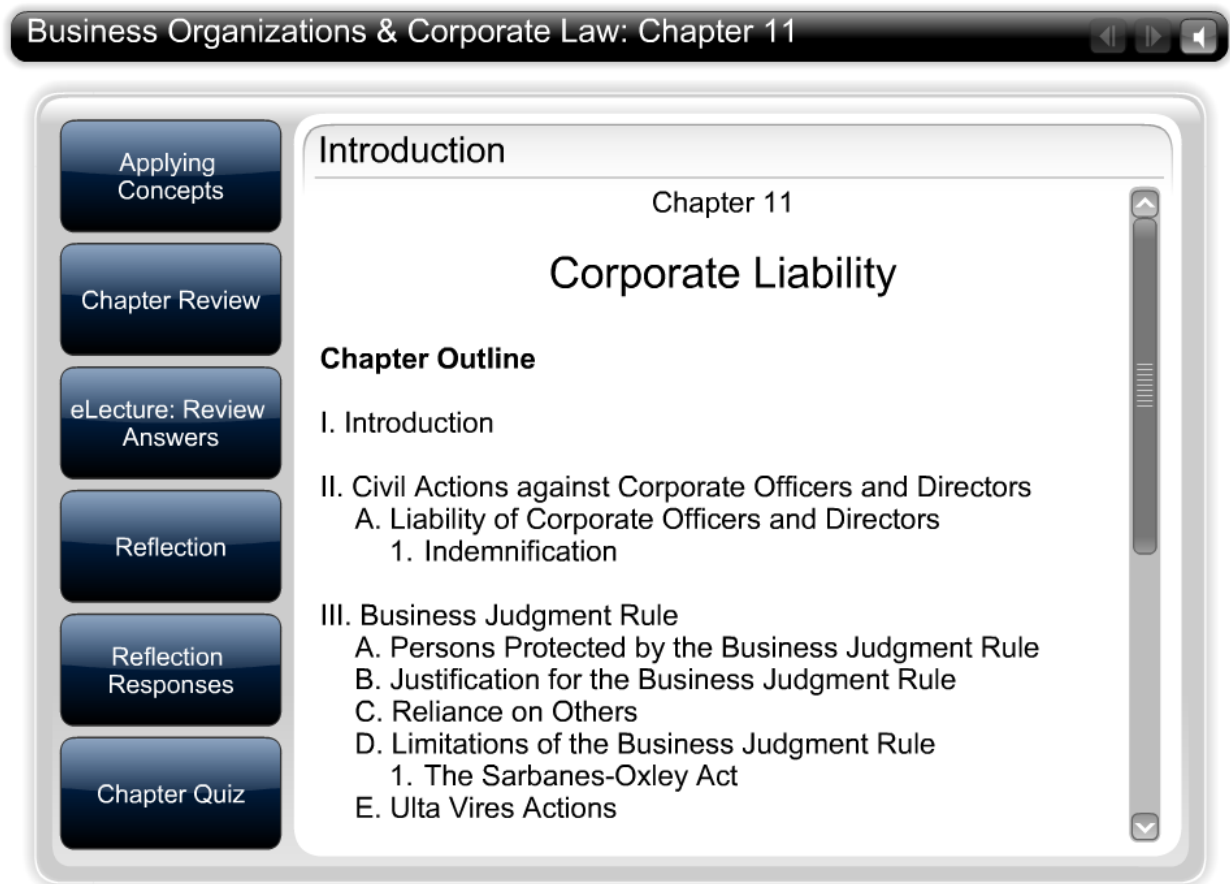


Business Organizations & Corporate Law: Chapter 11

Introduction



Business Organizations & Corporate Law: Chapter 11

Applying Concepts

Chapter Review

eLecture: Review Answers

Reflection

Reflection Responses

Chapter Quiz

Introduction

Chapter 11

Corporate Liability

Chapter Outline

- I. Introduction
- II. Civil Actions against Corporate Officers and Directors
 - A. Liability of Corporate Officers and Directors
 - 1. Indemnification
- III. Business Judgment Rule
 - A. Persons Protected by the Business Judgment Rule
 - B. Justification for the Business Judgment Rule
 - C. Reliance on Others
 - D. Limitations of the Business Judgment Rule
 - 1. The Sarbanes-Oxley Act
 - E. Ultra Vires Actions

