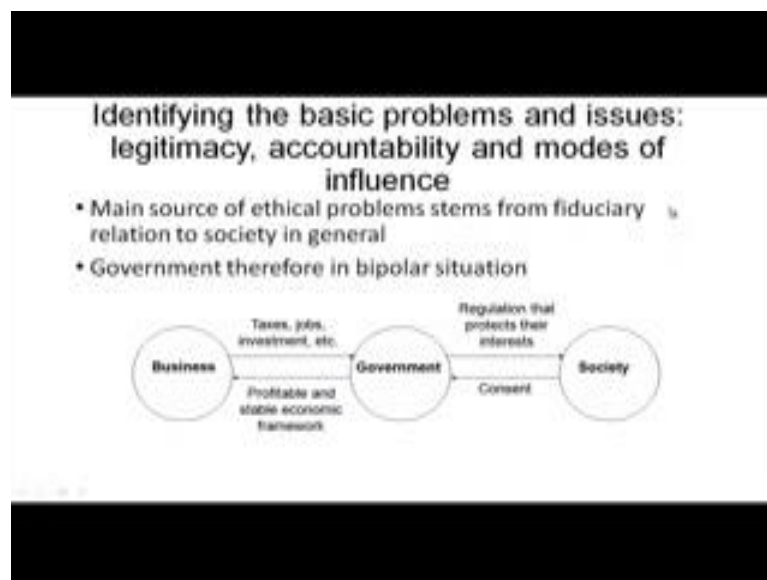


Business Ethics
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Lecture – 49
Ethical issues in the relation between business and government

Now, we will be discussing the ethical issues in relation between the business and government. The three basic problems in the business government relationships are the problems of legitimacy, the accountability and the modes of influence.

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Before we start discussing about this, let us see the bipolar situation that the government is in. So, the main source of problem lies with the government is in the fiduciary responsibility towards the society in general, because they are the elected representatives of the society. It is the government's responsibility to see that the interest of the society is protected.

So, how do they protect it? By defining regulations, by formulating regulations trying to implement it which protects the rights of the society and to provide those rights to the members of the society and to see that their interests are met. Sometimes it may so happen like it is not possible for the government to do everything single handedly. So, they extend their hands of partnership to the business and who are expected like if the businesses are to business houses are to come and to do business in a specific country

then, certain expectations of the government from the business are for the taxes; they have to pay the taxes, they have to create a revenues for jobs, they have to make investments in the country which will help for the meeting the interest of the society at large.

The society has given consent to the government and trusted them with the responsibility to think in the best interest of the society and the government also has given, have a responsibility to the business houses to provide them with the profitable and stable economic framework. So, we understand the government is in a bipolar situation where, it has a dual responsibility to the society at large and also to the business houses.

So, the business in interaction with the government gives them; gives taxes, create jobs, make investment etcetera, but in return they also want a profitable and stable economic framework. The government will provide regulations that protect the interest of the society at large, but in return the government expects the society to give them the consent to do this and also show support in them. So, that they also stay in as the government by the process of getting reelected. So, this is a bipolar situation where, the government has a relation of both give and take with the business and the society.

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Legitimacy of business influence

