



**CHANGING ROLES and  
FUNCTIONS of BUSINESS ORGANIZATIONS  
in the PROCESS of GLOBALIZATION**

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# FOREWORD

*TÜSİAD (Turkish Industry and Business Association) is a civil society organization established by Turkish industrialists and businessmen in 1971 in order to represent the business World.*

*TÜSİAD aims to contribute to the formation and development of a social order based on the adoption of the universal principles of human rights, freedom of thought, belief and action, a secular state of law, concepts of participatory democracy, a liberal economy, the rules and regulations of a competitive market economy and a sustainable environmental balance.*

*TÜSİAD works to achieve the realization of the main objectives stated above based in the belief that businessmen working in line with the targets and principles envisaged by Atatürk guided by a concept of Turkey's reaching and surpassing the norms of contemporary civilization and bolding to the equality of men and women in politics, the economy and education, comprise a pioneering and enterprising group in society.*

*As a representative body of the Turkish business world working for the public good, TÜSİAD strives to manifest activities to entrepreneurs in conformity with the universal principles of business ethics, TÜSİAD constantly aims for progress and enhancement in Turkey's competitiveness, social welfare, employment and productivity, as well as the country's capacity for renewal and the scope and quality of education and training during the globalization process.*

*TÜSİAD contributes to the formation of national economic policies by correctly evaluating regional and sectoral potentials in Turkey's economic and social development in an environment in which social peace, compromise and reconciliation is maintained. TÜSİAD contributes to the promotion of Turkey globally and supports the EU accession process through efforts to develop international political,*

*economic, social and cultural relations as well as communication, representative and cooperative networks. TÜSİAD conducts research, forms views, and develops projects and activities in the context of accelerating international integration and influence building, regional and local development.*

*TÜSİAD aims on behalf of the Turkish business World to encourage and develop a unity of thought and action in line with these objectives through the direct and indirect dissemination of its views and recommendations to the Turkish parliament, government, other states, international organizations and public opinion, through the press and other means.*

*TÜSİAD, in accordance with its mission and in the context of its activities, initiates public debate by communicating its position supported by scientific research on current issues.*

*This report is a product of a team effort. Abdullah Akyuz has served as the lead author of the report. He was in charge of the overall coordination, the writing of all the general sections as well as the chapter on Turkey. The other four chapters on four countries/regions have been authored by the contributors. The EU chapter is written by Bernhard Welschke, USA chapter by Peter S. Rashish, Brazil chapter by Stefan Bogdan Salej, and India chapter by Kiran Pasricha. The authors are responsible solely for the sections they authored.*

**February 2014**

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# EXECUTIVE SUMMARY

Ever accelerating, multiplying and expanding technological progress and increasing globalization are causing a significant transformation worldwide. The resulting situation requires business organizations to change, to abandon some of their traditional functions and adopt new ones. This study will not limit itself to Turkey and the Turkish business community; it will consider business organizations in the European Union, United States, Brazil and India as well, and will aim at developing a "global" perspective on the impact of globalization upon business organizations.

Various global and local developments affect business organizations. Business organizations evolve functionally and structurally in an environment determined by these developments. The functional aspects of the evolution can be defined under three headings. First, the developments greatly increase the social role of the business organizations. As a result, business organizations have to face new functions and missions, explore many issues once outside their scope, participate actively in the policy making processes, and take into account the human and environmental dimensions of problems. Second, with the blurring of the global-local dichotomy, activities and functions formerly classified as national and international lose their defining edges and every issue acquires a global context. This has consequences in many areas, from organization to activities, to finance, and so on. The third aspect concerns leading and supporting their members in their struggle amidst increasing competition. Representing a business community which strives to survive serious competition fueled by technological evolution on the one hand, and disappearance of borders on the other, the business organizations need take measures to inform, equip and protect their members.

