 218 (discussing the official comment to § 8.42 of the Model Business Corporation Act).

109. Directors' reasonable expectation that officers have such knowledge is linked to officers' duties as agents to share relevant information with the board. *Supra* notes 3, 63 and accompanying text. The duty includes the duty to report information received from personnel lower in the organizational hierarchy. For a troubling example, characterized by the court as an instance of bad faith, see *In re Tower Air, Inc.*, 416 F.3d 229, 239 (3d Cir. 2005) (determining airline's officers "did nothing" when told by Director of Safety of quality-assurance problems with aircraft maintenance and failures to record maintenance and repair work).

110. Relatedly, when an agent claims to possess special skills or knowledge, the agent's duties of performance are geared to a standard consistent with

Thus, directors (and others) who rely on officers to prepare financial forecasts and present them to the board would reasonably expect preparation consistent with methodologies and standards used by reasonable persons performing comparable work,¹¹¹ just as directors who rely on officers who profess to have expertise as managers that is more generalized should reasonably expect performance consistent with that of comparators acting as reasonable persons.¹¹²

To be sure, unlike directors, in most jurisdictions officers do not have the benefit of provisions in corporate charters exculpating against monetary liability stemming from breaches of duties of care, whether stemming from gross or ordinary negligence.¹¹³ Agency law acknowledges the possibility of contractual solutions by embracing a role for agreements between principals and agents that define in advance the applicable standard of performance.¹¹⁴ This enables an officer to negotiate for specificity in what will be expected, while also enabling the board to price the value of what it anticipates receiving in exchange from the officer.¹¹⁵

possessing such skills or knowledge. RESTATEMENT (THIRD) OF AGENCY § 8.08 (AM. LAW. INST. 2006).

111. See *Palmer v. Reali*, Civ. No. 15-994-SLR, 2016 WL 5662008, at *9 (D. Del. Sept. 29, 2016) (finding that financial forecasts prepared by the president and chief financial officer departed from established methodology by comparing corporation with companies experiencing increased revenue, not comparators—like corporation—with declining revenue).

112. Assuring the robustness of directors' right to rely on officers is consistent with perceiving the law on corporate officers as "just one more aspect of Delaware's law on directors." Johnson, *Dominance*, *supra* note 2, at 15 (emphasis omitted) (characterizing corporate management and overall welfare as "manifestly officer-centric" in contrast with corporate governance, which is "decidedly director-centric").

113. See *supra* note 86 and accompanying text (describing exculpation provisions).

114. See RESTATEMENT (THIRD) OF AGENCY § 8.08, cmt. b (AM. LAW. INST. 2006) ("A contract may also, in appropriate circumstances, raise or lower the standard of performance to be expected of an agent . . .").

115. This long-standing dimension of agency law contrasts with the Delaware Supreme Court's characterization of fiduciary duties as "unremitting" and "immutable." *Mills Acq. Co. v. MacMillan, Inc.*, 559 A.2d 1261, 1280 (Del. 1989). Read in context, these statements in *Mills* precede the court's justification for refusing review under the business judgment rule to actions taken by a board of directors, itself deceived by senior officers who sought to gain from their misconduct in connection with an auction for corporate control.

Corporate law itself embraces a central feature of the agency law framework by robustly protecting directors' right to rely on officers. As formulated by statute in Delaware, a member of a board of directors has the right to rely in good faith on "information, opinions, reports, or statements" presented by officers "or by any other person as to matters the member reasonably believes are within that person's professional or expert competence and who has been selected with reasonable care by or on behalf of the corporation."¹¹⁶ A cautious director might be reluctant to rely on an officer's opinions or reports prepared by the officer or under her supervision, knowing that the officer—unlike externally-situated sources of expertise—need worry only about slippages that can be characterized as grossly negligent. In response, cautious directors might seek more input from externally-situated agents. A countervailing risk is that the prospect of greater liability risks for officers relative to directors would encourage officers to shift more responsibility to the board.¹¹⁷ But the risk of responsibility-shifting, if identified in advance, can be addressed by agreement and priced into the terms of the corporation's relationship with its officers.

