Managing Expectations: Does the Directors’ Duty to Monitor Promise More than It Can Deliver?

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ARTICLE

MANAGING EXPECTATIONS:
DOES THE DIRECTORS’ DUTY TO MONITOR
PROMISE MORE THAN IT CAN DELIVER?

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This article grapples with whether we are expecting too much from the duty of oversight. The directors’ oversight duty refers to directors’ responsibility to actively monitor corporate officers, employees, and corporate affairs. Directors breach their oversight duty when officers and employees engage in wrongdoing that causes harm to the corporation and that wrongdoing can be attributed to directors’ failure to monitor. In other words, oversight liability holds directors liable for their failure to act under circumstances where it can be proven that directors should have acted and their actions could have prevented corporate harm.

The significance of directors’ oversight duty has grown at least in part because it better captures the role directors play in the modern corporation. While it is true that directors can have both a managerial role and a monitoring role over corporate affairs, most directors of today’s public corpora-

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1. The duty of oversight is also referred to as the duty to monitor. While this paper will use those terms interchangeably, it will primary refer to the monitoring duty as the duty of oversight since the Delaware case law most often describes the duty as oversight. See Stone ex rel. Am. South Bancorporation v. Ritter, 911 A.2d 362, 370 (Del. 2006) (defining the necessary conditions for “director oversight” liability).

2. See id.; see also H. Lowell Brown, The Corporate Director’s Compliance Oversight Responsibility in the Post Caremark Era, 26 Del. J. Corp. L. 1, 4 (2001) (“[D]irectors have an obligation to see that the corporation’s affairs are properly managed.”).

3. See id., 911 A.2d at 370 (referring to oversight liability as the failure to act in the face of a known duty to act).


5. See generally Kelli A. Alces, Beyond the Board of Directors, 46 Wake Forest L. Rev. 783, 790–805 (2011) (discussing boards as monitors and managers); Lynne L. Dallas, The Multiple Roles of Corporate Boards of Directors, 40 San Diego L. Rev. 781 (2003) (discussing the different roles that boards of directors play, including managing and monitoring); Jill E. Fisch,
tions are not primarily responsible for managing the day-to-day affairs of the corporation.6 Instead, directors entrust officers and employees with managing the corporate enterprise, and thus are primarily tasked with monitoring officers and employees to ensure that they manage in the corporation’s best interests.7 The responsibilities directors undertake when carrying out this monitoring role often implicate the oversight duty.

The significance of directors’ oversight duty took center stage during the 2007 financial crisis. Commentators agree that one of the primary causes of the financial crisis was that banks and other entities took on too much risk.8 As a corollary, commentators complained that directors failed to monitor officers and employees to ensure that they were not engaging in overly risky or fraudulent transactions.9 The corporate governance crisis of 2002, involving Enron and other corporate giants, drew similar complaints that directors had failed to properly monitor the accounting practices within such corporations.10 Few have suggested that directors’ more robust adherence to their responsibilities could have completely prevented either the 2007 financial crisis or the 2002 governance crisis. However, both crises raised important questions regarding whether corporate malfeasance and its resulting damage could at least have been minimized if directors had taken more seriously their responsibility to actively oversee corporate affairs—that is, if directors had not been “asleep at the switch.” In other words, these

6. See The Corporate Laws Committee, ABA Section of Business Law, Corporate Director’s Guidebook—Sixth Edition, 66 BUS. LAW. 975, 985 (2011) (“The board typically delegates responsibility for day-to-day operations to a team of professional managers.”); Michelle M. Harner, Corporate Control and the Need for Meaningful Board Accountability, 94 MINN. L. REV. 541, 551 (2010) (“The board of directors routinely delegates the day-to-day operations of the corporation to senior management.”).

7. See Corporate Director’s Guidebook—Sixth Edition, supra note 6, at 985.


9. See generally Bainbridge, supra note 8, at 971–72 (describing risk management failures during the 2008–2009 financial crisis); Petrin, supra note 8, at 437 (“[B]oard passivity in oversight and, specifically, risk management programs is often viewed as one of the crisis’s contributing elements.”); Miller, Board’s Duty, supra note 8, at 1154–55 (suggesting that stricter enforcement of the board’s duty to monitor risk may limit corporate risk-taking).

crises suggested that better outcomes could have resulted if directors had complied more robustly with their fiduciary duty of oversight.

As a consequence, regulators and corporate governance experts have come to view the shoring up of directors’ oversight role as critical to ensuring better corporate governance, and preventing corporate misconduct.11 Of course, no one expects that enhancing directors’ oversight role will eradicate corporate misdeeds. However, there is a belief that such an enhancement will reduce instances of abuse. Hence, there appears to be a growing desire to make the oversight role more robust to ensure that directors pay greater attention to their monitoring responsibilities so that they can be more informed regarding what is occurring within the corporation, better prepared to respond to those occurrences, and better equipped to prevent inappropriate conduct.

While this article agrees that directors must take their monitoring role more seriously, it nevertheless questions whether reliance on oversight offers false hope for those seeking to enhance corporate governance and prevent corporate misconduct for several reasons. First, the oversight doctrine may be too immature and incoherent, undermining the extent to which it can provide meaningful guidance for directors seeking to comply with the oversight duty. Second, the nearly insurmountable standard for imposing liability for oversight breaches at best may render the doctrine irrelevant for purposes of encouraging appropriate director behavior, and at worst may undermine the extent to which directors feel compelled to take their oversight role seriously. Third, even if such a compulsion exists, the size and complexity of the modern corporation may make it impractical for directors to successfully engage in oversight. Finally, the nature of directors’ role in the public corporation, as outsiders serving part-time, may make it unreasonable to expect that directors have the expertise, knowledge, or capacity to effectively monitor the business affairs of large, and increasingly complex corporations. In this respect, efforts at enhancing oversight may be doomed to failure, suggesting that it may be ill-advised to fixate on invigorating oversight as a means for enhancing corporate governance, or otherwise preventing the next corporate crisis.

Part I discusses the evolution of the oversight doctrine and its significance to corporate crises. Part II examines the manner in which Delaware courts’ interpretation of the oversight doctrine may undermine its ability to encourage directors to more effectively comply with their oversight responsibilities. Part III analyzes the manner in which the nature of the modern corporation, as well as the current expectations regarding directors’ roles within the corporation, may undermine the feasibility of a robust oversight

11. See Miller, Board’s Duty, supra note 8, at 1154–55; Petrin, supra note 8, at 436–37; see also Bainbridge, supra note 8, at 972 (citing a survey wherein CFOs reported plans to investigate their risk management practices).
MANAGING EXPECTATIONS 419

doctrine. Part IV concludes by assessing the impact of the shortcomings associated with the oversight doctrine.

I. OVERSIGHT AND THE FINANCIAL CRISIS

A director’s oversight duty represents the duty to monitor and pay attention to corporate affairs. This means that oversight liability arises as a result of inaction, as opposed to director conduct or decision-making. Oversight liability is imposed when director inattention can be viewed as allowing or failing to prevent misconduct that results in harm to the corporation. Oversight raises the question: when will a director’s failure to act lead to liability? This section discusses oversight, its evolution, its increased importance to the modern corporation, and the oversight issues that emerge during large scale corporate crises.

A. The Growing Significance of Oversight to Directors’ Role in the Modern Corporation

Fiduciary duty law has traditionally focused on two duties: the duty of care and the duty of loyalty. The duty of care focuses on the attentiveness directors must have when making decisions. Pursuant to the duty of care, directors are required to take actions in the best interests of the corporation, which essentially means that directors must make decisions only after being reasonably informed about the issues relevant to those decisions. Traditionally, the duty of loyalty addressed situations in which directors had a conflict of interest or there was potential self-dealing by a director. The duty of loyalty seeks to ensure that in those situations, directors do not place their own interests before the interests of the corporation and its shareholders. Both the duty of care and the duty of loyalty should guide directors’ behavior when they are taking some action.

By contrast, the oversight duty addresses directors’ responsibility for their inaction. That is, it seeks to assess whether, and under what circum-

13. See id.
15. See Corporate Director’s Guidebook—Sixth Edition, supra note 6, at 990; see also Smith v. Van Gorkom, 488 A.2d 858, 873 (Del. 1985) (finding board of directors liable for breach of duty of care where the board engages in conduct that is grossly negligent).
17. See id. at 992–93; see also Cede & Co. v. Technicolor, Inc., 634 A.2d 345, 363 (Del. 1993) (outlining a two-part test for director’s self-interest); Aronson v. Lewis, 473 A.2d 805, 812 (Del. 1984) (explaining that the business judgment rule does not protect self-dealing directors); Bainbridge, supra note 8, at 981 (describing Scott D. Sullivan’s self-dealing that led to WorldCom’s failure).
stances, directors can be held liable when actions taken by employees or officers result in liability.\footnote{20. See id.}