Reflecting this functional transformation, the administrative, organizational and financial structures of the business organizations undergo significant changes. The number of organizations multiplies, they diversify and they evolve to become "voluntary" organizations. While serious competition among business organizations is appearing, there is also a tendency toward consolidation in certain countries. Business organizations intensify their activities to develop the capacity of their membership; they increase their cooperation with third party, "knowledge producing" specialist institutions, in order to develop policy proposals aimed at the public at large. A great amount of time and energy is spent on international activities. New generations are taking over the management of the business organizations, transparency increases, activities become more diversified and dynamic with growing budgets and in line with all these changes, a distinct improvement in the quality of the professional staff is observed.



S E C T I O N  
1

INTRODUCTION



# 1. INTRODUCTION

Ever accelerating, multiplying and expanding technological progress and increasing globalization are causing a significant transformation worldwide. This transformation changes production and consumption structures on a global scale, affects the distribution of the generated welfare, and causes pronounced modification for individuals and societies in their ways of participation in economic life. Consequently, there are considerable shifts in wealth distribution among countries and continents; this and the changes in the demographic structure radically reshape the global map of production and consumption. Furthermore, the role of government in the economy changes form and economies are driven mainly by private companies (hence, by the business community). This comprehensive transformation in the economic sphere has profound repercussions in the social, cultural and political arenas. Democratic demands proliferate, and the importance of identity politics, human rights, freedom of expression and transparency increases. The population becomes more and more urbanized and women's and children's rights come into prominence. In the same vein, environmental awareness becomes an unambiguous focus and the idea of "sustainability" makes its way into our daily life as a crucial concept.

The resulting situation requires business organizations to change, to abandon some of their traditional functions and adopt some new ones. This study aims at developing a "global" perspective on the impact of globalization upon business organizations. The report does not limit itself to Turkey and the Turkish business community; instead it offers a global perspective well suited to the spirit of its subject matter. In addition to Turkey, the report considers business organizations in the European Union, United States, Brazil and India as well, and discusses the impact of globalization upon these business organizations. The EU and the USA are on this list based on the fact that their experience well represents developed countries in general. The first and the second largest economy in the world respectively, when taken together the EU and US produce 45 percent of the world's output as of the year 2012. Therefore, the study of the experiences in these two fronts of the Western Bloc may provide concrete information on the evolution of business organizations in developed countries. Among the developing countries that benefit from current general global trends, Brazil and India are to be examined. Brazil, the 7<sup>th</sup> largest economy in the world as of the year 2012, produces 3.1 percent of global GNP. Again as of the year 2012, the production of India, the 10<sup>th</sup> largest economy in the world, amounts to roughly 2.6 percent of the world total.<sup>1</sup> Estimates show that by 2050, according to purchasing power parity, India, Brazil and Turkey will be the 3<sup>rd</sup>, 4<sup>th</sup>, and 12<sup>th</sup> largest economies in the world, respectively. (PwC 2013:2) The main reason to not include China in this report is the fact that China's

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<sup>1</sup> [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(nominal\)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)) (Accessed, 20.8.2013)

economy is organized under the command of the state and there are no independent and voluntary business organizations with high representative power. With the inclusion of Brazil and India alongside Turkey, we believe that this report will supply extensive information about the evolution of business organizations in emerging economies.

The study will briefly consider the process of globalization and will proceed with the exploration of the fundamental global trends affecting the business community. Then, following a succinct discussion of the local developments having an effect on business organizations, we will concentrate on the question of how these winds of change impinge on the organizations. We will discuss how and why the traditional functions of the business organizations are changing and then we will examine the new functions. These new functions will be investigated in detail, including their national, regional and global dimensions. How the business organizations respond to these new functions and expectations by altering and rebuilding their administrative and financial structure and activities will be the subject of the following chapter. The penultimate chapter will present country cases. This chapter will include the perspectives of developed economies such as the EU and the USA and that of developing countries such as Brazil and India, as well as the Turkish perspective. The report will conclude with a general assessment and recommendations.

S E C T I O N  
2

GLOBALIZATION



## 2. GLOBALIZATION

Globalization is a concept lacking a clear cut definition and with an abundance of various attributed meanings. The situation is further complicated with the serious intellectual debates among scholars and writers who argue that globalization is irreversible and beneficial and those who assert the opposite. These debates and a detailed discussion on the phenomenon of globalization lie outside the scope of this report. While the report deals essentially with the economic aspect of the globalization, it also includes some references to political and cultural globalization.

