

# **The *Demos* of the Democratic Firm**

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**Abstract:** Despite growing interest in workplace democracy, the question whether nonworker stakeholders, like suppliers and local communities, warrant inclusion in the governance of democratic companies, as workers do, has been largely neglected. We inspect this question by leaning on the boundary problem in democratic theory. We first argue that the question of *who* warrants inclusion in democratic workplaces is best addressed by examining *why* workplace democracy is warranted in the first place, and offer a twofold normative benchmark—addressing objectionable corporate power and upholding efficiency—to assess the principles of democratic inclusion on offer. Against this benchmark, we next argue that the All-Affected Principle is unfit due to its over- and underinclusive extensional results, and that the All-Subjected Principle, whose variants we examine alongside their extensional results, holds more promise when coupled with independent considerations of justice or a constrained variant of the All-Affected Principle. These combinations need not entirely preclude, but speak against, nonworker stakeholder inclusion.

Keywords: workplace democracy; stakeholder democracy; boundary problem, corporate power; efficiency.

## **1. Introduction**

What is the apt constituency of democratic firms? For all the public and philosophical interest that workplace democracy has recently elicited, this question has been largely neglected. In recent years, lawmakers in Europe, Australasia, and the Americas have proposed bills to secure employee representation in corporate boards (European Parliament, 2021; Jäger et al., 2021); governments from South Korea to Argentina have enacted laws to boost worker cooperatives, with the United Nations proclaiming the International Year of Cooperatives in 2025; workers on both sides of the Atlantic have expressed bipartisan support for employee control and ownership (Mazumder and Yan, 2023; High Pay Centre, 2022); and philosophers have inspected the reasons for and against workers' inclusion in corporate governance (Breen 2015; Anderson, 2017; Herzog, 2021; Kolodny, 2023). Yet few among these have pondered whether nonworker

stakeholders, such as purchasers and local communities, likewise warrant inclusion.<sup>1</sup> This is puzzling, and not just because management theorists, advocacy groups, and employer organizations often advocate stakeholder involvement in firms' governance, with the Business Roundtable and the World Economic Forum abandoning past views of shareholder primacy in recent years. It is also puzzling because worker cooperatives, such as the Emilia-Romagna and Mondragon cooperatives, as well as companies with near-parity employee representation on their boards, such as Volkswagen and Allianz, have recently adopted measures, including multi-stakeholder councils and committees, to gradually involve nonworker stakeholders in their governance.

In this paper, we explore whether nonworker stakeholders warrant inclusion in the governance of democratic firms by leaning on the boundary problem in democratic theory, which asks what the apt constituency, or *demos*, of democratic decisions is. Though philosophers have largely overlooked this question, we are not entirely alone in proceeding thus. In recent years, some have resorted to one of the two chief responses to this problem—the All-Subjected Principle, which says that all and only those subject to a rule or decision merit inclusion in its making—to draw the democratic firm's *demos* (Archer, 2010; Bengtson, 2022a). Yet others have objected that this principle is untenable. It excludes third parties that, albeit unsubjected to democratic firms' rules and directives, may be objectionably affected by them—say, due to their pollution or monopoly pricing—instead favoring the All-Affected Principle, which requires that all those affected by a decision be included in its making (Moriarty, 2010; Stehr, 2022).

These contributions have far from settled the debate on the *demos* of the democratic firm, however, for they have either weighed in on the debate with no reference to the boundary problem (Moriarty, 2010) or endorsed one response to the problem with no discussion of alternative responses (Bengtson, 2022a). And those who have sought to rank the responses on offer, such as Archer (2010) and Stehr (2022), have done so with no reference to the reasons democracy in the workplace is required in the first place. They have done little, in brief, to prevent the recent stalemate in the debate on the boundary problem from traveling from discussions on the state to discussions on the workplace.

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<sup>1</sup> Philosophical exceptions include Moriarty (2010), O'Shea (2020), and Fleurbaey and Ponthiere (2023). See also some early formulations of stakeholder theory, such as Evan and Freeman (1990) and Freeman (1994). On the more recent agnosticism among stakeholder theorists on whether all stakeholders warrant inclusion in companies' governance, see Moriarty (2012).

Here, we argue that this looming stalemate may be avoided by turning to the reasons that justify workplace democracy to begin with. We draw on views that address the boundary problem *in the state* by inspecting the reasons why democracy is valuable (Miller 2009; Song 2012; Bengtson 2022b) and extend such views *to the workplace*—a task that has not been taken up so far and that we believe to be crucial if we are to make progress on the issue at hand.

We start off, then, by inspecting the reasons that motivate our methodological choice, and by offering a normative view of workplace democracy (section 2). On this view, workplace democracy is valuable because, and insofar as, it checks objectionable corporate power while upholding efficiency. We inspect three issues: the rationale for each of these normative grounds, how to assess them when they compete, and how they can be used as a benchmark to rank the two above principles to define whether nonworker stakeholders merit inclusion in the governance of democratic firms. The question at hand, then, is not whether nonworker stakeholders merit an advisory role over some corporate policies. It is whether they warrant ultimate authority over the governance of the firm, including decisions over business aims, product design, financial oversight, executive compensation, or mergers and acquisitions, as workers in democratic firms do.

Against this backdrop, we argue that the All-Affected Principle, for all its merits, is unfit for the issue at hand (section 3). One reason is that the principle proves too much, and not only because it yields results, like requiring competitors' inclusion in democratic companies' governance, that would increase decision costs within firms and distort market competition, with significant efficiency costs. If apt principles of democratic inclusion are to register objectionable forms of corporate power, then the principle is also faulty because it requests including parties whose interests corporate decisions unobjectionably affect. And the principle also proves too little, for it fails to register the distinction between the power companies wield over third parties, like purchasers and local communities, and the *commanding* power they wield over their staff.

We next turn to the All-Subjected Principle, which fittingly tracks the above distinction yet invites two objections whose discussion we use to assess the principle's extensional implications for the demarcation of the democratic firm's *demos* (section 4). One such objection is that employees, or some of them, are not really subjected to companies' commanding power. Another, more disquieting, is that the principle risks letting democratic companies off the hook for their objectionable effects on third parties. We argue that it need not, however, if coupled with independent considerations of justice

or a suitably constrained variant of the All-Affected Principle. We close by assessing these combinations against the twofold benchmark introduced at the outset.

