

A Relationship Model for Business, Government and Society

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This paper presents a model for connecting the relationships among Business, Government and Society. The purpose is to aid scholars and educators in conceptualising the complex relationships which involve the role of Governments in creating laws, regulations and guidelines in order to facilitate the smooth functioning of business in society, particularly when involving consumers and their rights that the consumers themselves are unable to obtain from corporations.

1. Introduction:

The objective of this paper is to present a framework that comprehensively shows the complex relationships and connections among the three entities – business, government, society. It is a faithful depiction particularly of developing countries that are still establishing laws and regulations for the operations of business that would meet with the standards and requirements of different stakeholders in society such as consumers, activists and environmentalists.

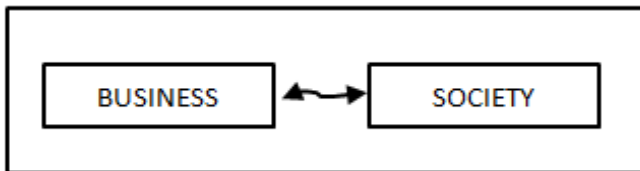
In advanced countries such as the U.S., many laws on curbing the powers of big businesses and ensuring safety of products for consumers have been well established and tested. For example, the two important anti-trust or anti-monopoly laws in the U.S. are the Sherman Anti-trust Act of 1890 and the Clayton Anti-trust Act of 1914. In the early 1960s, the long chorus of consumer disenchantment of lack of concern for consumer welfare led to the enactment of the U.S. Consumer Bill of Rights which enshrined four key consumer rights – the right to safety, the right to be informed, the right to choose, and the right to be heard. Many countries have modelled much of their consumer laws around this set of consumer rights. They are of recent vintage. For example, in Thailand, the consumer rights are provided for in its Consumer Protection Act 1979 – the right to be informed, the right to choose, the right to safety, the right to redress and the right to fair contract terms – (Nantika, 2004). India established its Consumer Protection Act in 1986, adding to the four basic rights, the right to redressal and the right to consumer education. The legislative effort in protecting consumers in Singapore is even more recent, having passed the Consumer Protection (Fair Trading) Act only in 2003, although this act is not explicit that it is about the basic consumer rights as in the U.S. Consumer Bill of Rights.

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2. Development of the relationship model

In countries where much of the laws and regulations have been established, the model resembles Figure 1 in which all interactions are between business and society.

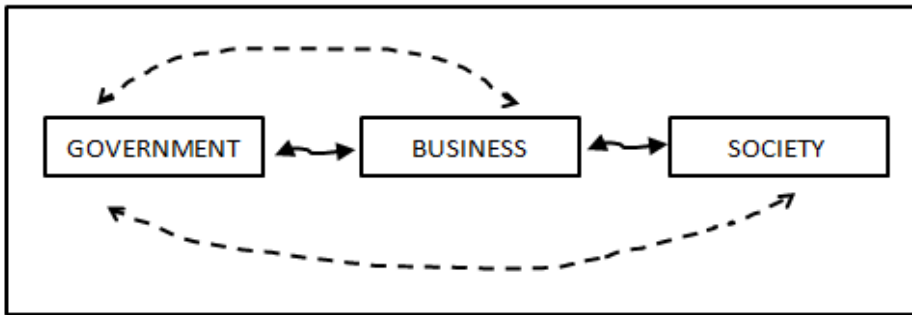
Figure 1: Business-Society Relationship



In advanced countries such as U.S., U.K., and Australia, the country laws and consumer laws are well established. The consumers are also better organised, and have sufficient activist clout to force some changes in the behaviours of businesses. Some have gone to the extent of taking legal suits as in the U.S. case of a 79 year old woman by the name of Stella Liebeck who while attempting to remove the lid of the cup to add sugar and creamer was scalded and suffered third degree burns from the spilling coffee. She successfully sued McDonald's, and was awarded by the jury US\$ 200,000 in compensatory damages, which was reduced by 20% to \$160,000, and another \$2.7 million in punitive damages (for a brief summary of the incident and trial, see http://en.wikipedia.org/wiki/Liebeck_v._McDonald's_Restaurants). Following this episode, McDonald's ensured that the wordings to warn that the beverages are hot are in bolder and more legible text. Such a trial would probably not happen in other countries, most definitely not in developing countries.

Where consumer laws and guidelines are still being crafted or where petitions are being submitted to governments for them to intervene when business behaviours are illegal, unethical or abusive, the pictorial to clearly emphasise the role of the government is Figure 2.

Figure 2: Business-Government-Society Relationships (simplified)



In Figure 2, business is positioned in the centre since it is the focal point in business-society matters. This figure is developed to show that there are direct interactions, shown as bold double-headed lines. One pertains to the direct links between business and society as in Figure 1, and includes the direct relationships between business and government. This captures the situation in developing countries where the political and economic systems are not entirely capitalistic where commerce and economic progress is almost entirely the role of the private sector. In developing countries, there is usually a mix of private sector and public sector to realise the nations' economic aspirations. Firstly, there are symbiotic relationships between business and government where the government creates the economic environment and incentives for business to flourish. Then there are state participation in areas such as oil, gas and some heavy industries. An example would be Malaysia where Petronas, acronym for its Malay name, Petroliaam Nasional Berhad, is wholly owned by the Malaysian government, is responsible for controlling and managing the country's petroleum resources, lubricants and petrochemical products (Petronas corporate website, accessed 30 August 2010). But, the role of the government, among other responsibilities of ensuring law and order, security and defence, is to ensure that business complies with country laws such as those pertaining to business licenses and food safety and hygiene. This is depicted as direct by way of the double-headed bold line between government and business.

