Getting Together: How Government and Business can Link up for Growth

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Globalisation - with all its well known consequences - is a fact of life. There are no niches left anywhere in the world, and wherever one goes there are heated discussions between government and business about how to restructure any country's social and economic fabric in order not only to survive but to thrive. In this article Brown, Cisneros, Eagar, Gerhard, and Vanneste explore the ways business and governments can work together and the tools at their disposal. Done properly, it can leave both sides coming out winners.

The relationship between government and business has often been an uneasy one. Governments and the public sector are seen as regulators, policemen and sometimes as interferers with the free conduct of business activity. Their understanding of timescales and deadlines is seen as unrealistic and their processes as inefficient and bureaucratic. Much of the criticism may not always be true, but it has long coloured the perceptions of business and its willingness to co-operate with government. As Richard Turner, a Rolls-Royce board member and former chairman of British Trade International's business advisory panel, put it: "Business and government, a duo united in mutual distrust but common purpose."

It is hard to imagine that the relationship between business and government is ever going to be plain sailing. But there are increasing signs in many economies around the developed world that the old adversarialism is becoming a thing of the past. The reasons for this are largely down to the relentless forces of globalisation and the increasing complexity this introduces:

- Increasingly open markets in the rapidly developing economies of the Eastern and Southern hemispheres are leading to greater dependence on geo-political partnerships and trade blocs. Businesses have to work in concert with government to stay in the game;

- Globalisation of supply chains and low-cost overseas competition mean that knowledge and innovation are now the only real sources of comparative advantage for businesses in developed economies. Businesses need governments' help in creating the structures and networks to support the "knowledge economy", and keep ahead as emerging economies rapidly develop their own skills and capabilities.

These developments open the way to a maturing and, compared to the past, a more intelligent working relationship between government and business. There are several different roles that government can play: partner, facilitator, regulator and driver for change. There are many examples of success in each role. But there are also still many issues that continue to cause problems in the business/government relationship, especially organisational fragmentation, regulatory complexity, inefficiency, policy inconsistency and mutual understanding. Concerted effort is still needed on both sides if the relationship is to bear fruit.

There are no one-size-fits-all solutions. Business and government must over and over discuss and define the problems.

What Government can Do for Business

1. Be a Partner

In an economy such as the UK, the idea of "public-private partnerships" has become almost a cliché. Motivated in part by the desire to leverage public money with private investments in major schemes, governments have set up high-profile business deals with companies and groups of companies, formed new legal vehicles for these ventures and welcomed private-sector participation into areas of national life that would previously have been considered solidly within the public sector, such as the London Underground system, the running of national laboratories and standard services, and the management of defence facilities as sensitive as Britain's Atomic Weapons Establishment. Provided that stakeholders' concerns are recognised, expectations realistic and timescales long enough to allow a decent return on investment, there can be considerable merit in this approach.

2. Be a Facilitator

A high degree of government control has helped some economies in the past, but even in these cases the trend is for less central control in the future. With the realisation that central government direction is neither well conceived nor economically successful in most cases, governments across the advanced economies have developed an interest in voluntary agreements and voluntary co-operation between companies. The interest of very many countries and regions in cluster development is an example: the public sector has a role in facilitating and brokering the development of clusters and in providing networking

Venezuela: Business and Government in partnership

The Venezuelan National Commission for Investment Promotion (CONAPRI) is a good example of business-government partnership. Founded in 1990, CONAPRI is a not-for-profit organisation where the public and private sectors concur to promote investments in the country. Its board of directors is formed by CEOs of national and international corporations. Funds come 6 percent from the government, 44 percent from the business sector and 50 percent through joint ventures with international organisations and institutions. CONAPRI's members represent 40 national and international companies, interacting with state institutions such as the Ministries of Production and Commerce, Agriculture, Tourism, Energy and External Affairs. Over the last 13 years CONAPRI has proved effective in times of economic boom when it has developed services for investors and promoted both the country and specific sectors within it; and it has proved successful in a critical economic and political environment, providing support to government, helping to understand how sector competitors can be sustained and providing both technical support and public advocacy. With a similar scheme, the country also counts with Venezuela Competitiva, a public/private partnering commission to promote competitiveness amongst small and medium enterprises.

assistance and support typically through cluster-based organisations operating at regional level. This is designed to encourage cross-fertilisation between members and co-operation in the interests both of raising the profile of the host region and of nurturing smaller enterprises within a supportive environment.

