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**Democracy and Corporate Governance –  
Who, How and Why?**

Safwan Naser

**Faculty of International Relations  
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## **Democracy and Corporate Governance – Who, How and Why?**

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### **Summary:**

The recent economic crisis has shown beyond any doubt that in view of the international interconnectedness of economies and the significance of financial markets, it is more necessary than ever to focus on corporate governance. The individual aspects of corporate governance unquestionably have their own specifics, yet the key common denominator with respect to the correct grasping of these individual aspects is the understanding of the interconnectedness of corporate governance and the problematic of democratization. However, democratization bears several complications which manifest themselves in corporate governance and complicate the attempts to resolve the economic crisis.

**Key Words:** corporate governance, democratization, compensation, payment of bonuses

## **Demokracie a Corporate Governance – Kdo, jak a proč?**

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### **Abstrakt:**

Současná ekonomická krize jednoznačně prokázala, že vzhledem ke značné mezinárodní provázanosti ekonomik a významnosti finančních trhů je potřeba více nežli kdy jindy se zaměřit na corporate governance. Jednotlivé aspekty corporate governance mají jistě svá specifika, avšak naprosto klíčovým společným jmenovatelem z hlediska správného uchopení těchto jednotlivých aspektů je pochopení provázanosti corporate governance a problematiky demokratizace. Ta však v sobě skrývá několik komplikací, které se do jisté míry nevyhnutelně projevují i při aplikaci na corporate governance, a působí tak značné komplikace při snaze o řešení ekonomické krize.

**Klíčová slova:** corporate governance, demokratizace, kompenzace, vyplácení bonusů

**JEL:** G30

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## **Introduction**

In view of the recent turmoil on the financial markets and the spillover into the entire international economy, many issues have emerged which require careful consideration. Many changes need to be made in order to minimize the probability of a crisis of similar or worse proportions reoccurring in the future, but with respect to the nature of the financial crisis and its causes, corporate governance is ipso facto one of the issues often discussed among competent regulatory entities and other stakeholders.

The significance of corporate governance has been increasingly scrutinized as competent regulatory entities and other stakeholders assess all the causes of the financial crisis and possible solutions which are aimed precisely at the aforementioned reduction of the probability of the reoccurrence of a crisis of similar or more severe proportions. One of the issues being currently avidly discussed is that of supposedly unacceptably high bonuses in the financial sector. This is a corporate governance issue characterized by significant ethical underpinnings and one which especially in times of dire financial circumstances, such as those we are witnessing with respect to the recent financial turmoil, requires careful consideration not only within the context of the financial implications, but also in terms of the moral repercussions. However, there is an aspect of this issue which is seemingly of a less pressing nature due to the inherent intricacy, yet when assessed reveals an interconnectedness which allows a more just and complex approach to corporate governance. Corporate governance (which obviously includes the managing of bonuses) is in most countries based on the notion of a democratic functioning of society, which is obviously prominent in the field of business where the moral aspect is especially prevalent and more easily measurable given the level of quantification available. The practical issue of bonuses regarding issues of quantification and justification is actually not as complex in comparison with the more theoretical issue of the connection between democracy and corporate governance, which is why corporate governance as a concept will be considered merely within the framework of bonuses in the financial sector in the following analysis to facilitate a more focused approach. However, despite the general applicability of the ideas presented herein, corporate governance shall be mentioned outside the specific scope if the payment of bonuses where necessary.

The aim of this paper is to briefly point out some aspects of the theoretical setting of the concept of democracy and subsequently discuss the process of democratization and some of the problematic aspects ensuing thereof, ultimately revealing the perplexity and intrinsic fallibility of the entire process from an exogenous perspective and the categorical necessity of an endogenous approach. Ultimately, it will become obvious that corporate governance as a concept inherently dependent on the concept of democracy and any process of democratization (i.e. the implementing of specific elements of corporate

