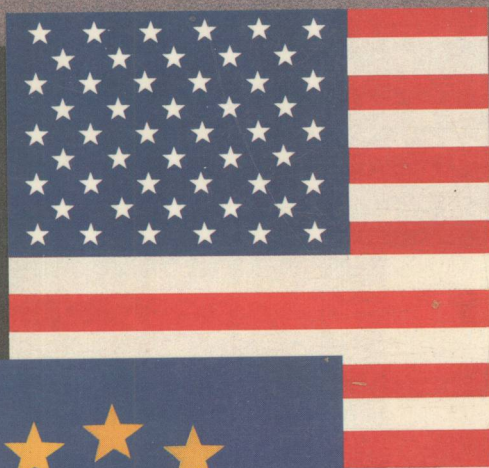



GEORGE CABOT LODGE

# COMPARATIVE BUSINESS- GOVERNMENT RELATIONS



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# ***COMPARATIVE BUSINESS-GOVERNMENT RELATIONS***

George Cabot Lodge

*Harvard University Graduate School of Business Administration*



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***COMPARATIVE  
BUSINESS-GOVERNMENT  
RELATIONS***

# PREFACE

The cases and articles in this book were written or selected for a Harvard Business School course, Comparative Business-Government Relations, first offered in the spring of 1989. The students included candidates for the master's degree in business as well as those from the Kennedy School of Government with an eye on public administration. This mix brought exceptional excitement to the classroom discussions, which makes me believe that the material is useful to a wide range of students interested not only in business and government, but also in political science, political economy, and sociology.

## OBJECTIVES

The book has three educational objectives:

- To provide an understanding of the different roles and relationships of business and government in key countries of Asia, Europe, and the Americas; of how and why these are changing; and what choices managers have as a result of the changes.
- To facilitate the students' ability to inspect their assumptions about government-business relations so as to open the way for more effective decision making.
- To place students at the interface of government and business in different national settings so as to provide an opportunity to deal realistically not only with policy questions but with the hurly-burly of implementation.



The book focuses on a few countries, principally Japan, the United States, Brazil, and France, and Europe as a region, and on a few industries, principally steel, computers, semiconductors, telecommunications, health equipment, and earth imaging from space. It concentrates on those issues which are most controversial and politically charged, affecting the lifeblood of nations and stability of regimes, as well as the fortunes of great corporations. Some of the issues concern substance, such as industrial policy and government targeting to promote a predetermined definition of the national interest. Others relate to process: how decisions are made and how control is exerted. Still others concern behavior: the actors in government, for example, who they are, what motivates them, what their relationship is to one another and to business.

The comparative approach helps students to keep an open mind as they seek the ingredients of effective management of government-business relations. It helps them to recognize and respect how the history of different countries has shaped those relations. It expands their field of choice as they look for what works best. It reminds them that increasingly the relationships of government and business in one country affect those in others and that as a consequence new forms of transnational government, such as the European Commission and Parliament, are emerging.

To deal effectively with the material in this book, students must think systematically. The institutions of government and business are in themselves complex systems. Each is fraught with internal divisions reflecting the interests of different constituencies. Together they are part of larger systems which are at once political, social, economic, and cultural. Effective management requires perception and understanding of how these systems work and interact.

This book also provides a way for students to refine their moral understanding. Government-business relations and the purposes that drive them lie at the heart of the public spirit in different communities: they are intimately tied to that community's definition of morality. Both sets of institutions depend for their legitimacy on a framework of ideas, an ideology. Effective managers are sensitive to what those ideas are and how they may be changing.

## ORGANIZATION

The book is divided into five chapters. The first, Roles and Relationships of Business and Government, is an essay, an overview of the subject, that sets forth several conceptual frameworks for the comparative analysis of different patterns of roles and relationships of business and government. These include two ideological prototypes, individualism and communitarianism; the notion of community need, together with the questions of relevant community, who decides community need, and how business is aligned with it; different sources of management authority; and the concept of the legitimacy gap between practice and preachment.