Nationally, the Netherlands' compacts in key industry sectors such as chemicals provide an example of a form of co-operation by which policy objectives can be promoted without the need for the heavy hand of regulation - in agreed programmes of environmental improvement, for example. In the UK the Department of Trade & Industry's Sector Partnership Programme, developed on the basis of an Arthur D. Little study, aims to support and assist initiatives coming up from sectors themselves, typically through their trade associations, to promote the export performance and global competitiveness of firms within each sector. Support from government is both real and valuable, but is available to a sufficiently wide range of firms to avoid criticisms, in Europe, on the grounds of unfair state assistance.

3. Be a Regulator

One of the most effective ways in which government can engage with the business community is by its role as a regulator, legislator and setter of standards. At best these can be powerful drivers for innovation, leading to substantial environmental improvements and an acceleration in the successful generation and introduction of new products. Regulation that is first perceived as a cost can be seen as a distinct business advantage. The environmental technology area illustrates this well, with a wide recognition that rigorous environmental regulation in Germany has helped to build up a strong indigenous environmental technologies industry, while countries that are more lax in the design and implementation of the regulation lack the incentive for such a sector to develop.

The high standard of environmental technology in Germany shows that government's interference can lead to new technology.

On the other hand, poorly formulated regulation can be a hindrance to development, sometimes because it gives too little time for industry to adapt and so leads to sub-optimal fixes being adopted, sometimes because it imposes unnecessary and burdensome costs, and other times because it is too technologically prescriptive. In European countries the high cost of patenting compared to the United States is an often-quoted example. Arthur D. Little's work in Belgium together with the Federation of Enterprises, surveying the satisfaction of managers with the boundary conditions that influence the innovation capacity of their companies, illustrates the point in a salutary way. Tax matters, burdensome legal obligations related to permits and the stability and continuity of boundary conditions over time all inhibit the innovative potential of Belgian companies and discourage further investment in innovation activity within the country.
Sometimes a good thing to do is to sweep away a lot of regulation. For instance, in 1991 India relaxed regulation in the automotive industry, allowing greater competition and access to the Indian market for foreign firms. By 2000, employment had risen 11 percent and productivity over 250 percent[1].

4. Be a Driver of Change

Government is often a force for conservatism, sometimes disguised by the specious excuse of needing to allow extensive time for consultation. But government can also be a driver of positive and beneficial change. Pump-priming promising new industry sectors, such as biotechnolo-

[1] Anthony Paul, Fortune, 19 April 2002

gy, or research areas that could lead to wide applications in the future, such as nanotechnology, is an area where government can play a crucial role.

Despite the common criticism of governments there are quite a few examples where governments actually were the drivers of changes.

We can illustrate this by looking at a specific area where government in many countries has acted as a driver of change - fostering a much greater economic and business awareness on the part of the public science, technology and knowledge base. University-industry relationships are a case in point, with countries such as the UK stressing that universities have a “third mission” alongside research and teaching: that is, to provide outreach to business in the community and to ensure that their knowledge and research findings are exploited for the benefit of the economy and society - perhaps through licensing, via spin-out company creation or through working more closely with industry. The cultural change involved here should not be underestimated, but in the countries which have moved furthest it is well under way. In other countries universities are seen as having a much more “pure” role as researchers and teachers, while “intermediate institutes”, such as those of Germany’s Fraunhofer Society, playing a bridging role between the university sector and the business community. Both models have their pros and cons: indeed, in some cases, such as Finland, both models operate in parallel with some success.