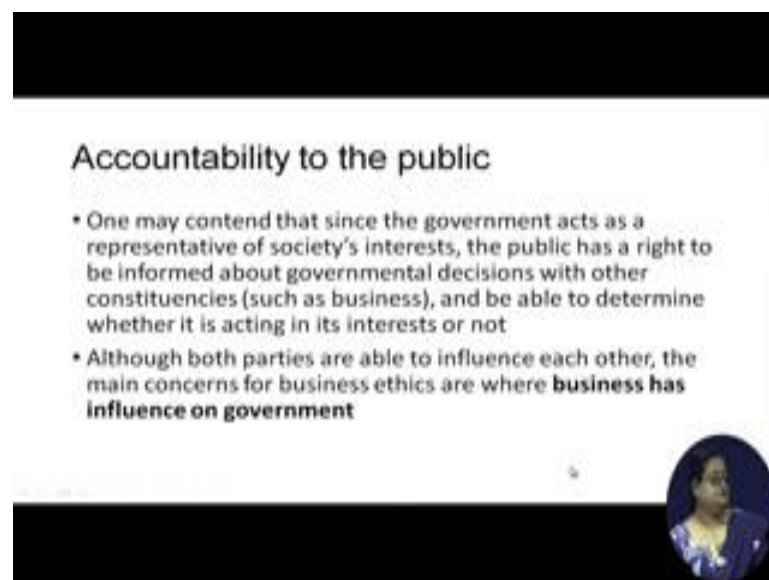
- Business can have a significant influence on the implementation and direction of governmental policies. It is therefore to no surprise that the issue of 'public sector ethics' has gained enormous momentum (Dobel 2007). The main ethical consideration arising from this situation is twofold
 - *legitimacy* of business influence;
 - *accountability*.
- Is power and political influence of business leaders a threat to democracy?
- To what degree is it legitimate for business to have an influence in politics?

First, when you are talking of this businesses role in the earlier discussions also, we have discussed about the businesses role in implementation and directional governmental policies both with respect to globalization where there may be not much rules present,

policies present in the developing countries. How the business houses can make an influence in directing the government formulate those policies? So, and also in other countries may be where the government may have the idea, but may not have the infrastructure. So, how the business houses can influence implementation and direction of government policies?

However; the two ethical issues may come up from here is like the legitimacy of the business influence, like whether it is a question of debate like the power and the political influence that the business leaders are gaining through their participation in determination of the government policies, is it a threat to democracy? Because then the society at large may be losing its power select, who is there in the government. The influential people with more power are getting their prominence in the government, and second to what degree is it legitimate for any business to have an influence in politics? Then it may so happen that the competition becomes uneven and people with the more power are become the more in prominent and the citizens are left with limited choices and alternatives. So, they cannot exercise their power of discrimination or power to decide which one to buy from the alternatives and this mean, have an effect on fair competition.

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Accountability to the public

- One may contend that since the government acts as a representative of society's interests, the public has a right to be informed about governmental decisions with other constituencies (such as business), and be able to determine whether it is acting in its interests or not
- Although both parties are able to influence each other, the main concerns for business ethics are where **business has influence on government**

So, second is the process of accountability to the public. So, as we understand that government acts as a representative of the societies interest then, the public has the right

to be informed about governmental decisions with other constituencies; such businesses and to determine whether it is acting in its interests or not. So, there lies the accountability role of the government to the public. Also when both the parties like the government and the business houses are can both the parties can influence each other. The main concerns for business ethics are when the business has a major influence on government because then it may affect the government policies then, it may influence the government policies which may serve the self interest of the business and may be detrimental to the interest of the public at large.

So, this is where the accountability problem lies to means we have to seek the question of the government is accountable to whom; to the people, to the society at large or to the business houses and is the business house also is accountable to whom? And so these type of questions give raise to dilemma and it becomes an ethical issue when the businesses has major influences on government to influence their policies or an influences on regulations.

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Modes of business influence on government

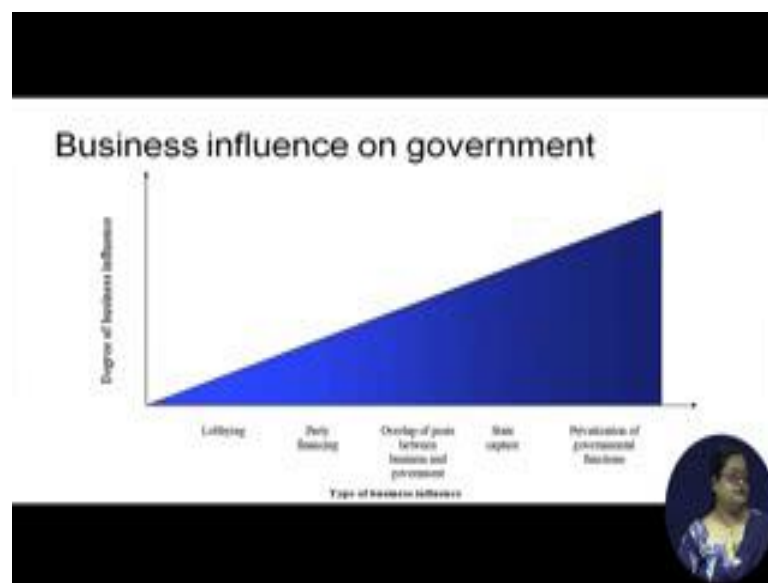
- Numerous ways that business can influence government
- Oberman (cited in Getz 1997:59) distinguishes among different ways, using following criteria:
 - Avenue of approach to decision-maker
 - Direct
 - indirect
 - Breadth of transmission
 - Public
 - private
 - Content of communication
 - Information orientated
 - Pressure orientated

