

The cooperative relationship between business and government

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Introduction

Governments and political policies are important influences on businesses worldwide, impacting on the competitive context in which business strategies are implemented. Over the last couple of decades, economic reforms leading to privatization and liberalization have further increased this influence.

There are various reasons for this. Donaldson & Preston (1995) have pointed out how as the impact of business on societies grows, companies experience varying and increasing demands from diverse stakeholders. Politics is the stage on which these diverse stakeholder demands are ultimately met with. Competitive success thus requires active participation from both businesses and governments.

Further as Tushman & Anderson (1997) show, modernization and strategic dependence on new technologies has become central to competition in many industries. These new technologies create regulatory challenges which again require political responses that can affect the viability and profitability of the business.

Governments thus influence the ability of businesses to improve profits and therefore the ability to exert political influence in technologically dynamic sectors becomes an important capability. Again, globalization has greatly improved the chances of conducting business internationally, allowing companies to widen their portfolios and enter into global markets. The significance of governmental policy therefore again assumes great

significance in matters of export import regulations, duties etc. (Ohmae, 1999).

In the current scenario then, what exactly is the nature of relationship between governments and businesses? Though the balance has tilted towards the private sector and private enterprise by and large, the state still holds considerable powers over business activities. Doris Fuchs talks about the different aspects of power that businesses hold in the global economy,

“ Claims of a lack of business influence on politics or severe limits to such an influence should be met with skepticism. At the same time however, analysis has demonstrated that undifferentiated claims of a global political rule of corporations.... do not capture the complexities of current developments in the political role of business” (Fuchs, 2005: 27)

My contention is that this relationship between governments and business is more of a cooperative nature than a competitive one.

How Governments and Businesses Work Together

Development of any economy depends on the growth in income, employment and opportunity. These are a direct outcome of investments made, technologies used and markets created. In all these, it is important to look at the roles that the state and the private players play. Governments foster an investment climate that encourages capital flows, incentivise production, builds capacities and enables markets to develop. Cooperation between private business and the government paves way for the efficient

markets to develop where demand is created and supply increased to maintain equilibrium.

Several examples of such collaborative ventures can be seen especially in large infrastructure developments see across the world. The first example of such a collaboration was seen at the twentieth century when in the US an entire railroad industry developed. Sutton (1966) showed how governments enabled private investors to lay rail lines across the American countryside. Land was given to the developers who then invested their moneys and efforts to create what is indeed the backbone of rapid industrialisation in the United States of America.

China and Chile

In contemporary industrial growth, such examples of government and business cooperation can be seen in a large number of developing and emerging markets. The Chinese resurgence is a striking example of such cooperation. State owned banks provide capital to industry, which in turn builds capacity, employs labour and therefore provides goods and services to the entire world. (Lovelock and Ure, 2002).

In most of Latin America, private business has been invited to participate in BOT and BOLT strategies. (Build Operate Transfer and Build Operate Lease Transfer). In this arrangement private business is invited to build large infrastructure with state guarantees on returns on investment. User fee is then levied by the private operator, enforced by the state, to recover moneys put in. Once the contracted period expires, private parties then

transfer operation and maintenance back to the government that then continues to provide utilities to its citizens. ...

Privatization was resorted to by several protected economies to move from a state regulated economy to a market oriented approach. In Chile, liberalization started in 1974 and this paved the way for further collaboration between business and government. The state invited private parties to run the customs department, work towards pollution control and help the judicial system perform its functions efficiently.

According to Ronald Fischer, Rodrigo Gutierrez, Pablo Serra (2003) in the first phase of the Chilean privatization process, firms were restored to their original owners. The government also sold, liquidated, closed and privatized state owned firms. In the second phase, the state privatized the telecom and electric firms as well as most of the firms previously considered strategic.

The distinguishing feature of this period, however, is the privatization of infrastructure management. From 1993 onwards, the main highways, expressways and airports have been built, maintained and operated by private investors. The main state-owned ports were also franchised to private firms." Larraín and Vergara (1995) have shown how the Chilean liberalization program would not have been successful in the absence of a privatization process.

Information Communications Technology

Increasingly, deployment of ICT for delivering government services is being utilised for improving efficiency, lessening delays and corruption, and

increase transparency. Another important way in which governments help private business flourish is by way of tackling transactions costs. Hernando de Soto's (1989) work in this area has clearly identified how the lowering of transaction costs help build businesses and transform competitive market structures. Transaction costs have been reduced in recent times by governments using more ICT and e-governance in providing public services. You may also be interested in reading Business and Society Relationship

Experimentation is costly and this is subsidised or paid for by the government to enable solutions to emerge. E-procurement in countries such as Bulgaria, Chile and Philippines, online registration of businesses in Jamaica and China, and port management in Tunisia, Mauritius and Dubai are all evidence towards the fact that governments facilitate private business through the use of information technology. The state here provides a climate that fosters innovation. (Bhatnagar, 2003).

In several sectors such as mining, private firms are engaged in exploration and mining and the state then functions as a monopsony, buying up whatever is produced and then distributing this produce across the country. In economies that have shed protectionism and moved towards liberalization, state controls have been eased to a great extent. This then needs to be substituted with fair regulatory practices. Regulators need to be professional and apolitical. Government business collaboration is seen in the building of such regulatory regimes where industry standards emerge from industry and then find their place in the statute book.

It has also been argued that governments favour private business through restricting imports. Tightening imports comes through raising tariff barriers and allowing domestic business some relaxation by way of lower competition. Also, import restrictions result in import quotas and this can also benefit corporate management. Krueger (1974), argues that as quotas are often distributed on the basis of firm size, managers would excessively expand their corporations in order to secure more import quota, from which they also enjoy more private benefits from the visibility of running large companies.

Private Public Partnerships

Private public partnerships have also been widely used to tackle rising pollution levels and the need for tighter environment protection. The first wave of environment protection saw governments work with a slew of stringent laws and regulations. Then came the non governmental organisations that lobbied against polluters. NGOs, government and civil society work as levers for promoting a greening of industry.

Lehmann (2006) uses the Danish example of the Green Network, to demonstrate how new forms of co-operation between public authorities and private companies are arrived at. The conclusion is that through dialogue, reflexivity and the establishment of an enabling environment, public-private partnerships can become useful vehicles in societies' move towards the use of environmentally sustainable technologies.

While comparing the Chinese reform process with the Russian, Schneider argues that in Russia, the reform process did not aim at structural

adjustments. This resulted in poor performance of markets. Unlike in China where institutional reform resulted in a well knit collaboration between the state and industrial rural hubs that led to the development of fast growing integrated markets.

The social sector also sees a large opportunity for the collaboration between governments and private players. In countries such as India, private players have been encouraged by the government to set up schools, colleges and hospitals. The government gives the land, provides subsidised power and builds roads.

Conclusion

In a market based economy, effective coordination between governments and businesses ensures an optimal allocation of resources, avoids monopolistic power and acts as checks against excessive intervention by the government. Exchange of information, and its free access, allows for great transparency and the building of trust between governments and private industry. Also where government policy is concerned, it must be arrived at with active debate and consensus among both the government and the private business.

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