

STRENGTHENING DEMOCRACY THROUGH GOVERNANCE IN AFRICA

By Daniel Malan

Global rankings in democracy and governance usually put African countries towards the bottom of the scale on both accounts, and are often used to explain Africa's lack of development, extreme poverty and inability to attract foreign investment.

In July 2009 President Barack Obama stated the following in an address to the Ghanaian parliament: 'Development depends on good governance. That is the ingredient which has been missing in far too many places, for far too long. That's the change that can unlock Africa's potential. And that is a responsibility that can only be met by Africans ... In the 21st century, capable, reliable, and transparent institutions are the key to success - strong parliaments; honest police forces; independent judges; an independent press; a vibrant private sector; a civil society. Those are the things that give life to democracy, because that is what matters in people's everyday lives'.

The link between democracy and governance has been explored before, but – sadly – lip service to both concepts seems to prevail over meaningful action. In his opening remarks at a conference almost twenty years ago, then Nigerian President Olusegun Obasanjo stated: 'Africans are now clamouring for greater responsiveness of their political leaderships, respect for human rights, accountability and a two-way channel of information between the people and their leadership. These related issues of governance can only be guaranteed under a pluralistic political framework'.

The 2008 Ibrahim Index of African Governance addresses many of the same ideals in its ranking of African states: 'All citizens of all countries desire to be governed well. That is what citizens want from the nation-states in which they live. Thus, nation-states in the modern world are responsible for the delivery of essential political goods to their inhabitants. That is their purpose, and has been their central legitimate justification since at least the seventeenth century. The essential political goods can be summarized and gathered under five categories: Safety and Security; Rule of Law, Transparency, and Corruption; Participation and Human Rights; Sustainable Economic Opportunity; and Human Development. Together, these five categories of political goods epitomize the performance of any government, at any level'.

The purpose of this article is not to investigate the state of democracy on the African continent. The desirability of a democratic system is taken as a given without delving into the complexities of different definitions, democratic models, etc. The primary objective is to investigate ways in which private corporations can make a contribution to strengthen democracy.

Democracy is an elusive and often abused concept. Abraham Lincoln defined democracy as a government of the people, by the people, for the people. One modern definition of democracy is that it is a 'form of government, where a constitution guarantees basic personal and political rights, fair and free elections, and independent courts of law'¹. The following key elements of democracy are described on a popular web site¹: a guarantee of basic human rights, separation of powers between government (executive power), parliament (legislative power) and courts of law (judicial power), freedom of

¹ www.democracy-building.info

opinion, religious liberty, equal right to vote (one person, one vote), and good governance (a focus on public interest and absence of corruption). It is interesting to see how these key elements are also reflected in the definition of corporate governance.

As is the case with democracy, there are many different definitions of corporate governance. One of the most useful and succinct definitions of corporate governance has been provided by the OECD: corporate governance is the way in which organizations are directed and controlled. A big problem with governance standards is that there is often an over-emphasis on the control aspects, in other words corporations go into compliance mode and simply look for boxes to tick in order to fulfill the letter, but not the spirit, of a particular governance standard. Once the performance aspect of governance is understood, compliance does not necessarily take a back seat, but takes up its rightful place as one – and not the only element – of a governance system. The focus on performance enables a more strategic understanding of governance, which then makes it far easier for the board to become supportive – or even excited – about its governance function. Any model of corporate governance that acknowledges the importance of ethical principles and responsibilities to stakeholders other than shareholders would support the idea of the three fundamental corporate governance values of honesty or openness, transparency and accountability.

These values are also in line with the basic definition of democracy. Openness is important in terms of freedom of opinion, the protection of human rights and religious liberty, transparency can be linked to the public interest and absence of corruption, whilst accountability relates to the separation of powers as well as the electoral system of one person, one vote. It is therefore not unreasonable to conclude that – as a minimum – the concepts of democracy and governance are interrelated and that – possibly – one could view them as mutually reinforcing.

The more obvious link between democracy and governance can be stated as follows: in a democracy there should be high levels of public sector governance, and this commitment to good governance should also filter through to the private sector, through regulation but also in the interaction between the public and private sectors. One of the most notable results should be low levels of corruption. It is to be expected that government regulation will have a direct impact on corporate behavior. If the legal and regulatory framework of a country supports international conventions on, for example, human rights and anti-corruption standards, there will automatically be higher corporate performance levels in these areas. By implication, it also becomes much easier for corporations in such countries to support voluntary codes such as the UN Global Compact, because compliance with many of the principles will be obligatory in any case.

It could therefore be argued that, if corporations improve their governance it will result in lower levels of business corruption in a particular country. Since corruption in the private sector is very often connected to public sector corruption (e.g. through the payment of bribes by the private sector to public sector procurement officials), an improvement on the private sector side will inevitably filter through to the public sector. This will improve perceptions about public sector corruption, lead to improved governance ratings and ultimately impact positively on perceptions about democracy through an emphasis on fairness and the public interest.

