Business and Politics Should Never Mix - Or Should They?

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When companies have a responsibility to speak out on politics.

Earlier this year, Christian Sewing, CEO of Deutsche Bank, chose the bank’s annual reception in Berlin to speak out about the threat right-wing extremism poses for the bank’s investors. Sewing is not a lone voice on this. Numerous companies and their CEOs have recently stepped forward to raise their concerns about growing right-wing extremism coordinated by the activities of the Alternative for Germany (AfD) party. They see the negative impacts that AfD’s proposed policies, relating to migration, the European Union and man-made climate change, could have for the German economy.

The bigger question may not be whether right-wing politics really is bad for business, but rather if Deutsche Bank and other firms should be getting involved in politics at all.

A moral responsibility?
There is an increasing expectation that firms and their CEOs should have a positive impact on society. The 2024 Edelman Trust Barometer, based on 32,000 respondents in 28 countries, indicates that 62 percent of people expect CEOs to manage changes occurring in society, not just changes in their business. Companies and their leaders are increasingly called upon to reflect on their role as a socio-political actor and consider making this an integral part of corporate policy.

The rise of right-wing extremism in Germany and elsewhere might present a case where companies as corporate citizens (or corporate citoyens) have a responsibility to protect the free and open society.

One might argue that business leaders, even in a functionally differentiated society, are not solely committed to their professional role, just as bureaucrats are not merely the recipients and processors of instructions. In Germany and elsewhere, every bureaucrat, every manager, every entrepreneur is also – or above all – a citizen of a “republican state”, where political participation, public accountability and commitment to the rule of law are paramount.

As such, they can be expected to get involved. To paraphrase the eminent sociologist Ralf Dahrendorf: Citizens must open their mouths and speak out, aware of the great privilege of living in a democracy. A democracy needs vigilant citizens who are on their guard and prepared to make their voices heard when a crisis in liberal democracy becomes apparent. It is not possible without vigilant democrats.

**Addressing economic realities**

But aside from any moral question, there is also a simpler economic reality. One of the central achievements of Germany after the Second World War has been the creation of the social market economy. This particular form of capitalism requires a democratic constitution, with respective rights for its citizens and a pluralistic setting. The liberal democracy and the social market economy are interdependent. If one of these pillars is in danger, the other will also falter.
The potential consequences of populists and extremists assuming power can be observed in Hungary and Poland. Here, governments have completely altered the rules of the game, with the specific aim of weakening checks and balances to remain in power. These structural changes generate long-term political risks – and companies cannot be interested in such uncertainty.

While German business leaders do sometimes refer to these long-term political and economic risks, their immediate fear is that right-wing extremists will poison the image of Germany as an attractive place to work. The German Economic Institute recently calculated that the country is already short of more than 500,000 skilled workers – an issue that looks set to persist given the country’s unfavourable demographic trends.

**When to act**

The situation in Germany is certainly not the first instance of companies publicly taking a side in political debate. The Russian invasion of Ukraine led many firms to take a stand. But there are also plenty of firms who continue to operate in countries with autocratic leaders and a devastating human rights situation.

So, when should firms decide to make public comments on political issues? Even if every single, uncontradicted, inhumane statement from a right-wing extremist is one too many, managers cannot (and perhaps should not) constantly interfere in day-to-day politics. It would overwhelm them and their voices, lost in the general cacophony, would become less impactful.

Returning to the situation in Germany, some felt that business circles remained strangely quiet for too long. Companies only really spoke up following reports in January 2024 of a big gathering of right-wing extremists that was attended by AfD and conservative politicians, as well as some businesspeople. The meeting included discussion of plans for the mass deportation of citizens of foreign origin, sparking widespread public protests against right-wing policies.

What has prompted the sudden commitment of many business leaders to combat right-wing extremism? Is this just a realisation that recent events
marked the crossing of a line and now is the time to protect liberal
democracy and vital business interests? Or, more cynically, is it simply that
the groundswell of public opinion has led companies to decide that public
statements are a good PR move that will resonate well with their
stakeholders?

Considering when and how to act in relation to a specific social or political
issue needs proper consideration. As discussed in earlier work, examining
the challenges the issue poses to corporate values and economic
performance can allow a firm to take a more strategic approach to this
difficult decision.

If the issue is in strong opposition to the company’s values, there is likely a
need to take a powerful and principled vocal stand (e.g. Microsoft speaking
out against the immigration policies of the Trump administration). If it is
having a negative impact on the bottom line, then it might make sense to
adopt a more pragmatic attitude as a basis for speaking up to protect
company interests (e.g. Ryanair speaking out against Brexit). If neither,
then perhaps this is not a fight that the company should be getting involved
with.

In Germany today, we would argue that the time has surely come for
companies like Deutsche Bank, which can wield great influence, to directly
confront extremists publicly and through their networks.

Political perils

However, there is a strong counterargument to all the above. Some feel that
it’s simply not legitimate (and may even be dangerous) for companies to
engage on social and political issues. CEOs have not been democratically
elected to lead society and are primarily accountable to their board of
directors and shareholders.

Companies, like politicians, can (and do) take positions that could be deemed
as questionable: from supporting the death penalty to advocating against
abortion and same-sex relationships or denying man-made climate change.
What's more, taking strong political positions can also have negative economic impacts for companies. Publicly campaigning against extremists and populists can backfire, especially if those individuals attain positions of power – just ask any Russian businessperson who tried to oppose Vladimir Putin.

We’ve also seen that populists in Hungary, Poland and the United States were quick to take revenge on their political opponents by indulging in blatant clientelism when they came to power. Politically like-minded companies were rewarded with contracts, while opponents were hindered by, among other things, one-sided regulations. How loudly will US companies protest controversial Republican policies on trade, foreign policy, immigration and the environment, for example, knowing that Trump has a good chance of regaining the White House this year?

On a more basic level, while taking a stand might be welcomed by some consumers, there is also the potential to alienate others. In the same vein, it might lead to issues among employees. Although reinforcing a commitment to certain values can help strengthen staff loyalty to the firm, and even attract potential new employees, it can also have the opposite effect. This happened at Volvo Poland when it was involved in promoting pro-LGBTQ+ values in the factory, leading to serious and divisive disagreements amongst the workforce.

Some economists claim that, in an ideal world, firms should be free to focus on the business of business and stay out of the political sphere. However, in a world of dramatic geopolitical changes, where the climate crisis, social inequality and economic migration are all set to have a major impact on both business and society, this would seem to no longer be an option.

With 49 percent of the global population in 64 countries going to the ballot box this year, politics is going to be hard to avoid. Knowing when to take a stand and when to stay silent will be an essential skill for CEOs and businesses around the world.

Find article at
https://knowledge.insead.edu/leadership-organisations/business-and-politics-should-
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