As discussed above, agency law's framework enables an officer worried about liability risks under a regime of simple negligence to negotiate terms that specify a standard for performance.¹¹⁸ In structuring the terms under which the corporation engages an officer or any other agent, the board has flexibility subject to broad constraints mostly developed in cases involving lop-sided outcomes from arrangements for executive compensation.¹¹⁹ Agency creates a framework through which an officer's concerns about liability can

116. DEL. CODE ANN., tit. 8, § 141(e) (2017).

117. See Hamermesh & Sparks, *supra* note 25, at 875 ("[S]uch a disparity would simply encourage officers to place more decisions in the hands of the board, and take fewer, and less risky, initiatives on their own, so as to avoid liability."); see also Sparks & Hamermesh, *supra* note 106, at 237 (depriving officers of protection of business judgment rule represents surrender by corporation of "part of its freedom from judicial scrutiny" in decisions made by directors to delegate responsibility to officers).

118. *Supra* note 114 and accompanying text.

119. See Sparks & Hamermesh, *supra* note 106, at 219 n.30 ("In many older cases, the implication is that the difference in compensation between officers and directors affects their relative liabilities.").

be specified in advance and addressed through an agreement. The parties' flexibility, although extensive, is not infinite. In retaining an advisor, the terms to which the board agrees are ineffectual if they permit the advisor to act contrary to the board's interests as the advisee, undermining the advice on which the advisor knows the board will rely.¹²⁰ The same fundamental limit should also apply as well to the terms under which a corporation, acting through its directors, agrees to employ an officer, recognizing as it does that duties are inherent to some roles.¹²¹

IV. "Officer" as a Fluid Category

Although not a focus of Johnson and Millon's scholarship, the definitional fluidity of "officer" as a category is itself intriguing.¹²² How "officer" is defined varies, depending on the jurisdiction and the question. In Verity Winship's account, "'officer' means one thing for personal jurisdiction, another for securities disclosure rules, and who-knows-what for triggering state-law fiduciary duties."¹²³ In contrast, as noted in Part III, the position occupied by a board of directors is defined by the applicable corporation statute.¹²⁴ Numerous cases that flesh out the specifics of directors' status, rights, and responsibilities stabilize the meaning of "director" as a category. Most of the time, though, in connection with corporate governance the meaning of "officer" conforms to the prescriptive definition stated by Gilchrist Sparks and Lawrence Hamermesh: a person entrusted with "administrative and

120. See *RBC Capital Mkts. LLC v. Jervis*, 129 A.3d 816, 865 n.191 (Del. 2015) (articulating and illustrating this concept as applied to a financial advisor).

121. For this terminology, see *Numeric Analytics, LLC v. McCabe*, 161 F. Supp. 3d 348, 358 (E.D. Pa. 2016) (determining that the fiduciary duty of LLC's President was "inherent to the role" she played as officer of entity formed and headquartered in Pennsylvania; as a consequence, district court in Pennsylvania had specific personal jurisdiction over the President for purposes of breach of fiduciary duty and duty of loyalty claims).

122. See generally Winship, *supra* note 90, at 1195 (stating that, in contrast to the ease with which directors are usually identified, "the definition of 'officer' is more fluid").

123. *Id.* at 1195–96.

124. *Supra* Part III.

executive functions” but not persons who lack “judgment or discretion as to corporate matters.”¹²⁵

Focusing on the status of corporate officers as agents illustrates that definitional fluidity can carry consequences. Consider first an officer’s externally-oriented role as an agent. By assigning a title that’s conventionally held by an officer, the corporation runs the risk of creating apparent authority in the title-holder to do acts conventionally associated with an officer holding a like title.¹²⁶ For example, the apparent authority of a corporation’s CEO encompasses transactions within the ordinary course of the corporation’s business although the board has restricted the CEO’s actual authority unbeknownst to third parties.¹²⁷ Likewise, by entitling an employee “CEO,” the corporation as principal may create an appearance of authority on which third parties have a right to rely when their belief in the reality of authority is reasonable.¹²⁸ Agency doctrine in this respect is analogous to the partnership-law doctrine of partnership by estoppel, which protects third parties who enter into transactions on the basis of a representation that a person is a partner.¹²⁹ Agency law thus responds to definitional fluidity by turning to conventional usage and meaning associated with particular titles and positions, keyed to the doctrine of apparent authority.

