

[Working Papers](#)

Behavioral Finance in Corporate Governance - Independent Directors, Non- Executive Chairs, and the Importance of the Devil's Advocate

Randall Morck

SHARE   

WORKING PAPER 10644

DOI 10.3386/w10644

ISSUE DATE July 2004

REVISION DATE October 2007

The Common Law, parliamentary democracy, and academia all institutionalize dissent to check undue obedience to authority; and corporate governance reformers advocate the same in boardrooms. Many corporate governance disasters could often be averted if directors asked hard questions, demanded clear answers, and blew whistles. Work by Milgram suggests humans have an innate predisposition to obey authority. This excessive subservience of agent to principal, here dubbed a "type II agency problem", explains

directors' eerie submission. Rational explanations are reviewed, but behavioral explanations appear more complete. Experimental work shows this predisposition disrupted by dissenting peers, conflicting authorities, and distant authorities. Thus

disrupted by dissenting peers, conflicting authorities, and distant authorities. Thus, independent directors, chairs, and committees excluding CEOs might induce greater rationality and more considered ethics in corporate governance. Empirical evidence of this is scant - perhaps reflecting problems identifying genuinely independent directors.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures 

Download Citation 

Other Versions 

Published Versions

Randall Morck, 2008. "Behavioral finance in corporate governance: economics and ethics of the devil's advocate," *Journal of Management and Governance*, Springer, vol. 12(2), pages 179-200, May.

Related

TOPICS

Financial Economics
Corporate Finance

PROGRAMS

Corporate Finance

More from NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



16th Annual Martin Feldstein Lecture:

Lessons for Economists from the Pandemic

Cecilia E. Rouse, The Brookings Institution
and Princeton University
July 22, 2024

2024, 16th Annual Feldstein Lecture, Cecilia E. Rouse, "Lessons for Economists from the Pandemic"

FELDSTEIN LECTURE

PRESENTER: [CECILIA E. ROUSE](#)

Cecilia Rouse, president of the Brookings Institution and a professor at Princeton University, who chaired the Council...



Methods Lectures, Summer Institute 2024:

Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning

Susan Athey, Stanford University and NBER
July 25, 2024

2024 Methods Lecture, Susan Athey, "Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning"

METHODS LECTURES

PRESENTER: [SUSAN ATHEY](#)

Background Materials:backgroundAthey, Susan, Undral Byambadalai, Vitor Hadad, Sanath Kumar Krishnamurthy, Weiwen Leung...



Economics of Social Security Panel Discussion

Earnings Inequality and Payroll Tax Revenues

Karen Dynan, Harvard University
Karen Glenn, Social Security Administration
Stephen Goss, Social Security Administration
Fatih Guvenen, University of Minnesota and NBER
James Pearce, US Congressional Budget Office
NBER Summer Institute, July 24, 2024

2024, Economics of Social Security Panel, "Earnings Inequality and Payroll Tax Revenues"

National Bureau of Economic Research

[Contact Us](#)

1050 Massachusetts Avenue
Cambridge, MA 02138
[617-868-3900](tel:617-868-3900)
info@nber.org
webaccessibility@nber.org

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW

