



INTRODUCTION

Policy Issues for Business: A Reader aims to provide undergraduate and postgraduate students of business, economics and management, including those studying for the MBA, with a critical analysis and discussion of policy issues relating to business.

The key objectives that this book endeavours to achieve include the recognition of the vital importance of policy for businesses, individuals and nations and an appreciation of the rationale for policy. It offers a critical evaluation of the link between different theoretical perspectives and policy and an in-depth understanding of selected policy issues. The book places business within the context of its legal, technological, economic and socio-cultural environment.

What is the relevance of policy to business?

Why is it important to study policy as part of one's study of business? Policy sets the rules of the game by which businesses have to play. But why do we need rules anyway? Shouldn't the operation of the 'free' market obviate the need for any rules? Who sets these rules? Do these rules promote the interests of some more than of others? Can governments and policy makers improve the performance of economies beyond what may be generated by the free play of spontaneous market forces?

It is questions such as the above that a study of policy seeks to answer. No market economy can operate without the establishment and enforcement of certain minimal rules such as those relating to property rights. But often, for markets to work effectively, much more than these minimalist rules are required. This constitutes the domain of economic and business policy.

One can hardly overstate the importance of policy. As Stiglitz demonstrates in Chapter 1 of this book, if policy makers get it wrong, whole nations can be destroyed. Equally, if policy makers get it right, this can enormously facilitate business growth and socio-economic welfare.

A neglected subject?

Despite the critical importance of policy for business, the study of business and management these days seems to neglect a proper study of policy. This is perhaps because the focus of business and management studies tends to be on

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the operations of the individual business. But, as mentioned above, a business's purposes and actions can be considerably influenced by the industry, national and international policy regime in which it operates. Businesses also need not be, and indeed are often not, passive reactants to the policy framework; they play a vital role in shaping policy. It is hence important that any study of business and management should include a systematic study of the subject of policy. This book is designed for such a purpose. We hope to stimulate the study of policy as a regular and integral part of business and management studies. This book endeavours to provide resources for such a purpose by collating some key readings in policy. There is presently a dearth of such a compendium; we hope that this book will go some way in fulfilling this need.

Is policy akin to strategic management?

Strategic management is currently an important and popular element in business and management studies. Just as firms need to be managed strategically, so too in many ways do other economic units such as industries, regions, nations and the international economy. Traditionally, aspects of governance relating to these economic units have been referred to as 'policy'. But, if we wished, we could also refer to these as 'strategic' management. The objectives underlying the strategic management of firms and the strategic management (policy governance) of regions, industries or nations have considerable similarity. In both cases, the aim is consciously and purposefully to plan for the long term, to integrate and co-ordinate diverse elements, and to try to achieve a degree of control over the environment and the future. A simple reaction to spontaneous market forces does not constitute strategic management at the level of the firm; nor does it constitute policy governance at the level of the industry, region, nation or the world.

If policy can be thought of as strategic management at a supra-firm level, why is it that while the subject of strategic management is so popular in business and management studies, the subject of policy suffers from relative neglect? We have already discussed one possible reason for this: the focus of business and management studies currently tends to be on the individual organization. The other probable reason for this has perhaps to do with the current economic and political climate of *laissez-faire*. While strategic management at the level of the firm is the responsibility of private entrepreneurs, many of the policy tasks are the responsibility of local, regional, national or international governmental bodies. Many today seem to believe that governments are incapable of doing anything right. So, the argument goes, even though policy may in principle be capable of improving upon market-mediated outcomes, in practice governments are likely to fail to deliver. This, however, is perhaps too pessimistic a view of the role that policy can play. As this book demonstrates, policy makers can play a highly useful role in improving

economic performance. It is also critical to remember that while policy failures can carry significant costs, these costs may be outweighed by the costs of market failures that would occur in the absence of policy intervention. Not all policy is formulated and implemented by governments anyway: employer associations, trade unions, charities, clubs, regional associations – all can play an important role in the policy arena.

Conflicting theories, conflicting policies

One must bear in mind the distinction between a descriptive and a theoretical treatment of any subject. It is one thing to describe a policy, it is quite another to understand its rationale. Policies can only be properly understood in the context of their underpinning theoretical perspectives. But often there is more than one theory that ‘explains’ any business phenomenon, and these theories may offer conflicting perspectives. Consequently, policy prescriptions are often quite sensitive to the nature of one’s theoretical position about how ‘the world works’. This implies that any serious study of policy must be accompanied by an investigation of the various theoretical perspectives that relate to the business phenomenon under study. This is the approach that this book follows, offering a diversity of theoretical perspectives on the policy issues under consideration.

Self-interest, prejudice, ideology

Policy making is rarely neutral in terms of its consequences for economic participants. It is hence unlikely that those affected will view the analysis that underpins policy making in a dispassionate, even-handed or fair fashion. People’s preferences for one theoretical standpoint over the other may be coloured, consciously or unconsciously, by the nature of economic, political and ideological consequences that follow for themselves or for their communities. Are academics likely to be truly neutral, however, untouched by motives of personal gain or by prejudice? Concern has been voiced, for example, that the close links that exist in some countries between the faculty of business schools and senior management in organizations pose the danger that academic discourse may be influenced such that it takes greater cognisance of the concerns of senior management than of the other stakeholders in the firm. Following a similar logic, it is possible to argue that academics working in the developed world may come to very different policy analysis and conclusions than academics working in developing nations. This points to the need for the exercise of the utmost vigilance when evaluating policy, and the need to consider critically a variety of perspectives.

