© *The Academy of Management Perspectives*
2014, Vol. 28, No. 1, 1–14.
http://dx.doi.org/10.5465/amp.2012.0105

E X C H A N G E

LEARNING FROM ANCIENT ATHENS: DEMARCHY AND CORPORATE GOVERNANCE

HOSSAM ZEITOUN
University of Warwick

MARGIT OSTERLOH
Zeppelin University

BRUNO S. FREY
Zeppelin University

The corporate governance literature increasingly recognizes that firms can benefit from protecting and thereby inducing firm-specific investments of various stakeholders. Such investments by shareholders, employees, suppliers, customers, and the local community strengthen the sustainable competitive advantage of the firm. However, the protection of multiple stakeholders' interests poses substantial implementation problems. This paper explores a novel approach to such protection, based on the creative use of random selection procedures in appointing stakeholder representatives to the board. These procedures are the foundation of demarchy, a form of governance that was successfully used in ancient Athenian democracy. The paper presents advantages and disadvantages of demarchy, develops a corporate governance proposal that combines demarchy with representative voting, and addresses key issues concerning its implementation. It is suggested that the use of demarchy opens new avenues for stakeholder involvement in corporate governance.

In recent decades, corporate governance theory has been dominated by the view that the board of directors needs to ensure that managers act exclusively in the interests of the corporation's shareholders (Hansmann & Kraakman, 2001; Jensen & Meckling, 1976). This view represents a specific application of agency theory, which assumes that the shareholders' investments are particularly vulnerable to exploitation by the firm's management, whereas other stakeholders (such as employees, suppliers, customers, and the local community) are in a better position to protect their investments through formal contracts with the firm.

This conventional agency view of corporate governance has come under increased scrutiny. Research in the management field has questioned the claim of agency theory (e.g., Jensen, 2010) that only the focus on a single, long-term organizational objective (i.e., shareholder value) can ensure managerial accountability and strong firm performance (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Dalton, Hitt, Certo, & Dalton, 2007). Following this research, the effectiveness of corporate governance depends not only on the protection of shareholders' wealth, but also on the creation of new wealth and its distribution among various stakeholders (Aguilera et al., 2008; Aguilera & Jackson, 2003).

Other theories have been used to support this view. For example, based on modern property rights theory and the resource-based theory of the firm, Asher, Mahoney, and Mahoney (2005) submitted that various stakeholders other than shareholders make firm-specific investments, which are essential for the firm's value creation. These stakeholders are vulnerable to exploitation because formal contracts often fail to protect firm-specific in-

The authors would like to thank the Swiss National Science Foundation for financial support.

Copyright of the Academy of Management, all rights reserved. Contents may not be copied, emailed, posted to a listserv, or otherwise transmitted without the copyright holder's express written permission. Users may print, download, or email articles for individual use only.

vestments (Klein, Crawford, & Alchian, 1978; Wang & Barney, 2006; Wang, He & Mahoney, 2009). As a consequence, Blair and Stout (1999) and Lan and Heracleous (2010), inspired by legal agency theory, suggested that the board of directors needs to act not as the shareholders' agent, but rather as an autonomous fiduciary protecting the joint interests of multiple stakeholders, such as employees, suppliers, customers, and the local community, who are not able to contract their claims fully. The aim is to encourage firm-specific investments that are not subject to contract but contribute to a sustainable competitive advantage of the firm.

The suggestion that the board should act as an autonomous fiduciary is very useful and elegant for conceptual purposes. However, its implementation poses substantial challenges as long as the fundamental structure of the board remains as it is today. In particular it is questionable whether shareholder-elected board members are motivated and able to act as autonomous fiduciaries for all relevant stakeholders (see Dalton et al., 2007, for an overview). Yet regulatory interventions that seek to overcome the agency problem by implementing a uniform corporate governance structure may even exacerbate the problems they aim to solve (Dalton et al., 2007, p. 39). This leads us to ask, What alternatives exist for the protection of the stakeholders' non-contractible firm-specific investments?

Multiple stakeholders could be represented directly on the boards. Fiduciary decision making would be replaced by shared decision making of shareholders and other stakeholders. Shared decision making is implemented in some Northern European countries among shareholders and employees (Adams, Licht, & Sagiv, 2011; Osterloh & Frey, 2006). However, Hansmann (1990) posited convincingly that the involvement of many stakeholders with heterogeneous interests is likely to result in high costs of collective decision making. Indeed, empirical examples of stakeholder representation on boards rarely go beyond the involvement of shareholders and employees (Kraakman et al., 2009).

As a consequence, the corporate governance literature does not tell us convincingly how to protect the interests of all relevant stakeholders. It is unclear how to induce these stakeholders to make firm-specific investments and thereby contribute to organizational value creation and to a firm's sustainable competitive advantage. In particular, there exists a gap in the literature concerning important problems in the model of shared decision making. How should the representatives of the various stakeholder groups be appointed? How could the costs of collective decision making be mitigated when many different stakeholders are represented on the board?

This paper explores a novel possibility for advancing corporate governance design by using random selection procedures in the appointment of stakeholder representatives on the board. This procedure is based on demarchy, a form of governance that was successfully used for political governance in ancient Athens, and later in the medieval republics of Upper Italy. In its extreme form, demarchy implies that all board members are drawn randomly from among stakeholders (Burnheim, 1985). As random selection has advantages as well as disadvantages, a successful implementation needs to combine it with other selection procedures, such as representative voting and hierarchical selection. Such combinations were applied whenever the concept of demarchy was implemented.

In this paper, we suggest that corporate governance provides a fertile ground for the revival of demarchy in today's economies. We proceed as follows. First, we briefly summarize how modern property rights theory and the resource-based theory of the firm lay the foundation for the involvement of stakeholders in corporate governance. Next, we assess the advantages and disadvantages of demarchy with regard to solving the problem of effective stakeholder involvement. Then we develop a corporate governance proposal that combines demarchy with representative voting. This proposal incorporates a dual-chamber solution for the board of directors, with one chamber elected by the shareholders and the second chamber composed of the other stakeholders drawn by lot. The proposal leads to the discussion of key implementation issues, including the fair representation of stakeholders according to their non-contractible firm-specific investments, ensuring an adequate level of expertise on the board of directors, and the transition from current governance structures to the proposed structures.

The paper makes three contributions to the corporate governance literature. First, it offers a new solution for protecting stakeholders' interests to induce them to make non-contractible firm-specific investments. It proposes the use of random selection procedures in the appointment of stakeholder representatives on the board. Second, based on a discussion of the advantages and disadvantages of demarchy, a specific corporate governance proposal is developed, which aims to combine the

advantages of demarchy and representative voting while reducing their negative effects. Third, key implementation issues of this proposal are discussed. In sum, this paper contributes to closing the gap in the corporate governance literature by offering a new idea on how the board can protect the interests of multiple stakeholders to strengthen wealth creation and the sustainable competitive advantage of the firm.