The second, Government Targeting and the U.S. Response, begins with an introductory case on the steel industry, which demonstrates the importance of government policies to that industry in Europe and the United States. The chapter

goes on to examine industrial policies in Japan and Brazil, the challenges the policies pose to the U.S. government and industry, and the response taken. It is designed to reveal different purposes and structures of business-government relations, to allow analysis of how they came to be and discussion of which way they are likely to go.

The third chapter, *Managing the Government Affairs Function*, provides an opportunity to discuss the design, organization, and management of the government affairs function in multinational corporations, as well as the role of industry associations. This segment should be seen against the conceptual backdrop of Chapter 1.

The fourth, *Managing at the Interface*, combines the first three. Focused on telecommunications and earth imaging in Japan, France, and the United States, the readings explore the nature of the governmental decision-making apparatus—bureaucracies and the like—and the relationship of firms to that apparatus.

The fifth chapter, *Ensuring Economic Justice*, compares how four countries go about saving ailing industrial giants who are too important to die. It also examines how the United States approaches problems of minorities and small business. Finally, there is a bibliography with brief descriptions of books that may be useful.

# ACKNOWLEDGMENTS

In 26 years of teaching I have accumulated a heavy burden of gratitude for all that I have learned from students in Harvard's executive and MBA programs, from my generous faculty colleagues, and from scores of executives and academics outside Harvard who have helped me write cases and books. All of them deserve credit for what is useful in this book.

I should like to thank especially the professors, research assistants, and MBA students who wrote or helped to write many of the cases which follow: Visiting Fellow Paul M. Achleitner, who worked with me on the European-U.S. Steel Dispute; Professor Marie Anchordoguy, who while she was a research associate at Harvard Business School, wrote the paper from which the Japanese computer case is drawn; Professor Joseph Badaracco, who as a research assistant worked with me on the Allied Chemical case; Professor Joseph L. Bower, who with Dr. William J. Murphy and Professor Kosei Furakawa, Keio University, wrote Cooperation for Competition; Charles H. Ferguson, research fellow at MIT, author of Sources and Implications of Strategic Decline; Professor J. Ronald Fox, author of the Note on U.S. Decision Making; Professor Barbara Jenkins of Carlton College, Ontario, who while a postdoctoral fellow at HBS, worked with me on the French telecommunications cases; Professor Chalmers Johnson of the University of California, San Diego, author of the paper describing the Japanese telecom wars; Charles E. McKittrick, vice president of IBM for governmental programs, author of the IBM case; Andrew Regan, author of the Government Redress case; Professor Robert B. Reich of the Kennedy School of Government who wrote Bailout; Joel Szabat and Frits van



Paasschen, who worked with me on the Brazil informatics cases; and Associates Fellow Robert S. Williams, whose brilliant efforts resulted in Sematech, JESSI, and Sensing the Earth from Space.

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I am very grateful also to Lois Smith for her great help in keeping all facets of this book on track and organized, for typing, revising, and checking.

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# ROLES AND RELATIONSHIPS OF BUSINESS AND GOVERNMENT

*This essay attempts to provide a way for managers to think about worldwide government-business relations and some of the issues which will be affecting those relations in the 1990s. Largely a synthesis of the work of leading scholars, it compares the roles and relationships of government and business in a variety of different nations in Asia, Europe, and the Americas. It suggests some analytical frameworks which may be helpful in managing relations with governments more effectively, concluding with a brief and partial list of questions on which to focus.*

Throughout history, government and business have been engaged in trying to define and fulfill the needs of communities. They have worked toward that goal—together and separately—in relationships marked by both suspicion and trust, conflict and cooperation.

During the late Middle Ages, when the merchants, bankers, and artisans of Europe's cities were exploring the paths that have led to today's corporations, they encountered from church and state what one historian called "a furious chorus of invectives against cupidity and avarice."<sup>1</sup> Indeed, the only socially acceptable purpose of business in feudal times was the service of the bishops and the knights.