Now consider an internally-oriented perspective on the term “officer” and its potential consequences. For its own purposes, a

125. Sparks & Hamermesh, *supra* note 106, at 216.

126. See RESTATEMENT (THIRD) OF AGENCY § 3.03, cmt. e (AM. LAW. INST. 2006) (commenting on the dynamics of apparent authority in regards to organizational executives).

127. See *id.* § 3.03, cmt. e(3) (covering the dynamics of officers and apparent authority specifically). Numerous precedents define an officer’s apparent authority to engage in actions comprising a corporation’s ordinary business. For a potential regulatory implication, see Stephen M. Bainbridge, *Revitalizing SEC Rule 14A-8’s Ordinary Business Exclusion: Preventing Shareholder Micromanagement by Proposal*, 85 FORDHAM L. REV. 705, 738–40 (2016) (urging SEC’s staff to turn to apparent-authority precedents to assess whether shareholder proposal may be omitted from proxy statement because it concerns a matter of corporation’s ordinary business).

128. See RESTATEMENT (THIRD) OF AGENCY § 3.03 (AM. LAW. INST. 2006) (providing examples of apparent authority creation).

129. UNIF. P’SHIP ACT § 308(b) (amended 2013). Many thanks to Andrew Gold who alerted me to this analogy.

corporation may assign an officer's title to an employee, either as an honorific reward or to enable the employee to perform specified tasks on the corporation's behalf, despite the fact that the employee's job duties entail no executive or supervisory functions. This practice is compatible with the non-prescriptive treatment of the "officer" category in corporation statutes. To an employee, being named an "officer" may appear to be internally meaningful and to confer rights as against the corporation. Corporation statutes in Delaware and other states permit a corporation to bind itself to indemnify its directors and officers, whether present or former, against expenses incurred in connection with litigation related to their corporate positions, subject to limitations not relevant for purposes of this Essay.¹³⁰ Likewise, a corporation may bind itself to advance litigation expenses incurred by a director or officer,¹³¹ and may extend advancement rights to employees and other agents through contract. One conventional route to create such rights is through a bylaw provision stating that "officers" and "directors" shall, to the extent permitted by law, receive advancements and be indemnified.¹³² A set of bylaws might go further in the direction of specificity by defining the meaning of "officer" for this purpose by listing categories of eligible persons by title.

In *Aleynikov v. Goldman Sachs Group, Inc.*,¹³³ the defendant's bylaws designated "vice presidents" as "officers" entitled to indemnification and advancement, whether incumbent or former occupants of an office.¹³⁴ But the defendant resisted the plaintiff's demand for advancement in connection with the expenses of a then-ongoing state prosecution.¹³⁵ The plaintiff had copied computer files and transferred them out of the defendant's organization to a competitor of the defendant's when he joined it

130. See DEL. CODE ANN., tit. 8, § 145(f) (2017) (detailing the application of these indemnification provisions).

131. *Id.* § 145 (e)–(f).

132. *Id.* § 145 (f).

133. 765 F.3d 350 (3d Cir. 2014).

134. See *id.* at 354 (noting about one-third of the employees held the title of vice president).

135. See *id.* at 353 (providing a timeline of the plaintiff's indictments and prosecutions).

as an employee.¹³⁶ The defendant also resisted the plaintiff's demand for indemnification based on his successful defense of an earlier federal prosecution involving the same conduct.¹³⁷ A majority of a Third Circuit panel, applying Delaware law, held that the bylaw's use of "officer" was ambiguous and permitted the defendant to introduce extrinsic evidence of trade usage acknowledging the prevalence of "title inflation" in the financial services industry.¹³⁸ The plaintiff's work consisted of computer programming; his success led to his designation as a "vice president" in the defendant's equities division, but not to responsibilities to supervise other employees or transact business with third parties on behalf of the defendant.¹³⁹ The Third Circuit vacated the district court's order granting summary judgment to the plaintiff on the advancement question, remanding for further proceedings.¹⁴⁰ In dissent, one member of the panel argued that under Delaware law the doctrine of *contra proferentum* should apply to resolve against the defendant any arguable ambiguity.¹⁴¹ The defendant acted unilaterally in drafting its bylaws and should be incentivized to clarify them.¹⁴²

Issues of ambiguity aside, it's understandable that the defendant in *Aleynikov* might not wish to fund the plaintiff's ongoing defense given the underlying premise of the prosecution.

