

# **Social Entrepreneurship (SE)**

## **Topic 6. Social Business and Government**

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- ▶ Discuss the government's role in its relationship with business
- ▶ Explore the interactions among business, government, and the public
- ▶ Examine government's nonregulatory influences
- ▶ List major reasons for regulation, the types, and issues arising out of regulation
- ▶ Consider regulation versus deregulation

# Introduction

The chapter examines the relationship between business and government and in particular the government's role in influencing business decision making.

# Government's Role in Influencing Business

1. Prescribes the rules of the game for business.
2. Purchases business' products and services.
3. Uses its contracting power to get business to do things it wants.
4. Is a major promoter and subsidizer of business.
5. Is the owner of vast quantities of productive equipment and wealth.

# Government's Role in Influencing Business

6. Is an architect of economic growth.
7. Is a financier.
8. Is the protector of various interests in society against business exploitation.
9. Directly manages large areas of private business.
10. Is the repository of the social conscience and redistributes resources to meet social objectives

# Roles of Government and Business

- ▶ What should be the respective roles of business and government in our socioeconomic system?
- ▶ Given all of the tasks that must be accomplished to make our society work, which of these tasks should be handled by the government and which should be handled by business?
- ▶ How much autonomy are we willing to allow business?

# Roles of Government and Business

## Clash of Ethical Systems

### Business Beliefs

- ▶ Maximizes concession to self-interest
- ▶ Minimizes the load of obligations society imposes on the individual (personal freedom)
- ▶ Emphasizes inequalities of individuals

### Government Beliefs

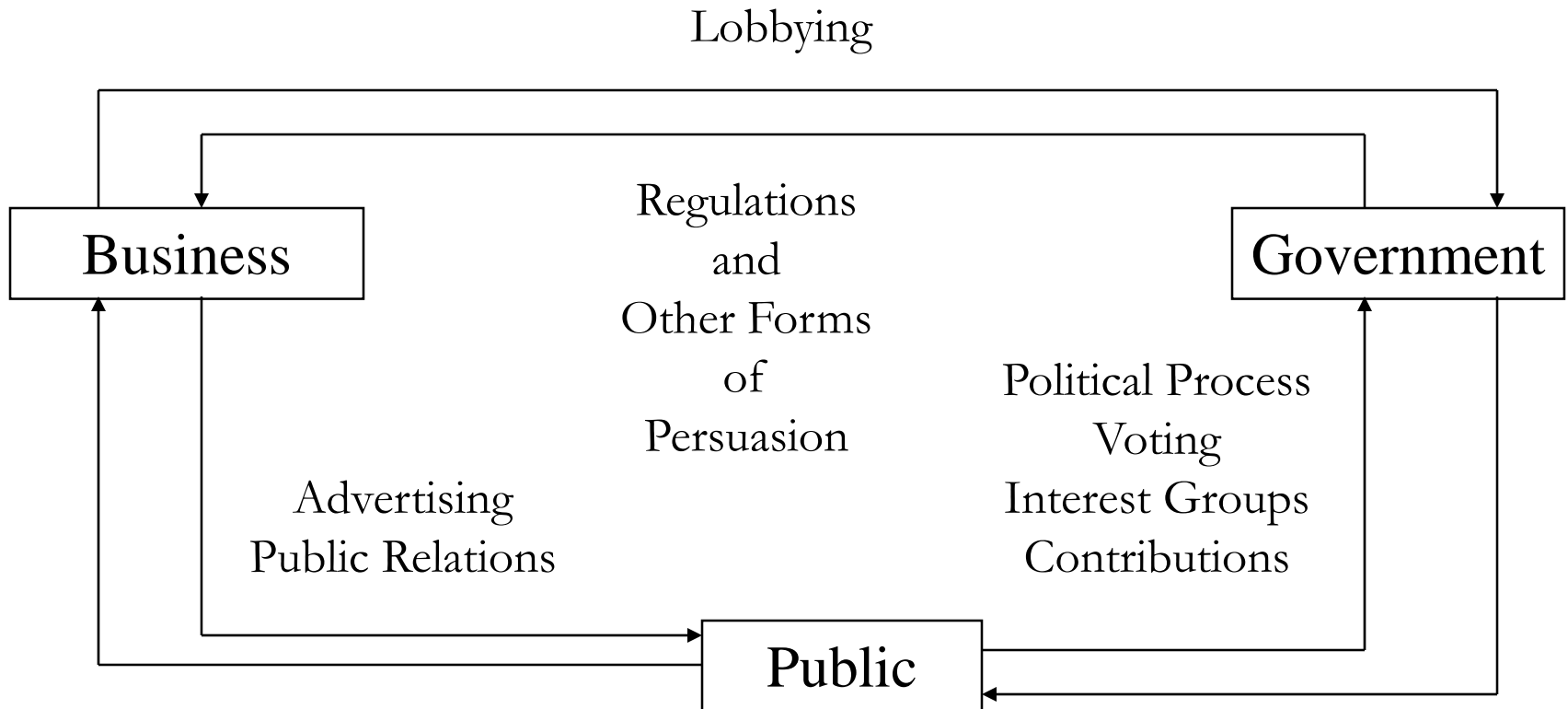
- ▶ Subordinated individual goals and self-interest to group goals and group interests
- ▶ Maximized obligations assumed by the individual and discouraging self-interest
- ▶ Emphasized equality of individuals

