

FACULTY OF JURIDICAL SCIENCES

Lecture-26



GOVERNMENT AND BUSINESS INTERFACE

Since businesses are strongly affected by public policies, it is in their best interest to stay informed about public policies and to try to influence governmental decision making and public policy. There are different general ways that businesses view and act on their relationship with government. One perspective is for businesses to consider business and government on “two sides” and in opposition to each other. Some have argued that this was the prevailing dominant mainstream business view in the aftermath of the Great Recession at the end of the first decade of the twenty-first century. It has been characterized as the “antiregulatory” or “limited government” view, and it has been associated with those who believe that free markets with a minimal government role is best for the workings of the economy. This perspective most often focuses businesses’ interactions with government on efforts to minimize government and reduce the costs and burdens on private business and the general economy associated with government taxes, regulations, and policies.

Another business perspective on government is that government should favor businesses and incentivize business performance and investment because businesses are the main source of jobs, innovation, and societal economic well-being, and therefore government should support businesses with grants, tax credits, and subsidies.

A third general view of businesses and government relations is with business in partnership with government in addressing societal matters. This is in contrast to government being the regulator to ensure businesses act in a socially responsible manner.

These views are not mutually exclusive. For example, the same solar business can use some of its interaction with government to try to maximize the benefits, such as favorable tax credits, it receives from government and at the same time work in partnership with government to achieve a social purpose, such as reducing carbon emissions, and then try to minimize its tax obligations. It is also important, as described by Pacific Gas and Electric (PG&E) CEO Peter Darbee previously, that the focus of business and government relationships should be on the type of

policies required in response to societal challenges rather than an ideological response about the proper role of government in a free market economy.

Sustainable businesses, such as the companies presented in the case study chapters in this textbook—such as Stony field Yogurt, Oakhurst Dairy, and Green Mountain Coffee—tend to focus on their responsibility to the environment and societal impact and also tend to recognize that government policies and programs are often necessary to help them achieve their objectives and therefore are inclined to try to work with and even partner with government to achieve desired ends. It is always important for sustainable businesses to understand how their efforts to achieve profits and to serve a social purpose are both strongly influenced by government policies, and it is always important for sustainable businesses to manage their relationships with government (local, state, national, and international) effectively.

Types of Business Responses

Once a business has an understanding of how government affects their operations and profitability, it can formulate strategies for how best to interact with government. There are three general types of business responses to the public policy environment—reactive, interactive, and proactive.

Reactive responses involve responding to government policy after it happens. An interactive response involves engaging with government policymakers and actors (including the media) to try to influence public policy to serve the interests of the business. A proactive response approach entails acting to influence policies, anticipating changes in public policy, and trying to enhance competitive positioning by correctly anticipating changes in policy. For most businesses, a combination of the interactive and proactive approaches is the best approach.

In meeting challenges from nongovernmental organizations (NGOs) and the media, businesses may respond in a variety of ways, including the following:

- **Confrontation.** It may aggressively attack either the message or the messenger, and in extreme cases, business has felt justified to sue its critics for libel.
- **Participation.** Business may develop coalitions or partnerships with NGOs, as McDonald's did with the Environmental Defense Fund (EDF; see the following discussion) or as Home Depot did with the Rainforest Alliance (see the following sidebar).
- **Anticipation.** Business may adopt issues management programs to forecast emerging issues and to adjust or change business practices in advance of the passage of stringent laws or regulations.

When business is in a *reactive* response mode, it most often engages in confrontation of its adversaries. When it assumes an *interactive* response mode, it participates in dialogues with NGOs and the media and develops partnerships or coalitions to advance new policies and programs. When business behaves in a *proactive* manner, it anticipates future pressures and policy changes and adjusts its own internal corporate policies and practices before it is forced to do so. While a reactive stance may sometimes work, it often only delays needing to engage in a more interactive or proactive way. An interactive or proactive approach is usually a better way to meet political and societal challenges while also protecting the reputation of the firm.

- There are three general categories of business responses to the public policy environment—reactive, interactive, and proactive.
- Business efforts to influence public policy and government include not only individual company efforts but also business association efforts.
- For most businesses, some combination of the interactive and proactive approaches with government and other interest groups is most often the best approach.
- Businesses, individually and collectively; citizen interest groups; and NGOs all have influence on government policies. These entities often partner to influence public policy.
- Business practices can be strongly influenced not only by government but by direct citizen and NGO actions that bypass the formal institutions of government. Especially since the 1990s, business has been increasingly influenced by direct citizen activism.

- The media has a strong interest in giving visibility to issues and setting the policy agenda. Businesses must view the media as an important influencing agent affecting their operating environment and must be effective in its relations with the media.
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