Tab Text

Chapter 11

Corporate Liability

Chapter Outline

- I. Introduction
 - II. Civil Actions against Corporate Officers and Directors
 - A. Liability of Corporate Officers and Directors
 - 1. Indemnification
 - III. Business Judgment Rule
 - A. Persons Protected by the Business Judgment Rule
-

- B. Justification for the Business Judgment Rule
 - C. Reliance on Others
 - D. Limitations of the Business Judgment Rule
 - 1. The Sarbanes-Oxley Act
 - E. Ultra Vires Actions
 - 1. Limitations of Ultra Vires
 - a. Standing
 - 2. Consequences of Ultra Vires Actions
 - F. Piercing the Corporate Veil
 - 1. Justifications for Piercing the Corporate Veil
 - G. Shareholder Derivative Actions
 - H. Personal Liability of Officer or Director
- IV. Corporate Criminal Responsibility
- A. Criminal Penalties against Corporations
- V. Tort Liability and Corporations
- A. Respondeat Superior
 - 1. Limitations of Limitations of Respondeat Superior
 - a. Frolic and Detour
 - b. Independent Contractors
-

Applying Concepts



The screenshot shows a sidebar on the left with the following buttons: 'Applying Concepts' (highlighted), 'Chapter Review', 'eLecture: Review Answers', 'Reflection', 'Reflection Responses', and 'Chapter Quiz'. The main content area is titled 'Applying Concepts' and contains the following text:

Applying Concepts

Instructions: Email your responses to your instructor, making clear that your answers are for the *Applying Concepts* segment of Chapter 11.

1. Locate examples of criminal actions brought against corporations. What were the allegations? How was the corporation tried? What was the verdict? If applicable, how was the corporation punished?

Responses will vary according to the latest corporate scandal!

Tab Text

Instructions: Email your responses to your instructor, making clear that your answers are for the *Applying Concepts* segment of Chapter 11.

1. Locate examples of criminal actions brought against corporations. What were the allegations? How was the corporation tried? What was the verdict? If applicable, how was the corporation punished?

Responses will vary according to the latest corporate scandal!

Chapter Review

Chapter Review

1. Why is a corporation liable to be sued in its own right?
2. How can corporate officers and directors become personally liable in their corporate duties?
3. What is the business judgment rule?
4. Provide two arguments for the business judgment rule.
5. What is the four-prong test of the business judgment rule?
6. When does a corporate officer's reliance on others shield the officer from liability?

Tab Text

1. Why is a corporation liable to be sued in its own right?
 2. How can corporate officers and directors become personally liable in their corporate duties?
 3. What is the business judgment rule?
 4. Provide two arguments for the business judgment rule.
 5. What is the four-prong test of the business judgment rule?
-

6. When does a corporate officer's reliance on others shield the officer from liability?
 7. What are some of the limitations of the business judgment rule?
 8. What are ultra vires actions?
 9. What are the legal consequences of entering into an ultra vires contract?
 10. Explain the concept of piercing the corporate veil.
 11. When and under what circumstances can a corporation be guilty of a crime?
 12. What type of criminal penalties can be brought against a corporation?
 13. Can a corporation be liable in a tort action? Explain.
 14. What is the doctrine of respondeat superior, and how does it apply to corporations?
 15. What are "frolic" and "detour" as they apply to respondeat superior?
 16. How does respondeat superior affect independent contractors?
 17. What are shareholder derivative actions?
 18. What are some of the ethical concerns faced by corporate counsel?
-

eLecture: Review Answers

Business Organizations & Corporate Law: Chapter 11



Applying Concepts

Chapter Review


eLecture: Review Answers

Reflection

Reflection Responses

Chapter Quiz

eLecture: Review Answers



1. Why is a corporation liable to be sued in its own right?
2. How can corporate officers and directors become personally liable in their corporate duties?
3. What is the business judgment rule?
4. Provide two arguments for the business judgment rule.
5. What is the four-prong test of the business judgment rule?
6. When does a corporate officer's reliance on others shield the officer from liability?
7. What are some of the limitations of the business judgment