The contributions of the paper are four. The most obvious is to offer a substantive response to the question of nonworker stakeholder inclusion by leaning on the responses to the boundary problem. But we also seek to contribute to the methodological debates on the boundary problem in general and in the workplace in particular. Our second and most novel contribution, then, is to offer a view of how examining the reasons *why* democracy, in the firm and in the state, is justified crucially informs the question of *who* warrants democratic inclusion. Third, we advance a substantive view of the reasons that justify democracy in the workplace and their relation. Finally, we show how using such reasons as a benchmark to assess competing responses to the boundary problem in the workplace can help us to make headway. We do so by pinpointing the advantages and shortcomings of the two main responses to the problem.

## **2. The *demos* and grounds of workplace democracy**

The question of who warrants inclusion in democratic decisions, known as the boundary problem, has elicited much controversy in recent decades (Goodin, 2007; Erman, 2014; Abizadeh, 2021). Two are the principles, as noted, that have been chiefly offered in response to this problem—the All-Affected Principle and the All-Subjected Principle. The controversy has recently extended to the debate on the boundaries of democracy *in the workplace*, with some defending that suppliers, local communities, and others whose interests are substantially affected by corporate decisions be included in their making (Stehr, 2022) and others favoring that only employees, insofar as only they are subject to companies' directive power, be included (Archer, 2010).

Even though the particular debate on the democratic firms' apt constituency is still in its infancy, the broader debate has recently reached an impasse. In response, some have argued that we can make progress by appealing to the reasons that justify democracy in the first place (Song, 2012; Miller, 2020; Bengtson, 2022b).<sup>2</sup> There are at least two ways to motivate this assumption. The first is the intuitive observation that different allocations of rights will differently satisfy the values underpinning different justifications of

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<sup>2</sup> This view is not entirely new. Miller (2009: 203) had already defended it and Goodin (2007: 50) had also suggested, albeit not fully articulated, it.

democracy (Miller, 2009: 210-213). If, for instance, democracy is best defended for its capacity to secure domination, then it seems that we have reason to prefer whatever allocation of democratic rights is expected to most effectively secure this value. Briefly put, from the standpoint of the values that justify democracy, different allocations of rights *make a difference*. The second, and more theoretically grounded, reason relies on the fact that principles of inclusion are not basic, from a justificatory standpoint. Rather, they are mid-level principles that rely on a set of more fundamental grounding values—such as autonomy, fairness, well-being, or nondomination—and on bridging principles explaining why giving voting rights to those affected by democratic decisions would advance those values (Magaña 2023). But note that autonomy, fairness, well-being, nondomination, and the like are precisely the values typically advanced to justify democracy. Thus, what the bridging principles seek to explain is *how the values that justify democracy in a given domain are well secured by a particular allocation of democratic rights*. In a nutshell, justifying democracy and justifying a particular allocation of democratic rights—that is, a particular principle of democratic inclusion—are structurally continuous.

We do not think, then, that a stark contrast exists between “extending the justification for workplace democracy itself” and “building on the general discussion of the boundary problem,” as Philipp Stehr (2022: 509) argues. Critics could reply, however, that one disadvantage of proceeding thus is that the justification of democracy is a moot issue. Precisely because the All-Affected Principle and the All-Subjected Principle are mid-level principles, they could argue, these principles allow us to bypass the issue of the grounds on which democracy is justified. We offer two contentions in response. First, as forty years of persistent disagreement suggests, both the All-Affected Principle and the All-Subjected Principle, as well as the various understandings of each, are at least as controversial as the justification of democracy. The second contention is that here we lean on a justification of workplace democracy that is fairly ecumenical, as we immediately discuss below, and that is grounded on two characteristics that are minimal or widely shared at any rate. We have reason, in sum, to inspect the reasons that justify democracy in the workplace, and to use such reasons as a benchmark to rank the two competing principles of democratic inclusion when applied to the workplace.

Normative views of workplace democracy are abundant. Some have sought to ground a requirement that companies’ governance be democratic on sheltering workers from alienation or domination by their bosses (Breen, 2015; Vredenburg, 2022), others

on the parallel between firms and states as to the power they wield over their subjects and over third parties (Schaff, 2012; Landemore and Ferreras, 2016), still others on curbing objectionable pay disparities within and across companies (O’Neill, 2008; Ferretti, 2016), and yet others on keeping companies’ environmental externalities or human rights violations at bay (Pérotin, 2016; Neuhäuser and Oldenbourg, 2020). These views are no doubt diverse, with some homing in on workers and others on third parties external to the firm. But they all share two characteristics that, kept at a suitable level of generality for now, offer guidance about which of the two principles of democratic inclusion is best suited for the issue at hand. And they do so without skewing the assessment toward one principle over the other from the outset.

One of the two characteristics that the above views share is that they seek to ground workplace democracy on eluding or mitigating companies’ objectionable power. Whether economic, political, or otherwise, and whether over their staff or over third parties, objectionable corporate power is what, on these views, the inclusion of workers in companies’ governance eludes or mitigates. Using this as a benchmark to assess competing principles of democratic inclusion is, then, fairly minimal. The other characteristic that the above views share is that they largely neglect considerations of efficiency, or conceive of them as mere constraints on the reasons grounding the requirement that companies’ governance be democratic (exceptions include Bowles and Gintis, 1993; Malleson, 2014; Herzog, 2021). This neglect is unwarranted, we submit, and not only because it invites the concern that democratic companies trade efficient production for other values, as Singer (2019) and Frye (2020) suggest. The neglect of efficiency considerations is likewise unwarranted because firms exist, and are often granted legal privileges such as entity shielding or limited liability, because they produce goods and services more efficiently than the market can.