David Henderson, former chief economist of the OECD, defines globalization as the "free movement of goods, services, labor and capital, thereby creating a single market in inputs and outputs; and full national treatment for foreign investors (and nationals working abroad) so that economically speaking, there are no foreigners." (Wolf 2004:14) This definition is an attempt at signifying what globalization means ideally. How the current economic developments fit into the framework of this definition is open to discussion; in fact it is fiercely debated. While the movement of capital is almost perfectly free and commodity movements are free to a great extent, there are serious obstacles against the free movement of services and particularly labor. On the other hand, many countries use several open and concealed practices and continue to treat foreign nationals as "foreigners".

Notwithstanding these criticisms and its own inherent problems, globalization started to accelerate during the last quarter of the 20th century and, despite the partial loss of momentum caused by the 2008 global financial crisis, continues its shaping influence and propagation in the 21st century. One of the causes of the accelerating globalization has been the significant decrease in the cost of transportation and communication. Global movements have gained unprecedented speed as a result of the increased pace of the transport of people and commodities from one place to another. In addition, improvements in communication technologies have contributed immensely to this accelerating process. Furthermore, the establishment of institutions such as the World Trade Organization (WTO) aiming at removing or reducing trade and investment barriers, and implementation of regional trade agreements (EU, NAFTA, etc.) has added their share to the accelerating globalization process. Finally, at the national level, political measures to remove or reduce administrative and legal trade and investment barriers have also been instrumental in furthering the globalization process. Without such administrative and legal measures, the change in communication technologies by itself would not be able to set in motion such a great qualitative transformation.

One of the crucial turning points in the historical process leading to the three developments briefly mentioned above was the end of the Cold War which had caused a deep political and ideological divide in the world, heralded by the turmoil in the Eastern Bloc during the years 1989 and 1990, and climaxed with the collapse of the Soviet Union at the end of the year 1991. With the end of the Cold War the tension between the two blocs disappeared to a great extent and the path of the "market economy" was opened for the new countries formerly in the Socialist Bloc. Thus the greatest political and ideological obstacle to globalization has been eliminated.

Another important factor supporting the three main developments described above, and hence contributing to globalization, is technological progress. While it is true that technological progress is uneven in its impact on different sections of society and different countries and that technological inequality exists, one cannot ignore the strong driving power of technology on the globalization process. With technological progress becoming gradually cheaper and more widespread, production has made a significant leap forward. This increase in output, together with the substantial gains in the spheres of transportation and communication has made the globalization of trade and investment a possibility. The impact of the internet and other new tools in easing access to knowledge and communication has gone beyond merely multiplying economic relations. Technology contributes immensely to the elimination of borders between people and countries, to their political and cultural rapprochement and to their co-evolution. Thanks to the developments made possible by technology, individuals and countries can meet in shared platforms to create the "common wisdom" necessary to take common steps together.

S E C T I O N  
3

GLOBAL TRENDS SHAPING  
THE BUSINESS WORLD  
AND ECONOMIES



### **3. GLOBAL TRENDS SHAPING THE BUSINESS WORLD AND ECONOMIES**

#### **3.1. Global Trends**

There are a great number of current global trends with varying content and scope. In this report, we will consider only the global trends directly affecting the business world and economy. The said trends are summarized below under six headings. (Barber, Levi & Mendonca 2007; Argüden 2011; Ernst &Young 2010; NIC 2012)

##### ***1. Centers of economic activity are shifting regionally and globally:***

Growth rates of developing countries, and particularly that of China and India, are far above the growth rates of developed economies. According to forecasts by the United Nations Development Program, by the year 2020 the total income of China, India and Brazil will exceed the total income of the USA, Germany, Great Britain, France, Italy and Canada combined.<sup>2</sup> There are a number of factors behind the dynamism of developing countries (Ernst&Young 2010:6). The growth of their domestic markets at incredible rates is one of these factors. A young population, the rapid expansion of the middle classes, and continuing rapid urbanization are the main elements supporting the fast growth of the domestic markets. Another factor behind the persistent high growth rates in these countries is globalization. As the exports of goods, services and/or raw materials increase significantly by virtue of the globalization process which opens formerly closed doors, these countries realize high and sustained growth of their national economies and positively influence the growth rate of world output. In addition to the striking growth rates of developing countries, the rapid surge of economic relations among themselves triggers a shift of wealth and prosperity from the West and North, where they have been historically concentrated, toward the East and South.