WHY PROTECT STAKEHOLDERS' INTERESTS?

The creation and distribution of wealth are at the core of the theory of the firm (Asher et al., 2005) and of corporate governance (Aguilera et al., 2008). Organizations create wealth by governing the joint production of multiple stakeholders in ways that would not be possible in pure market relationships. This created wealth arises from the firm-specific investments undertaken by various stakeholders, such as shareholders, employees, suppliers, customers, and the local community (Williamson, 1985; Zingales, 1998). According to the resource-based theory of the firm, such investments are essential sources of an organization's sustained competitive advantage because they contribute to the creation of valuable and hard-to-imitate assets (Barney, 1991; Nickerson, Yen, & Mahoney, 2012). However, it is often costly or impossible to specify firm-specific investments in written contracts. Therefore, stakeholders run the risk that the firm's management may exploit their investments (Klein et al., 1978). As a consequence, the stakeholders have diminished incentives to make such investments, implying that the wealth and the sustainable competitive advantage created by the firm are below its potential.

HOW TO PROTECT STAKEHOLDERS' INTERESTS?

How can corporate governance contribute to ensuring that the firm's management acts in the joint interests of all stakeholders who make non-contractible firm-specific investments? Though corporate governance practices vary greatly across countries as well as across organizations (Aguilera & Jackson, 2010), two generic mechanisms can be distinguished: fiduciary decision making and shared decision making (Zeitoun & Osterloh, 2012).

Fiduciary decision making is the generic mechanism proposed by legal agency theory. This theory posits that all stakeholders should submit residual control rights to the board of directors, which acts as an autonomous fiduciary (Blair & Stout, 1999; Lan & Heracleous, 2010). The idea is that the board of directors has the fiduciary duty to balance the competing claims of various stakeholders and to prevent the investments of any single stakeholder from being unduly exploited. However, implementing this concept—the board as an autonomous fiduciary—poses substantial challenges. First, it is controversial among legal scholars whether the directors and managers owe their fiduciary duties only to shareholders or to multiple stakeholders (e.g., Blair & Stout, 1999; Dooley, 1995). Second, fiduciary duties have limited consequences for the directors and managers in terms of liability. The so-called "business judgment rule" affords the corporation's board members a high degree of latitude in making strategic decisions. Therefore, judges who establish a breach of fiduciary duties typically condemn the fiduciaries "in terms that are didactic and full of moral fervor" (Blair & Stout, 2001, p. 1783), instead of threatening them with financial liability. Third, even when the stakeholders accuse corporate decision makers with breaches of (incomplete) contracts, the protection of the stakeholders' interests remains highly uncertain. Posner (2000, p. 754) maintained that courts are "radically incompetent" in dealing with incomplete contracts, and Stout (2011, p. 182) posited that the courts' decisions are so unpredictable that they come close to flipping a coin.

Moreover, it is often questionable under today's board structures whether board members are willing and able to act as autonomous fiduciaries and serve the interests of shareholders and stakeholders other than managers. On one hand, board members often lack autonomy. In most countries they are elected by shareholders only. In addition, they are overly beholden to the firms' executives due to (1) the large influence of CEOs on the nomination of new directors (Campbell, Campbell, Sirmon, Bierman, & Tuggle, 2012; Westphal & Zajac, 1995); (2) interlocking directorates that weaken the independence of board members (Johnson, Daily, & Ellstrand, 1996; Zajac & Westphal, 1996), particularly when they are reciprocal (Mizruchi, 1996, 2004); and (3) the presence of inside or affiliated directors who are reluctant to contradict the CEO (Westphal & Zajac, 1995).

By contrast, a large share of non-executive or outside directors increases the board's autonomy from management, but this leads to a different problem. Because outside directors lack firm-specific knowledge, they often have to rely on the

information provided by the CEO and therefore are unable to monitor top management sufficiently (Aguilera, 2005; Dalton, 2005). This trade-off is consistent with the empirical literature, which finds inconclusive relationships between board composition and firm performance (Daily & Dalton, 1997; Daily, Dalton, & Cannella, 2003). As a consequence, it is highly questionable that fiduciary decision making really serves to protect multiple stakeholders' interests.

Shared decision making, in contrast, means that firms grant their stakeholders direct control rights—for example, by offering them seats on the board of directors. In many Northern European countries, the so-called codetermination laws mandate that corporations offer employee representatives between one-third and one-half of all board seats (Hertig, 2006). Although codetermination laws are sometimes perceived as having an anticapitalist flavor, the empirical evidence shows that codetermination often has a neutral effect or may even improve firm performance under certain conditions (e.g., Aguilera & Jackson, 2010, p. 526; Fauver & Fuerst, 2006). Interestingly, with its codetermination of employees on the boards of big companies Germany has managed to cope with transition processes and the financial crisis remarkably well. However, codetermination typically involves the joint decision making of only shareholders and employees, instead of all stakeholders that make firm-specific investments. This limitation on the number of involved stakeholders can be explained by the costs of collective decision making. In other words, many stakeholders with heterogeneous interests can make the decision-making process very—sometimes even prohibitively—costly (Hansmann, 1990; see also Starbuck, 2014).

To meet this critique, this paper proposes a form of shared decision making that includes elements of demarchy. The proposal aims to provide protection to all stakeholders making firm-specific investments while reducing the costs of collective decision making. In the next section, we present the origins of demarchy and assess its main advantages and disadvantages. This discussion provides the basis for the development of the proposed governance structures.

STAKEHOLDER PROTECTION THROUGH DEMARCHY

Demarchy is a form of governance that systematically uses random mechanisms to appoint decision makers (Burnheim, 1985; Dowlen, 2008). The use of randomness to reach desired social outcomes has a long history (Buchstein, 2010; Buchstein & Jörke, 2007). In ancient Athens and in the Venetian Republic, many of the political positions were chosen by lot among the citizens. Today, random selection plays a role in the selection of juries in the United States and several other countries. In politics, randomness is commonly used as a tiebreaker to reach a decision when votes are evenly divided. The movement for deliberative democracy (Dryzek, 2000; Fishkin, 1991; Habermas, 2006) has suggested that the citizens participating in the consultation or decision-making process be chosen by lot. Similar suggestions have been made with regard to national politics (Mansbridge, 2005), international organizations (Frey & Stutzer, 2006), and decision making at workplaces (Emery, 1989).