Do values and culture matter?

Analysis of business policy issues is based to a very considerable degree on economic theory and analysis. It is therefore important that we pay special attention to the assumptions that, overtly or covertly, underlie theorizing in the discipline of economics. Casson (Chapter 4) points out that many theories in economics are based, explicitly or implicitly, on the assumptions that economic agents are exclusively selfish and exclusively materialistic. Human beings are assumed neither to care about the welfare of others, nor to care about non-material sources of satisfaction (such as emotional or spiritual satisfaction). Neo-classical economics argues that the working of the competitive market ensures that when such selfish and money-minded individuals try to maximize their rewards, the competitive process generally generates an outcome that is in everybody's collective interest. As Adam Smith pointed out, our dinner comes not from the butcher's generosity but from his self-interest. Being exclusively selfish, and being exclusively materialistic, is consequently no bad thing. Casson points out that such ideas are based on an incomplete understanding of how a market economy works. For many markets to work efficiently, a considerable degree of integrity and trust is required. An economic system that is able to invoke and make use of a high level of trust, integrity and character is likely to perform far more efficiently and effectively compared to a system that lacks these cultural attributes. But if trust and social norms are important for the functioning of a market economy, then this, in addition to leading us to question the assumptions of economic theory, also poses important issues for policy. How are trust and honesty in a society to be created and maintained, for example? And what role can policy play in this regard? This book argues that policy should no longer be seen to be limited to the manipulation of economic variables. Given the vital importance of cultural factors to the economy and society at large, culture must be given its due consideration by policy makers.

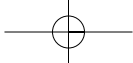
Is policy democratic?

How democratic is the formulation and choice of policy? There seem to be presently a number of impediments to having genuine democracy in the policy arena. On the one hand, many policy decisions are currently made by policy 'experts', bureaucrats or politicians without sufficient democratic scrutiny. Stiglitz (Chapter 1), for example, draws attention to the lack of transparency and accountability that surrounds decision making by the International Monetary Fund, even though the policies that emanate from this organization have major consequences for millions of people world-wide. Genuine democracy is also often hindered by the electorate's lack of sufficient knowledge of policy. If the fundamentals of policy were more widely known, this would probably generate a higher quality of debate

on many policy issues. Governments would then have less of a pretext to refer important policy issues to the ‘experts’, and the expert advice would be subject to closer and wider scrutiny. The media also need to rethink their vital responsibilities in this regard.

Structure of the book

The book begins by outlining the significance and rationale for policy in a market economy (Section 1: ‘Policy: Significance and Rationale’). Since it is unfeasible to explore in detail all the various aspects of business related policy in a single book, we have had to be selective in our choice of policy topics. Consequently, the remainder of the book explores some of the key dimensions of business policy making. In Section 2, ‘Competition Policy’, we analyse policies that aim to maintain the ‘right’ degree and kind of competition in a market economy. The acceleration in national and cross-border mergers and acquisitions since the 1990s has made a consideration of such competition issues very pertinent and urgent. In Section 3, ‘Science, Technology and Innovation Policy’, we broaden our concern from the regulatory role of policy to the facilitative and supportive functions of policy. Why do we need to have a policy on science, technology and innovation? Shouldn’t the free market take care of these matters? Is it more important to have such science and technology policies in developing countries than in developed ones? In Section 4, ‘International Trade and Investment Policy’, we investigate why policy is required at the supra-national level with respect to the international dimension of economic activity. The increased pace of globalization since the 1980s raises a number of questions about both the pace and the character of globalization that we are currently witnessing, and how (if at all) we should be trying to regulate or influence this process. While the importance of international policy is increasing, policy issues at the sub-national level, such as at the regional level, are becoming more important too. This is the subject of inquiry in Section 5, ‘Regional Policy’. The increased integration of the global economy seems to be, in many ways, accentuating rather than diminishing the distinctiveness of geographic regions. The final section, Section 6, ‘Environmental Policy’, explores another important dimension of policy: that relating to the natural environment. With ever-increasing environmental degradation, the need for urgent action in this policy area is becoming increasingly obvious to all, but reaching agreement here has proved to be highly difficult so far. If some experts on climate change are to be believed, then time may be running out. But, as we shall see, environmental policy cannot be meaningfully considered without looking at many of the other policy areas, such as international trade and investment policy and policy on science, technology and innovation. This means that the whole subject of policy is assuming critical importance and urgency – indeed the very survival of our planet may depend on the wisdom with which we exercise our policy options.



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A final remark

The purpose of this book is as much to raise questions as to seek to provide answers. We hope to provoke you into thinking and questioning. We hope you shall come up with some answers of your own and raise some new questions as well!

We hope you enjoy this book. *Bon voyage!*