governance in practice) must involve a careful consideration of the difficulties mentioned herein. The main thesis of this paper is to propose that the concept of the seemingly indispensable need of democratization is inherently flawed regardless of the specific circumstances in terms of currently extant political and economic conditions, although these obviously have significant influence. A concrete example of this can be seen in the case of the currently discussed need for a stricter regime for granting bonuses<sup>1</sup> in the business of the financial sector, for it is not advisable to force a certain form of compensation on a given field of economic activity without careful consideration of the circumstances (the financial sector in this case), even though it might be initially perceived as the best option. Furthermore, imposing a certain form of compensation (which includes disallowing or severely reducing eligibility of receiving bonuses) is ipso facto a contradiction of the concept of democracy, although in specific cases of corporate governance it may be an acceptable solution, as will be pointed out later on in this paper with respect to the concept of exogenous democratization. In order to counterbalance the inevitably theoretical nature of this paper, it will be structured so as to ultimately provide answers to three basic areas of interest regarding democratization which are self-evident considering the title of this paper and will be viewed through the conceptual prism of the basic overview of the process of democratization and the concept of democracy itself as elaborated on in the first part of this paper. This will simultaneously involve a pondering of the applicability of the attained conclusions with regard to corporate governance and bonuses in the financial sector as a form of compensation. In order to avoid an excessively detailed approach and achieve the highest possible level of practical relevance within the theoretical scope of this paper, it is necessary to establish certain generalizations which will facilitate a more complex approach and an easier understanding of the deep connection between democracy and corporate governance. Although drawing on recent events and historical facts for the purpose of providing specific examples would greatly simplify the entire subject matter and make it more readily comprehensible, it would inevitably entail a certain level of subjective interpretation and possibly shift the main focus of this paper from the assessment of democracy onto more emotionally fraught issues. Providing any specific examples regarding democratization and the payment of bonuses in the financial sector shall therefore be omitted. The conclusions reached in this paper are nevertheless applicable to any particular examples and recent events in this area.

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<sup>1</sup> Topical especially in view of the upcoming G-20 summit in Philadelphia.

## 1. Methodology

First I shall briefly comment on some of the intrinsic difficulties regarding the concept of democracy. Then the concept of democratization will be gradually assessed as a general surrogate for the implementation of any facet of corporate governance and specific attention will be given to bonuses as a specific instance of corporate governance in order to provide a more tangible explanation. Understanding the nature of the difficulties of defining democracy and the connection to democratization is absolutely crucial for the purpose of establishing an analogy pertaining to corporate governance and bonuses more particularly. It must be underscored that although bonuses in the financial sector will be specifically mentioned where appropriate for explanatory purposes, this paper is intentionally of a theoretical nature with the aim of enabling a broad application of conclusions and considerations herein to the entire field of corporate governance, not merely bonuses in the financial sector. However, for the purpose of a broader applicability of the views presented herein, democratization shall be used as the main point of reference, although for the purposes of this paper, democratization may be perceived as a direct substitute for corporate governance. Apart from the practical reason mentioned above regarding the substantially increased applicability of the conclusions and concepts presented in this paper, the focus on democracy as a direct substitute of corporate governance is substantiated by the fact that a democratic setting is absolutely indispensable for a proper functioning of corporate governance principles. This applies basically to any decision making process within the framework of corporate governance and is especially true in those aspects of corporate governance which are deeply linked to ethics and require moral considerations. The liberty of determining the amount paid in bonuses and the conditions of this payment curbed by ethical restrictions and moral consideration is an ideal example of this concept. Consequently, any mention of democratization must be simultaneously perceived as a mention of corporate governance. This must be done more rigorously in the case of the chapter dealing with the definition of democracy and democratization, as this chapter is aimed at providing a brief reflection upon democratization and democracy per se, although similar problems may be identified on a general level with respect to the definition of corporate governance.

The author would like to lay emphasis on the fact that all opinions presented in this paper are solely his own and do not reflect the stance of any entity with vested interest in this subject matter with which he is or was affiliated through a contractual relationship.

## 2. The Problematic of Defining Democracy and Democratization

Although the aim of this paper is not to present a detailed description of the various forms of democracy or the history of the development of the concept of democratization as such, it is indispensable to at least briefly point out some of the theoretical aspects of the concept of democracy in order to establish a specific theoretical background which will enable the effective assessment of the inherent problematic aspects of democratization which unavoidably and unvaryingly apply in the case of democratization as a foundation of corporate governance.