Firms exist to produce goods and services that others value and are willing to pay for. It is entirely possible, however, to undertake production solely through market exchanges between self-employed contractors, such that each of them purchases inputs and turns them into outputs to be sold to other contractors at the next stage of production. Yet doing so often involves significant efficiency costs, the theory of the firm in economics suggests (Coase, 1937; Williamson, 1975). The contracting parties have to renegotiate, then, the terms of the exchange for every change in market conditions, incurring costs of searching for new prices, costs of bargaining and enforcing new contracts, and costs of the opportunistic behavior that asset-specific transactions yield.

On this view, firms exist because, as we further discuss in the next section, undertaking production through the administrative structure of a firm, such that workers are hired and produce under the authority of a boss, rather than through bilateral market exchanges, economizes on such contracting costs.

The greater efficiency of the firm relative to the market not only benefits consumers through lower prices and capital investors through greater returns. It also benefits society through lower resource waste and higher economic growth (McMahon, 1981; Heath, 2014) and workers themselves through better working conditions and lower risk of managerial abuse. For example, Bloom *et al.* (2009) find that more efficiently run firms offer a better work-life balance, and Kolodny (2023, ch. 9) has argued that efficient management renders unobjectionable the hierarchy that characterizes the firm. We therefore have reason to request that competing variants of corporate governance, including democratic ones, be assessed against the benchmark of efficiency. This is because of instrumental reasons to value efficiency in the production and allocation of scarce economic resources, such as boosting growth and reducing objectionable management. But it is also because firms exist to begin with for efficiency reasons, such that there would be little reason to produce through them if they were no more efficient than producing through market contracts between independent contractors. The widespread neglect of efficiency considerations among philosophical partisans of workplace democracy, Singer (2019: 157) argues, “ignores that there is no reason to have a firm if it is not efficient: people can just contract privately in an open market.”

How well do democratic firms serve the aims of checking objectionable power *and* of producing efficiently and, at any rate, more efficiently than the market does? A wealth of empirical evidence suggests that democratic firms less objectionably deploy their power on issues ranging from dismissals to pay differentials to environmental externalities (for overviews, see Conchon, 2011; Pérotin, 2016; Dow, 2018). Yet growing econometric evidence also suggests that these firms are likewise suited to satisfy the efficiency requirement. Reviewing the evidence on board-level employee representation, for example, Jäger *et al.* (2021: 867) find, “zero or even slightly positive (statistically insignificant) effects on productivity, capital intensity, firm survival, labor productivity, revenue, and profitability,” and they also find no negative effect on wider macroeconomic outcomes (see also Blandhol *et al.*, 2020). Similarly, reviewing the empirical evidence on worker ownership, which is distinctive of worker cooperatives and companies with broad-based employee ownership schemes, Kruse *et al.* (2010) and O’Boyle *et al.* (2016)

find a positive, albeit small, effect on firm performance and macroeconomic outcomes, including the employment rate. These efficiency benefits of worker participation and ownership largely stem from widely studied determinants, including workers' greater willingness to supply effort, invest in firm-specific human capital, and share relevant information with managers, as well as with lower supervision costs, absenteeism, and turnover and greater flexibility to adjust to negative economic shocks (see Kruse *et al.*, 2010; Dow, 2018). No wonder that some, like Bowles and Gintis (1993), have outright justified workplace democracy for its efficiency benefits.<sup>3</sup>

But the aims of checking objectionable power and of upholding efficiency may sometimes compete. Efficiently run democratic companies may jointly produce at lower prices to their customers, contribute to job creation and economic growth, and offer higher wages and a better work-life balance to their workers. But in seeking to boost their efficiency, democratic companies may also be tempted to sell unsafe products, seek rents through party donations, fire pregnant women, and underpay freelancers they contract with. In brief, pursuing the aims of checking objectionable power and upholding efficiency may sometimes require partly forgoing one or the other. And who is included in democratic companies' governance—whether, for example, freelance contractors or consumers are included—may crucially influence which aim is forgone, when the two compete. When this occurs, we can often seek to pinpoint the claims involved parties may have on democratic firms and the strength of each, favoring the alternative that satisfies the greatest sum of strength-weighted claims (for a general discussion, see Voorhoeve, 2014). But this way of proceeding has limits. It is constrained, as argued, by the requirement that producing through the firm be no less efficient than producing through the market. Below this efficiency threshold, it would be more efficient to produce goods and services through market exchanges between independent contractors and, as Singer (2019) reckons, there would be no firms to democratize to begin with.

We hope to have shown, in sum, that we have reason to assess competing principles of democratic inclusion in the workplace using as a normative benchmark the reasons workplace democracy is justified in the first place—addressing objectionable power while upholding efficiency, on the view we have offered. To assessing the All-Affected and All-Subjected Principles thus is that we now turn.

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<sup>3</sup> Gerlsbeck and Herzog (2020) link these efficiency benefits to the epistemic potential of workers' participation.

### 3. The democratic inclusion of all stakeholders

To inspect who merits inclusion in the governance of democratic companies, we assess the two chief competing principles of democratic inclusion, as noted, against the twofold normative benchmark introduced in the previous section. We start off with the All-Affected Principle, which, in its generic form, defines the apt constituency of democratic decisions as follows (Goodin, 2007; Arrhenius, 2018; Wilson, 2022):

All-Affected Principle: All and only those whose interests are substantially affected by a decision are to be included in its making.

When applied to the demarcation of the *demos* of the democratic firm, the principle has various strengths. By requesting that all those substantially affected by corporate decisions be included in their making, the principle can nicely register corporations' power over their employees *and* over third parties. Workers no doubt have interests substantially affected by companies' policies, ranging from compensation and overtime to relocations and redundancies. Yet so do third parties, such as local communities, consumers, and other stakeholders whose interests companies' investment decisions, pricing policies, or environmental externalities may likewise substantially affect (Goodin, 2007: 62; Moriarty, 2010: 375-377). And the principle can also aptly assign varying degrees of control over varying policies and levels of governance, from the shop floor to the boardroom, depending on the degree to which different stakeholders are affected by different corporate policies at different governance levels (see Brighthouse and Fleurbaey, 2010).