Like all selection procedures, random selection has its advantages and disadvantages (e.g., Buchstein, 2010; Carson & Martin, 1999; Elster, 1989). The main advantages are the following: First, random selection shields against the undesired influences of entrenched interest groups on the selection of decision makers. In normal voting procedures the politicians in power, as well as influential lobbies, have ample opportunity to shape the elections in their favor, as pointed out by Hayek (1979) referring to Aristotle. Such influences result in principal–agent conflicts because the elected politicians are likely to take into account the interests of their lobbies at the expense of their constituencies. However, when decision makers are selected randomly from a large pool of candidates, the corrupting influences during the selection process disappear. Of course, there still need to be additional measures against bribery once the decision makers are selected. Provided such measures are in place, the experience in ancient Athens shows that random selection is a very effective deterrent against corruption (Hansen, 1999).

Second, random selection reduces the influence costs of campaigning and self-promotion to achieve political goals (Benz & Frey, 2007; Burnheim, 1985). Due to the high uncertainty and unpredictability of the selection outcome, candidates have no incentive to engage in costly campaigning activities. Thus, a larger pool of individuals can participate in the selection process. Moreover, random selection implies that the "losers" of the selection process do not lose face, inducing more well-reputed individuals to stand for an office. This experience occurred in the 18th century at the University of Basel, which chose professors by lot from

among the top three candidates (Stolz, 1986, p. 670).

Third, random selection facilitates true representativeness. In normal voting procedures, the elected candidates typically are more homogeneous than the constituency they represent. As a result, certain groups are over- or underrepresented (e.g., with regard to gender, race, religion, age, or socioeconomic status). A higher degree of representativeness through random selection can improve the protection of otherwise neglected stakeholders' interests.

Fourth, random selection encourages candidates who bring in new views overlooked by the incumbents. It is a "search machine" for new perspectives and talents (Buchstein, 2009, p, 391). In particular, individuals who are deterred from running for an elective post (e.g., due to aversion to risk or to competition) represent a neglected talent pool. This is of special importance for female candidates because women on average are more characterized by these attributes than men (Beckmann & Menkhoff, 2008). Thus, random selection helps to bring new voices into the boardroom that are otherwise unheard (Fishkin & Farrar, 2005) or marginalized. As empirical evidence shows, marginal views can enhance creativity in decision processes significantly (Jeppesen & Lakhani, 2010) due to a so-called "focused naïveté: a useful ignorance of prevailing assumptions and theories" (Gieryn & Hirsh, 1984, p. 91). As a consequence, the competitive advantage of the firm may be furthered by new perspectives.

Fifth, random selection facilitates stability and continuity when stakeholders with diverging interests are involved. In both ancient Athens and the medieval republics of Upper Italy, there was a high potential for political disruptions and even civil wars among the aristocratic families. In this context, the random selection of decision makers had a pacifying impact because it ensured that all the different factions had a chance of being represented, if not this time then on a future occasion. It was impossible to vote down a particular faction every time. Furthermore, no one could be blamed for the results of the selection process (Duxbury, 1999; Stone, 2009).

Of course, random selection procedures also have their disadvantages, especially when implemented in their pure form. The first and most common argument against random selection is that it does not discriminate between experts and laypeople. Randomly selected individuals may lack the necessary skills to do their job. This would indeed be a problem if random selection were the *only* selection procedure for *all* posts. However, it is possible to combine random selection with other procedures. When a post requires specific skills and expertise, organizations may resort to hierarchical selection (e.g., the board of directors selects the top managers). In contrast, when a decision-making body has the task of representing different stakeholders' interests or furthering new perspectives, organizations may apply random selection to appoint the members of this body. Random selection can be complemented by a screening process to filter out candidates who do not conform to ex ante defined criteria. The issue is discussed in further detail below.

Second, randomly selected decision makers might have a lower sense of accountability because they need not fear not being reelected or reappointed at the end of their term. To address this problem, organizations need to consider accompanying procedures. In addition to screening the selected candidates, constituencies could be provided with the right to receive detailed explanations of the decisions made. Furthermore, the threat of impeachment proceedings may help prevent severe cases of willful neglect. Moreover, democratically elected and hierarchically appointed decision makers also sometimes exhibit a low sense of accountability because their networks often allow them to reduce transparency.

Third, an obstacle to implementing demarchy is today's widespread belief that random decisions may be "irrational" or "arbitrary." This belief favors selection procedures based on the expression of one's will (e.g., representative voting) because such procedures appear to be more rational. However, given that people are "*intendedly* rational, but only *limitedly* so" (Simon, 1957, p. xxiv, emphasis in the original), boundedness of rationality should be recognized, and experiments with new selection procedures should be welcome.[1]

[1] New forms of governance often arise from considerations other than efficiency. In ancient Athens, it appears that religious beliefs contributed more to the emergence of demarchy than the conscious effort to make political governance more efficient. Random mechanisms were accepted because people believed that such mechanisms revealed the will of their gods. Also, the introduction of codetermination laws in Northern Europe was mainly motivated not by efficiency, but by the aspiration to strengthen democracy beyond the political sphere and to

Because of these potential disadvantages, it is rarely feasible to implement demarchy in its pure form. However, the experience of ancient Athens shows that it is possible to combine random selection with other procedures to capitalize on the advantages of demarchy while mitigating its negative effects. The next sections develop a proposal of demarchy-based corporate governance and discuss key implementation issues, including the fair representation of stakeholders according to their non-contractible firm-specific investments, ensuring an adequate level of expertise on the board of directors, and the transition from current governance structures to the proposed structures.

IMPLEMENTING DEMARCHY IN CORPORATE GOVERNANCE

Following the modern property rights theory, the protection of the stakeholders' interests depends to a large extent on the allocation of the rights to decide how the firm's strategic resources are to be used. These decisions mainly are taken by the firms' directors and managers (Daily et al., 2003). In today's corporations, the law requires the board of directors to select the top managers hierarchically. This selection procedure is appropriate because the top managers need a certain depth of knowledge and expertise to perform their tasks (Castanias & Helfat, 1991). Therefore, the proposal in this paper does not change how the top managers are selected, but rather how the directors are selected and how demarchy can contribute to the representation of stakeholders at the board level.

A Dual-Chamber Solution to the Board of Directors

To enable the involvement of all stakeholders making non-contractible firm-specific investments, this paper proposes a board of directors that is structured in two chambers. The first chamber is composed of shareholders, and its members are elected based on the number of voting shares, as is the case today. In contrast, the second chamber is composed of representatives of the other stakeholders, drawn by lot. The analogy to democracy with two chambers of parliament is obvious and consciously sought. Although political systems typically adopt elections to determine who sits in the second chamber,[2] this proposal adopts random selection to ensure that all stakeholders making non-contractible firm-specific investments have a fair chance of being represented.