Directors’ oversight duty has received renewed attention precisely because it best captures the nature of directors’ role in the modern corporation. A director’s role in the corporation encompasses both a monitoring responsibility as well as a managerial role in which directors make specific decisions regarding corporate affairs.\footnote{21. See Fisch, supra note 5, at 272 (“The duties of the managing board include advising the CEO, participating in strategic planning, and reviewing the structure of significant corporate transactions.”).} On the one hand, directors only make decisions regarding discrete transactions, such as mergers and other fundamental matters that occur a few times during the life cycle of a corporation. On the other hand, as corporations have become larger and more complex, directors’ monitoring roles have eclipsed their managerial roles. This is because directors delegate the active management to officers, but retain the responsibility to monitor and oversee those officers to ensure that their management is consistent with the corporation’s best interests.\footnote{22. See id. at 269–70 (“[D]irectors have an affirmative obligation to monitor a corporation’s compliance efforts.”).} The increased emphasis on director independence has encouraged and facilitated the shift towards monitoring because the vast majority of public company directors do not hold employment positions within the corporation. As a result, they are less likely to be engaged with the day-to-day operations of the corporation.\footnote{23. See Corporate Director’s Guidebook—Sixth Edition, supra note 6, at 985; see also Alces, supra note 5, at 790 (“[O]fficers control the day-to-day business of the company.”); Harner, supra note 6, at 551 (explaining that the board typically does not control day-to-day operations but rather directs the corporation’s business affairs).} This shift towards boards-as-monitors not only means that modern directors have primarily taken on the role of monitors, but also means that the oversight doctrine is increasingly more relevant to directors’ roles within the corporation. Consequently, in many cases when corporate decisions result in loss, directors are not likely to be involved in such decisions.\footnote{24. See In re Caremark Int’l, Inc. Derivative Litig., 698 A.2d 959, 968 (Del. Ch. 1996) (noting that most decisions made within the corporation are not the subject of director action); see also E. Norman Veasey & Julie M. Seitz, The Business Judgment Rule in the Revised Model Act, the Trans Union Case, and the Ali Project—A Strange Porridge, 63 TEXAS L. REV. 1483, 1501–02 (1985) (noting that directors delegate most of the day-to-day decisions to officers, and thus fiduciary duties must focus on their monitoring role).} To the extent directors conduct can be deemed blameworthy, that conduct centers around their failure to properly monitor. Thus, assessments regarding the contours of the oversight role—and when liability attaches in that role—have grown in significance for modern corporations.
B. Oversight Comes of Age

There always has been an implicit understanding that directors have the responsibility to oversee corporate affairs, even when they are not personally responsible for such affairs. Corporate statutes provide that all corporate affairs must be managed by or under the direction of the board of directors. This inherent responsibility to manage all corporate affairs has been interpreted to mean that directors have an obligation to monitor the decisions of those to whom they have delegated authority.

Earlier cases recognized this responsibility, emphasizing directors’ duty to be attentive to corporate matters even when they are not personally involved in such matters. As one court put it, “[d]irectors may not shut their eyes to corporate misconduct and then claim that because they did not see the misconduct, they did not have a duty to look. The sentinel asleep at his post contributes nothing to the enterprise he is charged to protect.” Moreover, courts recognized that directors may be held liable for their failure to pay attention to corporate affairs when such failure could be viewed as contributing to liability-causing behavior. In particular, courts have reasoned that directors’ inattention is problematic not only because better monitoring can prevent wrongdoing, but also because officers and employees may be more likely to engage in misconduct if there is a perception that no one is paying attention to their actions. Courts have noted that directors’ failure to act can contribute to the climate and continuation of wrongdoing, and thus can represent a substantial reason for the corporate loss resulting from such wrongdoing. In this regard, courts have acknowledged the importance of directors’ duty to pay attention, and have been willing to hold directors liable for breaching that duty. Nevertheless, Delaware courts did not formally consider the nature and scope of directors’ oversight responsibility until 1963.

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26. See Model Bus. Corp. Act § 8.30(b) (noting that directors are entitled to rely on information provided by a limited group of agents of the corporation, or professionals, when the director reasonably believes it is prudent to do so).
27. See Briggs v. Spaulding, 141 U.S. 132, 170 (1891); Francis v. United Jersey Bank, 432 A.2d 814, 822 (N.J. 1981) (citing earlier cases, and noting that directors were “under a continuing obligation to keep informed about the activities of the corporation,” and to monitor “corporate affairs and policies”).
28. Francis, 432 A.2d at 822.
29. See id. at 829 (finding that the negligence of one director was a substantial factor contributing to the loss perpetrated by the only two other directors).
30. See id. (“[The two converting directors] spawned their fraud in the backwater of [the third director’s] neglect.”).
31. See id.
32. Petrin, supra note 8, at 439 (noting that Delaware “first faced” the oversight duty in Graham); see also Stephen M. Bainbridge, Star Lopez & Benjamin Oklan, The Convergence of Good Faith and Oversight, 55 UCLA L. Rev. 559, 575 (2008) [hereinafter Convergence] (noting that the Delaware Supreme Court “first took up the issue” regarding the duty to monitor in Graham).
When the Delaware Supreme Court initially addressed the issue, the court acknowledged directors’ oversight responsibility, but set the bar for compliance so low as to render the oversight doctrine largely irrelevant. In *Graham v. Allis-Chalmers Manufacturing Co.*, several employees of Allis-Chalmers Manufacturing Co. (“Allis-Chalmers”) were found to have violated federal antitrust laws related to price fixing, resulting in liability to the corporation.33 The Delaware Supreme Court concluded that there was no evidence that the directors had any actual knowledge of illegal activity, or that the directors had knowledge of facts that should have put them on notice about such activity.34 Nevertheless, shareholders brought suit alleging that directors had breached their fiduciary duty by failing to take steps designed to put them on notice of illegal activities by company employees.35 The court began by acknowledging directors’ duty to supervise corporate affairs—the duty of oversight.36 However, in the court’s view, this duty did not require directors to actively monitor the corporation and seek to ensure that officers and employees did not engage in wrongdoing.37 Instead, directors had the right to rely on the honesty and integrity of their subordinates until something occurs to put them on notice of wrongdoing.38 The court reasoned that because directors had no knowledge of illegal activity, and had no reason to suspect such activity, they could not be held liable for breaching their oversight duty. As the court phrased it, “absent cause for suspicion there is no duty upon the directors to install and operate a corporate system of espionage to ferret out wrongdoing which they have no reason to suspect exists.”39 The notion that directors had no responsibility to monitor corporate actions unless they had reason to suspect wrongdoing, often referred to as being confronted with “red flags,”40 meant that the oversight duty required relatively passive conduct from directors. The *Graham* court therefore recognized the oversight duty, but did not require directors to exert any affirmative effort to comply with it.

In the 1996 case *In re Caremark International Inc. Derivative Litigation*, the Delaware Chancery Court breathed new life into the oversight duty, not only making clear that the responsibility existed, but also making clear that directors had an affirmative obligation to comply with that responsibility.41 In *Caremark*, the Delaware Chancery Court had to review a

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33. 188 A.2d 125, 128 (Del. 1963).
34. Id. at 129.
35. Id. at 127.
36. See id. at 130.
37. See id.
38. Id.
40. See *Petrin*, supra note 8, at 439 (referring to “red flags” as actions that put directors on notice of wrongdoing); Anne Tucker Nees, *Who’s the Boss? Unmasking Oversight Liability Within the Corporate Power Puzzle*, 35 Del. J. Corp. L. 199, 205 (2010).
proposed settlement of a derivative suit. The underlying suit involved claims that directors of Caremark International, Inc. ("Caremark") had breached their monitoring duty by failing to uncover illegal actions by Caremark employees who had violated federal and state laws regulating health care providers, resulting in Caremark having to make approximately $250 million in reimbursement payments. Shareholders claimed that "directors allowed a situation to develop and continue which exposed the corporation to enormous legal liability and that in doing so they violated a duty to be active monitors of corporate performance." In reviewing the settlement, the Delaware Chancery Court took the opportunity to revisit directors’ oversight duties, and reassess the applicability of Graham. The court focused on several modern trends that had developed after Graham. The court discussed various federal laws that incentivized corporations to establish information systems aimed at detecting violations of the law. The court also considered the significant legal and economic impact such violations had on corporations, often resulting in the payment of millions of dollars in damages. In addition, the court recognized that the Delaware Supreme Court recently had made clear the seriousness with which the law viewed the role of the corporate board through several opinions. In those opinions, the Delaware Supreme Court not only had chastised boards for failing to perform their duties to be sufficiently informed regarding corporate affairs, but also had demonstrated a willingness to hold them liable for breaching their duties. In light of these opinions and other modern trends, the Delaware Chancery Court concluded that Graham could no longer be interpreted to mean that boards could comply with their oversight responsibility by being passive, or otherwise only acting upon suspicion of wrongdoing. Instead, the Delaware Chancery Court stated that a “broader interpretation” of Graham was necessary.

The Caremark court argued that boards could satisfy their fiduciary duty to monitor corporate affairs only if they had established an information system designed to provide directors and senior officers with accurate and timely information about those affairs. This duty is often referred to as the Caremark duty. Under Caremark, directors breach their oversight duty when plaintiffs can show “either (1) that the directors knew or (2) should have known that violations of law were occurring, and in either event, (3) that the directors took no steps in a good faith effort to prevent or remedy

42. See id. at 960, 967.
43. See id. at 967.
44. See id. at 969–70.
45. See id.
48. See id. at 969–70.
that situation, and (4) that such failure proximately resulted in the losses complained of. The Caremark court did warn that liability would result only from “a sustained or systemic failure of the board to exercise oversight—such as an utter failure to attempt to assure a reasonable information and reporting system exists.” In this respect, Caremark proclaimed that directors’ oversight duty encompassed an active duty to establish information systems aimed at monitoring corporate conduct, but suggested that the test for liability would be demanding.

Caremark altered the landscape with respect to oversight. The decision spurred the development of internal control systems and more robust compliance efforts. Caremark also increased expectations regarding directors’ roles in overseeing corporate compliance with laws and business performance. Nevertheless, because it was a decision by the Delaware Chancery Court (and it purported to reassess, if not overturn, a decision by the Delaware Supreme Court), there was some uncertainty regarding the scope and applicability of Caremark. Ten years later, the Delaware Supreme Court took the opportunity to clear up this uncertainty.

