

Chapter 11 Accepting Daring and Unusual Challenges

“Take your hand out of your pocket, slowly,” commanded Homa in English, then in Farsi he explained to the guard, “I told him to remove his hand.” Knowing that any sudden movement would result in instant death, Homa held his breath and riveted his eyes on the young, nervous guard. He could sense his companion’s fear and felt an arm lightly brush his own as the man withdrew his hand. Seeing the empty hand the guard’s tense shoulders eased. Homa glanced fleetingly at his companion. The man’s features were rigid and his eyes were glued to the gun barrel only inches away from his face.

—From the Memoirs of Carolyn Firouztash

The quote above is a stark reminder that threat of political upheaval and chaotic turmoil in government can transform government influence in Strategic Space from one that is benign and helpful to one that is personal and life threatening. The need for government to provide a reliable framework for economic activity becomes all too obvious when governments are poorly organized, inefficient, or in turmoil.

One of the fundamental roles of government is to champion economic growth. In earlier chapters, I offered glimpses of governments

acting to stimulate utilization of advanced technology, such as the U.S. space program's role in procuring integrated circuits, or the Australian government's leadership in the adoption of computers and information technologies. There also were examples of government interventions into economic activity such as the erection of export controls. Before looking at other examples at closer range as illustrations of the interactions between government policy and business strategy, it is necessary to pause to define the role of government from the corporation's perspective in a more systematic fashion.

STRATEGY AND THE ROLE OF GOVERNMENT

The usual functional and structural way to think of government—executive branch, legislative branch, and judicial branch—is not very helpful to the strategist. Rather, it is more useful to think in terms of the *four roles* it plays in business life.

Regulator and arbitrator

Provider of a framework for, and facilitator of, economic activity

Customer for private sector products and services

Provider of products and services, that is, a competitor

Regulator and Arbitrator

Free markets and free market transactions have inherent conflicts. These conflicts are resolved by competition, negotiations, and regulations.

Competition is the most straightforward and desirable. If the customer has but one choice—that is, one supplier—the conflict is clearly one-sided. If the customer has multiple choices, the playing field is leveled, innovation is encouraged, and customers benefit.

Negotiation between businesses amounts to a process of mutual self-regulation. Its weakness can lie in grossly unequal power of, or asymmetric knowledge between, the negotiators.

Regulation is dictation of the “rules of transaction” by an overarching authority such as an agency of the government. If not dictation of transaction rules, the government agency at least provides guidelines and a framework for competition and negotiation, and a locus for arbitration of disputes arising from those processes.

In its role of regulator and arbitrator, government is involved in four broad categories of conflict:

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Individual interest vs. group interest. This can be protection of competitive rights for an individual company (for example, antitrust); for individual workers (labor laws); for individual customers (laws against price fixing).

Societal interests vs. organizational interests. Examples are laws and regulations regarding environmental protection, health, safety, tax, and taxation.

Interpretation and enforcement of contracts. Without some rigorous enforcement method, transactions are not only difficult; they simply will be stultified. This problem plagues those doing business today in Russia and China.

Protection of physical and intellectual property. There are threats both internal and external to the nation. Physical property protection ranges from laws and law enforcement with regard to theft and physical abuse to the maintenance of security through national and international military forces. Protecting intellectual capital is attempted through domestic patent and copyright laws, and by means of international agreements with respect to those laws.

It is in the roles of regulator and arbitrator that business most frequently encounters government. Too often, as perplexing and onerous as these dealings can be, they are approached with the wrong mindset. The inclination is to see government as an obstruction to be evaded and, consequently, the reaction is to appeal to national sentiments to “get them off our backs.” This simplistic attitude lacks understanding as to how things really work, and leads to counterproductive behavior. It blinds business to the opportunities available to it via collaborations with government. Control Data’s global expansion was greatly facilitated because of government partnerships in Canada and in Europe. At the very least it behooves business to actively pursue thoughtful participation in the governmental regulation and arbitration process. Like any human endeavor, the regulatory process suffers from human frailty and shortsightedness. But business can help bring perspective and creative thinking to the regulation process.

The *bête noire* of legislation and regulation is the law of unintended consequences. All too often legislation, regulation, and executive action produce consequences that are not only unexpected but may even be contrary to the intent of the original action. Unintended consequences may result from poorly constructed legislation and regulations, but more frequently it is simply due to the complexity of the issue. In the example of electric power deregulation in California both of those factors were present. The result? Not cheaper power and improved generation technology, but blackouts, higher prices, manipulation and multi-billion-dollar lawsuits! More recent are the still unfolding con-