Making it Work

What can government and business do to help improve the already-improving relationship? Of course, there’s no universal solution because different approaches are appropriate in different cultures and business climates, but there are several common issues:

1. Dealing with fragmentation

One of the most common complaints from business about government is its organisational complexity. Governments tend to be organised along functional or competence-based lines: for example, a business wanting to export to a new overseas country may find it needs to go to four or five different parts of government for support on trade tariffs, overseas missions, market intelligence and training. The idea of a "one-stop-shop" and "joined-up government" has been around for some time, but all too often what this means in practice is setting up a thin, customer-facing "front-office" veneer, but leaving everything else in the "back office" staying just the way it was before - including the turf wars, poor communication, inconsistent policies and duplication of effort.

Governments try hard to become more service-oriented but still have a long way to go.

But before we write governments off for being simply incompetent, it is worth remembering that they have a very different set of needs to meet from those of their business partners. Organising along purely customer-facing lines is not too difficult when you have a certain range of services to deliver and a fairly homogeneous customer population. However, government departments typically have to cover a broad range of needs with widely varying customers depending on how you want to "cut the cake" - be it locally, regionally, nationally, sectorally or otherwise - and at the same time are subject, quite understandably, to levels of rigorous public accountability that often run exactly countercurrent to notions of flexibility, responsiveness and creativity.

Despite this there is still much that can be achieved by government in dealing with fragmentation. For example:

- Supporting customer-facing "one-stop-shops" with genuine back-office organisational restructuring and simplification;
- Creating strong inter-departmental processes, supported by robust networks and partnerships, with real incentives and benefits for participation;
- Training civil servants better in the key skills of facilitation, influencing and brokering;
- Communicating clearly with stakeholders about who does what.

Business too has a role to play. There is seldom a clear and articulate consensus voice on behalf of business in dealing with government, certainly at a national and sometimes even at a sectoral level. In the UK, for example, there are some 4,000 trade associations representing British industry. As globalisation proceeds apace, it is essential that business sets aside parochial interests and old suspicions if it is to make the most of what linkage with the government can offer.

Integration in action: Houses of the Economy

A good illustration of an integrated approach to industry is the introduction of so-called "Houses of the Economy". The idea is to create these Houses of the Economy in a couple of locations combining services of different ministries and government agencies for starting and establishing small and medium size enterprises (employment, export promotion, economic subsidies, or management advice). Front-office and first-line advice are combined and direct interfaces with other agencies, ministries and governments are established. The "Houses" equally assume account management responsibility towards their client companies.

2. Controlling regulatory complexity

Inappropriate and overly complex regulation is often a significant barrier towards business growth, adding cost, stifling innovation and reducing flexibility. Government and busines must come to terms with it.

Business complaining about the burden of over-regulation by government is an almost universal phenomenon, part of the everyday cut and thrust of the business-government relationship. In many ways the tension acts as an effective balancing mechanism. Businesses are quick to complain about too much interference, yet most regulations are introduced because of abuses of one sort or another, or because of the need for collective effort which could otherwise be buried under individual self-interest. Safety and environmental regulation is a good example, and there is ample evidence to suggest that compulsion is needed in order for business to react.

Having said this, inappropriate and overly complex regulation is often a significant barrier towards business growth, adding cost, stifling innovation and reducing flexibility. Whilst no government sets out to produce this effect, it can happen inadvertently for a number of reasons:

- Lack of recognition of the cumulative effect of perhaps individually minor regulatory increments;
- Lack of adequate regulatory impact assessments;
- Over-prescription in order to avoid ambiguity;
- Unrealistic implementation scales;
- Insistence on national or local variants for international regulations;
- Difficulty in seeing the bigger picture.

Governments are often keen to trumpet their new programmes to simplify regulation and red tape. Well publicised examples in several countries include the telecoms, public transport and power utilities industries. However, there is still much that can be done to control regulatory complexity better for the benefit of business growth and innovation. For example:

- Focusing more on objective-based regulation with longer implementation deadlines;
- Avoiding regulation that is technology-limiting or technology-specific;
- Improving impact assessment to cover more effectively indirect side-effects and inherent conflicts;
- Introducing periodic obligatory reviews to evaluate cumulative effects over time;
- Continuing to push for international harmonisation, not just of the regulations themselves but also the means by which compliance is demonstrated.

