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# Corporate democratic nation-building: Reflections on the constructive role of businesses in fostering global democracy

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## ABSTRACT

Europe finds itself in a challenging situation dominated by economic and political uncertainty, which has deep ramifications for businesses and society. The Brexit vote for the UK to leave the EU has caused a political crisis, which raises fundamental questions about the founding mission of the EU as a largescale nation-building experiment aiming at promoting democracy, peace and prosperity across Europe through an “ever closer union among the peoples of Europe”. This Reflection on Europe argues that Europe needs to establish a new democratic equilibrium and that businesses can play a fundamental constructive role to achieve this new equilibrium by actively designing core internal and external business activities to be conducive to key enabling conditions of democracy.

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## 1. Introduction

Europe is going through a testing time. The UK's decision to leave the European Union, and, thereby, to unravel some 40 years of ever closer union and integration between the member states, is not just about redefining domestic politics. Brexit has deep international ramifications and puts the entire EU to the test, raising the larger political question about peace and stability in Europe. The ideological backbone of the EU is to end the frequent bloodshed between neighbouring countries across the continent. Since its inception, the EU has played a key role in global politics, historically as a main player in the Cold War and most recently as a highly active global player in the fight against terrorism. A disunited – or disuniting – Europe is a political condition, which too often has fertilized radical ideologies, mobilized alienated and disenfranchised citizens in extreme right- or left-wing movements, and, ultimately, led to unrest and war. A new European equilibrium is not a desirable option: it's a ‘sine qua non’ for peace and stability.

The aim of this Reflection on Europe is to outline the crucial

constructive role that businesses can adopt to foster this new state of democratic equilibrium. This reflection develops a *speculative argument* showing that businesses can have direct impact on a range of enabling conditions for democracy.<sup>1</sup> The argument goes one step further by advancing the controversial view that not only *can* businesses actively contribute to democratic nation-building, but also corporations have non-trivial structural and pragmatic *advantages* that potentially make them better democratic nation-builders than traditional political agents. Although normative in nature, this reflection does not aim to convince the reader of any political approaches or ideas; rather, my hope is to present a provocative argument to spark reflection on a crucial topic that has deep ramifications for businesses and society.

Definitions of nation-building differ and often conflate the distinctions between state-building and nation-building (Fukuyama, 2008). The most influential definitions comprise the following key constructs: nation-building is an interventionist process whereby an external political power interferes militarily in a foreign nation and subsequently implements ambitious systems of economic development while seeking to embed recognized processes of democratic decision-making throughout all political institutions, ultimately aiming at establishing a new political order (Fukuyama, 2008; Mylonas, 2013; Somit & Peterson, 2005). Moreover, nation-building aims to establish a community of shared values, emphasizing the creation of shared belief- and value-sets across diverse cultures and ethnic groups. The end goal is for the newly created and shared value-sets to converge on the foundational values of democracy held by the nation-builders.

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<sup>1</sup> There are many types of democracy (e.g. direct, indirect and representative) and many competing definitions. However, the defining elements across these definitions are that democracy is a form of government where politicians are elected by the majority in a public vote (Goodin, 2009). Also, democracy presupposes the rule of law and transparent, robust processes for democratic decision-making and elections. This paper addresses some of the enabling conditions underpinning the key defining features of all types of democracy.

For the purposes of this reflection, nation-building is the process of designing and implementing activities that have a substantial impact on a range of enabling conditions consciously configured to improve, sustain or introduce clearly defined elements of democracy. This definition is broader than conventional definitions of nation-building in that it emphasizes a dual context of influence: on the one hand, improving and sustaining democratic values and processes, on the other, designing and introducing elements of democracy. The rationale for operating across this twofold context of influence is as follows: first, there is a need to reinforce and stabilize existing democracies enduring periods of political activity that challenges the democratic foundations (e.g. Post-Brexit Europe); second, there is a need to fertilize the global citizen-driven public demand for democratization of non-democratic states (e.g. the Arab Spring). Accordingly, this reflection has a special emphasis on the European context but frequently branches out, putting the discussion into global perspective. These two contexts are intertwined in the overall narrative and they will not be addressed separately.

The controversial idea that businesses can – and perhaps even should – design their commercial operations to be conducive to sustaining or developing democratic systems evolves naturally from the increased focus on their political role. Scherer and Palazzo's (2011) paper "The New Political Role of Business in a Globalized World" provides an excellent overview of this area. Their overarching point is that globalization has created a legal and political void, where businesses are initially operating without being guided by regulatory and legal frameworks, because policies that can realistically be implemented and policed by nation states are limited to a national or *trans*-national scope. To fill the void, businesses have expanded the traditional scope of CSR to involve a political dimension, where corporations are actively involved in the development of a range of self-regulatory measures and systems and effectively become political actors (Rasche, 2015; Scherer, Palazzo, & Matten, 2014).<sup>2</sup> Scholars often refer to this new branch of studies as political CSR (e.g. Westermann-Behaylo, Rehbein, & Fort, 2015).