Tab Text



1. Why is a corporation liable to be sued in its own right?
 2. How can corporate officers and directors become personally liable in their corporate duties?
 3. What is the business judgment rule?
 4. Provide two arguments for the business judgment rule.
 5. What is the four-prong test of the business judgment rule?
-

6. When does a corporate officer's reliance on others shield the officer from liability?
7. What are some of the limitations of the business judgment rule?
8. What are ultra vires actions?
9. What are the legal consequences of entering into an ultra vires contract?
10. Explain the concept of piercing the corporate veil.
11. When and under what circumstances can a corporation be guilty of a crime?
12. What type of criminal penalties can be brought against a corporation?
13. Can a corporation be liable in a tort action? Explain.
14. What is the doctrine of respondeat superior, and how does it apply to corporations?
15. What are "frolic" and "detour" as they apply to respondeat superior?
16. How does respondeat superior affect independent contractors?
17. What are shareholder derivative actions?
18. What are some of the ethical concerns faced by corporate counsel?

Narration Script

1. Why is a corporation liable to be sued in its own right?

A corporation can be sued by the shareholders or others injured by its conduct.

2. How can corporate officers and directors become personally liable in their corporate duties?

Directors are personally liable for breaches of their duties and any economic injuries to the corporation that result from their negligence. Corporate officers
Instructor's Manual to Accompany Business Organizations and Corporate Law 71
may be liable for negligence or fraud committed against the corporation and, by extension, against the shareholders.

3. What is the business judgment rule?

The business judgment rule essentially creates a presumption that directors acted in good faith and with the corporation's best interests in mind, even if this decision later turns out to be wrong.

4. Provide two arguments for the business judgment rule.

The most common argument for the business judgment rule is that it insulates corporate directors and officers from lawsuits by disgruntled shareholders for legitimate business decisions. It also protects the corporation itself from using precious assets in defending such suits.

5. What is the four-prong test of the business judgment rule?

The four-prong test of the business judgment rule consists of proof that corporate officers and directors: acted in good faith; that they were not acting to further their personal interests over those of the corporation; that their actions were reasonable under the circumstances; and that they reasonably believed that the decision was in the best interests of the corporation.

6. When does a corporate officer's reliance on others shield the officer from liability?

If the corporate officer can show that his or her reliance on information provided by others was in good faith, then the officer will be shielded from liability for doing so.

7. What are some of the limitations of the business judgment rule?

The business judgment rule is not a complete bar to all actions against the board of directors and officers. Instead, it requires that those individuals exercise good judgment and act in good faith. Courts will not invoke the business judgment rule to protect directors when it is obvious that they were negligent in their duties or when a reasonably prudent person would have had suspicions about specific information relayed to the board.

8. What are ultra vires actions?

When corporate officers or directors exceed their authority, the business judgment rule no longer protects them. Such acts are deemed to be ultra vires.

9. What are the legal consequences of entering into an ultra vires contract?

The resulting contract would be deemed void and unenforceable.

10. Explain the concept of piercing the corporate veil.

Piercing the corporate veil refers to a court's power to disregard the corporate existence entirely and allow actions against shareholders and others who created or run the corporation.

72 Instructor's Manual to Accompany Business Organizations and Corporate Law

11. When and under what circumstances can a corporation be guilty of a crime?

The general rule about corporate criminal liability is that the corporation is responsible for the actions of its directors, officers, and agents, if these persons are acting on behalf of the business.