When, you are talking of modes of business influence on government, so these influences could be like director, indirect in nature. So, Oberman distinguished among different ways using the criteria; like the avenue of approach to decision maker, like how the approach is being made? So, is it a direct relation with a like policy maker or by making direct approaches to political decision makers or indirect through publicity in the

media and media communications, other types of communications which helps to support some political decisions or expresses views on some political decisions. So, breadth of transmission is how then its gets transmitted is it like in the public, we the communication is made publicly or it is private in nature where, the particular political leader is approached and then certain discussions is made with that person or groups of person in a on a very like private level.

Content of communication, could be like information oriented where it comes to getting information about the decisions of the government or sharing some industry informations with the government people also. Because the government people who are making such a decisions do not know always what is happening within the industry. So, information oriented or even pressure oriented where, the influential business houses may try to pressurize the government to get certain benefits otherwise there is the threat of like, threat of a withdrawal from that country which may be detrimental to the economy of the country future levels. So, these types of orientations are called pressure orientations.

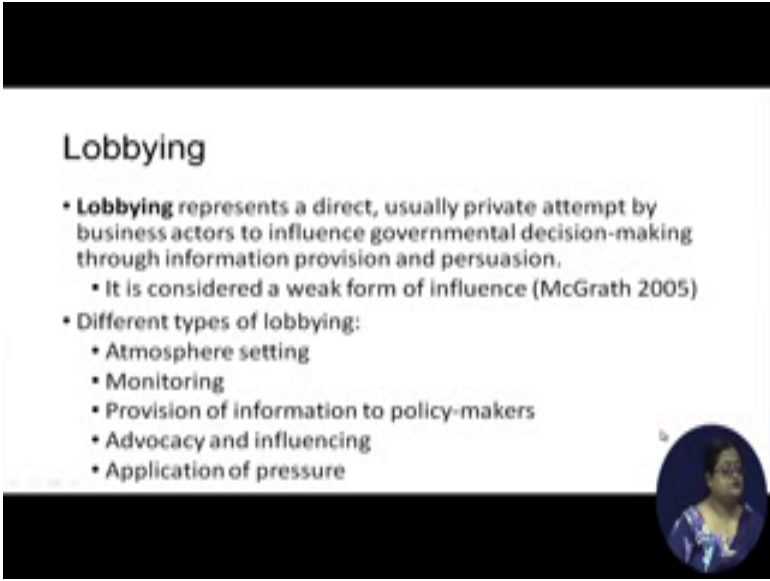
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So, when you talking of the degree of businesses influence on the government and we are here talking of the direct influence sort of. So, it starts from lobbying which is the direct technique of approaching the policy, decision makers to party funding. So, overlap of the posts between business and government where the business people have some posts in the governments also. The government has some posts in the business most of

the business people are have holding posts in the government and then state capture and privatization of governmental functions which is at the right most extreme level. So, these varies in the degree of intensity. The weakest one is that of lobbying and the most the strongest of these influences are seen in privatization of governmental functions. So, we will discuss each separately now.