With regard to the first chamber, there exist several reasons why the shareholders should have the privilege to elect their representatives. First, shareholders are uniquely vulnerable concerning the potential exploitation of their investments (Shleifer & Vishny, 1997). Whereas other stakeholders usually have at least some part of their investment protected contractually, shareholders rely solely on the residual surplus and risk losing everything. Second, as long as shareholders do not expropriate other stakeholders, the shareholders' efforts to increase the firm's stock price are likely to benefit other stakeholders as well (Blair & Stout, 1999). Third, shareholders have relatively homogeneous interests in terms of enhancing the firm's stock price (Jensen, 2000). Therefore, they are likely to agree more easily than other stakeholders on what they expect from their representatives. Thus, voting as a selection procedure is more feasible (and is accepted as the status quo). Finally, the dual-chamber structure has advantages in ensuring an adequate level of expertise on the board, as discussed below.

The second chamber constitutes a countervailing force, representing the interests of the other stakeholders who make non-contractible firm-specific investments. The advantages of demarchy are particularly likely to carry weight in this chamber due to the highly heterogeneous interests of many stakeholder groups. Furthermore, demarchy is likely to mitigate the major concern associated with stakeholder representation on corporate boards: the high costs of collective decision making (Hansmann, 1990). In contrast to traditional voting procedures, randomly selected stakeholder representatives do not owe particular interest groups a special favor in return for being elected. Thus, the representatives come close to being "autonomous fiduciaries" (Lan & Heracleous, 2010, p. 294) who have some discretion to act in the interests of the corporation as a whole. This autonomy can help the

give workers a say in their corporations' governance. Only several years later, rigorous empirical evidence suggests that codetermination enhances corporate efficiency under certain conditions (e.g., Fauver & Fuerst, 2006).

[2] An exception is the U.K. democracy, in which the members of the House of Lords are not determined by democratic voting.

stakeholder representatives avoid stalemates and find solutions that are in the interest of the corporation as a whole. Moreover, the dual-chamber design enables both chambers to reach consent within their chamber before confronting each other. This design is likely to reduce costs of collective decision making because the variance of preferences tends to be smaller within than across the two chambers. For example, Adams and colleagues (2011) showed empirically in the Swedish context that employee representative directors more often side with non-shareholder constituencies than do shareholder representative directors.

Relationship Between the Two Chambers

How should the two chambers work together? In the political sphere, there are different ways two chambers can reconcile their differences. The chosen method depends on the relative importance of the chambers. For example, in the United Kingdom, the House of Lords has the task of scrutinizing and amending legislation but can be overruled by the House of Commons. In the United States, the Senate has special rights with respect to foreign policy. In Switzerland the two chambers of Parliament have exactly the same weight and decide on exactly the same issues.

In the field of corporate governance the relationship between the two chambers can be similarly varied. One model offers no real power to the second chamber; it can undertake initiatives, but the chamber of shareholders has the right to discuss and decide on them. The chamber of stakeholders can also be used purely as a deliberative body. However, in these cases the stakeholder representatives have diminished incentives to be actively engaged because they do not participate in the actual decisions.

Another model grants the chamber of stakeholders veto power on particular issues, such as decisions relating to industrial safety or the selection of a new chief executive officer. There are two basic ways to implement this veto model. One possibility is absolute veto power; if the chamber of stakeholders exercises its veto, a mediation committee composed of the two chambers is held responsible for developing alternative proposals. Another possibility is that the veto of the second chamber (stakeholders) can be overruled by a qualified majority in the first chamber (e.g., 75% of the votes). This would strongly reduce the clout of the chamber of stakeholders.

In a third model, both chambers have the same weight. In this case the problem of stalemates arises. As a solution, the example of the Swiss Parliament might be helpful. If a proposed decision goes back and forth three times without an agreement, committees of both chambers meet and attempt to find a compromise that is acceptable to both chambers.

Organizations may find it best to experiment with a mix of these different forms of shared decision making. Examples for a mixed implementation of different forms of shared decision making can be found in Northern European countries with codetermination laws.

KEY IMPLEMENTATION PROBLEMS OF DEMARCHY IN CORPORATE GOVERNANCE

The proposed governance structure leads to several key implementation issues, including how to ensure a fair representation of stakeholders, how to ensure an adequate level of expertise on the board, and how to manage the transition process.

Ensuring a Fair Representation of Stakeholders on the Board

Among the stakeholders of the firm, not all have the same relative involvement and take the same firm-specific risks. Therefore, the representation of different stakeholders needs to vary, depending on their share of non-contractible firm-specific investments. It is important to consider not only the firm-specific investments made in the past, but those the firm's leadership aims to induce in the future as drivers of sustained competitive advantage. For example, if the firm's strategy is to operate in a market where it can easily switch between different suppliers with standardized products, suppliers need no representation. In contrast, if the strategy requires the local community to make high firm-specific investments that are difficult to contract, the local community needs to be represented accordingly.

When implementing demarchy-based corporate governance, a fair representation of the different stakeholder groups is of paramount importance. Moreover, measures need to be implemented to avoid an extreme skewness in the distribution of candidates, such as candidates whose convictions are contrary to the firm's interests. To overcome these issues, the proposed governance structures can benefit greatly from the experience regarding

random selection of jury members, because juries face several challenges that are similar to those of the chamber of stakeholders. First, juries have a similar purpose: to ensure a fair representation of their communities and to facilitate deliberative processes. Second, juries also need to limit their size to a practically feasible number (typically 12 to 24 members).

Stratified sampling as the preferred approach to random selection. To address the representation issues, two basic approaches to the random selection procedure need to be distinguished. One approach is to allocate different weights to the stakeholder groups according to their share of noncontractible firm-specific investments. For instance, if employees have three times the weight of suppliers, they are going to have on average three times as many representatives in the chamber of stakeholders.

The second approach is to conduct stratified sampling (Mueller, Tollison, & Willett, 1972). Instead of allocating different weights, each stakeholder group receives a predetermined number of seats, and the random selection procedure is conducted within each stakeholder group.

In jury selection, this approach is not applied because there is no single dominant stratification criterion (e.g., race, gender, age) (Coke, 1994; Kairys, Kadane, & Lehoczky, 1977). However, in the proposed governance structures, the dominant stratification criterion is the stakeholders' share of noncontractible firm-specific investments. This is the criterion where skewness in the distribution is least tolerated.

Accepting a moderate degree of skewness. How can the potential for skewness within each stakeholder group along other criteria be dealt with? There are several reasons why it may be acceptable, and sometimes even desirable, to allow for some amount of skewness. First, a moderate degree of skewness can facilitate the early detection of trends and warning signs. For instance, stakeholders with a strong concern for the environment were relatively marginalized in the 1980s, whereas in today's corporations such concerns are often taken seriously. Other emerging concerns today may become important in the future. For instance, several multinational companies have recently faced an unexpected reputational damage in the United Kingdom, due to their legal practice of avoiding taxes through the use of transfer pricing. This damage could have been avoided if boards had given voice to people who pointed to this reputation problem early.[3] Second, random selection procedures tend to even out imbalances over time. The overrepresentation of one group (say, young people) in one board term is likely to be compensated by their underrepresentation in another term.