Then, with the Reformation, the Enlightenment, and the Industrial Revolution, business in the West burst this communitarian mold and with revolutionary fervor proclaimed itself free. Business became the lead horse in an economic troika composed of its own efforts, government's encouragement and protection, and religion's invention of new conceptions of God to justify its ascendancy.<sup>2</sup> The

Professor George C. Lodge wrote this essay and gratefully acknowledges the helpful comments of colleagues at the Harvard Business School, Professors Joseph L. Bower, John B. Goodman, J. Ronald Fox, Thomas K. McGraw, Michael G. Rukstad, Bruce R. Scott, Richard H. K. Vietor, Richard E. Walton, and Michael Y. Yoshino; Research Fellows Marie Anchordoguy and Barbara Jenkins; and Charles E. McKittrick, Jr., vice president of IBM.



excesses of business provoked a backlash of regulatory antagonism, especially where its growth preceded the development of government's will and capacity to control it, as in the United States.<sup>3</sup> Economic power had separated from political authority, and government retaliated. The retaliation, however, was muted by the power of organized interest groups, including business. In America, where faith in pluralism flourished, the policies of government were shaped by whichever combination of interest groups held sway at a particular time.

In other countries, such as Japan and Germany, where feudalism lasted even into the twentieth century, government was in place and endowed with authority to shape the growth of business and to control the power of interest groups by giving them public status and responsibility. Thus, the sense of mutuality of interest between government and business, cemented perhaps with coercion, was performed greater.

In the 1940s, business and government combined for war throughout the industrial world. In the United States, they created "the arsenal of democracy," and a decade later in Japan and Germany, they launched spectacular economic growth. However, in America, the cooperative spirit between business and government that had prevailed during wartime was short-lived, having been primarily a function of unifying crisis. With peace came a return to the normalcy of ambivalence, a preoccupation with domestic priorities, and the ascendancy of domestic interest group pressures. In Japan and Germany, the cooperative spirit, rooted deep in the structures of the system, allowed a focus of national effort on regaining strength in the world economy.

Three phenomena central to business-government relations have marked the 1980s. The first was the extraordinary performance of those countries—such as Japan, Korea, Taiwan, and Germany—whose national strategies were characterized by close cooperation between business and government to gain world market share in selected industries. Those countries whose strategies were more inward-looking, marked by incoherent, rigid, or antagonistic business-government relations were less successful.

The second phenomenon was the globalization of business, the formation of intricate coalitions of multinational enterprises, often aided by governments. These coalitions appeared to be challenging the ability of nation-states—especially those who were losing world market share—to control business or even their own territories.<sup>4</sup> The second phenomenon, unlike the first, was eroding governmental power. Indeed, Professor Michael Porter could refer to nation-states as mere "platforms" on which the multinational corporations play, exploiting the strengths of some states and the weaknesses of others.<sup>5</sup>

The third phenomenon, an outgrowth of the other two, was the increased importance of technology to the political as well as economic development of countries. While technology itself ensured its own speedy spread throughout the world, the ability to tame and exploit it varied country by country. Business, through globalization, might capture its benefits, but nations and their governments risked being left behind with declining living standards. The speed of technological development, and the learning required to exploit it, meant that once behind, nations found it difficult if not impossible to catch up. Many governments were

assisting, directing, guiding, or controlling business to make sure that their particular nation had a technological edge: Brazil in minicomputers, for example, Japan and the United States in microelectronics.

In the face of these phenomena—intensified world competition, the globalization of business, and the politicization of technology—governments generally were anxious. Jacques Dondoux, head of the French government's Direction Générale des Télécommunications in 1986, for example, put the case this way:

If we want to retain our identity as Frenchmen, in the context of Europe, of course, the state really must intervene. There comes a point when the state must take risks so that on the vast world economic scene, Frenchmen can get a small piece of the action.<sup>6</sup>

National security, indeed sovereignty itself, was at stake. Although in 1987 there were approximately 160 sovereign states in the world, the meaning of *sovereignty* was far from clear. It refers to an ancient notion, juridical in nature, implying certain rights recognized in international law to self-determination and equality in such bodies as the General Assembly of the United Nations. Although cherished politically, its economic meaning and feasibility are confused and uncertain. The nations of the world seem increasingly less able to manifest their autonomy because of their dependence on one another for goods, technology, markets, and credit.