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Lobbying

- **Lobbying** represents a direct, usually private attempt by business actors to influence governmental decision-making through information provision and persuasion.
 - It is considered a weak form of influence (McGrath 2005)
- Different types of lobbying:
 - Atmosphere setting
 - Monitoring
 - Provision of information to policy-makers
 - Advocacy and influencing
 - Application of pressure

So, when you are talking of lobbying as seen in the last diagram; lobbying represents a direct usually private attempt by business actors to influence government decision making through information provision and persuasion. It is considered as a weak form of influence. So, there could be different types of lobbying like atmosphere, setting monitoring, provision of information to policy makers, advocacy and influencing and application of pressure. When talking of atmosphere setting. So, there it is like generating the awareness of the government about certain industry issues and products and to create an atmosphere which is amenable to further influence.

So, this may include like organizing events, then dinners or rallies, information rallies that creates visibility about the interest of industry in government sphere. So, these types of practices are called atmosphere setting. So, when you are talking of atmosphere setting, it is like first level of impression management done where the, which will attract the governments interest towards issues of the industry and they become interested for it. So, second when you are talking of monitoring; it consists of establishing relationship

with the political parties to get detailed information about certain regulations in advance of the legislative trends and processes. So, these advanced information helps them to prepare themselves before may be the regulation is already declared and thus gives them a competitive edge over its other competitors, who are may not be in the doing this lobbying with the political leaders.

So, third is provision of information to policy makers. When you are talking of provision of information to policy makers, so that is what we are already discussing like it is not possible for the policy makers, government also to understand in details, what is going inside the industry? So, to make more regulations effective or to strengthen their own position in the mind of the public also with certain regulations either in a blurs or inhibitors for the business practices, the government need to know some information from the industry. So, the by the provision of information to policy makers these informations are shared where this lobbies are responsible for sharing these informations to the policy makers which helps them to function well.

Advocacy and influencing is deals with the ultimate goal of lobbying. The ultimate goal of lobbying is not only to share an information, but also to have an influence in the decision making process or on the decision makers. So, the business might attempt to do this by offering policy oriented expertise and industry oriented associations because they train to be experts in this area and that the through their expert knowledge they try to influence and participate in the formulation of the regulations. Application of pressure; finally, the business lobbying may use the opportunity to communicate with government actors to information which is to put them under pressure to act in a certain way.

So, what are these like? These are like communicating to the government about the threat of formulating certain policies and practices and the possible consequences of it or after effect of it in terms of like withdrawal, job losses and or other politically sensitive information and outcomes. So, this is where it is like more of providing a threat or a pressure, so which may compel the government to think before designing or implementing the regulations.

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However it; we have to keep in mind like that the this lobbying or the involvement of the business houses with the government is, does not come free it is motivated by the self addressed of the business houses and in some cases the self interest of the government actors also.

This may have a negative effect on the role of the government as the agent of the principle, that is the society at large who have shown trust in them entrusted them with a consent to function in the best interest of the people of the society at large, but these lobbying may give a negative message about the true intention of the government.

So, another aspect of it is lobbying. Lobbying are based on factors like where generally the business houses take care of situations, where they can have access to the politicians in a more relaxed casual and informal setting. So, this may create certain (Refer Time: 25:26) in the business scenario, as this may restrict the, have a negative impact on the existence of the small businesses who may not have the access to these type of politicians and who depends on the regulations present for their survival, the enabling role of the regulations for their survival. So, some influential corporate through its lobbying practices who has developed some personal ties with the politicians and businesses. So, and that is how they are getting certain benefits and or trying to get benefit from where, regulation is not very well defined may have a negative impact or inhibitory impact on the other organizations also.

So, this lobbying may also give rise to conflicts of interest where because lobbying is a personal relationship. The tie is established between the business lobbies and the particular politician who is entrusted may be with a responsibility to take care of the interest of the society at large. These lobbying practices may give rise to conflicts of interest and because the government itself may be involved in those type of activities. So, aware may be a technology selection has to be made or the best supplier has to be selected. So, these type of things which have a direct influence on the greater interest of the society then this lobby may lead to conflict of interest in further politician involved.

As to whom I am more accountable to my role, where I am in a decision making position to take care of these issues. So, that the best supplier who is providing an reasonable rate and giving the quality goods gets the chance of supplying the goods and services or it is someone who has been into a lobbying relationship or who has lobbied well and given rise to certain, have utilized their recreational skills properly to and taken care of the recreation of the politician. So, these are conflicting issues which of interest, which may come up when we are talking of effects of lobbying.