Yet the principle is also seriously over- and underinclusive. Start with *overinclusion*, which comes in two forms. First, the parties whose interests are substantially affected by companies' decisions comprise countless stakeholders, including suppliers, local communities, governments, and the general public, among others. This is concerning from an efficiency standpoint, critics of stakeholder democracy often argue. The more stakeholders are enfranchised, they argue, the higher the costs of reaching collective agreements are and the harder it is to establish a single goal to be optimized, given the greater diversity of relevant interests, and to track managers' performance relative to this goal (Hansmann, 1996; Jensen, 2002; Heath and Norman, 2004). But since these efficiency costs will be further discussed in the next section, here

we focus on another extensional implication: that the principle would require the inclusion not just of the stakeholders just cited, but also of competing companies, whose interests corporate policies also substantially affect (Goodin, 2007: 62). And given that including competitors in companies' governing bodies would seriously distort market competition, the principle would also require that the market mechanism be suspended, as partisans of using the principle to delineate democratic firms' *demos* admit (Stehr, 2022: 18).

This implication is troublesome, and not just because it would be hard to swallow by many, including many proponents of workplace democracy, who are committed to the market mechanism. It is also troublesome because market competition is crucial to satisfy the benchmark of economic efficiency, as it drives firms to produce goods and services at their most efficient levels of quantity and price. To cut a long story short, the prices at which commodities are traded reflect the relative supply and demand for specific commodities, yet only under suitable market competition, such that suppliers compete with other suppliers to sell to purchasers and purchasers compete with other purchasers to buy from suppliers. As prices change, market competition induces profit-seeking firms to direct resources to their most preferred social use, minimizing the production of commodities that get wasted. If principles of inclusion are to be assessed against an efficiency benchmark, then we have reason, defeasible though it might be, to be concerned by these extensional results.

The responses that proponents of the All-Affected Principle offer do little to ease this concern. One such response is that those affected could democratically choose to exclude companies from competitors' governing bodies and uphold the market mechanism (Stehr, 2022: 19). But this response is not only modally weak, as it does not hold for a range of possible worlds. It also conflates democratic decisions' apt constituency and their upshot. To illustrate, assume enfranchising women is what the principle warrants in the state, and suppose disenfranchising women was democratically chosen by the apt constituency, including women. Would the decision render the resulting constituency democratic? We think surely not. Likewise, if including competitors in corporate decisions is what the principle warrants in the firm, then disenfranchising competitors, no matter how democratically chosen, would also hardly render the resulting constituency democratic.

Another unconvincing response is that what the principle requires is the inclusion of all those affected in the making *not* of companies' decisions *but* of the general norms,

such as corporate laws, within which such decisions are made. Associations, arguably including business companies, could therefore exclude affected parties from their decisions, Wilson (2022: 189) argues, insofar as the “exclusions are warranted by the inclusive political society within which the associations are embedded.”

We doubt this response succeeds, though, for two reasons. The first is that it would implausibly entail that, in federations where citizens are included in the making of the federal norms within which member state’s decisions are made, no democratic inclusion in the making of each state’s decisions is warranted. Federations often have the power to decide to abolish inclusion at the state level—a decision that, if made by the appropriate constituency, might well be democratic. But we should not conflate, as argued, the source of a decision with its upshot. The decision to abolish democratic inclusion in a given organization, such as the state, however impeccably democratic its source might be, does not render its upshot democratic. And if the apt principle of democratic inclusion requires that states include women in their decisions, to continue with the above analogy, then the democratic credentials of the source whereby women could be excluded from state-level decisions would hardly render such decisions democratic. The second reason why Wilson’s response fails is that, whether the first reason succeeds or not, it offers no guidance as to whether or not affected yet nonmember parties warrant inclusion in the decision making of democratic associations, including democratic firms. Given that this is precisely what principles of democratic inclusion are supposed to offer, this is a serious shortcoming of Wilson’s response. In sum, the response is unsuccessful or uninformative.

The second form of overinclusion hinges on the principle’s extensional results offending not the normative benchmark of efficiency, but that of checking companies’ objectionable power. Against this benchmark, the All-Affected Principle is overinclusive because, by demanding that all those affected be included, it requests that many whose interests are *unobjectionably* affected by corporate decisions be included in their making all the same. Take, for example, customers and competitors, whose interests are affected by companies’ pricing policies, yet not necessarily objectionably so, for example, under suitably competitive conditions in which companies, having no market power, cannot impose prices. Our point, however, does not hinge on any particular view of whose interests, and under which conditions, are unobjectionably affected by corporate decisions. We remain agnostic about either. The point instead is that, insofar as the principle requests including all those affected, rather than those *objectionably* affected, then it unavoidably yields false positives. It does so if tracking objectionable forms of

corporate power, rather than affectedness as such, is the normative benchmark against which competing principles are to be assessed, as argued in the previous section.

Should we use a less restrictive benchmark? We think not, and not just because that would entail dismissing the grounds on which workplace democracy is justified. Even if, contrary to what we have argued in the previous section, we had no reason to consider such grounds in ranking competing principles of democratic inclusion, we would end up endorsing results that seriously encroach our considered judgments about who warrants inclusion in democratic decisions.<sup>4</sup> For example, just as the person I wish to marry marrying another person does not entitle me to a say over their decision, as in Nozick's (1974: 249) famous example, a worker cooperative I wish to trade with trading with another company does not entitle me to a say over the cooperative's decision, however substantially affected my interests may be. And while personal decisions about whom to marry may simply not be open to democratic adjudication (Valentini, 2014: 793), a trading decision of a cooperative company surely is. The chief shortcoming of using tracking affectedness, rather than objectionable affectedness, as a baseline is that it favors principles that yield an entitlement to a say in the worker cooperative case. We have reason, in brief, to instead use the restrictive baseline—a baseline against which a qualified variant of the principle, which successfully eludes the two overinclusion concerns, seems more plausible:

All-Affected Principle\*: All and only those whose interests are objectionably affected by a decision are to be included in its making.