In the 2006 case of Stone v. Ritter, the Delaware Supreme Court essentially affirmed Caremark, making clear that directors have an affirmative obligation to monitor the employees and agents who act on the corporation’s behalf. In Stone, shareholders brought a derivative suit alleging that directors had breached their oversight duties by failing to install an appropriate information and reporting system for anti-money laundering violations by company employees. Because of such violations, the corporation had to pay $50 million in fines and penalties. No fines and penalties were imposed on directors, and the plaintiffs acknowledged that directors had no knowledge of the employees’ activities, nor were directors aware of any “red flags.” Nonetheless, the plaintiffs claimed that directors should be held liable for their failure to monitor.

In assessing the plaintiffs’ claims, the Delaware Supreme Court formally approved the Caremark standard, agreeing that directors had a monitoring responsibility that required them to establish a reporting system aimed at keeping them informed about the corporation’s compliance with

49. See id. at 971.
50. See id.
52. See id. at 405 (noting that In re Caremark created a much keener awareness of the importance of board oversight).
53. See 911 A.2d 362.
54. See id. at 362, 365.
55. See id. at 365 (“AmSouth and AmSouth Bank paid $40 million in fines and $10 million in civil penalties to resolve government and regulatory investigations . . . .”).
56. See id. at 364, 365.
the law and its business performance. The court also agreed that directors could incur liability even when they were unaware of misconduct, if it could be shown that directors had failed to put into place policies and procedures aimed at providing them with information about company activities. The Stone court held that in order to demonstrate that directors had breached their oversight duty, it must be established that “(a) the directors utterly failed to implement any reporting or information system or controls; or (b) having implemented such a system or controls, consciously failed to monitor or oversee its operations thus disabling themselves from being informed of risks or problems requiring their attention.”

On the one hand, as Part II will discuss, the court set a high hurdle for establishing oversight liability. However, the court’s pronouncement left no doubt that corporate directors have an affirmative responsibility to pay attention, and to the extent their lack of attention makes it easier for misconduct to occur, or avoid being detected, directors may be held responsible for breaching this responsibility.

C. Oversight, Corporate Misconduct, and the Financial Crisis

The most recent financial crisis triggered renewed attention on boards’ oversight duty. Many commentators agree that one primary cause of the financial crisis was that banks and other entities engaged in excessively risky transactions. These commentators also agree that boards’ lax oversight may have enabled corporations to engage in such risky transactions.

While management bears responsibility for risk management, boards have responsibility for instituting appropriate risk management procedures, and ensuring that those procedures are being properly executed. In order to effectively carry out this responsibility, boards must have sufficient appreciation of the various risks facing corporations, and must establish and actively oversee programs aimed at ensuring that those risks are being properly managed. When corporations engage in overly risky activities, it

57. See id. at 368–69.
58. See id. at 370.
59. See David A. Katz, Risk Management and the Board of Directors—An Update for 2012, in CORPORATE GOVERNANCE – A MASTER CLASS 2012, 147, 149 (2012) (noting that worldwide financial instability has caused issues to be “front and center”); Bainbridge, supra note 8, at 968; Miller, Board’s Duty, supra note 8, at 1154; Miller, Oversight Liability, supra note 8, at 50; Petrin, supra note 8, at 436.
60. See Miller, Board’s Duty, supra note 8, at 1153; Miller, Oversight Liability, supra note 8, at 50; Petrin, supra note 8, at 436–37; Bainbridge, supra note 8, at 970; Bebchuk & Spamann, supra note 8, at 247.
61. See Miller, Board’s Duty, supra note 8, at 1154; Petrin, supra note 8, at 436–37; Bainbridge, supra note 8, at 972.
62. See Bainbridge, supra note 8, at 969–70 (explaining the process of risk management); Katz, supra note 59, at 149–50.
63. See Bainbridge, supra note 8, at 969–70 (noting that corporations face many different types of risk, and must make decisions related to identifying, preparing for, preventing, and responding to risks).
raises the possibility that boards have failed in this endeavor. Hence, many
shareholders and other commentators have suggested that corporations took
on too much risk because the board failed to remain informed about the
company’s risk exposure, and failed to take steps aimed at preventing ex-
cessive risk-taking. The financial crisis had many causes, and there were
some risks that may have been unavoidable. Nevertheless, there is agree-
ment that more effective board oversight of risks at the very least may have
mitigated the crisis and prevented some of the more significant losses both
to the corporation and broader society. As a result, the financial crisis
highlighted issues surrounding board oversight, particularly oversight of
risks.

Similarly, the 2002 corporate governance crisis associated with Enron
and WorldCom raised concerns about the adequacy of boards’ adherence to
their oversight duty. Evidence related to that crisis suggested that directors
did not have sufficient knowledge of their company’s accounting practices,
or of the information contained in their company’s financial statements and
other public disclosure documents. That governance crisis led to a grow-
ning concern that directors’ failure to monitor corporate transactions, and
their failure to employ safeguards against accounting shenanigans and other
misdeeds, contributed significantly to governance failures. Former Dela-
ware Supreme Court Chief Justice Norman Veasey argued that “the main
corporate governance failure in this period was the lassitude and indiffer-
ence of some boards of directors who were not pro-active in their oversight
and strategic roles.”

Both the financial crisis and the 2002 crisis have shoved oversight into
the spotlight and sparked a desire to ensure that directors take their over-
sight responsibility more seriously. Many believe that shoring up direc-
tors’ oversight role is critical to preventing corporate governance failures. If
boards can put in place effective information systems, they can serve as an
important check on officer and employee misbehavior. In this view, relying

64. See id. at 968; Michelle Harner, Ignoring the Writing on the Wall: The Role of Enterprise
Risk Management in the Economic Crisis, 5 J. BUS. & TECH. L. 45, 48–52 (2010); Eric Pan, A
Board’s Duty to Monitor, 54 N.Y. L. SCH. L. REV. 717, 718 (2010). Bainbridge has noted that risk-
management failures have many forms, from boards that failed to institute any risk management
system to those that failed to have a complete understanding of their company’s risk profile. See
Bainbridge, supra note 8, at 972 (discussing surveys in which more than half of those surveyed
blamed lax oversight of risks as a major contributing factor to the financial crisis).

65. See Steven Davidoff & David Zaring, Regulation by Deal: The Government’s Response

66. See Miller, Board’s Duty, supra note 8, at 1154; Miller, Oversight Liability, supra note 8,
at 50.


68. See id.; E. Norman Veasey, Policy and Legal Overview of Best Corporate Governance

69. See id. at 2136.

70. See Nees, supra note 40, at 204; Pan, supra note 64, at 718.
MANAGING EXPECTATIONS

on oversight seems like an ideal way to control corporate risk-taking, minimize corporate misconduct and fraud, and improve corporate governance generally.\footnote{Miller, \textit{Board's Duty}, supra note 8, at 1154.}

II. \textbf{Oversight in the Courts: Immature, Incoherent, and Irrelevant?}

While enhancing board oversight duties may be an admirable goal, the current state of the oversight doctrine, as well as courts’ current conception of the doctrine, may severely hamper the achievement of that goal. As an initial matter, it is possible that the relatively recent emergence of the doctrine may make it difficult to use it as a guide until more time has passed. The relative incoherency of the doctrine also may pose challenges for its ability to provide meaningful guidance to directors seeking to determine how best to comply with the oversight duty. Finally, courts may have fashioned a liability standard that fails to appropriately encourage directors to comply with their oversight duties, potentially rendering fiduciary duty law irrelevant for the purposes of shoring up directors’ oversight obligations. As this Part will discuss, these defects in the development and articulation of the oversight doctrine do not bode well for efforts at enhancing board oversight.

A. Immaturity as a Stumbling Block

The oversight doctrine is in its infancy, which means it is still evolving, making it more challenging to pinpoint the precise contours of directors’ oversight responsibilities. It has been less than twenty years since the Delaware Chancery Court first pinpointed the elements associated with an oversight duty, and less than ten years since the Delaware Supreme Court announced its acceptance of \textit{Caremark} as the appropriate framework for assessing oversight. Even in that time, Delaware courts’ assessment of oversight responsibility and liability has evolved. As Part II.B. will reveal, the doctrine has gone from being firmly established in the duty of care to being classified as both a duty of loyalty and a duty of good faith.\footnote{See infra Part II B.} The fact that the court has shifted in its treatment of the oversight doctrine may stem, at least in part, from the fact that it takes some time for courts to establish the precise contours of new doctrines. While this is certainly understandable, it also means that new doctrines may be in flux, making it more challenging for directors to draw lessons from such doctrines.

Courts have raised questions about the range of activities for which directors can incur oversight liability. For example, in \textit{In re Citigroup Inc. Shareholder Derivative Litigation}, the Delaware Supreme Court appeared to indicate that oversight liability could not be extended to board inatten-
tiveness related to business risks. As a result, some commentators have interpreted \textit{Citigroup} to exclude oversight claims based upon directors’ failure to monitor business risks. Others disagree, insisting that while the court created a high burden for such claims, it nevertheless left open the possibility for them. Such disagreement may stem in part from the fact that the doctrine is continuing to evolve. Nonetheless, the disagreement underscores the uncertainty regarding the scope of the oversight doctrine, which may undermine the ability to confidently use it as a guide for director behavior. If directors cannot incur liability for their failure to monitor business risks, it may undermine their willingness to monitor such risks.