Business, for its part, can also greatly assist by proactive and constructive engagement with policy-makers, rather than simply lobbying or reacting to regulations once they are announced.

Effective regulation: vehicle emissions in Europe

The ACEA voluntary agreement is a Europe-wide commitment to a new car fleet average CO2 emission target of 140g/km by 2008, which represents a 25 percent reduction from 1995. The commitment is a collective undertaking by ACEA, supported by all of its car manufacturing companies (BMW, Daimler Chrysler, Fiat, Ford, GM, Porsche, PSA Peugeot Citroën, Renault, Volkswagen). It is a widely held view that the agreement is having a mainly positive impact on innovation in engine and vehicle design through focus on objectives, industry involvement and a long implementation timeframe. First discussions were held in 1997-98, with the first target deadline not until 2008.

3. Adopting market-based practices

Introducing private-sector market-based principles into core governmental organisations is quite a difficult task and is potentially a lot more challenging.

The drive to introduce private-sector market-based principles into government has been underway in many countries for some considerable time. From the initial large-scale privatisations of the late 1980s and early 1990s to the numerous hybrid public-private vehicles of more recent years (such as public-private partnerships, private finance initiatives and government-owned-contractor-operated schemes), there have been many successes, as well as one or two very high-profile failures. Partial or full privatisation of largely stand-alone agencies, authorities or other public-service providers is one thing, but introducing private-sector market-based principles into core governmental organisations is quite another and is potentially a lot more challenging. There have been some successes with, for example, customer-facing parts of government, where outsourcing and shared services concepts have led to improvements in service delivery and cost effectiveness.

However, there is still a shared view in most countries that much remains to be done to combat government inefficiency. The lack of progress in this area remains a major obstacle to better business-government linkage, undermining government's credibility and frustrating businesses whose timescales are often measured in hours and days, not weeks, months and years.

Governments must understand that their bureaucracies are in global competition.

One of the fundamental problems for governments in improving efficiency is that they are not yet fully aware that, within the context of the global market, they are actually in competition. Whilst it may be possible to benchmark particular services or units with the private sector, it is much more difficult to benchmark the overall framework, strategy, organisation and resourcing of a typical government department because there are usually too many contextual and historical factors that make it unique. So, whilst individual pieces of a department may proclaim major efficiency improvements, the overall picture may be quite the reverse - except that usually no one, except perhaps a politician, can really be sure what the right size and cost base of a department should be. Globalisation is therefore beneficial in this sense - if business starts to relocate to other countries as a result of poor government performance, or if inward investment starts to dry up, then the driver for greater efficiency is real, not just an artificial target set by a civil servant or politician.

There are also common pitfalls associated with the introduction of an artificial "market" into a complex framework of government departments involved in the provision of an overall service. If this is done without any fundamental process improvement, it can result in an additional layer of contractual bureaucracy, a plethora of needless service-level agreements and an overall worsening of performance.

There is of course no easy answer, but there is certainly scope for governments to make further advances in efficiency through greater adoption of market-based principles. For example:

- Greater use of "smart benchmarking" on processes, resources and organisation across governments. For example, it is bizarre that in the United States it takes four days to start a business and in Australia two days, while it takes 45 days in Germany, 53 in France, 56 in Belgium and an astonishing 115 in Spain[2];

[2] Source: World Bank, 2003.

- Better strategy formulation, allowing for greater prioritisation and focus in government intervention - focusing on those parts of business which have the most potential for gaining benefit, and which are most suitable for intervention by government;

- Greater adoption of user-charging as a regulatory mechanism in areas where social and political considerations permit this (see box below);

- More restrained use of governmental targets. Whilst at first targets were helpful in focusing efforts, in some countries they have tended to proliferate to the degree that the associated administrative effort greatly outweighs any benefit;

- A tougher approach to human resource management that better measures and recognises individual high performance and takes action to improve individual poor performance.

