*Strategic Management*, 9e: Chapter 3 study guide

Analysing the role of government

Although ‘politics’ appears as a checklist item in the strategic environment PESTEL analysis, this does not do justice to the importance of government in some areas of strategy development. At government policy level, politics and economics are inextricably linked. Strategic management is not concerned with forming such policies but does need to understand the implications of the decisions taken. Governments can stimulate national economies, encourage new research projects, impose new taxes and introduce many other initiatives that affect the organisation and its ability to develop corporate strategy. To analyse these influences, it is useful to identify three areas: the environment of the nation, its system of government and its policies.

Political decisions have been an important driver of industrial growth. Strategic management therefore needs to consider the opportunities and difficulties that derive from such policies. Other areas of government interest, such as public expenditure, competition policy and taxation issues, also need to be analysed. Influencing government policy in these areas may form an important part of an organisation’s strategy: perhaps because the organisation is a government customer or perhaps because it is heavily dependent on some aspect of favourable government treatment such as tax. Finally, macroeconomic conditions – that is, economic activity at the general level of the national economy – can have a significant impact on strategic management. It therefore needs to be explored and assessed.

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1. History and momentum in politics: the environment of the nation

Over the last four centuries, politics has been a great driver for industrial growth. Much of this growth has come through a combination of wars, the search for power and the exploitation of resources. Strategic management will need to consider the opportunities and the moral dilemmas that may arise. For example, the problems in China in the early 1990s did not stop major Western companies investing in that country in the years that followed; indeed, some may argue that such wealth creation is a contribution to overcoming the difficulties.

Any strategic management that does not take account of the history and momentum of politics is ignoring an essential element of the competitive environment. Looking back from the vantage point of the early twenty-first century, five political trends can be highlighted that are relevant to strategic management.

2. The role of the state in industrial development: the system of government

In both the EU and the US, there are differing views on the extent to which the state should become involved in industrial development. In France, Italy and Greece, it has long been the tradition that state-owned companies and state intervention are important elements of the national economy. In the UK, Germany and the US, the opposing view has been taken. The approach adopted is essentially a *political* choice made by those in power. The two main approaches – often referred to as *laissez*-*faire* and *dirigiste.*

 *Laissez fair* means a free-market approach to management of the national economy

 *Dirigiste* means a centrally directed state approach to the management of the national economy

Some countries offer a *balance* between the two approaches with strong centralised support in some areas – for example, education, favoured industries (as in Singapore), investment in roads, power and water – and then couple this with a free-market approach in other areas – for example, privatisation of state monopolies or lower barriers to entry to encourage multinational enterprise (MNE) investment. (MNEs are the large global companies such as Ford, McDonald’s and Unilever.) Each country will have its own approach so that any corporate environmental analysis will have to be conducted on a country-by-country basis.

At the beginning of the twenty-first century, it might be argued that state intervention is dead: the industrial chaos resulting from the collapse of communism in Eastern Europe certainly highlights the problems. The evidence from Eastern Europe only applies to the totalitarian state, however: it does not follow that all state intervention is useless. State involvement in the ‘Tiger’ economies of South-East Asia (Singapore, Malaysia, Hong Kong, Thailand, Korea) and selective intervention in Japan, the EU and the US suggest that some governmental policy can be beneficial.

Strategic management should therefore anticipate that politics will continue to be a part of the equation. Companies may benefit from policies such as higher state subsidies, better education and international trade incentives, but may be hindered by measures such as new laws restricting competition, new taxes on profits, and limited investment in country infrastructure (e.g., roads, telecommunications).

Hence, strategic management needs to be acutely aware of the benefits and problems associated with government policies. It will certainly wish to press for policies that it regards as beneficial during the formation and implementation of strategic decisions. Influencing major political decisions is part of strategic management. If this is done openly and with integrity, there can be no objection by those with other interests. This means that lobbying of governments by companies, often using professional public relations advisers, is a legitimate part of strategic management.

3. Broader government policy and state institutions: policies of government

In addition to direct state intervention in industry, governments influence companies by a whole variety of other mechanisms:

*Public expenditure.* In the EU, through the European Commission in Brussels, public expenditure is quite low as a percentage of gross domestic product (GDP) when compared with the expenditure concentrated at national government level. In the US, public expenditure is higher at federal (central) level in some areas, e.g., defence.

*Competition policy.* This is strong at EU central level and likely to become stronger, similarly strong in the US at federal level.

*Taxation policy.* This is weak at EU central level, with taxes largely left to individual nations; in the US, there are clear federal taxes, with further taxes raised at state level.

*Regional policy.* There is clear EU support for weaker nations and parts of nations with infrastructure investment etc.; in the US, individual states are more likely to fulfil this role but federal support is still important in some industries.

All the above policies can have a major influence on where companies locate and whether they are profitable; in practice, organisations often make considerable efforts to obtain government grants and other forms of support as part of their strategic management.

At the international and global level, countries around the world have joined together in essentially politically inspired international institutions, trade agreements and trading blocks (*see* Chapter 19).

4. Strategic analysis of the national economy

Governments have some direct control over the economy of a country. It is easier for organisations to launch a growth or survival strategy when the national or international economy is showing steady growth with low inflation. Conversely, if economic decline is likely, the company might be well advised to take a more prudent view of strategic expansion. It follows that the *macroeconomic conditions* – that is, economic activity at the general level of the national or international economy – surrounding an organisation are an important element in the development of strategic management.

In practice, when exploring strategic management, many organisations, both large and small, use their own managers to make economic forecasts, buy in reputable forecasts or simply use published forecast material. The forecasts are usually made on key macroeconomic issues such as:

 GDP, total and per head of the population

 growth in GDP

 retail and consumer price indices

 trade flows in imports, exports and the balance of payments

 private sector share of GDP; agricultural share of GDP

 foreign direct investment (FDI), total and as a percentage of total investment