It is clear that before we can speak of democratization, we must first address the concept of democracy as such. It is already at this stage that we will be able to identify some of the major difficulties that are intertwined with the process of democratization, be it of a country or a corporation, from the outside or within the concerned populace<sup>2</sup>. The fact that there exists a wide scope of different *types* or *forms* of democracies demonstrates the extent to which different polities are flexible and modifiable concepts, out of which democracy is arguable the most prominent in this respect. In general terms, there are at least as many *types* or *forms* of democracy as there are polities fundamentally dissimilar to the concept of democracy. A brief example that illustrates this notion and the increasingly more interdependent and intermingling nature of various polities is the anarchists' interpretation of democracy. While Murray Bookchin (1971) would argue against those anarchists who opposed the rule of the majority as being inconsistent with anarchism, even those who did not proclaim themselves as anarchists would most probably disagree if directly confronted with this approach. A very prominent example of one of these *anarchists* would be Ralph Waldo Emerson or Henry David Thoreau. In fact, Transcendentalists in general would be a complex example of the defense of the indispensability of consent which is obviously a significant issue in any *type* or *form* of democracy. If we wish to consider the democratization of a given nation, it is therefore absolutely crucial to define beforehand in great detail which *type* or *form* of democratization one is contemplating, or according to which *type* or *form* of democracy the democratization is to be conducted, if you will. One of the problematic aspects of defining democracy (and therefore defining democratization as well) is the historical process of the evolution of the concept of democracy, which is observable in the comparison of the aforementioned various *types* or *forms* of democracy. It is debatable whether we can truly distinguish *types* or *forms* of democracy or whether there exists but a single universal democracy and other *similar polities* which ought to be termed differently. We need not resolve this theoretical issue to be able to conclude that democracy is a rather flexible

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<sup>2</sup> In a corporation, this group may include the executive board, managers, shareholders, but even persons employed in competitive corporations or other companies in the same sector.

concept and it is therefore somewhat difficult to arrive at an undisputable set of characteristics that would encompass the essence of all the *types* or *forms* of democracy. Nevertheless, as was already mentioned earlier in this paper, it is necessary to engage in a certain level of generalization in order to make the concept of democracy more readily understandable. The following delimitation of the general aspects of the concept of democracy is therefore not intended as an authoritative all-encompassing definition of democracy, nor should it be understood as a comprehensive explanation of every aspect of the concept of democracy or its constituents. The following is merely an attempt to point out some of the more significant and possibly least controversial aspects of the general concept of democracy which are extant in most, if not all, *types* or *forms* of democracy. The theoretical differentiation between *types* or *forms* of democracy and a single *universal* democracy is therefore negligible and need not be made for the purpose of this paper, as the consequences of such a differentiation would be merely of a formal nature with regard to the nature of the following simplified delimitation of democracy. Henceforth, any mention of *democracy* will therefore encompass both approaches, that of several *types* or *forms* of democracy and that of a *universal* democracy and its modifications which do not classify as a democracy.

To put it quite simply, one of the most important elements of a democracy is closely linked to the general notion of freedom which is obviously also a rather opaque concept, yet somewhat more palpable on a theoretical and a practical level. Nevertheless, it is a concept which is unequivocally interfused with all the individual characteristics of democracy, which is why democracy itself is on some level more complex than the concept of freedom. The concept of freedom could obviously be discussed at length, but for the purpose of this paper it is sufficient to purport that it includes the unconditional guarantee of the *usual* rights, however vague and intuitive it may seem. These rights or freedoms include basic human rights, the well-known freedom of speech, opinion, religious belief, the historically sensitive issue of general and equal suffrage etc. Although the intuitive definition of the boundaries of the freedom of an individual as being determined by the boundaries of the freedom of other individuals seems simple enough, one cannot escape the perplexity of defining freedom as such, for it has been documented several times in the history of mankind that some individuals differ greatly on the specific delineation of their personal boundaries of freedom. The Bill of Rights is a specific example of the historical development of the understating of these individual boundaries and it provides a comprehensive representation of the unstable nature of the concept of freedom, which is why we will devote a few words to this specific example, as the concept of freedom is of the utmost significance when trying to encapsulate the essence of democracy in a few words. The Bill of Rights is the designation of the first ten amendments to the United States Constitution dating back to the

last decade of the eighteenth century and is a very important and reiterating issue in political affairs of the United States of America<sup>3</sup>. The ratification of these amendments was not a unanimous decision which itself is a proof of the differing opinions on the concept of freedom, but let us disregard this particular aspect of the Bill of Rights and focus briefly on one what is still one of the most controversial articles therein especially in terms of electoral politics:

- The Bill of Rights;
- Amendment II;
- A well regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed (Archives 2009).