The *underinclusion concern*, however, affects both variants of the principle. It stems from the difficulties of the All-Affected Principle, whether generic or amended, to appropriately capture the distinction between the power corporations wield over third parties and the *commanding* power they wield, from the corner office to line managers, over their staff (Archer, 2010: 591-596; Anderson, 2017: 48-61; González-Ricoy 2022; Kolodny, 2023: ch. 9). Third parties might have their interests affected by companies' power. But, unlike employees, they are not under companies' power to direct and exactingly surveil them as to where, when, how, and with whom to pursue certain ends—

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<sup>4</sup> For defenses of using our considered judgments as a normative benchmark to assess principles of inclusion, see Andrić (2021) and Bengtson (2022b).

and, crucially, as to which ends to pursue to begin with. What is distinctive of the kind of power that companies wield over their staff, as part of the employer prerogative that the law bestows on them, is that companies can permissibly assign ends to them, rather than just constraining whatever ends they may want to pursue.<sup>5</sup>

To be sure, corporate decisions can affect employees' interests in ways comparable to the ways they affect third parties' interests, as they can seriously constrain the ends they may want to pursue. For example, the employees of a reckless waste incinerator can inhale toxic fumes at work just as the neighbors living nearby can, and this can seriously constrain the ends both workers and third parties may wish to pursue (say, to live a healthy life). But over and above being affected by the company's decisions, the employees are also subject to its commanding power—or authority—whereby their own ends are not merely constrained but entirely replaced by the ends their company assigns them while on the clock, whereas the third parties simply are not.<sup>6</sup> The All-Affected Principle is blind to this distinction because it can only register varying degrees of affectedness. But the distinction is one of kind, not of degree—a characteristic whose distinctiveness is recognized by those who endorse a stark distinction between relations of authority and relations of power as much as by those who seek to deflate the distinction. Among the latter, Vrousalis (2019: 264, his italics), for example, grants that “[t]he employment relation is not assimilable to a property relation [between the owners of companies' assets and third parties]: the workplace *is* special.”

Normatively speaking, however, the distinction between corporate power and authority might look like a distinction without a difference. It might if we assume, as most do (Abizadeh, 2008; Archer, 2010; Valentini, 2014), that what renders subjection to others' authority normatively distinctive is that, absent suitable controls, such authority may compromise the *self-government* of the obeying party. If employees' self-government is compromised when they are directed by a boss whose authority is unaccountable to them, Jeffrey Moriarty (2010: 380) argues, then so it is third parties' self-government when they are constrained by a company whose decisions—for example, to disinvest in a region, to no longer contract with a supplier, to release toxic fumes—are

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<sup>5</sup> This is a kind of power, Niko Kolodny (2023: 153) argues, that not even liberal states wield, which can permissibly constrain their citizens' ends but not assign ends to them, as firms can to their staff.

<sup>6</sup> Throughout, we use “authority” in its *de facto*, rather than its normative, sense: as the power to issue commands whose content is generally conformed to (Raz, 1979; Kolodny, 2023).

likewise unaccountable to them (see also Wilson, 2022). We partly concur. Depending on the particulars, companies' decisions can invite a complaint from third parties whose strength is similar, and sometimes even greater, than the complaint it can invite from their own staff. Yet their sources are surely discrete. While the former is grounded on a power relation whereby companies constrain the ends third parties pursue, the latter is grounded on an authority relation whereby companies not just constrain but entirely replace their ends with the ends the company assigns them for half of their waking time.

But the reason why the employment relation is normatively distinctive is not just that it is a relation of authority, whereas companies' power over third parties is not.<sup>7</sup> Another reason is that authority is constitutive of what firms are, whereas power over third parties is not. On the theory of the firm sketched in the previous section, firms exist to begin with because it is often more efficient to produce goods and services through the administrative hierarchy of a firm, such that workers are hired and labor under the authority of a boss, rather than independently as self-employed contractors. The specific reasons for this efficiency advantage is that updating the existing contracts between independent contractors every time a market fluctuation occurs involves significant *transaction costs*, including the costs of discovering what the new prices are, of negotiating, signing, and enforcing new contracts, and of the opportunistic behavior that such transactions, and especially those that require investing in assets that are specific to the transaction, may invite. On this view, firms exist because undertaking production under a boss' open-ended authority to define the ends that workers are to pursue, and to swiftly redefine them as market fluctuations unfold without having to update the existing contracts, significantly economizes on such transaction costs.

Authority, then, is what defines firms and what sets them apart from market exchanges between independent contractors, with two relevant implications for the issue at hand. One is that such an authority, and its open-endedness, cannot be removed without also removing firms. If firms exist because producing under the open-ended authority of a company is more efficient than producing through market transactions between independent contractors, then companies' open-ended authority cannot be removed or its open-endedness exactly constrained, if we are to avoid that firms no longer be more efficient and the parties simply resort to the market to produce goods and services. The other implication is that democratic inclusion is warranted, if workers' interests are to be

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<sup>7</sup> For a further elaboration of this reason, see González-Ricoy (2019; 2022).

safeguarded from companies abusing their open-ended authority over them, precisely because of the limitations that legally removing or exactly constraining their authority has as a means to safeguard workers' interests. None of these implications, by contrast, is true of firms' power over third parties, whose potential abuses—say, through monopoly prices, carbon emissions, or revolving doors—can often be exactly constrained or entirely removed with no need for democratic inclusion and without threatening what makes them firms as such, as we further argue in the next section.<sup>8</sup>

#### 4. The democratic inclusion of workers, and its alternatives

Having inspected the extensional results of the All-Affected Principle for the definition of democratic companies' *demos*, we now turn to the second chief response to the boundary problem, the All-Subjected Principle, which says as follows (Abizadeh, 2008; Erman, 2014; Beckman, 2023):

All-Subjected Principle: All and only those subject to a rule or decision are to be included in its making.