Preventing and correcting extreme skewness. Several measures can be implemented to prevent or correct extreme cases of skewness. The least intrusive measure is to encourage stakeholders from all classes (e.g., gender, age, education) to participate in the random selection procedure. The evidence from the legal system shows that most cases of unrepresentative juries are due to unrepresentative source lists (Kairys et al., 1977). The more widely the company communicates and promotes the opportunity to participate in the chamber of stakeholders, the more likely it is that this chamber will end up being representative.

A more intrusive measure is the exclusion of specific randomly selected stakeholder representatives, as is applied in the jury system in the United States. The shareholder-elected chamber may challenge stakeholder representatives for cause (i.e., for a specific reason). During a questioning the selected candidates' backgrounds and potential biases are assessed (similar to the *dokimasia* in ancient Athens or the voir dire in jury selection).[4] It is important for the corporation to have a predefined list of legitimate reasons to reject candidates with extreme biases. The legitimacy of this procedure can be enhanced by naming an independent person (e.g., a mediator or judge) to verify and grant the challenges. The stronger the clout of the chamber of stakeholders, the more important it is to institute the option of challenging the appointment of candidates with extreme biases.

Additional measures to facilitate deliberation. For a fair representation of multiple stakeholders' interests, additional measures to facilitate deliberation are helpful. Such measures include the pro-

[3] Following the uproar, Starbucks, a global coffee company, has committed to paying a significant amount of taxes in the future.

[4] In ancient Athens, randomly selected representatives had to pass a screening test, the *dokimasia*, in which other citizens could ask questions or make accusations against them. A serious accusation, for example, was that the candidate might have sympathy for oligarchy instead of being loyal to the nascent democratic governance system. In jury selection, there is a similar process, called voir dire, in which prospective jurors are questioned about their potential biases.

vision of training to prospective board members in board decision making; the arrangement of procedural rules that offer all members the opportunity to make their voices heard; and the availability of neutral, trained mediators. To implement these measures, one can draw on a rich empirical literature on deliberative democracy, where methods that encourage deliberation have been tested in the field (Steiner, 2012). Moreover, these measures provide a fruitful field for consultants to offer their services.

Ensuring an Adequate Level of Expertise on the Board

As mentioned earlier in the paper, one of the potential disadvantages of demarchy is that it does not discriminate between experts and laypeople. However, the different knowledge of experts and laypeople may complement rather than hinder one another.

First, the two chambers combine different types of expertise. Whereas the shareholders' representatives bring in a high level of expertise in core management fields such as accounting, finance, and competitive strategy, the stakeholders' representatives bring in dispersed common knowledge. There is evidence that the combination of expert knowledge and dispersed common knowledge is important in decision making today, reinforced by the impact of social media (Piller, Vossen, & Ihl, 2012). For instance, some companies successfully integrate their users' and their designers' knowledge when developing their product portfolio (von Hippel, 2005). Moreover, employees as an important stakeholder group can contribute their expertise about the internal functioning of the corporation. Such first-hand expertise is valuable because members of today's boards sometimes rely too extensively on the information they receive from CEOs (Dalton, 2005; Starbuck, 2014).

Second, the potential variance in expertise between the two chambers can have additional beneficial effects. Although the shareholders' representatives are likely to be more experienced and knowledgeable about the business world, experts often fall victim to an oversight trap in situations of great uncertainty due to familiarity bias and overconfidence (Griffin & Tversky, 1992; Rost & Osterloh, 2010). The presence of laypeople may guard against these biases by pushing experienced shareholder representatives to make their reasoning explicit and open to deliberation. Such safeguards against biases—comparable to the already mentioned "focused naïveté" (Gieryn & Hirsh, 1984, p. 91)—are particularly important when boards have become complacent after having experienced a series of successes (Kroll, Toombs, & Wright, 2000).

Third, there is empirical evidence that people who see a chance of influencing decisions become better informed and improve their decision-making capabilities (Benz & Stutzer, 2004). Participation rights provide individuals with incentives to increase their expertise.

Fourth, the relationship between the different types of expertise in the two chambers can be governed in the corporate charter. If it is important to give greater weight to the shareholder chamber's expert knowledge, then one solution would be to implement only the first two stages of the transition process (see below).

Transition to the Proposed Governance Structures

The proposed dual-chamber design changes the conventional structure of the board of directors. Therefore, a third key implementation issue is to find a feasible path of transitioning from current governance structures to the proposed structures (Carson, Devinney, Dowling, & John, 1999). Which individuals within the corporation are best positioned (and may have the motivation) to initiate the structural changes? Which stages have to be considered in a gradual transition process? How can corporate law facilitate a more rapid diffusion of the proposed structures?

Which individuals within corporations are best positioned to initiate the structural changes? In a corporation, there exist different actors with different interests. When it comes to designing the firm's governance structures (especially when changing the corporate charter), shareholders, directors, and senior managers are particularly important actors (Hansmann, 2006). Shareholders can approve structural changes at the annual general meeting, but due to collective action problems they often are not the actors who initiate the changes. In contrast, the firm's senior managers and some directors typically have a substantial degree of informal power to draft and initiate structural changes, which may then be approved by the board of directors and the general assembly. Moreover, assuming a gradual transition, these managers have a high initial degree of discretion in the implementation

process because the first stage of transition does not necessarily require changing the corporate charter.

The question then is whether senior managers and directors are motivated to initiate such changes. A simplistic view would suggest that self-interested, myopic managers as well as investors in the capital market (e.g., short-term–oriented hedge funds) might not take on the burden of implementing structural changes that pay off only in the long term. However, the evidence suggests that managers as well as investors (e.g., family owners or pension funds) differ with regard to their time horizons (Connelly, Hoskisson, Tihanyi, & Certo, 2010). Those who identify with their companies and are interested in long-run sustainable competitive advantages fortunately exist and support actions toward this goal.

In sum, the recommendations of this paper are directed toward senior managers and directors who take a long-term view of their corporations. To make structural changes come about, these actors need to foster coalitions with long-term–oriented shareholders (and potentially other stakeholders who have the company's long-term interests at heart).