The question of the right to keep and bear arms is a very prominent one in the United States of America as much as it is controversial when compared to the understanding of freedom in other sovereign nations. It is clearly a highly debatable issue whether one should be allowed the freedom to impose his or her freedom by means of a deadly weapon. One would quite logically expect that given the nature of the permissible deadly means of defending one's own freedom, a concise and well-balanced definition of freedom would have been devised to accompany the right to defend this freedom. Consider the plethora of laws governing the actions of an individual and the extent to which they succeed in proving a concise and well-balanced definition of freedom. It would certainly be a task beyond the capabilities of many individuals, weapon bearing or not, to provide a clear and legally incontrovertible definition of the freedom which they are allowed to protect. Although most would certainly have a fairly clear notion of what freedom represents to them, one would face rather great difficulty in trying to find the boundaries between individual freedoms. Another extremely important issue is the matter of slavery and its abolishment, yet this is precisely one of the emotionally burdened topics the assessment of which is not absolutely necessary for the purpose of this paper and will therefore be left only with the reminder of its significance in terms of the horrendously slow shift in the understanding of the concept of freedom.

Nevertheless, it is clear that the concept of freedom, albeit an indispensable factor in the definition of the concept of democracy, is a very perplexing one, regardless of the quantum of theoretical musings and historical events that are intertwined with the concept of freedom. And yet, it is somehow obvious that in spite of the imperfection regarding the insufficient clarity of the concept itself, it is nonetheless an integral constituent of the concept of democracy, although opinions might differ regarding the specific manifestation of the concept of

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<sup>3</sup> The first ten amendments to the Constitution of the United States of America known as the "Bill of Rights" were ratified December 15, 1791.

freedom. All these various manifestations of freedom define democracy (and consequently define democratization) and the concept itself is linked to all other constituents of democracy, as was mentioned earlier in this paper. Another crucial aspect, and one which is also linked to freedom with respect to the abovementioned, is the concept of equal access to power. This concept requires an equitable set of conditions enabling every individual to be directly a part of the body of individuals responsible for perpetrating the concept of democracy (i.e. the process of democratization). However, this concept is one which is rather controversial if considered in the framework of specific cultures and historical circumstances, which is why it was stressed beforehand that an abstract prism of contemplation is necessary in addressing this issue. In addition to that, while opinions may vary on the subject of power regarding its definition and the matter of who should be allowed to acquire it, by what means and to what end, it is indisputable that power is an essential element in effecting a democratic (and any other) environment.

It is obvious at this point that defining democratization is a very complex process, which is mainly the direct consequence of the complicatedness of defining democracy itself. Since the definition of democracy is an inextricable constituent of the definition of the concept of democratization, it is clear that the concept of democratization is characterized by at least the same level of perplexity as is true for the concept of democracy. This is an absolutely essential verity which must be constantly taken into consideration when contemplating the following chapters which address some of the basic issues concerning the process of democratization. If one may allow oneself to paraphrase the words of Sir Winston Churchill, democracy is indeed the worst form of government except all those other forms that have been tried thus far. The relevance of this rather pessimistic point of view is unfortunately still unaltered and it reflects quite adequately the remonstrations which shall be presented in the following chapters with regard to the process of democratization.

As regards the definition of corporate governance, it is not as perplexing an issue, for there is at least a general idea which most will agree on as to what aspects of business are a part of the process of corporate governance. However, unlike democracy and democratization, there is much greater divergence of opinion regarding what constitutes a desirable form of corporate governance, which is why it is important to understand the difficulties involving the definition of democracy and democratization, as these concepts are central to the debate of whether a particular aspect of corporate governance is a desirable expedient for ensuring a healthy functioning of a given entity and sector of business. With reference to the payment of bonuses, it is clear that the issue of definition itself is not as significant, yet on the other hand, with respect to the difficulties regarding the definition of democracy and democratization, there is no widespread consensus regarding specific limitations of these bonuses (which

obviously constitutes their definition), whether it be in terms of the criteria of eligibility or the actual amounts paid.