The fact that the doctrine has emerged relatively recently also means that optimal best practices related to the doctrine have likely not yet emerged, particularly with respect to risk management. To be sure, several key groups have generated best practices for directors’ oversight of business risks. However, these best practices are still evolving, and there is not yet a clear consensus regarding them. Importantly, many different models for measuring and assessing risks exist, but all of them have limitations. Also, the optimal risk management model varies depending on the type of entity and its risk tolerance. Moreover, while some directors have an understanding of the risks facing their companies, many others have acknowledged that they do not have a clear appreciation of their companies’ risk profiles and practices. Of course, the increased focus on board oversight no doubt will motivate directors to gain a better awareness of corporate risks, and seek out guidance that would enable them to better engage in risk management. However, because the oversight doctrine is young and continues to evolve, as do the best practices in this area, it may take some time before we can expect this doctrine to provide effective guidance for directors seeking to more effectively engage in risk oversight.

74. \textit{See Pan, supra note 64, at 738.}
75. \textit{See Miller, Oversight Liability, supra note 8, at 96; Bainbridge, supra note 8, at 979.}
76. \textit{See Eric Pan, Rethinking the Board’s Duty to Monitor, 38 Fla. St. U. L. Rev. 209, 226–28 (2011) [hereinafter Rethinking the Board’s Duty].}
78. \textit{See Bainbridge, supra note 8, at 970; Betty Simkins & Steven Ramirez, Enterprise-Wide Risk Management and Corporate Governance, 39 Loy. U. Chi. L. J. 571, 592 (2008).}
79. \textit{See Miller, Oversight Liability, supra note 8, at 60; Bainbridge, supra note 8, at 970.}
80. \textit{See Bainbridge, supra note 8, at 970.}
81. \textit{See id. at 972.}
B. *The Coherency Conundrum*

Unfortunately, as the oversight doctrine has evolved, problems with coherency have emerged, and these problems could undermine its effectiveness. These problems stem in large part from the Delaware Supreme Court’s decision to essentially reclassify the *Caremark* duty of oversight.

The *Caremark* court clearly analyzed the oversight duty under a duty of care framework. The *Caremark* complaint charged directors with a breach of their duty of care, characterizing the directors’ inattention as a breach of the duty of care in the ongoing operations of the corporation’s business.\(^83\) The *Caremark* court accepted this characterization, referring to directors’ failure to monitor as a breach of their duty of care.\(^84\) The court also specifically distinguished claims related to the oversight duty from claims involving “director self-dealing, or the more difficult loyalty-type problems . . . .”\(^85\) Thus, there is no question that the *Caremark* court considered the duty of oversight to be a care-based one, and not one implicating a loyalty breach.

However, when the Delaware Supreme Court ultimately purported to approve *Caremark*, it re-characterized the oversight duty as a duty of loyalty.\(^86\) The *Stone* court reasoned that *Caremark* required proof of bad faith conduct. The *Stone* court based this reasoning on language in *Caremark* indicating that a lack of good faith was a necessary condition to liability for an oversight breach.\(^87\) The *Stone* court then insisted that bad faith required conduct “qualitatively different from, and more culpable than, the conduct giving rise to a violation of the fiduciary duty of care . . . .”\(^88\) As a result, the *Stone* court held that because a showing of bad faith conduct “is essential to establish director oversight liability, the fiduciary duty violated by that conduct is the duty of loyalty.”\(^89\) Hence, the court reframed the oversight duty as a duty of loyalty even as it purported to affirm *Caremark*. In so doing, as one observer notes, the *Stone* court “ripped the *Caremark* claim from its original home in the duty of care and reinvented it as a duty of loyalty.”\(^90\)

Presumably, if the Delaware Supreme Court had directly overturned *Caremark*, the court would have provided a more in-depth rationale for its decision to depart from the principles underlying *Caremark*.\(^91\) By contrast, the fact that the *Stone* court purported to affirm *Caremark*, while drastically

\(^{83}\) See *In re* Caremark Int’l Inc. Derivative Litig., 698 A.2d 959, 967 (Del. Ch. 1996).
\(^{84}\) See id. at 971.
\(^{85}\) See id.
\(^{87}\) See id. at 368–69.
\(^{88}\) See id. at 369.
\(^{89}\) See id. at 370.
\(^{90}\) Bainbridge, *supra* note 8, at 975.
\(^{91}\) See *Convergence*, *supra* note 32, at 598.
re-characterizing it, enabled the court to avoid providing a clear explanation for that re-characterization. The avoidance has implication for future efforts at interpreting the oversight doctrine. On the one hand, commentators who have sought to interpret the court’s re-characterization tend to agree on at least two primary rationales, both of which suggest a desire to enhance shareholders’ ability to impose personal liability on directors. First, some argue that the re-characterization was driven by a desire to avoid the protection from liability provided by state exculpatory statutes, such as section 102(b)(7) of the Delaware General Corporation Law. Such statutes enable corporations to create charter provisions that limit or eliminate shareholders’ ability to hold directors liable in money damages for breaching their fiduciary duty. However, such statutes do not allow for such limitations with respect to breaches of the duty of loyalty. Thus, corporations that have opted into the protections afforded by exculpatory statutes can shield directors from duty of care breaches, but not duty of loyalty breaches. As a consequence, shareholders previously were prevented from holding directors personally liable for breaching their duty of oversight under such charter provisions. Placed in this context, the shift from characterizing oversight as a care duty to one based in loyalty may be viewed as an effort to increase the potential for personal liability by avoiding the protections of exculpatory statutes. This view seems particularly plausible given that the shift occurred in the midst of concerns that directors were not being held sufficiently accountable for their failure to effectively monitor corporate misconduct.

Second, many hypothesized that the re-characterization was driven by the desire to side-step the protections of the business judgment rule, which also increases the potential for personal liability. In order to prove that directors have breached their duty of care, shareholders must overcome the presumption of the business judgment rule, which presumes that directors’

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92. See id.

93. See id. at 597 (noting that Delaware’s exculpation provision seemed to be driving the court’s analysis in Stone); Robert B. Thompson, The Short, But Interesting Life of Good Faith as an Independent Liability Rule, 55 N.Y.L. Sch. L. Rev. 543, 551 (2010/2011).

94. See Convergence, supra note 32, at 551; Thompson, supra note 93, at 551.

95. See Convergence, supra note 32, at 597. Thus, while § 102(b)(7) of the Delaware code enables corporations to exculpate directors for monetary liability for breaching their fiduciary duty, liability cannot be eliminated for violations of the duty of loyalty. See Del. Code Ann. tit. 8, § 102(b)(7) (2001).


97. See Convergence, supra note 32, at 975. Professor Bainbridge does note, however, that the high standards established by the Stone court effectively replicated directors’ insulation from monetary damages. See id. at 976.

actions are in good faith and consistent with the corporation’s best interests.\textsuperscript{99} Overcoming this presumption is extremely difficult. Thus, empirical evidence reveals that duty of care breaches resulting in personal liability are very rare, due in large part to the protections afforded by the business judgment rule.\textsuperscript{100} However, while duty of care breaches are analyzed by reference to the business judgment rule, duty of loyalty breaches are not. By classifying oversight breaches as loyalty breaches, such breaches lose the protection of the business judgment rule, and thus appear to be more susceptible to personal liability.

However, both of these hypotheses seem inconsistent with Delaware courts’ rhetoric, creating confusion regarding how best to interpret the oversight doctrine. Indeed, the courts’ rhetoric both in \textit{Caremark} and \textit{Stone} strongly indicates the desire to limit the extent to which directors can be held personally liable for oversight breaches. In \textit{Caremark}, the court called a claim for oversight liability “possibly the most difficult theory in corporation law upon which a plaintiff might hope to win a judgment.”\textsuperscript{101} The \textit{Stone} court reiterated this point, confirming the desire to severely curtail personal liability in this area.\textsuperscript{102} In this respect, the rhetoric appears to diverge from potential explanations of the courts’ re-categorization. This creates a lack of clarity for the oversight doctrine.

The shift also seems inconsistent with the traditional understanding of the loyalty and care doctrines, potentially creating confusion and incoherency. Oversight claims seem more suited to a care-based analysis. The care-based duty to remain informed seems more closely aligned with the oversight duty because that duty relates to the obligation to establish systems aimed at keeping directors informed. By comparison, the oversight duty bears no real resemblance to traditional loyalty claims. Loyalty cases typically involve a director having some conflict or otherwise receiving some financial benefit that is later stripped from him or her.\textsuperscript{103} Yet \textit{Stone} extends loyalty into a realm where directors receive no benefit, and otherwise have no particular conflict of interest. Given loyalty’s historical framework, clas-

\begin{itemize}
  \item \textsuperscript{99} See \textit{Corporate Directors Guidebook—Sixth Edition}, supra note 6, at 995; \textit{Aronson v. Lewis}, 473 A.2d 805, 812 (Del. 1984); \textit{Cede & Co. v. Technicolor, Inc.}, 634 A.2d 345, 360–61 (Del. 1993).
  \item \textsuperscript{101} See \textit{In re Caremark Int’l Inc. Derivative Litig.}, 698 A.2d 959, 967 (Del. Ch. 1996).
  \item \textsuperscript{102} See \textit{Stone ex rel. AmSouth Bancorporation v. Ritter}, 911 A.2d 362, 372 (Del. 2006).
  \item \textsuperscript{103} See \textit{Aronson}, 473 A.2d at 812; \textit{In re Caremark}, 698 A.2d at 967; \textit{Convergence, supra note 32}, at 585.
\end{itemize}
sifying oversight as a duty of loyalty violation is “quite odd.” The oddness decreases the ability to consistently analyze an oversight claim.