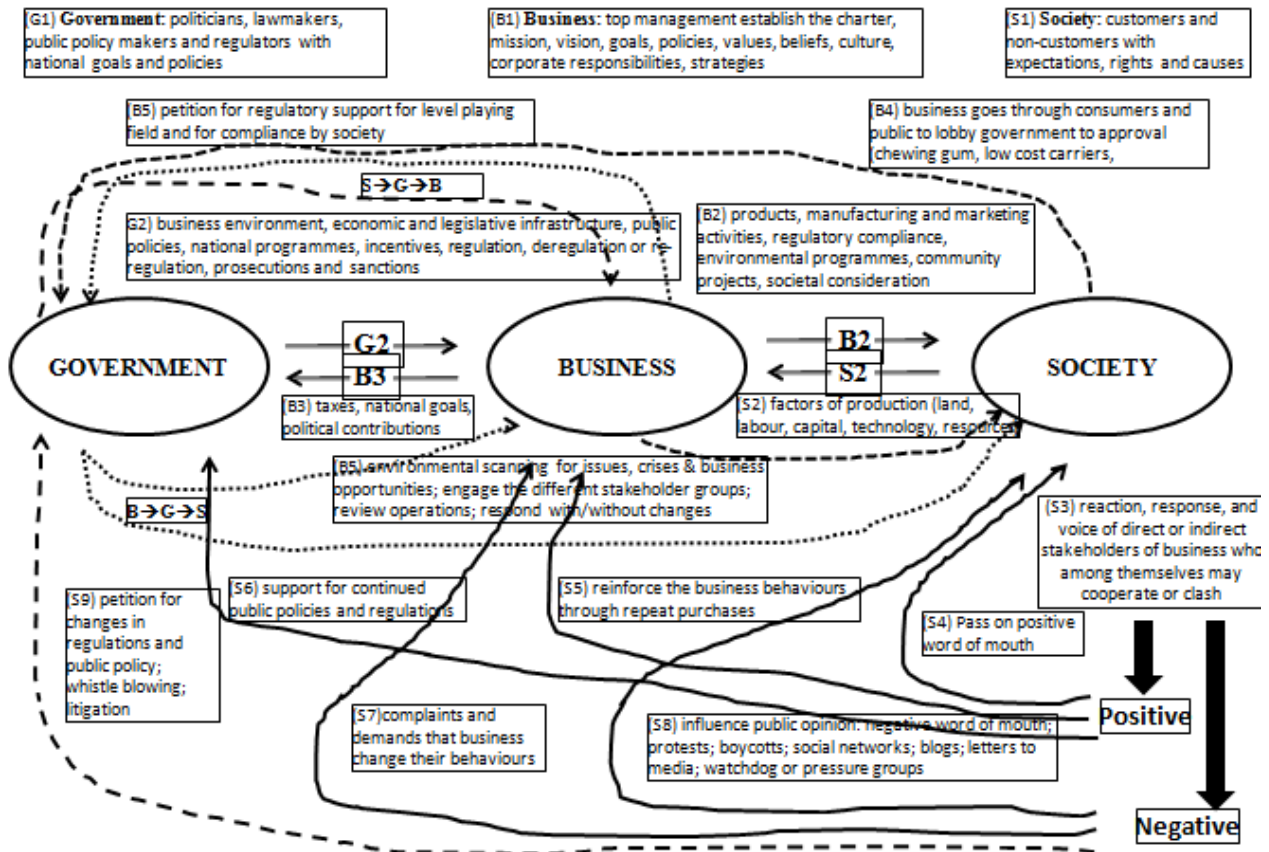
The dotted lines are meant to describe the situations where direct confrontation between society and business, say, does not yield any satisfactory solution to consumers. It becomes necessary to find the solution by petitioning the government to attend to consumer and environmental issues that arise from time to time for which the country laws may be inadequate or non-existent. This can be illustrated by the issue of product safety in Singapore. A recent test of 50 toys, all imported from China, found that nearly half have had excessive levels of toxic chemicals which can cause health problems in children. The test was commissioned by the consumer watchdog, the Consumer Association of

Singapore (CASE), which had been lobbying for more than five years for better product safety regulations for toys and consumer products. The public and industry reactions were typical in that all are waiting for the consumer watchdog and the government for more directions. For now, it is not clear who in the distribution channel – foreign manufacturer, foreign exporter, local importer, trader, wholesaler, retailer – has the duty to ensure that the toys are safe for sale and use in Singapore. This raises the need for clarity in the laws, regulations and guidelines that would probably require better inspections and possibly that a regulator, in the likes of the U.S. Consumer Product Safety Commission, be created for this purpose. Meanwhile, parents would clamour for more stringent standards of safety, and would most likely expect that new guidelines be issued by the government.

There are numerous interactions and Figure 3 which is self-explanatory shows the main ones. It shows that all three entities (shown as G1, B1 and S1) are interdependent. For example, society depends on business for all the goods and services (shown as B2), while business depends on society for all the factors of production (shown as S2). The figure shows other situations such as when business behaviours are not acceptable and society is unable to effect changes in those behaviours, it would petition the government to put pressure on corporations (shown as S9).

Figure 3: Business-Government-Society Relationships (detailed)

Business-Government-Society Relationship Framework



3. Summary and Conclusions

The model presented in this paper helps to conceptualise the complex relationships among business, government and society in a comprehensive manner. It shows the direct and indirect relationships and interdependencies among them. This model would be useful pedagogical tool in understanding and explaining the various actions and reactions among the different entities involving the operations of business in society and how the behaviours are shaped at the macro-level.

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