# Roles of Government and Business

## Social, Technological, and Value Change

- ▶ National society
- ▶ Communal society
- ▶ Entitlements
- ▶ Quality of life

# Interaction of Business, Government, and the Public



# Interaction of Business, Government, and the Public

- ▶ Government/business relationship
- ▶ Public/government relationship
- ▶ Business/public relationship

# Government's Nonregulatory Influence on Business

## Two Major Nonregulatory Issues

- ▶ Industrial policy
- ▶ Privatization

# Government's Nonregulatory Influence on Business

## Industrial Policy: Schools of Thought

- ▶ Accelerationists
- ▶ Adjusters
- ▶ Targeters
- ▶ Central planners
- ▶ Bankers

# Government's Nonregulatory Influence on Business

## Industrial Policy

### Pros

- ▶ Decline of U.S. competitiveness
- ▶ Use by other nations
- ▶ Ad hoc system

### Cons

- ▶ Reduces market efficiency
- ▶ Promotes political decisions
- ▶ Foreign success variable
- ▶ National attempts uncoordinated and irrational

# Government's Nonregulatory Influence on Business

## Privatization

- ▶ Producing versus providing a service
- ▶ Privatization debate
  - ▶ Federalization of certain functions
    - ▶ Airport security

# Government's Nonregulatory Influence on Business

## Other Nonregulatory Influences

- ▶ Major employer
- ▶ Large purchaser
- ▶ Major influence
  - ▶ Subsidies
  - ▶ Transfer payments
- ▶ Major competitor
- ▶ Major lender
- ▶ Taxation
- ▶ Monetary policy
- ▶ Moral suasion

# Government's Regulatory Influence on Business

## Factors to Consider Regarding Government Regulation

- ▶ Protection
- ▶ Scope
- ▶ Cost

# Government's Regulatory Influence on Business

## Federal Regulatory Agency

1. Has decision-making authority
2. Establishes standards or guidelines conferring benefits and imposing restrictions on business conduct
3. Operates principally in the sphere of domestic business activity
4. Has its head and/or members appointed by the president (generally subject to Senate confirmation)
5. Has its legal procedures generally governed by the Administrative Procedures Act

# Government's Regulatory Influence on Business

## Reasons for Regulation

- ▶ Controls natural monopolies
- ▶ Controls negative externalities
- ▶ Achieves social goals
- ▶ Other reasons
  - ▶ Controls excess profits
  - ▶ Controls excessive competition

# Government's Regulatory Influence on Business

## Types of Regulation

### ▶ Economic regulation

- ▶ Interstate Commerce Commission (ICC)
- ▶ Civil Aeronautics Board (CAB)
- ▶ Federal Communications Commission (FCC)

### ▶ Social regulation

- ▶ Environmental Protection Agency (EPA)
- ▶ Occupational Safety and Health Administration (OSHA)
- ▶ Equal Employment Opportunity Commission (EEOC)

# Government's Regulatory Influence on Business

| <b>Comparison of Economic and Social Regulation</b> |   |  |
|---|---|--|
| <b>Economic Regulations</b>                         |   | <b>Social Regulations</b>                                  |
| <b>Focus</b>  | Market conditions;<br>economic variables                | People in roles as<br>employees, consumers<br>and citizens |
| <b>Affected Industries</b>                          | Selected (railroads,<br>aeronautics,<br>communications) | Virtually all industries                                   |
| <b>Examples</b>                                     | CAB; FCC  | EEOC, OSHA, CPSC,<br>EPA                                   |
| <b>Current Trend</b>                                | From regulation to<br>deregulation                      | Stable   |

# Government's Regulatory Influence on Business

## **Benefits of Regulation**

- ▶ Fair treatment of employees
- ▶ Safer working conditions
- ▶ Safer products
- ▶ Cleaner air and water

# Government's Regulatory Influence on Business

## Costs of Regulation

- ▶ Direct costs
- ▶ Indirect costs
- ▶ Induced costs
  - ▶ Effects
    - ▶ Reduced innovation
    - ▶ Reduced investment in plant and equipment
    - ▶ Increased pressure on small business

# Deregulation

## Purpose & Dilemma

### ▶ Purpose

- ▶ Intended to increase competition with the expected benefits of greater efficiency, lower prices, and enhanced innovation.

### ▶ Dilemma

- ▶ Must enhance competition *without* sacrificing applicable social regulations (e.g., health and safety requirements).



## Selected Key Terms

- ▶ Accelerationists
- ▶ Adjusters
- ▶ Bankers
- ▶ Central planners
- ▶ Deregulation
- ▶ Direct costs of regulation
- ▶ Economic regulation
- ▶ Excess profits
- ▶ Excessive competition
- ▶ Federalization
- ▶ Individualistic ethic
- ▶ Induced costs
- ▶ Industrial policy
- ▶ Market failure
- ▶ Natural monopoly
- ▶ Negative externalities
- ▶ Privatization
- ▶ Regulation
- ▶ Social Costs
- ▶ Social regulation
- ▶ Targeters

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