136. *See id.* at 354 (recounting that the plaintiff transferred the computer files to a server in Germany on his last day of work).

137. *See id.* at 353 (elaborating on the plaintiff's previous defense of the federal prosecution). The status of Aleynikov's state-court conviction remains contested. *See* *People v. Aleynikov*, No. 1956, 2017 WL 327278, at *8 (N.Y. App. Div. Jan. 24, 2017) (reversing trial court's dismissal of conviction on two counts of unlawful use of secret scientific materials under New York Penal Code § 165.07).

138. *Aleynikov*, 765 F.3d at 364–65.

139. *See id.* at 354 ("He exercised no management or leadership responsibilities.").

140. *See id.* at 368 (finding genuine issues of material fact in need of further proceedings). The district court had earlier denied the plaintiff's motion for summary judgment on his claim for indemnification. *Id.* at 353.

141. *See id.* at 369 (Fuentes, J., dissenting) ("Accordingly, Delaware law requires us to apply the doctrine of *contra proferentem* and construe the provision against [the defendant].").

142. *See id.* at 370 (Fuentes, J., dissenting) (giving public policy justifications for applying the doctrine).

But the defendant did not revise the terms applicable to the plaintiff's association with it, including rights to advancement, as might be done by contract through an employment separation agreement.¹⁴³ The majority's analysis enables the defendant to have the benefit of discretion to be exercised when an "officer" seeks advancement but without either taking prior unilateral action to clarify the bylaw or restrict its coverage, or entering into an individualized contract with the "officer" providing such discretion to the corporation.

Additionally, the Third Circuit's resolution is at odds with the externally-oriented dimension of agency law discussed above. A robust doctrine, apparent authority attaches consequences to placing agents in defined positions or assigning titles conventionally associated with actual authority of a particular scope.¹⁴⁴ True, the office of "vice president" may not carry actual or apparent authority to bind the corporation in the absence of a functional specification of responsibilities, for which the particular vice president would have a customary level of authority over the specified functional area (such as "sales").¹⁴⁵ In *Aleynikov*, the vice president's title did not include a functional designation, which undercuts the prospect that he could act with apparent authority in dealings with third parties on behalf of the defendant.¹⁴⁶ And unlike many vice presidents within banks, his job duties did not require signing documents on behalf of the defendant.¹⁴⁷ But internally, the defendant's own bylaws defined a "vice president"

143. For an example, see *Flood v. ClearOne Commc'ns, Inc.*, 618 F.3d 1110 (10th Cir. 2010) (determining the terms of former CEO's separation agreement conditioned advancement on determination that the best interests of the company at the time of determination necessitated using funds to make advancement). In *Flood*, the company's CEO had been convicted on the underlying securities fraud charges originating in an SEC investigation that began while the CEO was still employed. *Id.* at 1111–12.

144. *Supra* notes 126–129 and accompanying text.

145. RESTATEMENT (THIRD) OF AGENCY § 3.03, cmt. e(4) (AM. LAW. INST. 2006) (laying out the parameters of apparent authority in the context of vice presidents).

146. See *Aleynikov v. Goldman Sachs Grp., Inc.*, 765 F.3d 350, 353 (3d Cir. 2014) (detailing functional designations in the vice president title).