The similar situations may come up when we are discussing party financing and individual conflicts of interest. So, sometimes corporates give heavy donations to party financing, so for meeting up their expenses during the votes and all. So, these donations to parties by businesses can raise conflicts of interest. So, because again when we are talking of party financing and conflict of interest then, it is the party financing is done by the business houses, but may be not without any self interest. So, these gives rise to the prospect of preferential treatment. So, it is a situation of dilemma like party financing can give rise to may be political powers where, the corporate gains influence in the government decision making or this good relation helps them, but there is an expectation also from the corporate to gain us preferential treatment from the government, in terms of getting certain relaxations in regulations and taxes, etcetera.

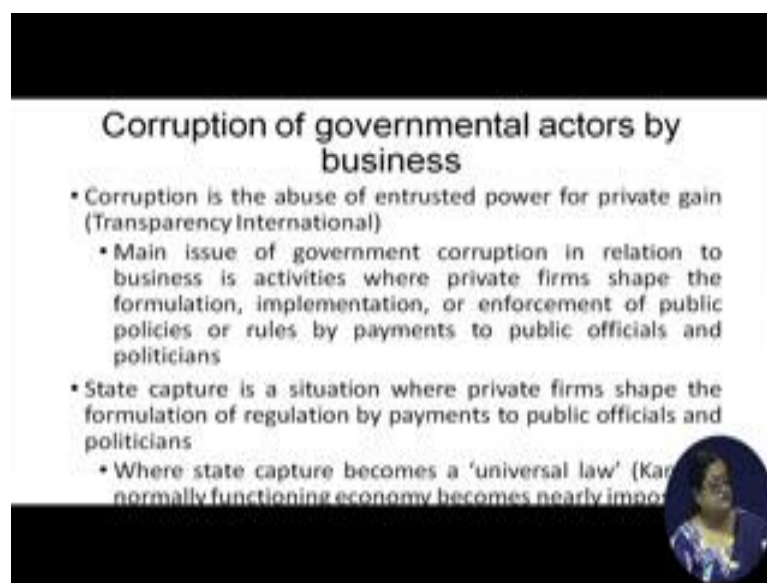
So, this is the influence so; however, on the negative side of it, flip side of it the company making the contribution may come under regular pressure from the government to provide to the party financing. Otherwise these concessions, these allowances will not be given. So, it becomes like an extortion, then exploitation and also it may have if it becomes a public like or it becomes public then it may have a negative effect on the company's image and may give rise to questionable behavior on the part of the

employees also, for that particular organization. Because the employees may get a feeling, this is the way that we behave in this particular organization because organization itself is doing some practices. So, that to gain the attention to get its short term goals fulfilled certain taking certain steps which are not may be right. So, then what is the harm? If the employees also take the short cut to perceive their own interest and personal goals at the cost of the interest of the organization at large. So, this could have an effect on the behavior of the employees and promote questionable behaviors on their part.

So, there could be another issue which this party financing improving as we are discussing. Like it gives raise to prospects of preferential treatment, in terms of when there is a overlap of posts between the business and government where you see the business people having positions in government decision makings or the government, the political leaders having some prominent position in the business decision making both vice versa. So, these are called revolving doors where we are talking of like both, they have tried to secure some decision making posts in the, either the government and the business.

So, or in many cases it may so happen like the same person is having two different roles like for a business person is also having a position in the government, which gives him certain avenues for influencing, the decision making of the government. So, these may give raise to substantial conflict of interest in the sense like if it is, if a regulation is formed which is equally applicable to all. Then the this special power, advantage that the one particular conflict may get by having one of its representatives business person having a place in the government positions or the vice versa may bring conflict of interest again with respect to accountability. Because if the person is sharing the information, having access to information these type of things may give raise to a preferential treatment and question of whom I am more accountable to.