The court’s analysis also raises questions about the reach of the business judgment rule in the context of oversight claims. As a general matter, it was understood that the business judgment rule had no applicability in at least two settings: (1) an “unconsidered failure to act” by directors because directors cannot be said to exercise judgment when they have not acted, and (2) in the context of duty of loyalty breaches because directors cannot be presumed to act in good faith, or otherwise in the corporation’s best interests, when they are confronted with transactions in which they may receive some personal benefit or have some conflict. At first glance, the oversight breach seems to implicate both of these settings, and hence the business judgment rule appears to have no applicability to such a breach. However, courts have not given clear guidance on this issue. Because the oversight breach does not involve issues regarding self-interest, those breaches leave open the possibility that the business judgment rule can be applied even though the breach is characterized as one involving loyalty. Moreover, courts have reasoned that once a board establishes an information and reporting system, the level and detail of the system is the subject of business judgment. Such reasoning indicates that the business judgment rule remains relevant when analyzing breaches of oversight, even when there appears to be a failure to take action. At least one court has confirmed this possibility, insisting that directors continue to be afforded the protection of the business judgment rule when assessing whether they have breached their oversight responsibilities. Other commentators similarly have suggested that directors remain protected by the business judgment rule when courts evaluate the appropriateness of their oversight. The potential confusion surrounding whether the business judgment rule has a role to play in oversight breaches only underscores the incoherent state of the doctrine, undermining its predictability.

Adding to the overall confusion, the Stone court characterized the oversight duty as a duty of good faith. In so doing, the court appeared to be closing a loophole in the fiduciary duty doctrine. While the concept of good
faith is not new, as a matter of fiduciary duty law it was relatively unexplored, and often subsumed under either the duty of loyalty or the duty of care. In the 2006 case of In re Walt Disney Co. Derivative Litigation, the Delaware Supreme Court suggested that directors had a seemingly independent duty of good faith, but left open the question of whether that duty was entirely distinct from the traditional duties of loyalty and care.\textsuperscript{110} The \textit{Stone} court addressed this question in three ways. First, the \textit{Stone} court argued that a breach of the duty of oversight constituted a breach of the duty of good faith.\textsuperscript{111} As indicated in the earlier discussion, the \textit{Stone} court reasoned that this conclusion was compelled by \textit{Caremark}'s heavy reliance on concepts of good faith. Second, the \textit{Stone} court insisted that good faith did not represent a separate duty.\textsuperscript{112} Third, the \textit{Stone} court reasoned that the duty of good faith should be viewed as a subset of the duty of loyalty, and that one of the ways in which good faith could be breached is through an oversight failure.\textsuperscript{113} In other words, a breach of the duty of oversight represents a breach of the duty of good faith, which in turn represents a breach of the duty of loyalty.

This rather convoluted analysis of oversight raised more questions than it answered. What other types of ways could directors breach the duty of good faith? What other categories of loyalty breaches existed? If good faith and loyalty are the same, how should one view Delaware’s exculpatory provision which specifically pinpoints both doctrines? Indeed, the \textit{Disney} court had suggested that good faith and loyalty were distinct because Delaware’s exculpatory statute contained a carve-out for both kinds of conduct.\textsuperscript{114} As a result, conflating the two seems potentially problematic. Also, as indicated in the earlier discussion, since both good faith and loyalty breaches cannot be limited under a corporation’s exculpatory provision, should oversight breaches be more susceptible to claims for personal liability? It is not clear how these questions should be answered.

The fact that the oversight doctrine has been left in a somewhat confusing state undermines its strength, jeopardizing its use as a guide for corporate behavior and liability for that behavior. As one commentator notes, the court’s reinterpretation of \textit{Caremark} failed “to set forth clearly the new rules of the game.”\textsuperscript{115} In so doing, the court generated confusion about the precise standards that apply to directors’ conduct, the manner in which directors meet those standards, and the extent to which those standards can

\begin{itemize}
\item \textsuperscript{110} 906 A.2d 27, 67 (Del. 2006).
\item \textsuperscript{111} See \textit{Stone ex rel. AmSouth Bancorporation v. Ritter}, 911 A.2d 362, 369–70 (Del. 2006).
\item \textsuperscript{112} See id.
\item \textsuperscript{113} See id. at 370.
\item \textsuperscript{114} See \textit{In re Walt Disney}, 906 A.2d at 27.
\item \textsuperscript{115} \textit{Convergence, supra} note 32, at 598.
\end{itemize}
and should result in liability.\textsuperscript{116} Such confusion undermines efforts at expanding the doctrine.

C. Trending Towards Exoneration and Irrelevance

Even if directors can determine the nature of the conduct that renders them liable, many have raised concerns about the possibility that the oversight doctrine may fail to encourage directors to comply with their oversight duty in any meaningful manner.

Courts have repeatedly emphasized the high hurdle shareholders must cross in order to prove an oversight breach. Consistent with this emphasis, courts have been clear that only a “very extreme set of facts” would lead to a finding of oversight liability.\textsuperscript{117} Moreover, as noted earlier, the \textit{Caremark} court referred to an oversight claim as “possibly the most difficult theory in corporation law upon which a plaintiff might hope to win a judgment.”\textsuperscript{118} The \textit{Stone} court repeated this reference, suggesting that the burden for proving a breach of oversight may be almost insurmountable.\textsuperscript{119} Given that duty of care breaches almost never result in personal liability, referring to an oversight claim as the “most” difficult theory suggests that it will be virtually impossible for oversight breaches to result in personal liability for directors. This difficulty is clearly reflected in the fact that current evidence reveals only one post-\textit{Stone} case has resulted in a finding of liability.\textsuperscript{120}

The \textit{Stone} court then added to this burden by requiring proof of scienter for oversight liability. When \textit{Stone} recast the oversight claim as a good faith duty, it also insisted that such a duty required scienter—a showing that directors knew or should have known that they were disregarding their duties.\textsuperscript{121} As one court put it,

\begin{quote}
[D]irector liability for failure to monitor required a finding that the directors acted with the state of mind traditionally used to define the mindset of a disloyal director—bad faith—because their indolence was so persistent that it could not be ascribed to anything other than a knowing decision not to even try to make sure the corporation’s officers had developed and were implementing a prudent approach to ensuring law compliance.\textsuperscript{122}
\end{quote}

At the pleading stage, this scienter element means that shareholders must plead particularized facts showing that directors consciously disregarded an obligation to be reasonably informed, or consciously disregarded

\begin{itemize}
\item[116.] See Nees, \textit{supra} note 40, at 205–06.
\item[117.] See \textit{In re Lear Corp. S’holder Litig.}, 967 A.2d 640, 654–55 (Del. Ch. 2008).
\item[118.] \textit{In re Caremark Int’l Inc. Derivative Litig.}, 698 A.2d 959, 967 (Del. Ch. 1996).
\item[120.] See \textit{infra} note 132 and accompanying text.
\item[121.] See Lyondell Chemical Co. v. Ryan, 970 A.2d 235, 240 (Del. 2009); see also \textit{Stone}, 911 A.2d at 370.
\item[122.] Desimone v. Barrows, 924 A.2d 908, 935 (Del. Ch. 2007).
\end{itemize}
the duty to monitor and oversee the business. This poses difficulty because shareholders must prove a culpable state of mind based on inaction. “Short of requiring intent to inflict actual harm, one can hardly imagine a more demanding liability standard.” As another commentator explained it, 

[U]nless the director’s failure to act was the product of deliberation (which takes the matter outside of the duty to monitor), no records, witnesses, or other readily available pieces of evidence will be available to inform a court whether the board’s failure to act was an act of carelessness or disloyalty.

As a result, courts must be willing to draw inferences from a board’s inaction. However, the inferences courts appear willing to draw all flow in a direction that seems to avoid holding directors liable for their monitoring efforts. Hence, courts seem willing to infer good faith, or at least a lack of bad faith, so long as directors have made any effort at implementing a monitoring system.

The result is that, as applied, the scienter-based standard appears to practically guarantee that directors will escape liability for oversight claims. Under Caremark and Stone, there are essentially three ways in which shareholders can establish that boards have breached their oversight duty: (1) an unconsidered failure to establish a system, (2) a failure to monitor the established system, and (3) the failure to respond to red flags.

With one notable exception, the first type of breach is largely irrelevant as applied to most modern corporations. This is because the vast majority of public corporations, by virtue of federal law and other practices, have a monitoring or internal control system in place with the purported goal of bringing material information to the attention of directors. Hence, most oversight suits are not based on claims involving the failure to institute an information system.

Instead, shareholder suits typically contend that the system directors installed is inadequate, or otherwise that directors have failed to properly monitor the system. However, because proving scienter or bad faith is so difficult, almost any monitoring effort, however, minimal or formulaic, appears to prevent a showing of bad faith. Thus, courts have indicated that a showing of bad faith will not result from demonstrating that directors’ monitoring efforts were inadequate, flawed, or represented a sharp departure

123. Petrin, supra note 8, at 456.
124. See Rethinking the Board’s Duty, supra note 76, at 210.
125. See Desimone, 924 A.2d, at 940 (noting that the plaintiff needed to demonstrate facts suggesting that directors knew about the inadequacy of internal controls, but chose to ignore them); see also Wood v. Baum, 953 A.2d 136, 143 (Del. 2008) (suggesting that plaintiffs needed to demonstrate that directors knew or participated in wrongdoing); see also Pan, supra note 64, at 734–35.
126. See Walker, supra note 51, at 405.
127. See Pan, supra note 64, at 733–38 (describing oversight cases after Stone).
from best practices. Instead, only when directors “completely” or “utterly” fail to take any actions aimed at monitoring corporate conduct would they be liable for breaching their duty of good faith. In other words, courts appear to measure breaches of oversight based on “how far above nothing” directors’ actions fall. The result is that it is rare for shareholders to successfully plead an oversight claim, and almost unheard of for shareholders to successfully hold directors liable for breaching their oversight duty. In this regard, the cases after Stone highlight the ease with which directors can comply with their duty as well as the seemingly insurmountable burden shareholders bear when seeking to hold directors liable for breaching that duty.

