What did the Ancient Greeks ever do for us?

Bloomberg via Getty Images

Flo Swann meets Hossam Zeitoun to find out why an Ancient Greek lottery method of ensuring democracy could lead the way in companies becoming more accountable

ANALYSIS

In recent years the media seems to have been full of reports of companies featuring disastrously bad governance: Lehman Brothers, News Corp, Enron, eBay, BP – even the UK's Co-operative Bank, which was set up to operate on the highest ethical principles – are companies that, along with many others, have come under fierce criticism for perceived failures to act in the best interests of their various stakeholders.

It is not surprising, therefore, that the role of the corporation in modern society has come under increasing scrutiny from business school researchers, with an emerging view that there should be a greater effort toward governing corporations well so that they become a means to protect our environment, address social problems, and create new sources of entrepreneurship and innovation.

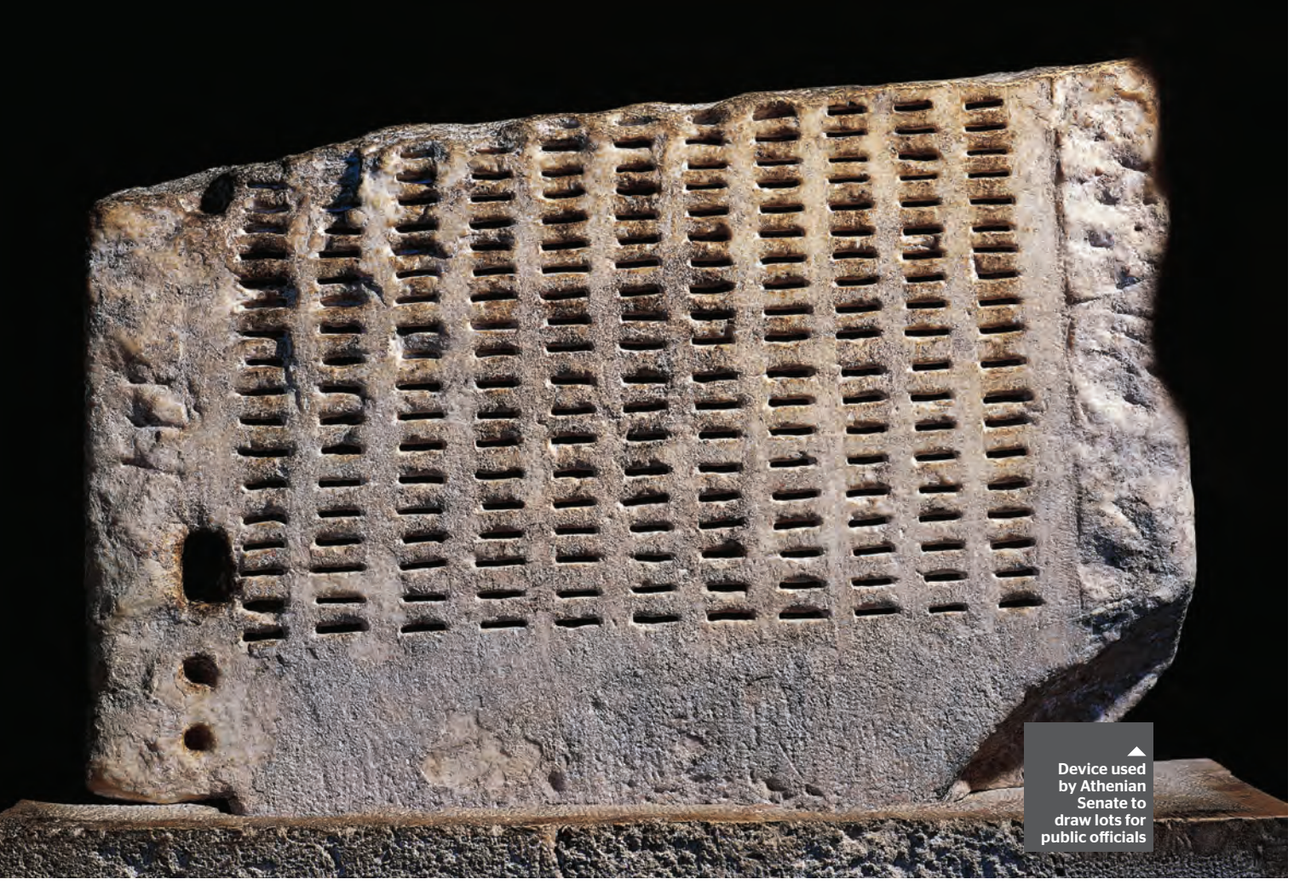
So how do we make them well-governed? Companies are led by people; ultimately, the issues start and end with the mix of people on the Board and the decisions they make which then trickle down to the organisation and have ramifications for society at large.

Dr Hossam Zeitoun, an Assistant Professor at Warwick Business School, is researching how to create governance structures that make companies more accountable to the various stakeholders who contribute to firms' long-term success.

He says, "Such stakeholders include the providers of capital (ie shareholders and creditors), employees, and, to varying degrees, suppliers, customers and the local community."

There are different ways in which corporate governance can help protect these stakeholders' interests he explains: "One model is to involve them in the Board's decision-making. In Germany, for example, the law mandates shareholders and employees to be represented on the Boards of large corporations. Having many different stakeholders on the Board can make decision-making very challenging because these stakeholders have different interests."

But, Zeitoun adds, "While this model works



Device used by Athenian Senate to draw lots for public officials

De Agostini/Getty Images | United Artists/The Kobal Collection

reasonably well in Germany and other European countries, it only involves shareholders and employees, and not the complete range of relevant stakeholders."