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Corruption of governmental actors by business

- Corruption is the abuse of entrusted power for private gain (Transparency International)
- Main issue of government corruption in relation to business is activities where private firms shape the formulation, implementation, or enforcement of public policies or rules by payments to public officials and politicians
- State capture is a situation where private firms shape the formulation of regulation by payments to public officials and politicians
- Where state capture becomes a 'universal law' (Kant), a normally functioning economy becomes nearly impossible

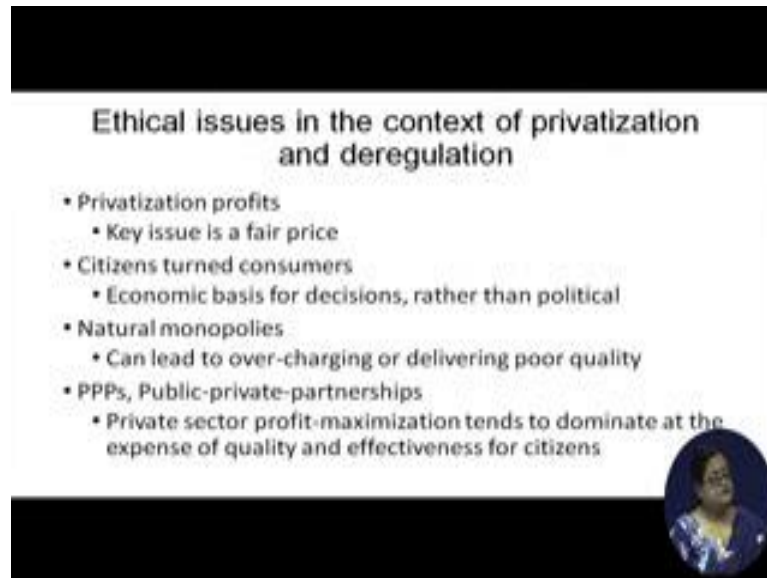
Third of course, important that we discuss is where there is a corruption of the use, abuse of the entrusted power for private gain. So, main issue of government corruption in relation to business is activities where private firms shape the formulation, implementation, or enforcement of public policies or rules by payment to public officials and politicians. So, this is one of the major issues where the organizations with the money power can influence the, how the regulations are getting implemented.

So, and the restrictions which are getting applied the relaxations in it. So, if this corruption is there. So, by payment to public officials and politicians then it creates a uneven, then it gives an uneven competitive scenario where those who may not have this access, but they can give a quality goods or services do not get an exposure or do not even get the chance of showcasing their products or services to the society at large because the due to corruption people with money power may be with low quality goods and services have gained the prominence.

So, when you are talking of state capture, it is the situation in which the private firms shape the formulation of regulation, so by payments to public officials and politicians. So, if like the whole state is captured by the private firms where only its products are promoted or only its products are allowed through certain mechanisms, then it helps it is the firm, private firm which is shaping the formulation of regulation in the particular state. So, and it is like indirectly that private firm rules that state, so by controlling its

economy. So, when this becomes an universal law then normally functioning economy is nearly becomes impossible because it is been like captured by the private firm.

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So, the last which is the most strongest of these direct influences that the business have on the governments or the political entities are like when you are talking of privatization and deregulation. So, it is the like privatization of the profits. So, when it is the privatization of the profits the key issue is that of a fair price. So, the citizens returned to the consumers because it becomes the economic basis for their decision making. So, it becomes natural monopolies, so because it can lead to overcharging for delivering poor qualities. So, it may so happen, if one of the influential private players have, like done a state capturing sort of. So, after that it gives them the like they start functioning like monopolies where whatever they charge for whatever qualities of goods and services they give the people have to buy it because, there are no alternatives which are present.

So, when you are talking of public, private, partnerships; the PPPs, so the private sector, profit maximization. So, that may compromise on the expenses that it to be made for the quality and effectiveness of the citizens. So, that may become a problem. So, to give more profit to the private entity, private sector the quality and the effectiveness issues may be compromised to derive these profits. So, these may become ethical issues in public, private partnerships. In the next module we are going to discuss on globalization and business government relations.

Thank you.