To fee or not to fee: efficiency through service charges

Charging a fee for services has proven on many occasions to be a good "regulator" of government-industry services, to reduce excess demand and improve public services through the use of market signals. In one example in Belgium, companies seeking licences started to consistently request two at a time in order to avoid a three-month waiting time for licence renewal. This additional workload caused increased errors, led to even longer waiting times and caused even more dissatisfaction among industry. The introduction of a flat fee for the licence proved to be the trigger to break this downward cycle. The fee first generated justified criticism from industry about the quality of service, after which government was pushed to improve the service (and helped to do so by the extra resources from licence fees). The number of licence requests significantly dropped, enabling better service delivery and finally lowering of the licence fee.

4. Achieving better consistency and predictability in policy

Most civil servants would give their eye-teeth for more predictable and longer-term policies, and many spend their careers valiantly trying to steer a steady course in spite of all the unwelcome interventions from their volatile political masters. Of course, in reality this is very difficult, given the typical five or six-year time horizons of a government between elections. Nevertheless, there is some evidence that, in the sphere of business at least, in some parts of the world such as Europe and the US there has been a gradual convergence of policy direction, both across different political spectra and between different national governments. This has started to reap benefits for business in linking with government for growth.

Japan is a famous example for a government setting long term goals; not always successfully though.

There are well known leaders in long-termism, Japan being the best-known with many programmes stretching out 30 to 50 years into the future. However, this too has its drawbacks, as the world appears to be becoming increasingly subject to major disruptive events - terrorism being the most obvious example - which fundamentally change the global landscape. Governments can do relatively little to control events in the face of such turmoil, although they can still have an important role in creating an environment in which business can better understand, adjust and take advantage of rapid changes taking place in global markets.

The consistency and predictability of policy can be enhanced by a number of means. For example:

- Better recognition and evaluation of cross-impacting issues in setting policy - the occurrence of unintended side-effects is often a cause of policy changes and instability;

- Setting of longer implementation timeframes for new regulation - seven to ten years is often the minimum necessary to enable innovation;

- Avoiding wherever possible knee-jerk reactions to sudden events, be they political, technological, social or economic.

5. Building better trust and understanding

Finally, underlying any successful relationship between business and government is the fundamental need for better mutual trust and understanding on both sides. Arguably, business is probably more ignorant of government than the other way round - although there is undoubtedly plenty of fault on both sides.

Many businesses look at government quite simply in terms of two key questions: 1. How much money can I avoid paying out (directly in terms of taxes or indirectly in terms of red tape), and 2: How much money can I bring in (in terms of subsidies, incentives or grants). Frustration and mistrust set in when businesses find that progress in both of these directions seems to be thwarted at every turn, because government is required by its stakeholders to maintain a high degree of accountability and control over public funds. Businesses empathise with entrepreneurs, but government doesn't attract, nor does it really need, entrepreneurs in the civil service.

Government for its part often seems to start out by understanding business and its pressures, timescales and priorities - but then finds itself deviating from its original aims of speed, responsiveness and simplicity once the details start to be worked out. In many countries such as the UK, the public and media environment is also a major contributor to mistrust. Hysterical media responses to government comments tend to discourage open and frank communication, leading to further hysterical responses as so-called "secrets" and "spin" become exposed - a vicious circle that is difficult to break.

Efforts have been made for some time to improve mutual trust and understanding between business and government in many countries. Examples of measures that have enjoyed a degree of success include:

- Extensive use of industry secondees to government and civil servant secondees to industry. The most successful schemes have fairly long durations, more than a few months;

- The use of advisory boards involving senior business leaders - provided that these have very clear terms of reference and responsibilities and are not simply talking shops;

- Simplification of the communication process - minimising the problems of fragmentation on both sides, business and government, as mentioned above;

- Avoidance by government of being too directive in terms of its approach to business. Government as a facilitator on a regional and national level can be extremely effective; government as dictator or “picker of winners” seldom is.

Properly understood, the roles of government and business can be complementary and mutually supportive for growth. Speaking to an invited audience at Arthur D. Little’s Leadership Dinner, Richard Turner put it succinctly: “Government’s task is to create an environment where winners can win. Industry’s task is to produce the winners.”

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