To date, there appears to be only one post-Stone case in which directors were found liable for breaching their oversight duty, which is the exception that proves the rule, demonstrating that only when directors completely abandon their monitoring duties will they be liable for breach. In that case, the directors made absolutely no attempt to establish a reporting and information system, and had not even considered such a system. Moreover, directors entirely deferred to others in matters relating to corporate business. The court found directors liable for breaching their oversight duty because they “did nothing to make themselves aware of this blatant misconduct or to stop it.” This case seems to underscore the notion that only when directors effectively abdicate their monitoring responsibilities will they be found liable for breaching them.

Importantly, this burden does not get any easier when shareholders seek to demonstrate oversight liability by virtue of a failure to respond to red flags. Red flags constitute facts or issues that should put directors on notice of potential illegal actions or wrongdoing of others within the corporation. Directors’ failure to respond to red flags can result in oversight liability. However, the burden associated with proving the existence of red flags, and imposing liability for ignoring those red flags, appears exceptionally high. As an initial matter, there is considerable uncertainty regarding what even constitutes a red flag, which often results in the court rejecting shareholder allegations of red flags. More importantly, courts

128. See Thompson, supra note 93, at 550–51.
130. See Thompson, supra note 93, at 550.
131. See Rethinking the Board’s Duty, supra note 76, at 216.
133. See id.
134. See id.
135. See Petrin, supra note 8, at 439; see also Nees, supra note 40, at 205.
136. See Petrin, supra note 8, at 439; see also Nees, supra note 40, at 205; Sale, supra note 105, at 735.
137. See Sale, supra note 105, at 735–43 (noting that Delaware has not really addressed the issue of what counts as a red flag); see also Nees, supra note 40, at 206 (noting the court’s failure
have argued that liability can only be found when red flags are either “waived in one’s face or displayed so that they are visible to the careful observer.”\textsuperscript{138}

Collectively, these cases underscore the difficulty of holding directors liable for breaching their oversight duty. A review of cases that hold directors liable for breaching their duty of care reveal that such liability is extremely rare.\textsuperscript{139} Based on Delaware courts’ current assessment of oversight, liability in that area will be rarer still, with virtually no cases imposing liability on directors for their inattention.

Of course, there may be good reasons for courts’ reluctance to hold directors liable for breaching their oversight duty. First, courts historically have been reluctant to second-guess directors’ business decisions by holding them liable when those decisions result in losses.\textsuperscript{140} Courts are mindful that directors have been entrusted with making business decisions, some of which may, upon hindsight, appear foolish, unwise, or extremely risky.\textsuperscript{141} If courts hold directors liable for such decisions, they may inappropriately replace their judgment with those of directors who have greater business experience. They also may inappropriately undermine directors’ willingness to make risky decisions, many of which may prove beneficial to the corporation.\textsuperscript{142} Thus, courts historically have adopted a standard that enables directors to make decisions in good faith, and seeks to avoid second-guessing those decisions. Such a standard appears to apply when courts must determine whether directors exercised appropriate judgment about the best monitoring system to establish. Second, one can imagine that if courts are reluctant to hold directors liable for flawed or shoddy actions, they would be even more reluctant to hold them liable for inaction. Third, holding directors liable for oversight runs the risk of making directors guarantors for


\textsuperscript{139.} See \textit{Cohn}, \textit{supra} note 100, at 591; \textit{Horsey}, \textit{supra} note 100, at 982; \textit{Bishop}, \textit{supra} note 100, at 1099; see also \textit{Black}, et al., \textit{supra} note 100, at 1059.

\textsuperscript{140.} See \textit{Bainbridge}, \textit{supra} note 8, at 984 (discussing rationale for business judgment rule, and courts reluctance to second-guess directors). As one court notes, Delaware Courts give “great deference to the substance of the directors’ decision and will not invalidate the decision, will not examine its reasonableness, and ‘will not substitute [its] views for those of the board if the latter’s decision can be “attributed to any rational business purpose.”’” \textit{Paramount Commc’n., Inc. v. QVC Network}, 637 A.2d 34, 45 n.17 (Del. 1994) (quoting \textit{Unocal Corp. v. Mesa Petroleum Co.}, 493 A.2d 946, 949 (Del. 1985) (quoting \textit{Sinclair Oil Corp. v. Levien}, 280 A.2d 717, 720 (Del. 1971))).

\textsuperscript{141.} See \textit{Gagliardi v. TriFoods Int’l}, 683 A.2d 1049, 1052 (Del. Ch. 1996).

\textsuperscript{142.} See \textit{Bainbridge}, \textit{supra} note 8, at 984; see also \textit{David Rosenberg, Supplying the Adverb: The Future of Corporate Risk-Taking and the Business Judgment Rule}, 6 \textit{BERKELEY BUS. L.J.} 216, 218 (2009).
large corporate losses. Courts have repeatedly emphasized that no monitoring system is foolproof, and hence that we cannot and should not expect that a system will eradicate corporate wrongdoing.\textsuperscript{143} Unfortunately, it is all too tempting to conclude that if a company suffers loss as a result of a business risk or illegal activity within the corporation, directors should have done more, and thus should be liable for breaching their oversight duty. Courts must set a standard that protects against this temptation, or courts run the risk that every instance of wrongdoing will result in oversight liability for directors.

Regardless of the legitimacy of these rationales, the high hurdle that must be cleared in order to hold directors liable for breaching their oversight responsibilities may mean that fiduciary duty law will not be able to play a significant role in ensuring directors’ vigilant adherence to their oversight responsibilities. The relatively low threshold for satisfying the oversight duty may fail to encourage directors to monitor in a more robust fashion. Instead, such a threshold poses a danger that companies will structure their oversight policies around the minimum requirements needed to satisfy courts’ liability standard.\textsuperscript{144} Even more troubling, some have worried that courts’ oversight standard may actively undermine directors’ more robust compliance with their oversight responsibilities. One commentator has noted that courts’ refusal to hold directors liable for oversight failures has encouraged boards to be uninformed.\textsuperscript{145} Because the scienter-based standard suggest that directors may only be found liable for conduct when there is evidence of their knowing disregard of their duties, the current conception may incentivize directors to avoid asking questions or otherwise gathering information about potential problematic actions so as to avoid a paper trail or record of their actions that could lead to a finding of liability.\textsuperscript{146} After discussions with former Chancellor William Allen, the author of the Caremark decision, Professor Jennifer Arlen points out that Chancellor Allen indicated that Caremark was motivated by concern that directors had become “overly passive,”\textsuperscript{147} and thus that two of the primary goals of Caremark were to expand directors’ oversight responsibilities, and to induce directors to play a more active role in oversight.\textsuperscript{148} After careful consideration of the impact of Caremark on board behavior, Professor Arlen


\textsuperscript{144.} See Katz, supra note 59, at 152 (warning that companies should not create risk management policies around the minimum requirements needed to satisfy the business judgment rule).

\textsuperscript{145.} See Rethinking the Board’s Duty, supra note 76, at 210 (noting that the Delaware courts’ current conception of oversight “rewards ignorance and passivity by directors, imposing little obligation on them to take an active interest in the corporation’s business.”).

\textsuperscript{146.} See id.


\textsuperscript{148.} See id. at 340.
concludes that while Caremark was successful in expanding directors’ oversight duties, Caremark has not succeeded in inducing active oversight by directors, nor does it provide any substantial deterrence.\textsuperscript{149} Consistent with this conclusion, by potentially undermining the extent to which directors feel compelled to comply with their oversight responsibilities, Delaware courts may have rendered the oversight doctrine largely irrelevant.

Many have argued that fiduciary duty law can have an impact on corporate behavior even when courts do not hold directors liable for breaching their duty. The Delaware Supreme Court has insisted that there is a distinction between standards of liability and standards of conduct, suggesting that even when a director’s conduct is insufficient to warrant liability, it nevertheless may fall short of what is deemed best practice and thus be considered problematic.\textsuperscript{150} Consistent with this reasoning, commentators insist that Delaware law serves an important signaling function by signaling directors, officers, and their advisors of the most appropriate standards of conduct.\textsuperscript{151} Commentators further insist that this function operates irrespective of legal liability, and may be the primary function of Delaware law.\textsuperscript{152} As a result, the fact that Delaware law fails to impose liability for oversight breaches does not undermine its ability to shape director conduct. Instead, Delaware law continues to inform behavior by setting a standard of conduct clearly higher than the liability standard.

On the one hand, it is clear that courts have had an impact on the increased recognition of directors’ oversight duty, as well as the increased recognition that directors need to establish information and reporting systems in order to comply with that duty. The court’s language in Caremark spurred the development of corporate internal control systems. Caremark and its progeny also likely sparked the development of best practices in this area. Thus, it would be a mistake to suggest that court pronouncements do not have an impact on the corporate environment in general and director behavior in particular.