The concentration of world power is dissipating as a result of this important development and smaller and more dispersed power structures are emerging. With the end of the Cold War, the second superpower of that era, Russia, has become more focused on its domestic problems and made its exit from the world scene to a great extent. The global ambitions of the EU have faded, partly because of the relief of the end of the Soviet threat, and partly because of its concentration on its internal agenda of enlargement and the single market. The economic power of the USA, the sole superpower in the world arena for the last 20 years, is declining relatively as a result of these global trends. In parallel with their ascending economic power, countries such as China, India, Brazil, Russia and Turkey are progressing to become regional and/or global powers politically and strategically. These

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<sup>2</sup> <http://www.un.org/apps/news/story.asp?NewsID=44371#.UbeNSbvOE9Q> (Accessed, 22.8.2013)

developments are reflected in the fact that the organization of the G20 is superseding the G8. The G20, which includes developing economies, represents 90 percent of world output, 2/3 of the world's population, and 80 percent of world trade.<sup>3</sup> Hence, the G20 is the most probable candidate for the most prepotent international platform for dialogue and decision making of the future; it may even replace the UN Security Council whose representative capacity is becoming more and more eroded. In the same vein, the weight of emerging countries in the decision making mechanisms of international institutions such as the IMF and World Bank is expected to rise.

**2. Demographic structure is changing; new consumer masses with different patterns of demand and behavior are emerging:** While the populations of developed countries are aging and decreasing, the populations of developing countries continue to grow. In developing countries, where average age is relatively low, there also exists rapid urbanization. This causes substantial population movements and consequently a far-reaching social and cultural transformation. Persistently growing incomes in these countries are estimated to add 1 billion new consumers to global markets in the next decade. The aggregate demand of these consumers will be one of the main driving forces of the global economy. Not only population dynamics, but also rising income levels indicate that the large consumer markets of these countries will create a very significant demand in the coming years. These new and large populations from a multitude of cultural backgrounds are already changing global consumption patterns and instigating the creation of new types of goods and services. Furthermore, "individualization" of consumption, triggering the creation of models of production together with and for individuals, is becoming more and more widespread.

On the other hand, the demographic changes in developed economies are giving rise to new consumption patterns as well. The aging population of these countries is generating new areas of consumption and services. For instance it is anticipated that health and elderly care services will develop and diversify to a large extent. Consequently, in these societies public authorities and private companies will allocate more resources and energy to these areas. It is also expected that the ratios of single parent families and working mothers will increase in developed countries. Hence childcare and other private personal services to raise the quality of life of these sections of the population will keep growing. Moreover, with the decreasing population, per capita incomes will continue to increase. All this means that luxury consumption goods and services will maintain their weight in developed countries in one way or another. Another demographic feature of developed countries, in addition to the ones mentioned above, is immigration from developing countries to compensate for the deficit in the young population; this is expected to continue in the future at a greater pace.

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<sup>3</sup> [http://www.g20.org/docs/about/about\\_G20.html](http://www.g20.org/docs/about/about_G20.html) (Accessed, 20.8.2013)

**3. *Technology is changing the world rapidly:*** The mobility provided by the rapid increase in technological advances is changing how people live, interact and communicate. In every sphere of life, from the production of goods and services to transportation, from entertainment to healthcare, technology brings substantial improvement and innovation. It appears that technology will never stop advancing, nor will it stop changing and transforming the world. In the coming days, among the areas of probable technologic advance the following feature preeminently:<sup>4</sup> information gathering and the analysis speed and capacity of companies will increase immensely; mobility will keep growing and affecting the interaction of people; technology will blur the boundaries and break new ground on what is currently considered the stuff of science fiction; cloud computing will be widespread; the innovation capability of the individual will increase; governments' role in supporting technological infrastructure will increase, improving security and protecting privacy.