Gradual transition as a promising approach. The implementation of the proposed structures would be difficult to undertake in one leap; there are several reasons to suggest that a gradual transition is the more promising approach. First, managers can build on existing activities and advance them step by step. Some firms already have ad hoc activities to involve stakeholders, for instance, through sounding boards and new social media. Such activities can serve as starting points toward greater formalization of stakeholder involvement. Second, managers can begin with forms of implementation that do not necessitate changing the corporate charter. This enables them to design and fine-tune the accompanying mechanisms (such as the mechanisms to avoid skewness in the representation of stakeholders) before moving forward. Third, there is evidence that stakeholder involvement involves a learning process. Before the German legislature introduced codetermination laws in the 1970s, which mandated employee representation on boards, a majority of German managers were opposed to it. However, two decades later most managers had either a neutral or a positive attitude toward codetermination (Glaum, 1998). As this example suggests, experimentation is important not least because the learning process can help to diminish prejudices.

The stages of a gradual transition process could follow the already mentioned different forms of relationship between the two chambers. The first stage could institute the chamber of stakeholders as a purely advisory body with the right to take initiatives that have to be discussed in the chamber of shareholders. In this stage, managers need to leverage communication channels, such as new social media, to address stakeholders and explain the purpose of involving them in corporate governance. The first stage of transition provides a field for experimentation in which mistakes are not costly. Hence, managers can adjust inadequate structural arrangements with relatively little friction. However, the diminished clout of the chamber of stakeholders may demotivate its representatives over time. Therefore, managers need to signal that they intend to enhance the role of this chamber as the governance structures develop and mature.

In the second stage, the chamber of stakeholders can be provided with a veto right, which necessitates changes in the corporate charter. Therefore, managers need to seek approval of the current board of directors and of the general assembly to implement it. The chamber of stakeholders need not have a veto right on every board decision but only on particular issues, such as decisions relating to industrial safety or the selection of a new chief executive officer. Evidence from Northern European companies shows that such selective stakeholder involvement can work in practice (Kluge & Stollt, 2006). Codetermined corporations often have a catalog of decisions requiring consent based on their corporate charter.

The third stage could provide both chambers with equal rights. As for absolute veto power, equal rights require some form of mediation between the two chambers. Therefore, it is advisable to begin with a limited catalog of decisions requiring consent from both chambers before extending this catalog judiciously.

Firm-level implementations as inspirations for menu choices in corporate law. The discussion in the previous sections relies on committed senior managers and directors who are motivated to foster coalitions with long-term–oriented shareholders (and potentially other stakeholders). Such pioneering coalitions may lead to successful implementations of stakeholder involvement in corporate governance for the long-run benefit of these corporations.

Although individual firms may successfully implement the proposed structures, the diffusion of

new governance structures is often slowed by the sticky features of corporate law. Current U.S. corporate law provides a firm's owners with almost complete freedom to approve idiosyncratic corporate charters, but many firms stick to the default terms to avoid undesirable lock-in effects (Hansmann, 2006). Therefore, the question is how to accelerate diffusion without making unrealistic assumptions about legislators.

When nations and states compete for the favor of corporations, a promising approach is to offer menu choices in corporate law (Ayres, 2006). Menu choices come at a low cost to legislators because they add a new (optional) template in corporate law while leaving existing rules untouched. Offering a demarchy-based menu choice reduces the need to design idiosyncratic corporate charters, and therefore may facilitate the diffusion of the proposed structures.

CONCLUSIONS

In the early 1990s, Porter suggested that publicly traded corporations should offer board seats to significant owners, customers, suppliers, employees, and community representatives because "[d]irectors from these categories are likely to have the company's long-term interests at heart and to encourage management to make investments that will improve long-term competitive position" (1992, p. 81). Modern property rights theory and the resource-based theory of the firm provide a strong theoretical rationale for this view by suggesting that the allocation of residual control rights induces stakeholders to make non-contractible firm-specific investments to ensure a sustainable, hard-to-imitate competitive advantage.

However, previous suggestions regarding the allocation of residual control rights had important shortcomings. On one hand, legal agency theory posits that these control rights should be in the hands of the board of directors (Blair & Stout, 1999; Lan & Heracleous, 2010), but reliance on the fiduciary duties of directors and managers poses problems of enforceability and missing incentives. On the other hand, organizations can provide their stakeholders with direct control rights (Gerum & Wagner, 1998; Osterloh & Frey, 2006), but this solution usually involves only a small number of different stakeholders due to the high costs of collective decision making.

This paper addresses this gap in the corporate governance literature by proposing a new solution based on demarchy. The proposal is consistent with modern property rights theory because it provides all stakeholders with protection against exploitation according to their share of non-contractible firm-specific investments. Specifically, we suggest that the board of directors be composed of two chambers. The first chamber is elected by the shareholders; members of the second chamber are drawn by lot from among the other stakeholders that make non-contractible firm-specific investments. Key implementation issues surrounding the proposed governance structures include fair representation of stakeholders, adequate levels of expertise on the board of directors, and transition from current governance structures to the proposed structures.

This paper has limitations that offer opportunities for future research. First, there is no empirical evidence on the effects of demarchy in the field of corporate governance. Such evidence is by necessity restricted because the application of demarchy to corporate governance is a novel idea. Future endeavors may apply various methodologies to gather empirical evidence, starting with laboratory experiments and vignette studies and continuing to in-depth case studies of real-world implementations.

Second, although demarchy-based corporate governance represents a generic concept, its adoption needs to take into account the cultural subtleties in different countries. Cross-national research shows that new corporate governance practices need to be translated and recombined with local practices to facilitate their adoption (Aguilera & Jackson, 2010; Filatotchev & Allcock, 2010). For instance, random selection procedures are likely to be accepted more readily in cultures that emphasize equality of opportunities. Where cultural beliefs associate random selection with irrationality, it may be helpful to emphasize the instrumental benefits of random selection procedures, especially when compared to representative voting.

This paper implies that the use of demarchy opens new avenues for practitioners and scholars to involve stakeholders in corporate governance. We believe that the time is ripe for endeavors to apply new forms of stakeholder involvement in corporate governance to foster long-term wealth creation. We hope that this paper provides a step in this direction.

REFERENCES

Adams, R. B., Licht, A. N., & Sagiv, L. (2011). Shareholders and stakeholders: How do directors decide? *Strategic Management Journal, 32*(12), 1331–1355.

Aguilera, R. V. (2005). Corporate governance and director accountability: An institutional comparative perspective. *British Journal of Management, 16*, S39–S53.

Aguilera, R. V., Filatotchev, I., Gospel, H., & Jackson, G. (2008). An organizational approach to comparative corporate governance: Costs, contingencies, and complementarities. *Organization Science, 19*(3), 475–492.

Aguilera, R. V., & Jackson, G. (2003). The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review, 28*(3), 447–465.

Aguilera, R. V., & Jackson, G. (2010). Comparative and international corporate governance. *Academy of Management Annals, 4*, 485–556.