### 3. Who

Bearing in mind what has been pointed out so far about the process of democratization, it is only logical to question the authority of anyone who claims the right to democratize a given populace, whether it be someone who is part of this populace or an outsider. A very important distinction which was already mentioned in the first chapter of this paper must be made at this point regarding the process of democratization. For the purpose of this paper, we shall distinguish between two different types of democratization. On the one hand, democratization may occur endogenously, form within the populace itself – a democratization by the ones being democratized. On the other hand we must consider exogenous democratization where the set of individuals responsible for the process itself is not the same as the set of individuals undergoing the process. The processes differ on a fundamental level and while the first is a plausible and in most cases a desirable process when all the other aspects of the problem are disregarded (i.e. even the complications mentioned in the previous chapters), the latter is intrinsically flawed on both the theoretical and practical level, especially with regard to what was discussed in the second chapter. Although it is an issue of a rather philosophical nature, it can be argued that an exogenous democracy is ipso facto not a democracy, namely due to the fact that by imposing democracy, the foremost constituent of democracy is thereby disregard – the essential concept of freedom. Even if we were to accept the rather marginal and purely philosophical notion of the existence of an imposed freedom, an absolutely vital condition in contemplating the acceptability and feasibility of exogenous democratization and the result in the form of such an exogenous democracy would be a subsequent utter separation of the exogenous element (which does not include only the persons responsible for the democratization process) from the subjects undergoing democratization. This is a complicated issue itself and will be addressed in the following chapter. Suffice it to say at this point that such a separation would be highly problematic not only on a practical level, but even more so from a theoretical perspective. Endogenous democratization on the other hand is generally speaking in harmony with the basic concept of democratization as elaborated upon above, and certainly surpasses exogenous democratization in terms of the fulfillment of all theoretical prerequisites of the process itself with regard to the complications outlined above. It seems inherently more in unison with the concept of freedom to undergo the process of democratization as a consequence of an internal decisional process with those in charge of the process of democratization being from the subjects that will directly reap the fruit of the democratization process. However, endogenous democratization must also be considered in the following chapter because the fact itself that the process originates from within the set of

subjects undergoing the process per se does not ensure that no complications will arise along the way. Consequently, while endogenous democratization is preferable to exogenous democratization, this relative satisfactoriness does not guarantee an impeccable process or indeed an impeccable result. Furthermore, on a less abstract level, the reasons for the preferring of an endogenous democratization become more apparent. When the democratization process comes from within, those who are part of the process are fully aware of all the individual aspects of the process in terms of their knowledge of what characterizes the given populace, the culture, history, the established ways, philosophy etc. More importantly, this knowledge is not artificially acquired or considered only for certain purposes and intents, but it is an integral part of the very existence of those who are part of the process and who will directly suffer the consequences of the process of democratization, whether it be a success or not. In terms of the problematic of the payment of bonuses in the financial sector, the issue of exogenous and endogenous democratization (i.e. creation of regulations regarding the payment of bonuses in the financial sector) is most prominent in view of the recent crisis and reflections upon the role of supervisory and regulatory entities and the degree to which the turmoil on the financial markets was a direct result of inadequate performance of the aforementioned. If we are to exemplify the specific consequences of the notions expressed regarding endogenous democratization in terms of corporate governance, it is sufficient to point out that the equivalent situation in terms of the payment of bonuses would be the case of regulatory and supervisory entities not influencing the process of determining the criteria of eligibility and specific amounts paid in bonuses. Influencing does not necessarily encompass only the direct setting of specific limitations, but it also includes the absence of any incentives which would support a specific approach to the payment of bonuses by means of direct financial stimuli or by indirectly creating a more advantageous business environment for those who abide by the will of the regulator or other similar entity.<sup>4</sup> The analogy for exogenous democratization is quite logically the direct involvement of a regulatory or supervisory entity in the setting of the rules for the payment of bonuses, whether it be in a specific company through a majority stake in that company or by applying rules which are generally applicable to a certain sector or industry. However, in the case of bonuses (and corporate governance in general of course), the discrepancy between the endogenous and exogenous approach is more tangible than is the case for democratization per se, which is why understanding the intricacies of endogenous and exogenous democratization is vital in terms of understanding the problems linked to corporate governance both in term of its own specificities and in terms of the inherent interconnectedness of corporate governance and the concept of democracy.

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<sup>4</sup> A typical way of such indirect measures includes tax incentives.