**4. *Forms of governance are changing, central authorities are sharing power, and the power and importance of individuals are increasing:*** States and central authorities are no more able to govern single-handedly the new societies that have become more and more diversified and complicated. On the other hand, the global advance of notions such as democracy, transparency and accountability, the weakening of the concept of hierarchical administration, and the development of the participatory character of societies has given rise to new non-governmental agents. International institutions, local authorities, big companies, academic institutions and rich individuals are among these new agents. One of the new agents gaining in global prominence is the "individual". As poverty decreases, middle classes grow, education becomes more accessible, opportunities created by technology and communication multiply and healthcare services improve at the global level, power is gradually returning to the individual, or to the citizens. The innovations in social media technologies enable individuals to access information, to take part and to participate quickly and actively. Within the same process, non-governmental organizations (NGOs) operating in well-defined areas with the support and in the name of individuals are coming to the fore. The advance of democracy and the serious loss of credibility of the politicians reinforce the functionality of the NGOs, which are becoming institutions to control and fine-tune the political sphere. Voluntary business organizations are among the most important NGOs. As private companies adopt policies and attitudes respectful to the people and sensitive to their social and natural environment, the confidence of the individuals in the business world increases.

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<sup>4</sup> <http://www.ey.com/GL/en/Issues/Business-environment/Six-global-trends-shaping-the-business-world---Rapid-technology-innovation-creates-a-smart--mobile-world> (Son eriřim 23.8.2013)

**5. *The demand for natural resources is rapidly increasing and the concept of sustainability gaining importance:***

The world population is estimated to reach 9 billion by the year 2050 while increasing urbanization and per-capita income of this population puts massive demand pressure on all natural resources. It is also estimated that by 2030 the world population will demand twice as much in resources as the planet can supply.<sup>5</sup> In addition to the obvious serious threat to the natural environment, there is also the risk of social unrest and conflict as people, companies and nations compete for access to and possession of scarce resources. Unfortunately, scarcity may cause social unrest and even wars across the world. To reduce the pressure on natural resources to normal levels, technological innovations and modification of consumption patterns through education and/or new regulations may be instrumental; it is expected that some encouraging developments will occur in these areas. Additionally, in the energy sector and specifically in the field of renewable energy such as solar or wind power, and in drinking water treatment systems which is becoming a global market worth 500 billion dollars, new clean technologies are developing and becoming widespread. While incredible economic growth, increases in population and income and rapid urbanization are going on at the global level, sustainability, or meeting today's needs without destroying the resources of tomorrow and without endangering the survival of future generations, becomes a critical concept. Growth and development is sustainable only if the natural environment and people's quality of life are not devastated in the process.

**6. *Interdependency increases:*** The great changes in the economic and technologic spheres increase the interdependency of people, communities and nations; a natural, economic, political or social problem in a single country or region may affect the whole world. For instance, the destruction of rainforest in Brazil disrupts the global oxygen cycle, the Israeli-Palestinian conflict creates political repercussions across the world and particularly in the Middle East, the recovery of the US economy and rising interest rates causes a reduction in the funds flowing to developing countries with a financial deficit, and thus each one of these problems becomes the concern of large masses. While globalization brings the individual to the fore, it also deepens interdependency and hence spreads a culture of conciliation and coexistence.

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<sup>5</sup> <http://www.economist.com/blogs/tbeworldin2013/2012/11/global-trends-2013> (Accessed 13.8.2013)

## **3.2. The Impact of Global Trends On Countries and On Business**

The above trends operate at a global level and certainly affect all individuals, companies and states. However in the case of the countries considered in this study, as the detailed discussion of their experience in the relevant chapter reveals, some of these trends are distinctly felt by the business organizations in these countries, while others are not as significant. From the standpoint of the EU, for instance, defining and consistently applying the rules about trade and investment is particularly crucial in this period of transformation. Similarly, defining and implementing social standards on working life at the global level is also very important for the EU. It is quite understandable that a trade bloc that is adversely affected by global competition has such concerns. The increasing importance of global production and value chains is another matter of interest for the EU business. There are a number of other topics of similar interest, among which include multiplying bilateral or regional trade blocs, the increasing weight of the G20, cyber-security and the security of critical infrastructure facilities.