There are also indirect ways in which good governance will improve democratic processes. These relate firstly to an internal perspective which encourages the principles of democracy within corporations, and secondly an external perspective where the activities of corporations themselves can have a direct impact on democratic processes in a particular country.

Through their internal policies and activities corporations can demonstrate a commitment to governance and democracy. At a very basic level, voters can be compared with shareholders and the principle of “one share, one vote” will give an indication of the commitment to internal democracy. Do shareholders have the ability to participate fully in decision making processes, or are these processes steamrolled by unresponsive boards of directors or powerful and non-communicating chief executive officers, or both? One important difference is that the concept of “one share, one vote” is very different to “one person, one share”! In this regard voting power can be centralized in the hands of a few individuals, although minority shareholders should be protected. If minority shareholders are sidelined and voting processes undermined through the introduction of different classes of shares that create the impression of shareholder rights only, the corporation fails the test of fair treatment and its responsibility to act in the interest of all its shareholders. If senior management acts in an autocratic manner, the basic rights of shareholders and other stakeholders are also undermined.

Another analogy in terms of the democratic model is that one would like to see a clear separation of powers between the board and management. The private sector hierarchy of shareholders, board of directors and executive management is mirrored to some extent by the public sector system of voters, parliament and cabinet. One of the problems of democracy is short-termism, the inclination of elected officials to disregard the bigger picture in favour of the next election date. This problem also finds its way into the corporation, where executive managers and directors often focus only on the short term, predominantly because their remuneration is linked to the quarterly or annual results of the corporation.

The issue of how the corporation treats its workforce is also relevant here. Do workers have the right to organize, to elect representatives and to engage with management about issues that are important to them? Transparent and fair processes will demonstrate a commitment to democracy, and they have to take place within the context of recognition of all stakeholder interests and rights, including those of shareholders. The corporation cannot simply acknowledge any group as legitimate and with an equal right to be engaged – there has to be a clear process of stakeholder analysis and stakeholder engagement. This process can be compared to the democratic processes of determining legitimate and reasonable requirements for being placed on the voters’ roll (e.g. age and citizenship).

Secondly, the more sensitive question should be asked: does the corporation have a moral responsibility to intervene in political processes to further democracy, or should it remove itself as far as possible from the political process? Corporations respond in different ways to this question, mostly by making a bland statement that they do not get involved in the political process, but merely monitor and engage on certain issues (e.g. regulation and taxation) where they feel that there is a direct impact on the ability of the corporation to operate in a particular environment. However, it is very clear that many corporations – especially large multinational corporations operating in developing countries – often go very far beyond this restrained method of engagement. In some cases corporations assume governmental functions, e.g. through the provision of basic infrastructure, medical and educational services, and sometimes they even make use of military assistance from governments to be able to operate.

In a world that increasingly focuses on a broader range of stakeholders instead of only shareholders, a more democratic approach to the corporation will be advantageous – not only to the corporation itself – but also to the broader society. Internally, a democratic approach will lead to satisfied and more loyal employees, shareholders and other stakeholders, and externally this will make a contribution to more democratic societies by minimizing corruption in the public sector and putting pressure on

governments to treat its citizens with respect and fairness. To make sense of all of this, corporations need to understand how the concepts and the values that underpin them support each other, and how they relate to existing international standards such as the UN Global Compact and the Global Reporting Initiative. The model displayed below might be useful:

Governance values	Elements of democracy	UN Global Compact Framework	Global Reporting Initiative Framework
Openness / honesty	Freedom of opinion Religious liberty Basic human rights	Focus on all aspects of corporate citizenship, including human rights, environment and labour	Honest assessment and reporting of performance
Transparency	Serving the public interest Absence of corruption	Regular Communications on Progress Focus on anti-corruption	Making available relevant information, including positive and negative data
Accountability	Acknowledgement of stakeholders (voters, shareholders) Fair treatment (one person, one vote; one share, one vote)	CEO has to publicly commit support for the Global Compact	Reporting on relevant governance structures, policies and procedures

Just as citizens desire to be governed well, corporations desire to operate in well-governed countries. With the exception of those unscrupulous corporations that benefit from corruption, bribery, fraud and other forms of misconduct, the majority of corporations benefit from democracy where fairness, transparency and basic rights are respected. By demonstrating support for good governance, corporations can make both direct and indirect contributions to democracy, and once involved in such a virtuous cycle, can once again benefit from the positive climate they co-create with governments and other stakeholders.

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ⁱ <http://www.democracy-building.info/definition-democracy.html>, accessed 1 July 2009.