Is national sovereignty likely to die as a realistic concept? Will the political issues which are its chief concern require attention from transnational governmental bodies such as the General Agreement on Tariffs and Trade, the International Monetary Fund, the European Community, and the Organization for Economic Cooperation and Development? Will those issues—employment, incomes, skill development, welfare, pollution—become the responsibility of multinational corporations? Such a drift of authority away from the nation-state, if it occurs, is, of course, unlikely to occur without a fight even though the global corporation has undeniably useful attributes which are as political as they are economic. DuPont demonstrated this in the early 1980s, for example, when it assembled the 40 or so producers of freon in the world and secured an agreement to limit production so as not to damage further the ozone layer over Antarctica.

To think intelligently about the management of business-government relations within and among the nations of the world requires an understanding of the sharp differences both in the behavior of government and business in different countries as well as in prevailing views about how they are supposed to behave. So we shall examine a range of roles and purposes of government and business in selected countries, and we shall see that these seem to be accompanied by comparable forms of organization and structure in each. Those nations whose governments have an efficient assignment to think coherently over time about the nation's priorities, for example, tend to be centralized and dominated by a prestigious and powerful bureaucracy. They are invariably related in a more or less cooperative way to business which itself is organized into influential industry associations.

On the other hand, those national governments whose function is as much as anything to protect the individual, tend to be more fragmented and decentralized and accompanied by loosely organized business groups with which it has distant, if not adversarial, relations. Along with an analysis of roles, purposes, and structures, we shall also compare some of the more important tasks which governments perform and the tools they use.

## THE ROLES OF GOVERNMENT

There are two ideological paradigms concerning the role of government, one of which we shall call *individualistic* since it stresses the individual rather than the community, and the other we shall call *communitarian* because it reverses the stress. National practices exemplify some mix of these two types.

In an individualistic society, the role of government is limited. Government's fundamental purpose is to protect property, enforce contract, and keep the marketplace open so that competition among firms may be as vigorous and as free as possible. Government is essentially separate from business. It should intervene into the affairs of business only when the national health and safety requires it. Its intervention thus hinges on crisis—epidemics, pollution, economic disaster, war—and it should be temporary, an exception to the normal state of individual and business autonomy. The purpose and direction of government should be left to the play of interest groups, which fix government's priorities. An individualistic society is inherently suspicious of government, anxious about centralized power, reluctant to allow government to plan—especially over a long time span.

The role of government in a communitarian society is quite different. Here, government is prestigious and authoritative, sometimes authoritarian. Its function is to define the needs of the community over the long as well as the short term, and to see that those needs are met, albeit not necessarily through its own offices. It is a vision setter for the community; it defines and ensures the rights and duties of community membership; it plays a central role in creating—sometimes imposing—consensus to support the direction in which it decides the community should move. Consensus-making often requires coercion of one sort or another, which occurs in either a centralized or decentralized fashion, that is, either flowing down from an elite or up from the grass roots. Communitarian societies may be either hierarchical or egalitarian. If the former, the nature of the hierarchy may vary from meritocratic to oligarchic, ethnocratic, theocratic, or aristocratic.

To oversimplify, among so-called capitalist countries the United States has tended traditionally to occupy the position furthest in the direction of individualism, Japan furthest toward communitarianism. Other nations can be placed somewhere along a continuum in between the extremes. Germany is more communitarian than the United Kingdom, but less than Japan. France is a complex mix under which a communitarian president and a more individualistic prime minister could, in the 1980s, share power effectively. Brazil and Mexico are also ideological mixtures, but less well integrated than France.<sup>8</sup> Mikhail Gorbachev's USSR may, with luck, move out of its dark ages to a more Japanese-like version of