This principle is well equipped to register what is normatively distinctive about being under the authority of a firm (subjection to its directives) and also what is normatively

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<sup>8</sup> Perhaps, it might be argued, a further amended version of the All-Affected Principle might capture this qualitative distinction. After all, interests can vary along both quantitative and qualitative lines and so may, in principle, the All-Affected Principle, relying as it does on them. If so, one could claim that workers are affected in qualitatively distinct ways, given how they are distinctively subjected to their bosses' authority. To an extent, this is probably correct: avoiding objectionable relationships of authority is something we have an interest in, and might thus be covered by the All-Affected Principle. After all, the All-Subjected Principle, to be discussed later, has sometimes been considered a species of the All-Affected Principle (Beckman, 2009: 47-50). Our worry, however, is that what seems to be doing the fundamental normative work here are not considerations of interests, but considerations about different types of subjection, and their distinctiveness, which then ground and explain our interests in avoiding objectionable subjection, and not vice versa. If so, an amended All-Affected Principle would incorporate qualitative differences only *indirectly*—by piggybacking on prior subjection-related considerations that the All-Subjected Principle better, less indirectly captures. This version of the All-Affected Principle, then, would be *normatively epiphenomenal*. We thank one of the editors of this journal, Avia Pasternak, for suggesting this possibility to us.

distinctive of firms as such (producing under another’s normative power to issue directives), for it requests that only those subject to a firm’s rule- and decision-making authority be included in its governance. But who exactly is subject to such authority? The answer depends on how we conceive of the principle and, in particular, the notion of subjection, which can be cashed out in at least two ways (Erman, 2014; Abizadeh, 2021). On a *de jure* understanding of the principle, someone is subject to a rule or decision if and only if the rule or decision purports to formally bind them to obey its content, whether or not the rule or decision is coercively enforceable on them. On a *de facto* understanding, by contrast, what matters is coercion. On this understanding, someone is subject to a rule or decision if and only if the rule or decision is coercively enforceable on them, whether or not they are formally bound to obey it. In turn, a rule or decision is coercively enforceable if, following Nozick’s (1977: 16) classic definition, the enforcer can credibly communicate to the addressee that they intend to bring about some undesirable consequence if the target does not comply with the rule or decision and, at least partly as a result of this threat, the addressee complies.<sup>9</sup>

Employees—or most of them anyway, as we discuss below—are naturally subject to their companies’ rules and decisions on both understandings, for they are formally bound to obey them.<sup>10</sup> And they are likewise coerced, through threats of demotion or dismissal, into doing so. “You threaten to get me fired from my job if I do A, and I refrain from doing A because of this threat ... I was coerced into not doing A,” on Nozick’s (1977: 16) illustration. Third parties, by contrast, do not qualify on either understanding. Even though some third parties may deserve inclusion on the principle’s *de facto*

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<sup>9</sup> The combination of the conditions of the *de jure* and the *de facto* understandings yields two further understandings that we set aside for simplicity—the conjunctive understanding, which requires that the two conditions be met (Beckman, 2014), and the disjunctive one, which requires that either of the two conditions be met (Erman, 2014).

<sup>10</sup> Some may object that while subjects of the state are bound to obey its *legal* rules and decisions, workers are bound to obey corporate rules and decisions that are *not* legally encoded, which may hinder the extension of the All-Subjected Principle from the state to the workplace. This, however, has not prevented partisans of the rule-based understanding of the All-Subjected Principle, such as Bengtson (2022a) and Beckman (2023), from extending it to the workplace, for what matters is that both kinds of rule seek to regulate the behavior of those subject to them and are generally conformed to. “The decisions of the state and the corporation are similar,” Beckman (2023: 25) argues, “in that they claim the authority to regulate the behavior of others. Just like states, corporations are norm-governed entities that claim the authority to regulate the conduct of employees.”

understanding, as we also discuss below, many of them—including competitors, customers, or those enduring companies’ pollution—are not subject to companies’ rules or decisions, as they are not formally bound to obey or coerced into obeying them.<sup>11</sup>

To delve further into the extensional implications of applying the principle to the demarcation of the democratic firm’s *demos*, consider two objections. The first is that employees, or maybe just some of them, are not really subject to companies’ authority because they can decline to conform to its directives. This objection comes in two variants. The strong variant, which says that the employment relationship involves no real authority because workers voluntarily take their jobs and can always quit (Alchian and Demsetz, 1972: 777), would be fatal, if compelling. It would render the All-Subjected Principle meaningless, on its *de facto* understanding anyway, when applied to the issue at hand. Yet it is not compelling, as the costs that most employees would incur in the event of job loss render the threat of dismissal credible and companies’ directives enforceable (Landemore and Ferreras, 2016: 67-69; Malleson, 2014: 39-40).

The weak variant of the objection is more compelling. It says that no subjection to others’ authority really exists when their directives can be costlessly eluded (Kolodny, 2023: 100) *and* that the costs of eluding companies’ directives are negligible for highly skilled and mobile workers, who could easily find a similar job if dismissed (Moriarty, 2010: 381). But this variant is not at all fatal. It nicely illustrates, in fact, the unlike

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<sup>11</sup> What about structural, or systemic, coercion? Although such forms of coercion are no doubt relevant for questions of labor and economic justice, they have little direct bearing on the composition of the democratic firm’s *demos*. To see why, assume, following Valentini (2011: 212), that systemic coercion obtains whenever a “system of rules ... foreseeably and avoidably places nontrivial constraints on some agents’ freedom, compared to their freedom in the absence of that system.” In the context of firms, the relevant rules are those that constitute the economic system within which economic agents, such as firms and their stakeholders, operate. If structural forms of coercion trigger claims of democratic inclusion, what such claims target is not individual firms but the decision-making bodies that make such rules, notably including states and perhaps also supra-state organizations like the WTO or ISO. In fact, though, not even that might follow. For, on some accounts, such as Young’s (2011: 44), structural wrongs are distinctive in that they are not “traceable to specific individual actions or policies.” On both the All-Affected and All-Subjected Principles, however, claims of democratic inclusion are triggered by particular decisions or rules traceable to particular bodies—which would explain why social norms, such as those of etiquette, fail to trigger such claims (Beckman, 2023: 130-132). Note, though, that even if this second reply failed, the first would suffice to question the move from structural coercion to nonworker stakeholder inclusion in corporate governance. We thank one of the editors, Avia Pasternak, for pressing us to clarify this issue.

extensional results that the principle's unlike understandings yield. On its *de facto* understanding, if some employees are not really subject to their company's authority, given their ability to elude any attempt to enforce its rules and decisions on them, then the principle requires not including them in the company's governance. On the *de jure* understanding, by contrast, such employees are subject to the company's authority all the same, for whether one is subject to another's authority does not hinge on how costly eluding such authority is and how credibly its directives can therefore be enforced on them. To illustrate the strengths and limitations of the two understandings, consider this analogy:

*Wealthy*—Wealthy is an EU citizen who, due to her financial and personal circumstances, can costlessly migrate within the Schengen Area. Given her ability to elude the legal directives of the country where she resides by costlessly moving to another EU country, she is taken not to be subject to such directives and has the franchise withdrawn, to which Wealthy complains.