#### 4. How

The most complex of all issues is undoubtedly the need to specify the exact mechanism of democratization. It was mentioned in the previous chapter that exogenous democratization could be considered if it were possible to entirely separate the exogenous element from the subjects undergoing the democratization. On a practical level, this would mean the withdrawal of all persons, institutions, documents etc. which were part of the exogenous democratization process. The physical displacement of any exogenous element is obviously not too complicated, and in comparison to the theoretical level of this issue, it is almost negligible. If we presuppose that the imposed democracy (i.e. the result of the exogenous democratization) is a success by whichever standards we wish to evaluate it, it follows that the ideas, notions, and individual constituents of the given democracy (including a given set of freedoms) were incorporated into the everyday functioning of the new polity, which obviously precludes a complete and clear separation of the exogenous element from the subjects undergoing the democratization. Consequently, even if we were to accept the purely philosophical notion of an imposed freedom, we could not consider the final result of this imposed freedom as a democracy and the process of *democratization* itself would therefore not be successful. The only plausible form of exogenous democratization would be one where the element of *imposed freedom* would not be an extant part of the process of democratization. There are two possible scenarios within the framework of this assumption:

- A *supervised* democratization;
- A *provided* democratization.

A *supervised* democratization would be the case where the process of democratization is almost entirely performed by the democratized subject and the exogenous element would only consist in the provision of assistance where necessary. If these two elements are carefully balanced, *supervised* democratization might in fact be as desirable a form of democratization as endogenous democratization, at least on a theoretical level. A *provided* democratization is basically a form of a voluntarily accepted imposed freedom with the end result being a *takeaway* democracy if you will.

It must be emphasized that both cases must be unconditionally the result of a free decision of the subject of democratization. Even if we disregard the fact that the process of freely deciding that an exogenous element is acceptable during the process democratization is already a part of the democratization process per se and therefore every apprehension regarding the process of democratization inherently applies, both *supervised* democratization and *provided* democratization would suffer from the theoretical imperfections discussed above. On a practical level, both *supervised* democratization and *provided* democratization may seem as plausible and acceptable options and they are in

fact the least distant from the concept of endogenous democratization, which is precisely the reason why they are relatively acceptable solutions. If we were to presume that those responsible for either *supervised* democratization or *provided* democratization would gain all the necessary knowledge mentioned in chapter three and would somehow be directly influenced by the outcome of the democratization process to the same extent as the subject of democratization, we would truly be able to consider both *supervised* democratization and *provided* democratization an acceptable form of democratization. However, it is impossible to reconcile the practical feasibility and theoretical presuppositions. While the first condition regarding the level of knowledge is theoretically achievable through direct cooperation with the subject of democratization,<sup>5</sup> the second condition involving the direct consequences of the final result of the process of democratization on the exogenous supervisor or provider of the democratization with respect to the subject of the democratization process is unimaginable even on a theoretical level.

Even with all the theoretical exemptions and simplifications, it is beyond any measure of doubt that the complications related to exogenous democratization will always surpass those of endogenous democratization. This is an axiomatic conclusion mainly due to the fact that every process of exogenous democratization regardless of its subdivision inevitably incorporates a process of endogenous democratization.<sup>6</sup> Furthermore, if we take into consideration all the aspects of the definition of democratization and related issues discussed above, on a purely theoretical level, exogenous democratization is never democratization per se. This is a rather strong statement when perceived solely in terms of its effects on corporate governance, in which case the abovementioned conclusion would basically preclude the influence of any regulatory and supervisory entity and in the extreme sense, even the influence of international and supranational organizations with no authoritative powers or means of enforcing compliance. However, it is quite obvious that in this particular case, corporate governance cannot be perceived as a single concept and must be assessed in terms of its individual constituents, for it cannot be said that all aspects of corporate governance are to be entirely free of regulatory and supervisory influence, nor can the converse be maintained on a general level. Even in the relatively simple case of the payment of bonuses<sup>7</sup>, it is rather difficult to ascertain the appropriate level of exogenous or endogenous democratization, quite simply because there is an obvious clash of interests with

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<sup>5</sup> This would be the case of *supervised* democratization where the exogenous element would only manifest itself through the provision of guidance.

<sup>6</sup> Even if the democracy is not imposed, if nothing else, the decision making concerning the acceptability of an exogenous element and the extent to which it is allowed to influence the process of democratization is inevitably a part of endogenous democratization.

<sup>7</sup> Simple in terms of the involvedness of the technical aspect.

no single objective criterion to have recourse to in resolving the divergence of opinion.