However, it also would be a mistake to suggest that the high hurdle for liability in this area does impact the manner in which directors’ compliance efforts develop, and does not have the potential for undermining the strength of those efforts. The issue regarding oversight is not whether direc-

\textsuperscript{149}. See \textit{id.} at 339–40; see also Thompson, \textit{supra} note 93, at 556.

\textsuperscript{150}. See Brehm v. Eisner, 746 A.2d 244, 256 (Del. 2000) (noting that “[a]spirational ideals of good corporate governance practices for boards . . . do not define standards of liability.”).


\textsuperscript{152}. See \textit{Executive Compensation}, \textit{supra} note 151, at 354; Skeel, \textit{supra} note 151, at 1829; Eisenberg, \textit{supra} note 151, at 1270; Rock, \textit{supra} note 151, at 1016.
tors must establish an information and reporting system—courts have been clear with respect to such an obligation, and courts have been clear that directors’ failure to establish any such system could lead to liability. Instead, the issue is how effective must those systems be? It is this issue that courts’ refusal to impose liability may impact in a negative fashion.

Because courts have made clear that they will impose liability only in those situations where directors fail to establish a system, or otherwise fail to take any action, there is reason to be skeptical regarding the ability of courts to take on a signaling role that motivates behavior beyond the minimum requirements associated with that liability. First, even if court signaling or sermonizing is enough on its own to shape director conduct, the high standard courts have established for proving oversight liability means that many cases are dismissed at the pleading stage. Such dismissals undermine the extent to which courts have the opportunity to engage in appropriate signaling. Second, the high burden for demonstrating oversight liability may dissuade shareholders from bringing meritorious claims, thus denying courts the opportunity to sermonize about them. Third, it is not clear that court sermonizing or signaling can encourage appropriate behavior without some possibility of liability, not only because the lack of liability may send a mixed message, but also because most commentators agree that extralegal measures must be combined with legal liability to achieve optimal levels of effectiveness. Indeed, how should directors interpret courts’ signal when courts repeatedly insist that their conduct is not worthy of punishment, but yet is somehow still blameworthy? Then too, studies suggest that extralegal measures may be insufficient on their own to impact corporate behavior. Instead, some form of personal liability must supplement them in order to be truly effective. Finally, one has to question whether courts are truly interested in a signaling role, particularly with respect to oversight. Putting aside that thus far courts have created a relatively convoluted roadmap from which directors are supposed to receive guidance related to oversight, courts also seem to have ducked, rather than confronted, important issues related to oversight liability. This can be seen in recent cases in which courts have chosen to leave open the issue regarding whether business risks should be the subject of directors’ oversight duty, rather than affirmatively settle it. All of these issues raise doubt regarding courts’ signaling function, while increasing the possibility that courts’ failure to impose liability

153. See Rethinking the Board’s Duty, supra note 76, at 216.
154. See id. at 211 (noting concern that the bad faith standard may undermine plaintiffs’ desire to bring forward meritorious duty to monitor claims).
155. See Fairfax, supra note 10, at 1–2 (citing studies).
156. See id.
MANAGING EXPECTATIONS

for oversight breaches may undermine their ability to play a role in ensuring more effective compliance with the monitoring role.

III. THE WORKABILITY OF THE OVERSIGHT DOCTRINE

Even if directors wanted to better comply with the oversight doctrine, that task may prove difficult for several reasons. The size and complexity of the modern corporation may render oversight of any corporation extremely challenging. The inherently broad scope of the oversight duty also may make it unmanageable. More importantly, boards may not have the capacity to effectively perform their oversight obligations, particularly when viewed in light of other demands on their time and their independent status. This Part discusses these hurdles.

A. Challenges Associated with the Size of Modern Corporations

The sheer size of the modern corporation makes the oversight task difficult. The Delaware Supreme Court in Graham specifically pinpointed the practical limitations of holding directors responsible for overseeing large corporations. The company in Graham employed more than thirty-one thousand people, had twenty-four plants, 145 sales offices, and five thousand dealers and distributors.158 The court argued that the “very magnitude of the enterprise required [directors] to confine their control to the broad policy decisions.”159 The court also reasoned that the very extent of the corporation’s operations made it impractical for directors to be able to effectively monitor the actions of the corporation and all its various divisions.160 This practical limitation prompted the court to severely restrict the ability to hold directors liable for an oversight failure. In this regard, Graham specifically recognized that the nature of a large enterprise undermined the extent to which we could expect directors to actively perform their monitoring responsibilities.

While modern courts have expanded the oversight doctrine, the size issue has severely constrained expectations regarding director oversight. Directors’ oversight responsibility has been limited to ensuring that they establish an information system aimed at keeping them abreast of corporate operations and then monitor that system.161 Hence, the oversight duty does not require that directors have intimate knowledge about all of the activities occurring within a corporation. In fact, the Caremark court indicated that it would simply be inconsistent with the scale and scope of modern organizations to expect directors to have detailed information about all aspects of a

159. Id. at 130.
160. Id. at 128.
corporation’s operations. However, this observation begs the question—what should we expect from directors in light of the corporation’s size? Courts seem to suggest that our expectations should be very low, at least with respect to liability for oversight. Thus, it appears that so long as directors have some system in place that (a) on paper appears aimed at informing directors, (b) delegates responsibility to officers, and (c) relies on those officers for periodic reports regarding material events, directors have met their oversight duty. In this respect, courts appear to have allowed the size of modern corporations to significantly constrain their expectations regarding board oversight.

While this response to the size issue may appear inappropriate, the size issue does raise real questions about whether and to what extent we can expect directors’ oversight duty to improve corporate governance. The size issue appears to limit expectations regarding directors’ ability to garner the information necessary to be active monitors of corporate conduct and misconduct. A similar observation can also be made about managers. It is certainly the case that we expect the CEO and other managers to have the capacity to effectively manage the far-flung operations of most modern corporations, and thus to overcome the size issue. However, this does not negate the relative complexity of such management. Moreover, managers are familiar with the day-to-day operations of the corporation, and thus may be better equipped to grapple with the challenges associated with staying on top of the affairs of enterprises that are national, and often international, in scope. The same is not true of directors, and thus greater attention must be paid to how the size issue should impact directors’ oversight, or we run the risks of either expecting too much, or believing we can expect very little.

B. Oversight as Beyond the Scope

It is also possible that the scope of the oversight duty is so broad that it may be unmanageable. The very fact that oversight imposes liability on directors for what they have failed to do makes it difficult to define its scope. Even without a precise scope, we know that the responsibility covers many more actions than those covered by the duty of care or the duty of loyalty. As one scholar noted, “the universe of all actions not taken is always far greater than the roster of actions taken.” Because the oversight duty covers this universe, it is potentially far-reaching, which directors could find unworkable.

162. Id.
164. See Rethinking the Board’s Duty, supra note 76, at 209.
Of course, there is some suggestion that the oversight duty only extends to legal compliance, which could narrow the scope of the duty. In Citigroup, the Delaware Supreme Court suggested that oversight only involved monitoring to ensure legal compliance, and that Caremark was not designed to hold directors liable for failing to properly evaluate and monitor business risk. 166 If this suggestion is accurate, then the duty may be more manageable, particularly because directors may be able to rely on counsel and well-established legal compliance departments to help them meet their responsibilities. Of course, even if the oversight responsibility was limited solely to legal compliance, there are a vast number of laws with which corporations must comply, and thus the potential oversight of that compliance is very broad.

Then too, others have suggested, and even advocated for, an oversight duty that includes monitoring for business risks. In fact, there is good reason to believe that Caremark extends beyond monitoring for legal compliance. The Caremark court noted that the board had a responsibility to put into place a system aimed at providing information regarding events within the corporation so that judgments could be made “concerning both the corporation’s compliance with the law and its business performance.” 167 Then too, although Citigroup appears to question the wisdom of extending oversight liability to cases involving oversight of business risks, it nevertheless concedes the possibility of an oversight claim related to business risk “under some set of facts.” 168 Moreover, many contend that the oversight duty should extend to business risks. Professor Stephen Bainbridge notes that there is no doctrinal reason why Caremark claims cannot extend to suits implicating lax monitoring of business risk. 169 According to Professor Bainbridge, some best practices guides either link or conflate oversight of legal compliance with oversight of risks. 170

On one hand, there are many good reasons for insisting that directors’ monitoring duty does and should extend beyond oversight of legal compliance. On the other hand, such an extension only increases the tasks for which directors are responsible for monitoring. Like the issue with respect to corporate size, however, we need to grapple with how directors can best accomplish this task given its tremendous breadth. One solution may be to narrow the duty to particular kinds of business risks over which directors

166. See In re Citigroup Inc. S’holder Derivative Litig., 964 A.2d 106, 131 (Del. Ch. 2009); see also Rethinking the Board’s Duty, supra note 76, at 212 (noting that the court had effectively “closed the door” on duty to monitor claims involving a board’s failure to monitor business risk).
167. See In re Caremark Int’l Derivative Litig., 698 A.2d 959, 970 (Del. Ch. 1996) (emphasis added); see also Rethinking the Board’s Duty, supra note 76, at 212–13 (noting that Caremark provided a rationale for an expansive monitoring duty covering “a broad range of legal and business harms to the corporation”).
168. In re Citigroup, 964 A.2d at 126.
169. See Bainbridge, supra note 8, at 968.
170. Id. at 980.
already have some additional role, such as accounting matters or compensation. Regardless of the potential solution, it is possible that the oversight doctrine is unworkable without some narrowing of its scope.