Asher, C. C., Mahoney, J. M., & Mahoney, J. T. (2005). Towards a property rights foundation for a stakeholder theory of the firm. *Journal of Management and Governance, 9*, 5–32.

Ayres, I. (2006). Menus matter. *University of Chicago Law Review, 73*(1), 3–15.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Beckmann, D., & Menkhoff, L. (2008). Will women be women? Analyzing the gender difference among financial experts. *Kyklos, 61*(3), 364–384.

Benz, M., & Frey, B. S. (2007). Corporate governance: What can we learn from public governance? *Academy of Management Review, 32*(1), 92–104.

Benz, M., & Stutzer, A. (2004). Are voters better informed when they have a larger say in politics? Evidence for the European Union and Switzerland. *Public Choice, 119*(1–2), 31–59.

Blair, M. M., & Stout, L. A. (1999). A team production theory of corporate law. *Virginia Law Review, 85*(2), 246–328.

Blair, M. M., & Stout, L. A. (2001). Trust, trustworthiness, and the behavioral foundations of corporate law. *University of Pennsylvania Law Review, 149*(6), 1735–1810.

Buchstein, H. (2009). *Demokratie und Lotterie*. Frankfurt am Main: Campus Verlag.

Buchstein, H. (2010). Reviving randomness for political rationality: Elements of a theory of aleatory democracy. *Constellations, 17*(3), 435–454.

Buchstein, H., & Jörke, D. (2007). Redescribing democracy. *Redescriptions, 11*, 178–200.

Burnheim, J. (1985). *Is democracy possible? The alternative to electoral politics*. Berkeley, CA: University of California Press.

Campbell, J. T., Campbell, T. C., Sirmon, D. G., Bierman, L., & Tuggle, C. S. (2012). Shareholder influence over director nomination via proxy access: Implications for agency conflict and stakeholder value. *Strategic Management Journal, 33*(12), 1431–1451.

Carson, L., & Martin, B. (1999). *Random selection in politics*. Westport, CT: Praeger.

Carson, S. J., Devinney, T. M., Dowling, G. R., & John, G. (1999). Understanding institutional designs within marketing value systems. *Journal of Marketing, 63*, 115–130.

Castanias, R. P., & Helfat, C. E. (1991). Managerial resources and rents. *Journal of Management, 17*(1), 155–171.

Coke, T. E. (1994). Lady Justice may be blind, but is she a soul sister? Race neutrality and the ideal of representative juries. *New York University Law Review, 69*(2), 327–386.

Connelly, B. L., Hoskisson, R. E., Tihanyi, L., & Certo, S. T. (2010). Ownership as a form of corporate governance. *Journal of Management Studies, 47*(8), 1561–1589.

Daily, C. M., & Dalton, D. R. (1997). Separate, but not independent: Board leadership structure in large corporations. *Corporate Governance: An International Review, 5*(3), 126–136.

Daily, C. M., Dalton, D. R., & Cannella, A. A. (2003). Corporate governance: Decades of dialogue and data. *Academy of Management Review, 28*(3), 371–382.

Dalton, D. R. (2005). "Going private" and "going dark": Board compensation and the downside of independence. *Directors and Boards, 2*(10), 4–6.

Dalton, D. R., Hitt, M. A., Certo, S. T., & Dalton, C. M. (2007). The fundamental agency problem and its mitigation: Independence, equity, and the market for corporate control. *Academy of Management Annals, 1*, 1–64.

Dooley, M. P. (1995). *Fundamentals of corporation law*. Westbury, NY: Foundation Press.

Dowlen, O. (2008). *The political potential of sortition. A study of the random selection of citizens for public office*. Exeter, UK: Imprint Academic.

Dryzek, J. S. (2000). *Deliberative democracy and beyond: Liberals, critics, contestation*. Oxford, UK: Oxford University Press.

Duxbury, N. (1999). *Random justice: On lotteries and legal decision making*. Oxford, UK: Clarendon Press.

Elster, J. (1989). *Solomonic judgements*. Cambridge, UK: Cambridge University Press.

Emery, F. E. (1989). *Toward real democracy*. Toronto: Ontario Quality of Working Centre/Ministry of Labour.

Fauver, L., & Fuerst, M. E. (2006). Does good corporate

governance include employee representation? Evidence from German corporate boards. *Journal of Financial Economics, 82*(3), 673–710.

Filatotchev, I., & Allcock, D. (2010). Corporate governance and executive remuneration: A contingency framework. *Academy of Management Perspectives, 24*(1), 20–33.

Fishkin, J. S. (1991). *Democracy and deliberation: New directions for democratic reform*. New Haven, CT: Yale University Press.

Fishkin, J. S., & Farrar, C. (2005). Deliberative polling: From experience to community resource. In J. Gastil & P. Levine (Eds.), *The deliberative democracy handbook* (pp. 68–79). San Francisco: Jossey-Bass.

Frey, B. S., & Stutzer, A. (2006). Strengthening the citizens' role in international organizations. *Review of International Organizations, 1*(1), 27–43.

Gerum, E., & Wagner, H. (1998). Economics of labour codetermination in view of corporate governance. In K. J. Hopt, H. Kanda, M. J. Roe, E. Wymeersch, & S. Prigge (Eds.), *Comparative corporate governance: The state of the art and emerging research* (pp. 341–360). Oxford, UK: Clarendon Press.

Gieryn, T. F., & Hirsh, R. F. (1984). Marginalia: Reply to Simonton and Handberg. *Social Studies of Science, 14*(4), 624.

Glaum, M. (1998). *Kapitalmarktorientierung deutscher Unternehmen. Ergebnisse einer empirischen Untersuchung*. Industriestudie im Auftrag von Coopers & Lybrand: Deutschland. Frankfurt am Main: Fachverlag Moderne Wirtschaft.

Griffin, D., & Tversky, A. (1992). The weighing of evidence and the determinants of confidence. *Cognitive Psychology, 24*, 411–435.

Habermas, J. (2006). Political communication in media society. *Communication Theory, 16*, 411–426.

Hansen, M. H. (1999). *The Athenian democracy in the age of Demosthenes: Structure, principles and ideology*. London: Bristol Classical Press.

Hansmann, H. (1990). When does worker ownership work? ESOPs, law firms, codetermination, and economic democracy. *Yale Law Journal, 99*(8), 1749–1816.

Hansmann, H. (2006). Corporation and contract. *American Law and Economics Review, 8*(1), 1–19.

Hansmann, H., & Kraakman, R. H. (2001). The end of history for corporate law. *Georgetown Law Journal, 89*(2), 439–468.

Hayek, F. A. (1979). *Law, legislation and liberty, vol. 3: The political order of a free people*. Chicago: University of Chicago Press.