## 5. Why

The final issue is perhaps the simplest, although perhaps a rather unexpected one. However, if we take into consideration everything that has been discussed thus far, the issue of why democratization is a desirable process should not be too surprising. The separation of powers<sup>8</sup> is one of the cornerstones of most democracies, yet this does not circumvent one of the primary disrupters of the concept of democracy (and most other polities) – the fact that the election of individuals often supplants that of ideas. Can we therefore speak of “less democratic” and “more democratic” countries depending on the successfulness of the process of democratization? Even if the process of democratization as such were guaranteed to be a success,<sup>9</sup> it is impossible to devise objective criteria which would prove that democracy is the ideal constituent regarding the polity of a given nation with respect to its history, culture, traditions etc. It is beyond doubt that an excessively politically free environment encourages irresponsible and egotistic behavior due to the general absence of a high moral standard not only in terms of countries, but also regarding the functioning of specific corporations. Many polities consider a wise and just father figure a preferable polity – unfortunately, such a father figure is an unattainable utopia for many on a national level, but seems to be more within reach with respect to specific corporations. Nevertheless, even if we were to consider only these two options, who is to say which of the two is better? If there were a straightforward and undisputable answer, then it could perhaps be determined whether democratization is truly the best option. It is obvious that the establishment of democratic institutions in countries where such institutions have as yet been uncommon or deemed culturally, historically or otherwise objectionable can result in undemocratic institutions and a generally unsustainable shell of a democracy from a long-term perspective. Furthermore, if the democratization process is considered a result of unwarranted foreign interfering, even well-meaning attempts of exogenous democratization will not prevent the moral deterioration of the subject of democratization. Since democracy is an acceptable solution only in cases where the populace itself desires it, the democratization process itself cannot possibly be an exogenous one and it certainly does not necessarily match the given cultural and historical circumstances of a given country. The absence of democracy is often construed as the reign of injustice, but that obviously is not true. Socioeconomic inequalities cannot be effaced by the introduction of democracy, let alone an imposed democracy. Is the rule of ignorant masses more acceptable than the

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<sup>8</sup> Executive, legislative, judicative.

<sup>9</sup> Which in itself is an immense oversimplification.

other forms of polity, an aristocracy as interpreted by Aristotle<sup>10</sup> for instance? Trias politica is obviously not the quintessential element in resolving specific issues of corporate governance, yet it is a crucial counterpart to the general notion of freedom which in the case of corporate governance manifests itself in the form of limited exogenous regulations and rules. In specific cases within the framework of corporate governance, an exogenous solution would not be objectionable if it could be established on an objective basis and proved beyond any possible doubt that the concrete measure or set of measures is truly necessary and beneficial to all the parties involved. However, it is vital to constantly contrast any such objective criteria with the shortfall of freedom their practical consequences entail.

## Conclusion

There are many aspects which need to be taken into account, yet this paper has shown that on a theoretical level, democratization per se is a concept the acceptability of which is relative in terms of the specific manifestations of this process, which is undeniable in the case of corporate governance and its various constituents. Although there are obviously many specificities to each constituent of corporate governance and the level of technicality may indeed affect the actual degree to which the conclusions and reflections presented herein are applicable, it is obvious that the basic principles and difficulties remain the same throughout the range of individual elements of corporate governance. Given the nature of the process of democratization, exogenous democratization can never be considered democratization per se, although on a theoretical level, *supervised* democratization may be an alternative worth exploring. Although endogenous democratization is preferable to exogenous democratization, it is not free of imperfection and certainly does not represent the single most suitable form of polity for every country, nor the most appropriate approach for every corporation and industry. In the specific case of bonuses paid in the financial sector, it would appear that an exogenous element is essential due to the severe lack of incentive on the part of individual corporations to adopt the measures deemed necessary by authoritative entities and supervisory and regulatory entities in terms of the amount paid and the conditions which govern these payments. The author does not generally condone exogenous regulatory intervention (exogenous democratization), but hereby wishes to point out that due to the widespread lack of moral fiber it would paradoxically appear that some forms of exogenous regulatory intervention are acceptable. The particular case of bonuses is a simple example of the need to override the unethical and immoral behavior of the concerned parties. The specifics of “who, how and why” constitute the paradox, for exogenous democratization (regulatory intervention in this particular case) is generally inadvisable, yet simultaneously necessary as a moral emendatory measure.

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<sup>10</sup> Aristotle distinguished between aristocracy and oligarchy depending on whether the rulers had general interest at heart or solely their own wellbeing.

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