147. See *Aleynikov v. Goldman Sachs Grp., Inc.*, C.A. No. 10636-VCL, 2016 WL 3763246, at *8–9 (Del. Ch. July 13, 2016) (Post-Trial Order and Final Judgment) (examining duties commonly associated with vice presidents in the banking industry), *aff'd*, __ A. 3d __ (Del. 2017), 2017 WL 443714.

as an “officer” and explicitly assigned consequences to holding an officer’s position.¹⁴⁸ The defendant, that is, made a manifestation to its “officers” through its bylaws about the consequences of membership in that category, constituting an instance of internally-oriented conduct that expresses meaning to persons who, not advised otherwise, may rely on its explicit terms.¹⁴⁹

A final issue is whether a defendant’s victory over its former officer in an advancement claim might otherwise operate to undercut the defendant’s position. In *Aleynikov*, the defendant brought counterclaims against its former officer. Bound by the issue preclusion stemming from the earlier Third Circuit ruling, the Delaware Court of Chancery held that the former officer was not entitled to advancement in connection with his defense of the counterclaims (but also suggested that the Third Circuit may have misunderstood Delaware law).¹⁵⁰ If, as is typical in post-employment disputes, a defendant’s counterclaims allege breach of fiduciary duty, would the defendant undermine the premise of fiduciary counterclaims by persuading an earlier court that the employee was not an officer? As Professor Winship noted, what “officer” means may be “who-knows-what for triggering state-law fiduciary duties.”¹⁵¹

The common law of agency treats all employees regardless of status or job duties as agents, who by definition owe fiduciary

148. *See id.* (providing an overview of the defined consequences associated with holding an officer’s position).

149. An allied principle requires that an employer act prospectively and give notice to affected employees when it modifies or revokes a prior binding promise or policy statement concerning compensation. *See generally* RESTATEMENT OF EMPLOYMENT LAW § 3.04 (AM. LAW. INST. 2015). Also, when a dispute involves multiple sources for indemnification and advancement, Delaware law requires that they be read distinctively, not conjunctively, as independent sources of rights. *See Narayanan v. Sutherland Global Holdings, C.A. No. 11757–VCMR, 2016 WL 3682617, at *11 (Del. Ch. July 5, 2016)* (concluding that the defendant failed to prove that the bylaws and indemnification agreement were conjunctive). Thus, a condition on advancement rights imposed in a bylaw is inapplicable to advancement rights created by a contract that omits the condition unless the corporation demonstrates that the two instruments were intended to operate conjunctively.

150. *See Aleynikov*, 2016 WL 3763246, at *1–8.

151. Winship, *supra* note 90, at 1195–96.

duties to the principal.¹⁵² In some states, however, the “fiduciary” label is confined to employees in positions of trust and confidence with the employer; other employees may be subject to more limited duties of loyalty.¹⁵³ Thus, dislodging a now-former employee from the “officer” category can risk vaulting the employer into the terrain of “who-knows-what,” depending on the substance of the conduct at issue in the counterclaim and the textured specifics of the corporation’s relationship with its now-former employee.

V. Implications for Fiduciary Theory

Focusing on the status of corporate officers as agents has implications for more general or theoretical accounts of fiduciary law because it sharpens appreciation of the distinctiveness of agency relationships. This Essay emphasizes the corporation’s rights of control over its officers and mechanisms through which control may be exercised, grounded in the principal’s right of control as an essential or constitutive element of an agency relationship.¹⁵⁴ Distinctively, principals have power to give binding instructions to agents, illustrated in this Essay by the directives given by boards to senior officers in *Gantler* and *Amalgamated Bank*.¹⁵⁵ However, some general theories of fiduciary law require that the fiduciary be able to exercise discretionary power.¹⁵⁶ This

152. RESTATEMENT (THIRD) OF AGENCY § 1.01, cmt. c. & § 8.01, cmt. b (AM. LAW. INST. 2006). Agency law recognizes that “fiduciary obligation is not monolithic in how it operates,” *id.* § 8.01, cmt. c, and that its scope and demands turn on specifics of an agent’s position.

153. RESTATEMENT OF EMPLOYMENT LAW § 8.01 (AM. LAW. INST. 2015). An employee, whether or not in a position of trust and confidence with the employer, breaches a duty of loyalty by misappropriating the employer’s property, whether tangible or intangible. *Id.* § 8.01(b)(iii).