C. The Capacity of a Director

It also is not clear that directors have the capacity to effectively engage in oversight in light of their increasingly broader responsibilities. Boards have been tasked with increasingly greater responsibilities in recent years, from overseeing compensation packages and structure, to more actively monitoring the director election process and engagement with shareholders.\(^{171}\) These tasks, if performed effectively, require significant amounts of work and time commitment. Empirical evidence confirms that directors have increased the amount of time they spend on board matters. Such evidence reveals that meetings are running longer, and boards are meeting more frequently.\(^ {172}\) This increased time commitment has implications for effective board oversight because boards may be spreading themselves too thin by seeking to accomplish an increasingly wide range of tasks.

Importantly, effective oversight demands that boards devote even more time to carrying out their responsibilities. Thus, best practices emphasize the need for directors to meet more often with key members of management to gain insights about material actions and operations.\(^ {173}\) Best governance practices also require boards to engage in more periodic review of corporate policies and procedures so that the oversight effort is an ongoing one.\(^ {174}\) This increased time commitment raises questions about whether directors realistically have the capacity to meet their new obligations.

This is especially true when one considers that the burden of carrying out these tasks often falls on a subset of the board. Many corporations delegate the oversight task to the audit committee.\(^ {175}\) However, many board reforms focus on enhancing the work of the audit committee. For example, Sarbanes-Oxley required the audit committee to have more oversight of the corporation’s financial statements and auditing process.\(^ {176}\) As a result, the work of the audit committee increased, which was reflected in an increase in the number of hours directors spent serving on the audit committee.\(^ {177}\) Thus, in 2010, the audit committee met nearly twice as often as the next

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174. See id. (discussing best practices with respect to risk management).
175. See In re Walt Disney Co. Derivative Litig., 906 A.2d 27, 54 (Del. 2005); Walker, supra note 51, at 413.
177. Id. at 408.
most active committee of the board. The average size of an audit committee is three directors. This means that we are expecting that a small number of already over-burdened directors will be able to carry out an ever-broadening array of demanding tasks.

The fact that these increased responsibilities require directors to devote more time to their fiduciary responsibilities does not negate the importance of those responsibilities, or otherwise suggest that those increases are not legitimate. However, it does raise serious questions about whether directors can effectively tackle their duties.

D. Independence as a Hurdle

The emphasis on independent directors also raises several important questions regarding directors’ ability to effectively perform their oversight responsibilities. The vast majority of public company directors are independent, which means that they do not have an employment relationship with the corporation on whose board they serve. Recent studies reveal that most public corporations have only one or two inside directors on their board. While the shift towards increased director independence occurred because of concerns that boards dominated by insiders would not be effective monitors, the shift raises concerns about whether such boards can perform their oversight responsibilities.

First, the fact that directors are independent increases the likelihood that they may not be able to devote sufficient time to their duties. Independent directors, by definition, are part-time directors. Recent surveys reveal that the average director of a public corporation devotes about 192 hours per year (sixteen hours per month) to board and committee work, including travel. This averages about four hours per week. In 1982, when directors worked an average of three hours per week, one commentator insisted that “[n]o human being can stay on top of all this in a major company on a one-and-a-half-day-a-month basis.” While the number of hours directors devote to their board work has increased slightly, their responsibili-

179. See The Korn/Ferry Inst., 34th Annual Board of Directors Study 4 (2009) [hereinafter Korn/Ferry Study] (noting that in 2007, on average, only two out of ten directors are full time employees).
180. Id.
183. See id.
184. See Manning, supra note 165, at 1481.
185. Id.
ties have risen dramatically, making this sentiment even more appropriate for today’s director.

Second, directors’ independence raises other critical timing considerations. Independent directors have outside responsibilities, including full-time jobs. Many corporations have active CEOs or COOs on their board. Although there has been a steady decline of such directors on public boards, twenty-four percent of companies have active CEOs or COOs on their board, while another twenty-one percent of directors are corporate executives, such as division presidents.\textsuperscript{186} Nearly one-third of audit committee chairs are either active CEOs or CFOs, while twenty percent of compensation chairs are active CEOs.\textsuperscript{187} Moreover, only nineteen percent of directors are retired; the remaining directors are active executives and professionals.\textsuperscript{188} These statistics show that directors have significant employment obligations outside of the company on whose board they serve. Directors’ active involvement in other matters may provide them with important expertise and experience, but it also raises concerns about their ability to devote sufficient attention to their board duties. Because directors have full-time jobs elsewhere, they may not have the time to develop a meaningful understanding of the challenges facing their corporations.\textsuperscript{189} Directors’ part-time status not only limits the extent of their interaction with other directors and management, but also limits the time they can devote to digesting information received from those interactions.\textsuperscript{190} Hence, independent directors as monitors create issues for effective oversight.

Third, directors’ independence could prove counter-productive to effective monitoring because of the information they are able to access as well as the manner in which they access such information. One of the most important keys to effective oversight is that directors receive unbiased information.\textsuperscript{191} However, directors are at an informational disadvantage vis-à-vis insiders in the corporation.\textsuperscript{192} Not only does directors’ independent status mean that they inherently have less information than officers and employees, but studies also reveal that directors rarely have channels of information that are independent from the officers and employees that they must monitor.\textsuperscript{193} This may make it difficult for directors to exercise independent judgment and engage in effective monitoring. Without multiple

\begin{footnotes}
\item[186.] See Spencer Stuart, 2011 Board Index, supra note 172, at 8.
\item[187.] Id. at 30.
\item[188.] Id. at 10.
\item[190.] Id. at 290.
\item[191.] Id.; Melvin Aron Eisenberg, Legal Models of Management Structure in the Modern Corporation: Officers, Directors and Accountants, 63 Cal. L. Rev. 375, 404 (1975).
\item[192.] Sharpe, supra note 189, at 289.
\item[193.] Id.; see also James D. Cox, Managing and Monitoring Conflicts of Interest: Empowering the Outside Directors with Independent Counsel, 49 Vill. L. Rev. 1077, 1082 (2003).
\end{footnotes}
sources of information, directors are dependent on management to determine how to screen, evaluate, and condense voluminous amounts of information. Even if officers do not actively engage in misconduct, the information they produce will be skewed towards the management’s perspective. Then too, if the information is tainted, boards may not be in the best position to notice.

Moreover, it is possible that directors’ independent status may cause them to inappropriately defer to management in a manner that undermines their ability to be effective in their oversight role. Studies indicate that when directors are less confident in their own understanding of corporate affairs, they unduly rely on managers who they perceive to have greater expertise.194 The size and complexity of the modern corporation, coupled with the increased time involved with knowing and understanding all of the nuances associated with the corporation, could cause directors to defer to management. Directors’ independence only heightens this deference because it may prompt directors to assume that managers are better positioned to understand and evaluate corporate affairs. In this regard, directors’ independent status poses a danger that they will inappropriately defer to management, thereby undermining their ability to serve as effective monitors.

Finally, the emphasis on independent directors raises questions about directors’ expertise, which could undermine directors’ ability to be effective in their oversight role. Even when directors receive information, they must be able to understand that information, and ask knowledgeable questions if that information raises concerns about the company and its operations.195 This requires a knowledge and understanding of corporate affairs that many directors may not have.196 While directors may have knowledge about industry practices more generally, their independent status means that they will not have in-depth knowledge about the day-to-day affairs of the corporations that they are expected to monitor.197 As a result, directors may not have the specific expertise necessary to properly evaluate corporate information. To be sure, directors can gain company-specific information through their work on the board, but this may take years of service.198 Then too, some studies suggest that the longer directors serve on boards, the more likely they are to defer to management.199 From this perspective, lengthy service obviously takes time to establish, but may prove counter-productive once it is acquired. As a result, it may not be a cure for the lack of expertise associated with independent directors.

194. See Fairfax, supra note 10, at 54.
195. See Arlen, supra note 147, at 344.
196. Sharpe, supra note 189, at 290.
197. Id.
198. Id.
199. See Fairfax, supra note 10, at 54.
As this Part reveals, there are important hurdles associated with making directors’ oversight role more robust. Without sufficient appreciation and consideration of these hurdles, we may be creating expectations about the oversight doctrine that directors will not be equipped to fulfill.

IV. CONCLUDING THOUGHTS

The financial crisis caused director oversight to take center stage because it raised concerns about whether directors were effectively performing their duty to actively monitor corporate affairs. The hope is that enhancing directors’ oversight responsibilities will improve corporate governance and reduce instances of corporate malfeasance. This article questions whether the oversight doctrine offers false hope, creating expectations that directors cannot realistically fulfill. At the very least, the article argues that we may need to seriously consider how directors can comply with their oversight responsibilities in a responsible, but realistic manner. For example, should we limit directors’ oversight to discrete tasks or responsibilities? Should we consider allowing particular directors with perhaps greater expertise and less outside responsibilities to engage in oversight? Perhaps we should focus our attention on other agents and advisors in the corporation to assist with directors’ oversight function.\textsuperscript{200} Consideration of these and other questions may be necessary before the potential positive outcomes of an oversight doctrine can be realized. If that consideration does not occur, then it is possible that the oversight doctrine will be ineffective, and that our renewed focus on it will have been a waste of important time and resources.

\textsuperscript{200} See generally Lyman Johnson & Dennis Garvis, \textit{Are Corporate Officers Advised About Fiduciary Duties?}, 64 BUS. LAW. 1105 (2009) (discussing an empirical study regarding whether and how in-house corporate counsel advise corporate officers about fiduciary duties).