Hertig, G. (2006). Codetermination as a (partial) substitute for mandatory disclosure? *European Business Organization Law Review, 7*, 123–130.

Jensen, M. C. (2000). Value maximization and the corporate objective function. In M. Beer & N. Nohria (Eds.), *Breaking the code of change* (pp. 37–58). Boston: Harvard Business School Press.

Jensen, M. C. (2010). Value maximization, stakeholder theory, and the corporate objective function. *Journal of Applied Corporate Finance, 22*(1), 32–42.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*, 305–360.

Jeppesen, L. B., & Lakhani, K. R. (2010). Marginality and problem-solving effectiveness in broadcast search. *Organization Science, 21*(5), 1016–1033.

Johnson, J. L., Daily, C. M., & Ellstrand, A. E. (1996). Boards of directors: A review and research agenda. *Journal of Management, 22*(3), 409–438.

Kairys, D., Kadane, J. B., & Lehoczky, J. P. (1977). Jury representativeness: A mandate for multiple source lists. *California Law Review, 65*(4), 776–827.

Klein, B., Crawford, R. G., & Alchian, A. A. (1978). Vertical integration, appropriable rents, and the competitive contracting process. *Journal of Law and Economics, 21*, 297–326.

Kluge, N., & Stollt, M. (2006). Worker participation at board level in the new EU member states: Overview and brief country reports. In N. Kluge & M. Stollt (Eds.), *The European company: Prospects for worker board-level participation in the enlarged EU* (pp. 87–100). Brussels: ETUI-REHS and SDA.

Kraakman, R. H., Armour, J., Davies, P., Enriques, L., Hansmann, H., Hertig, G., Hopt, K. J., Kanda, H., & Rock, E. B. (Eds.). (2009). *The anatomy of corporate law: A comparative and functional approach*. Oxford, UK: Oxford University Press.

Kroll, M. J., Toombs, L. A., & Wright, P. (2000). Napoleon's tragic march home from Moscow: Lessons in hubris. *Academy of Management Executive, 14*(1), 117–128.

Lan, L. L., & Heracleous, L. (2010). Rethinking agency theory: The view from law. *Academy of Management Review, 35*(2), 294–314.

Mansbridge, J. (2005). The fallacy of tightening the reins. *Österreichische. Zeitschrift für Politikwissenschaft, 34*(3), 233–248.

Mizruchi, M. S. (1996). What do interlocks do? An analysis, critique, and assessment of research on interlocking directorates. *Annual Review of Sociology, 22*, 271–298.

Mizruchi, M. S. (2004). Berle and Means revisited: The

governance and power of large U.S. corporations. *Theory and Society, 33*, 579–617.

Mueller, D. C., Tollison, R. D., & Willett, T. D. (1972). Representative democracy via random selection. *Public Choice, 12*, 57–68.

Nickerson, J., Yen, C. J., & Mahoney, J. T. (2012). Exploring the problem-finding and problem-solving approach for designing organizations. *Academy of Management Perspectives, 26*(1), 52–72.

Osterloh, M., & Frey, B. S. (2006). Shareholders should welcome knowledge workers as directors. *Journal of Management and Governance, 10*(3), 325–345.

Piller, F., Vossen, A., & Ihl, C. (2012). From social media to social product development: The impact of social media on co-creation of innovation. *Die Unternehmung,* 66(1), 7–25.

Porter, M. E. (1992). Capital disadvantage—America's failing capital investment system. *Harvard Business Review, 70*(5), 65–82.

Posner, E. A. (2000). A theory of contract law under conditions of radical judicial error. *Northwestern University Law Review, 94*(3), 749–774.

Rost, K., & Osterloh, M. (2010). Opening the black box of upper echelons: Drivers of poor information processing during the financial crisis. *Corporate Governance: An International Review, 18*, 212–233.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance, 52*(2), 737–783.

Simon, H. A. (1957). *Administrative behavior*. New York, NY: Macmillan.

Starbuck, W. H. (2014). Why corporate governance deserves serious and creative thought. *Academy of Management Perspectives* (this issue).

Steiner, J. (2012). *The foundations of deliberative democracy*. New York: Cambridge University Press.

Stolz, P. (1986). Parteienwettbewerb, politisches Kartell und Tausch zwischen sozioökonomischen Gruppen. *Schweizerische Zeitschrift für Volkswirtschaft und Statistik, 122*, 657–675.

Stone, P. (2009). The logic of random selection. *Political Theory, 37*(3), 375–397.

Stout, L. A. (2011). *Cultivating conscience: How good laws make good people*. Princeton, NJ: Princeton University Press.

von Hippel, E. (2005). *Democratizing innovation*. Boston: MIT Press.

Wang, H. C., & Barney, J. B. (2006). Employee incentives to make firm-specific investments: Implications for resource-based theories of corporate diversification. *Academy of Management Review, 31*(2), 466–476.

Wang, H. C., He, J. Y., & Mahoney, J. T. (2009). Firm-specific knowledge resources and competitive advantage: The roles of economic- and relationship-based employee governance mechanisms. *Strategic Management Journal, 30*(12), 1265–1285.

Westphal, J. D., & Zajac, E. J. (1995). Who shall govern? CEO/board power, demographic similarity, and new director selection. *Administrative Science Quarterly, 40*(1), 60–83.

Williamson, O. E. (1985). *The economic institutions of capitalism*. New York: Free Press.

Zajac, E. J., & Westphal, J. D. (1996). Director reputation, CEO-board power, and the dynamics of board interlocks. *Administrative Science Quarterly, 41*(3), 507–529.

Zeitoun, H., & Osterloh, M. (2012). Corporate governance and stakeholder relations. In J. E. Ricart & J. M. Rosanas (Eds.), *Towards a new theory of the firm* (pp. 307–340). Bilbao, Spain: BBVA Foundation.

Zingales, L. (1998). Corporate governance. In P. Newman (Ed.), *The new Palgrave dictionary of economics and the law, vol. 1* (pp. 497–503). London: Macmillan.

Hossam Zeitoun (hossam.zeitoun@wbs.ac.uk) is an Assistant Professor at the University of Warwick in the United Kingdom. His principal research interests are corporate governance, strategic management, and theories of the firm.

Margit Osterloh (margit.osterloh@business.uzh.ch) is a Professor at Zeppelin University in Germany. She is also Research Director of the Center for Research in Economics, Management and the Arts (CREMA).

Bruno S. Frey (bruno.frey@econ.uzh.ch) is a Professor of Economics at Zeppelin University in Germany and Research Director of CREMA. Formerly he was a Distinguished Professor of Behavioral Science at the University of Warwick.

Copyright of Academy of Management Perspectives is the property of Academy of Management and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.