If the *de facto* understanding of subjection was compelling, partisans of the *de jure* understanding could argue, Wealthy's complaint would be invalid. Yet it seems not, which suggests that subjection to an upper authority is not contingent on its directives being costly to elude. Now, proponents of the *de facto* understanding could rejoin that the example is not neat because wholly costless migration is impossible, including for Wealthy. What grounds Wealthy's subjection and renders her complaint valid, they could argue, is that the authorities of the country where she resides can issue directives they can credibly enforce, including on Wealthy, who would bear *some* costs were she to migrate. It is no doubt hard to pin down exactly the reasons that ground Wealthy's complaint. But it is not off the mark to think that both understandings are onto something, and that they are so in the case of Wealthy as much as in the case of highly mobile workers. How are we to solve the dispute, then?

Resorting to the two normative benchmarks to assess the principles of democratic inclusion does not entirely solve this dispute. But it offers useful insight. On the one hand, how costly it is to elude their employer's authority surely informs how subject to this authority different employees are. It does so in at least one of the two senses relevant for the justification of workplace democracy: that of eluding or mitigating companies' objectionable power. If highly mobile workers can costlessly find a comparable job if

abused, then it is plausible to say that they are not subject, or not in the relevant sense, to their companies' directives, for they are less likely to endure abusive corporate norms or management. Yet, on the other hand, it also rings true that, insofar as they work for an employer, all employees remain subject to its directives, which ultimately tell them what to do, setting the ends they are to pursue from nine to five. Workplace democracy, Robert Dahl (2001: 252) argued, is more useful to unskilled workers than to highly skilled and mobile ones, who already wield remarkable clout over their companies' governance. But both are bound to obey the directives their companies address to them all the same.

The benchmark of upholding efficiency lends further support to an understanding of subjection that includes highly mobile workers in democratic firms' governance. There is abundant empirical evidence that democratic inclusion in companies' governance reduces voluntary separations and increases workers' investment in firm-specific human capital (Jäger *et al.*, 2021; Kruse *et al.*, 2010). These effects are especially relevant when it comes to highly mobile workers, first, because their marginal contribution to the company's performance is often greater due to their greater skills and, second, because, being more mobile, they have less reason to invest in human capital that, being specific to their current company, they could not take with them in the event of switching jobs. From the standpoint of firm performance, an understanding of the principle that favors the inclusion of these workers is therefore preferable.

The second objection is more serious, as it does not target a small slice of highly mobile workforces, as the first does, but very many third parties that, albeit objectionably affected by companies' rules and decisions, the All-Subjected Principle fails to include because they are unsubjected to them (Stehr, 2022: 10). If avoiding objectionable power is a relevant benchmark against which to assess principles of democratic inclusion, then the objection is surely serious. Are we to avoid the Scylla of the All-Affected Principle, with its over- and underinclusive extensional results, only to endorse the Charybdis of the All-Subjected Principle, with its purported permission that companies get away with their objectionable effects on unsubjected others? Fortunately, however, this dilemma need not arise. The All-Subjected Principle surely requests that unsubjected third parties, however objectionably affected by companies' rules and decisions, be excluded from their making. Yet this does not entail that companies are to get away with the effects of such decisions.

To begin with, not all third parties are necessarily unsubjected to corporate rules and decisions. Consider three kinds of case. The first comprises cases in which third parties are subjected on both its *de jure* and its *de facto* understandings, such as the case

of *dependent self-employment*. This case comprises the contracting of workers who, despite working under conditions akin to those of in-house employees, are classified as independent contractors so that companies can bypass employer liabilities, like sick pay and social security taxes (Halliday, 2021). Dependent self-employed workers, which are central to the so-called *fissured workplace* (Weil, 2017), account for a sizable portion of the self-employed: one in three in the EU, for example (Williams and Lapeyre, 2017: 16). This case is suitably registered by both understandings of the All-Subjected Principle. No matter how companies like Uber or Glovo might try to classify them, dependent self-employed workers are not just coerced by such companies but outright work under their formal rules and decisions, as courts and lawmakers growing acknowledge, and therefore merit inclusion in their governance on both understandings of the principle.

The second kind comprises cases of *market concentration* in which third parties are subjected to a company's rules and decisions on its *de facto*, yet not on its *de jure*, understanding. Under monopsony, for example, the relation between a supplier and its contracting company is fittingly conceived of as one of subjection, for the company may then use its market power to coerce the supplier into producing certain goods and services in certain ways—replacing, rather than just constraining, the ends the supplier is to pursue. When this occurs, the principle's *de jure* understanding still requires excluding the supplier from the making of the rules and decisions the company imposes on the supplier, for the formal incidents of the relationship remain unchanged. But the principle's *de facto* understanding need not. Surely, it is still questionable whether, when this occurs, the supplier is subject to the coercive power of the company in a way that is relevant enough to warrant inclusion in its governance. But the *de facto* understanding of the All-Subjected Principle, insofar as it is triggered by subjection to coercion, rather than to formal rules, could in principle warrant their inclusion.

Third are cases of subjection to discrete decisions, rather than rules, that are coercively enforced on third parties. In *relocation*, for example, a company communicates to a group of neighbors of the community in which it operates its willingness to relocate if they refuse to accept the company's offer to purchase some of the real estate they own, which the neighbors accept to avoid the job loss the relocation would involve. Unlike the previous cases, this case involves no subjection to the formal rules of the company, for there are no formal rules that the company seeks to coercively enforce on them. All it involves is a discrete decision, which the company coercively enforces on the neighbors of the community. But this could be enough to ground a

requirement that the neighbors be included in the decision, on the *de facto* understanding of the principle anyway.