Warming to his theme, he talks of another model, where "the Board is instituted as an autonomous fiduciary, which is insulated from the pressures of different stakeholders. The idea is that such a Board should act more like a 'benevolent dictator' who balances the interests of the different stakeholders and decides in the long-term interests of the corporation as a whole. A prospering corporation is in the interests of all stakeholders. However, you can never know in advance whether the Board will be such a benevolent dictator."

Some legal scholars suggest that the model of the autonomous fiduciary is the foundation of US corporate law, whereas corporate governance in the UK tends to be more shareholder-focused.

Although many US companies are very shareholder -focused, there is also a range of other corporate governance structures.

In the UK, stock-market listed firms in particular tend to have similar shareholder-focused governance. "A disadvantage of shareholder-focused governance is that it can lead to short-termism," says Zeitoun. "In this model, managers may look more to short-term profits rather than long-term capability development," he says. "But on the flip-side, they tend to be more flexible and entrepreneurial allowing the company to, for example, close old factories and build new ones to take advantage of new technologies."

Diversity in the Board model of companies can cushion the blows of a changeable economy; in some circumstances one type of firm will perform better and in others an alternate will.

Zeitoun's research, *Learning from Ancient Athens*, offers a novel model to help companies ensure good corporate governance.

This model, inspired by the Ancient Greeks, ensures diversity of people on the Board through the use of random selection procedures. He explains, "Political governance in Ancient Athens was based on selecting their leaders randomly among the population; each year there was an assembly of the male population where each participant placed a metal token identifying them into a box, and a random selection was pulled out.

"It wasn't only Ancient Athens. Later the Republic of Venice and the Republic of Florence did the same thing on a limited scale for parts of the political system."

And maybe some would be keen to be governed like that now. "I read that during the recent Egyptian troubles some young people were distributing flyers asking for a transitional government to be randomly selected from among the protesters," he says.

But we return to the matter of corporate governance. "The real benefit of this process was that it created a non-autocratic collective decision-making body. The only exceptions were posts where you needed to have a lot of task-specific expertise; for example the Chief of the Military couldn't be randomly selected – he had to be appointed."

Zeitoun also proposes a two-chamber Board of Directors where one chamber would be elected by shareholders, as they are today, but the second would be selected randomly amongst stakeholders. The two chambers would need to find common decisions.

But how can you ensure an adequate composition of the stakeholder chamber if they're randomly selected? "The Ancient Athenians obtained a sufficient degree of representativeness by ensuring there was cultural pressure among the population so that one had to volunteer," says Zeitoun. "Even though the governing body was formed through random selection, because there were lots of volunteers you had a representative outcome. The more volunteers there are, the more representative the outcome."

Zeitoun cites the jury system as a source of inspiration. "When you get biased juries, research has shown that this is most often not due to a biased selection process," he says. "It's usually because the source list itself is biased, for example when people take source lists based on the working population which exclude unemployed people. So the first step would be for the company to communicate to stakeholders the advantages of this new approach and encourage them to participate in order to have a more representative outcome of selection.

"We can learn a lot from jury systems," he continues. "Juries in America avoid extreme biases of people because the randomly selected jurors can be challenged. As a corporation you could appoint a neutral person who approves these challenges."

> "We can learn a lot from jury systems... Juries in America avoid extreme biases of people because the randomly selected jurors can be challenged. As a corporation you could appoint a neutral person who approves these challenges"

It all sounds tricky, but Zeitoun is sure it is possible to transition from a standard model to this. "Initially, the stakeholder chamber could only suggest initiatives with the shareholder chamber only obliged to discuss them," says Zeitoun. "After that is working well, you can move to the next step and offer the stakeholder chamber a veto right or even equal decision rights on a predefined catalogue of corporate issues."

Some of the literature on stakeholders is based on ethical considerations which suggest that all stakeholders have to be considered simply because it's ethical to do so. But Zeitoun believes stakeholder involvement is actually economically important because it also helps ensure the firm's long-term success.

"The two-chamber model increases the range of stakeholders involved in decision-making without dramatically increasing the costs of this collective decision-making process," says Zeitoun. "It also contributes to an adequate level of expertise on the Board; and it avoids the 'benevolent dictator' model where the Board is insulated and can decide on its own who should benefit and who should not."

But in who's interest is it to implement this model? Zeitoun adds: "Shareholders of stock-market listed corporations often only have a small stake in a company. If you improve the company's structure other shareholders benefit as well, so you as a minority don't have a very strong incentive to do so."

Zeitoun suggests senior managers and directors of the company, who have long-term interests in the firm's performance, could be the first ones to start this transition process.

"They could take the first steps, that do not require changing the corporate charter – because as soon as you change the charter you need to consult with shareholders," says Zeitoun. "I think you could gather positive experiences through small steps, and then once it is working you could consult at a general meeting and implement it in your charter."

He also has suggestions for law-makers. Although it has been argued that the US has a more diverse corporate governance system, it's only partly true because even though companies are very flexible in writing their charters most of them remain with the default rules.

Zeitoun says: "If a company doesn't write their own idiosyncratic charter then the company is governed by default rules. They're not mandatory, but they are the standard. You can deviate from them, but a large majority of companies stick to the default rules. If the law-makers helped to offer more menu options – including governance models based on random selection – I think this would lead to a healthy system with more diverse governance structures."

So, who knows? Maybe, as the UK National Lottery used to say, 'It Could Be You!' ■

Zeitoun, H., Osterloh, M., & Frey, B. S. (2014). Learning from ancient Athens: Demarchy and corporate governance. *Academy of Management Perspectives*, 28(1): 1–14.