The argument of this essay is structured as follows. It begins with clarification of why the Brexit vote has triggered a crisis of European democracy, and why this is a genuine concern for business, which should motivate an active interest in corporate democratic nation-building. The main section then argues that businesses can employ democratic nation-building by consciously designing operations that actively reinforce or implement a range of key enabling conditions of democracy. The emphasis is not on the actual, specific measures that businesses can use to promote democracy, but rather the focal point is on clarifying the underlying structural conditions that enable businesses to promote democracy. Put differently, this essay is not about the pragmatics of corporate nation-building, but about the ontological conditions that put businesses in the unprecedented position of state-like actors able to actively promote values and processes that are conducive to democracy. Having discussed the potential for businesses to engage in corporate democratic nation-building, the essay closes with a short ethical remark, addressing whether corporate democratic nation-building is the ultimate form of political manipulation. Critics will object to the very concept of corporate democratic nation-building

<sup>2</sup> Self-regulatory mechanisms are obviously associated with a potentially strong bias due to the vested interest: businesses have a very direct interest in only developing regulatory measures that are in the best interest of core business priorities. As such, even advanced and robust self-regulatory frameworks, which have incorporated the "arms-length" principle, are frequently subject to criticism because they can never reach the same level of political integrity as independent government regulation.

as an oxymoron, because the concept seeks to reinforce or introduce political ideas and structures through the exercise of powers that are not politically, let alone democratically, legitimized. On balance, however, the immense opportunity to spread democracy through business activities appears to be an opportunity that we cannot afford to miss.

## 2. Brexit, democracy and business

Does the Brexit vote constitute a crisis of European democracy? In one sense the answer is: "definitely not". The UK is as democratic as before and one may convincingly submit to the view that the "leave vote" was in fact a spectacular victory of democracy. The UKIP leader Nigel Farage, for example, underscores the Brexit vote as a victory of the little man over big politics and the undue influence of big business. Although one may disagree wildly with the UKIP leader, it is difficult to deny the relevance of this particular observation. According to this political narrative, the underdogs have utilized their democratic rights to create decisive political change. However, while Brexit may be a cause for local celebrations of democracy, it is a democratic catastrophe from a European point of view. This becomes clear by looking into the underpinning conditions that fuelled the Brexit vote.

UK citizens' resistance to the EU can be interpreted as a matter of perceived loss of power. As individual political agents in a democratic system, voters are – and should be – deeply wary of transferring power, money and autonomy to a centralized bureaucracy governed by principles and procedures, which they don't trust and which instils a feeling of disempowerment. As Acemoglu and Robinson (2012) observe, modern welfare state democracy is a subgame perfect equilibrium, which is entirely conditional on citizens' willingness to accept the exercise of political power, which in turn is conditional on voters having political leverage in terms of being able to terminate unwanted politicians through robust election mechanisms. Too many UK voters felt they had lost the sense of being democratically in touch with their EU politicians: no clear route to punishment of unwanted politicians seemed available, creating a feeling of disenfranchisement, resentment and – fundamentally – social injustice. Democratic political equilibria break down when citizens become unwilling to make their "political investments" into shares whose potential performance is impossible to gauge given their dependency on a super-layered bureaucracy, the hyper-complexity of which undermines the political accessibility-relation between politics and the people (Acemoglu & Robinson, 2012). Frankly, for many citizens in the UK, the EU – rightly or wrongly – became an incentive incompatible political investment, because those managing the investment lost the ability to explain in plain language the correlation between personal benefit and political investment. Seen from that perspective, opting out of the EU is a perfectly reasonable strategy. If this analysis is correct, then the Brexit vote has sent the EU into a political crisis, hitting the Union in the core of its political heart: the EU is fundamentally a large-scale democratic nation-building experiment designed to create and sustain peace and stability – and thereby prosperity – in Europe. By the very act of leaving the EU, the UK shakes the political ideology, which forms the bedrock of the Union. Through leaving the Union due to feelings of disenfranchisement, the UK implicitly challenges the EU as a political project having lost its democratic legitimacy and direction.

### 2.1. The link between democracy and economic growth

Is democracy good for business? A large body of economic and political literature discusses the correlation between democracy and economic growth (see Przeworski & Limongi, 1993; Acemoglu,

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