All this might be cold comfort to the objector, however. For even on the most expansive variant of the All-Subjected Principle—the variant that focuses on companies’ discrete decisions and their coercive enforcement—the principle would still exclude many unsubjected yet objectionably affected third parties. Perhaps consumers exposed to unsafe products or local communities exposed to companies’ pollution are not coerced by the corporate decisions resulting in them, the objection goes, yet their interests are objectionably affected by them all the same.

But the objection is unsound for two reasons. First, independent considerations, like those of justice, may suitably complement the All-Subjected Principle by singling out what is objectionable about companies’ unsafe products or pollution, requesting that apt regulations to foreclose or redress them be adopted. Some may see this alternative as a category mistake, however. They may claim that considerations of justice offer no response to the separate question of how to draw companies’ *demoi* from the standpoint of their democratic legitimacy (Wilson, 2022: 183). We are unclear as to why a division of the normative work has to be mistaken. But a second alternative avoids the problem in any event. On this alternative, the All-Affected Principle\* discussed above, which requests that all and only those *objectionably* affected be included, is what complements the All-Subjected Principle. This way, companies getting away with their objectionable effects on third parties is precluded.<sup>12</sup>

These two alternatives yield similar, though not identical, results, which we discuss in closing. Both alternatives aptly register the distinctiveness of companies’ directive power over their staff. And both alternatives aptly register, too, companies’ objectionable effects on third parties, teasing them apart from unobjectionable ones and avoiding the overinclusive results that the unqualified All-Affected Principle yields. But the two views are far from notational variants, for they significantly drift apart in their response to companies’ objectionable effects on third parties. Where the All-Affected Principle\* offers a one-size-fits-all response—to wit, inclusion in democratic companies’ governance—considerations of justice offer a broader gamut of responses, including bans on certain actions, regulations to make firms internalize their externalities, antitrust laws, or, indeed, representation in companies’ governance, from corporate boards to the shop

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<sup>12</sup> For neighboring pluralistic views, see Archer (2010) and, more generally, Erman (2022).

floor. What reasons are on offer to rank these alternatives? Resorting to the two normative benchmarks to assess the principles of democratic inclusion helps us to answer this question.

Start with the efficiency benchmark, which casts doubt on complementing the All-Subjected Principle with the All-Affected Principle\*. To be sure, including all third parties whose interests are objectionably affected yields some efficiency benefits for corporate decisions. These comprise, for example, the epistemic benefits that incorporating a greater diversity of views may yield. But one thing is to improve corporate decisions' epistemic quality by incorporating these parties through advisory committees or trusts, as some codetermined companies and worker cooperatives already do. Quite another is to grant those parties a seat on such companies' board, with final authority over the company's governance, which some believe to involve serious efficiency costs.

Briefly consider three such efficiency costs. First are increased decision-making costs, for the greater the number of enfranchised stakeholders, the more heterogeneous the interests included are, and the higher the costs of reaching agreements on corporate decisions is (Hansmann, 1996). Second are the costs stemming from a greater difficulty to optimize the firm's value, for the more objectives the firm is to pursue as the number of stakeholders increases, the more dimensions on which management is to optimize the firm's value, absent a single measure to rank competing dimensions (Jensen, 2002). Third are increased agency costs, for the more stakeholder interests the top management has to serve and respond to, the harder it becomes for each stakeholder to track management's performance relative to such interests, and the greater the accountability costs (Heath and Norman, 2004). None of these costs is necessarily decisive, insofar as they do not render producing through the structure of the firm less efficient than producing through market exchanges, as argued in section 2. But they cast serious doubt on the alternative of coupling the All-Subjected Principle with the All-Affected Principle\*.

The other relevant benchmark, that of eluding objectionable power, buttresses the skepticism about coupling the All-Subjected Principle with the All-Affected Principle\*. One reason is that, unless we define inclusion to encompass all or most of the responses that considerations of justice may offer—as Arrhenius (2018: 109), for example, does—the All-Affected Principle\* offers a response that, in seeking to shield different parties' interests, may less flexibly adjust to different kinds of corporate decision and their objectionable effects on others. Another, more important reason is that the response that the All-Affected Principle\* offers neglects that some forms of objectionable corporate

power may be more effectively addressed by means other than including the affected parties in their governance, notably including state regulation (Bennet and Claassen, 2022). For example, environmental regulation may often better prevent companies' pollution, and product safety regulation may better prevent companies from selling unhealthy goods. And the same applies to some of the three cases discussed above, those of dependent self-employment, market concentration, and relocation. Though all these could warrant democratic inclusion on the *de facto* variant of the All-Subjected Principle, as discussed above, some may be better addressed by alternative means. Maybe not dependent self-employed workers, whose subjection is not only *de facto* but *de jure* as well. But the cases of market concentration and relocation may be better addressed through state regulation, including antitrust law and industrial policy. This lends further support both to the view that, when it comes to defining the *demos* of the democratic firm, the All-Subjected Principle may be best coupled by considerations of justice, rather than by the All-Affected Principle\*, and to the view that the All-Subjected Principle may be best conceived of on its *de jure* understanding.<sup>13</sup>

## 5. Conclusion

We have inspected whether nonworker stakeholders merit inclusion in democratic firms' governance by leaning on two competing principles of democratic inclusion. We have first argued that the question of who warrants inclusion in democratic workplaces is best addressed by inspecting the reasons why workplace democracy is warranted, and have offered a twofold normative benchmark—addressing objectionable power and upholding efficiency—to assess the principles of democratic inclusion on offer. Against this benchmark, we have next argued that the All-Affected Principle yields over- and underinclusive extensional results and that the all-subjected principle, if coupled with independent considerations of justice or a suitably modified variant of the All-Affected Principle, holds more promise. These combinations need not entirely preclude the inclusion of nonworker stakeholders. But alternative responses, including corporate and market regulation, may better address objectionable forms of corporate power while upholding efficiency.

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<sup>13</sup> Its conjunctive understanding, which requires that the *de jure* and the *de facto* conditions be met and that we have here put aside for simplicity, would also qualify.

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