12. What type of criminal penalties can be brought against a corporation?

State and federal statutes authorize the imposition of fines against corporations that break the law, as well as the seizure of corporate assets.

13. Can a corporation be liable in a tort action? Explain.

Corporations can be liable in tort actions; it becomes liable through the actions of its directors, officers, or employees. When an employee commits a tort against another, both the employee and the corporation may be liable.

14. What is the doctrine of respondeat superior, and how does it apply to corporations?

Respondeat superior is an ancient theory based on a premise that employers should be responsible for the actions carried out by their employees as long as the employee is acting within the scope of his or her employment. This theory applies equally to corporations and unincorporated businesses.

15. What are "frolic" and "detour" as they apply to respondeat superior?

When an employee is taking care of personal business, such as running an errand, respondeat superior does not apply.

16. How does respondeat superior affect independent contractors?

Respondeat superior also does not apply to independent contractors.

17. What are shareholder derivative actions?

In a shareholder derivative action, the shareholders claim that they are looking after the best interests of the corporation by bringing suit in its name against the officers or directors.

18. What are some of the ethical concerns faced by corporate counsel?

Because corporate representation can involve interactions with so many different individuals, including shareholders, directors, and officers, it is sometimes a temptation for corporate counsel and corporate paralegals to forget where their professional duties lie. Attorneys and paralegals who represent corporations owe their duties first and foremost to the corporation, not the individuals who comprise it.

Reflection



Reflection

1. Should the rules for piercing the corporate veil be more lenient or more stringent? Justify your answer.
2. Do you think that Sarbanes-Oxley will help improve the public's attitude toward corporations? Explain.

Tab Text

1. Should the rules for piercing the corporate veil be more lenient or more stringent? Justify your answer.

2. Do you think that Sarbanes-Oxley will help improve the public's attitude toward corporations? Explain.

Reflection Responses



Applying
Concepts

Chapter Review

eLecture: Review
Answers

Reflection

Reflection
Responses

Chapter Quiz

Reflection Responses

Instructions: (Optional) If you want, you may Email your responses to your instructor, making clear that your answers are for the *Reflection* segment of Chapter 11.

1. Should the rules for piercing the corporate veil be more lenient or more stringent? Justify your answer.

Responses will vary according to temperament and any recent stories of corporate malfeasance.

2. Do you think that Sarbanes-Oxley will help improve the public's attitude toward corporations? Explain.

You should at least mention the consequences to corporate presidents for signing off on annual reports and other documentation containing false or misleading information.

Tab Text

Instructions: (Optional) If you want, you may Email your responses to your instructor, making clear that your answers are for the *Reflection* segment of Chapter 11.

1. Should the rules for piercing the corporate veil be more lenient or more stringent? Justify your answer.

Responses will vary according to temperament and any recent stories of corporate malfeasance.

2. Do you think that Sarbanes-Oxley will help improve the public's attitude toward corporations? Explain.

You should at least mention the consequences to corporate presidents for signing off on annual reports and other documentation containing false or misleading information.



Chapter Quiz

Business Organizations & Corporate Law: Chapter 11

A screenshot of a web application interface. On the left side, there is a vertical stack of six buttons with a dark blue gradient and white text. From top to bottom, the buttons are labeled: 'Applying Concepts', 'Chapter Review', 'eLecture: Review Answers', 'Reflection', 'Reflection Responses', and 'Chapter Quiz'. The 'Chapter Quiz' button is highlighted with a lighter, brownish-gold gradient. To the right of these buttons is a large white rectangular area with a thin grey border. At the top of this area, the text 'Chapter Quiz' is displayed. Below this text, there is a single blue hyperlink that reads 'Click here for the Chapter Quiz.'

Applying Concepts

Chapter Review

eLecture: Review Answers

Reflection

Reflection Responses

Chapter Quiz

Chapter Quiz

[Click here for the Chapter Quiz.](#)

Tab Text

[Click here for the Chapter Quiz.](#)