154. See *Hollingsworth v. Perry*, 133 S. Ct. 2652, 2666–67 (2013) (identifying right of control as one of the hallmarks of an agency relationship).

155. *Supra* Part III.

156. See, e.g., Paul B. Miller, *A Theory of Fiduciary Liability*, 56 MCGILL L.J. 235, 262 (2011). Although not central to my own scholarship, I mention the fiduciary’s possession of discretion as a common characteristic of fiduciary relationships. See generally Deborah A. DeMott, *Beyond Metaphor: An Analysis of Fiduciary Obligation*, 1988 DUKE L.J. 879, 908. Many years on, I’ve come to appreciate that this is inconsistent with agency law, including for my account of the significance of an agent’s interpretation of instructions furnished by the

is at odds with the basic definition of agency, to which the principal's right of control is essential.¹⁵⁷ And, as *Gantler* and *Amalgamated Bank* illustrate, it's not always desirable that an officer exercise discretion, a determination to be made by the board of directors, not the officer acting unilaterally.

One potential response, the taxonomic move of expelling agents from the fiduciary family, runs counter to long-established law. It also ignores the fact, as Julian Velasco observes, that “[a]gency bears the most important hallmarks of a fiduciary relationship: the principal entrusts the agent with power, and becomes vulnerable as a result.”¹⁵⁸ Or one might stretch “discretion,” or eliminate the requirement of discretion from the general definition of fiduciary.¹⁵⁹ Regardless of the misfit between theoretical accounts of fiduciary law and agency, corporate officers illustrate the stakes associated with treating agents as fiduciaries, even when the principal has not conferred discretion. A corporation is vulnerable to its officers' exercise of power, which is conferred by the principal, and the corporation's attempt to limit its vulnerability through tightly-defined directives should not undercut its fiduciary relationship with its officers. Nor should it enable officers to obtain material benefits through the exercise of delegated power without the principal's informed consent.¹⁶⁰

principal. DeMott, *Fiduciary Character*, *supra* note 55.

157. See Julian Velasco, *Delimiting Fiduciary Status*, in RESEARCH HANDBOOK ON FIDUCIARY LAW (D. Gordon Smith & Andrew S. Gold, eds. forthcoming 2017) (manuscript at 11) (on file with author); Alice Woolley, *The Lawyer as Fiduciary: Defining Private Law Duties in Public Law Relations*, 65 U. TORONTO L.J. 285, 309–15 (2015).

158. Velasco, *supra* note 157, (manuscript at 12).

159. *Id.* (manuscript at 12–13); see also Arthur Laby, *Book Review*, 35 LAW & PHIL. 123, 132 (2016) (reviewing PHILOSOPHICAL FOUNDATIONS OF FIDUCIARY LAW (Andrew S. Gold & Paul B. Miller eds. 2014) and characterizing the work as having a “too reductionist” approach that casts discretionary authority as a necessary condition for a fiduciary relationships).

160. For example, if a board of directors instructs the corporation's treasurer to execute a particular transaction on particular terms, the treasurer is not free to front-run the transaction just because the instruction conferred no discretion. See RESTATEMENT (THIRD) OF AGENCY § 8.02 (AM. LAW. INST. 2006) (“An agent has a duty not to acquire a material benefit from third party in connection with transactions . . . taken on behalf of the principal . . .”). Front-running may also constitute a crime. See Christopher M. Matthews, *HSBC Executive Arrested in U.S.*, WALL ST. J., July 21, 2016 at C1 (explaining how two top bank executives,

VI. Conclusion

The scholarship of Lyman Johnson and David Millon is extensive as well as multi-faceted. Additionally, the line of work celebrated in this Essay was prescient in recasting the account of corporate officers into terms centered on officers' status as agents. As Lyman and David demonstrated, understanding how the law treats officers' positions and duties requires acknowledging that officers are agents. Their scholarship continues to furnish an analytic and normative framework for assessing subsequent developments, a hallmark of enduring influence.

learning that client had engaged bank to execute \$3.5 billion currency exchange, front-ran order, netted millions for bank and for themselves by stockpiling millions of pounds, driving up price of pound, prior to execution of exchange of client's dollars for pounds).