From the perspective of the United States, while intensifying competition and the growth of regional trade blocs are counted as adverse trends, they are also perceived as opportunities, since these trends also increase middle classes globally and will create a long term demand for goods and services. This is not surprising as the USA has a strong strategic approach as exemplified by its positive overall assessment of the entry of China to the global system despite the adverse effects of this development on its economy, valuing the long term increase of income and middle class growth over these short-term negative effects. From the viewpoint of the American business community, other urgent global issues are the increasing weight of the G20, the proliferation of free trade agreements and intellectual property rights. The issue of intellectual property rights deserves particular consideration. The USA has the most innovative and technologically progressive economy in the world and the income derived from intellectual property is of utmost importance for American companies. As the world evolves towards a knowledge-based society, this type of income will reach even higher levels. Intellectual property accounts for 74% of all US exports, which amounts to nearly 1 trillion dollars.<sup>6</sup> From the viewpoint of the business community in Brazil, one of the most important developing countries, increasing international (particularly Chinese) competition is a source of concern. In addition, exchange rate wars impairing Brazilian exports, the threat of speculative attack on the domestic currency and the instability of the world financial system are preoccupying the Brazilian business community. The Brazilian business community also carefully follows certain global developments such as protective

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<sup>6</sup> <http://www.theglobalipcenter.com/why-are-intellectual-property-rights-important/> (Accessed 15.8.2013)

barriers and regional trade blocs (particularly the free trade agreement to be implemented between the US and EU) which may get in the way of the Brazilian economy, rich in natural resources, trying to increase its exports and striving to access new markets.

In the case of India, another important developing country, global trends of importance are much alike. The increasing global and national competition and accompanying protective tendencies (particularly in the software development and service industries) are the most worrying trends for the Indian business community. The increasing entry of foreign companies into the Indian market and consequently the intensifying domestic competition is a cause of concern for Indian companies in their home environment. However, the reverse side of this development, or the rise of Indian companies to become global players with increasing levels of assets and production abroad, is perceived as a significant opportunity. This opportunity is obviously made possible by the same global developments. The Indian business community assessed that the government cannot be expected to accomplish everything, since global developments have greatly increased and diversified the work to be done. Hence they have initiated "unofficial dialogue" (Second Track Diplomacy) platforms in order to create policy alternatives and develop international dialogue. A unique aspect of the Indian experience is the fact that the large number of Indians living abroad helps Indian companies to expand their business abroad in the globalization era. Some Indian expats have started to return to India as a result of the high growth rates and economic dynamism of the country. This is also considered a particularly important aspect of current developments by the Indian business community.

From the standpoint of Turkey, the most important global developments affecting the business community are the great increases in trade and investment volumes, the increase of financial flows, the end of the Cold War and political liberalization. On the foreign trade front, the manufacturing industry of Turkey, which makes up nearly one fourth of its economy, is part of a major trade bloc due to the Customs Union agreement with the EU. For this reason the Transatlantic Trade and Investment Partnership currently under negotiation between the EU and the US is troubling Turkey considerably. Global developments are pushing the world toward an era where common human values are at the center and qualities such as transparency and accountability gain prominence. Another characteristic is the blurring of the local-global distinction and the overlapping of national agendas to a great extent. Consequently, become prominent, and demands and initiatives for joint actions become more and more frequent. Similarly, the blurring of this distinction makes every business organization almost automatically a global organization. Finally, one specific global trend affecting Turkey is the general acceptance of the global prevalence of the "market economy", in spite of the damage it received during the recent crisis.

It is clear that the increasing competition which inevitably follows globalization has the greatest affect on developing economies, and consequently this is one of the main areas of focus for the business organizations in developing countries. In their efforts to protect their competitive advantages, developed countries on the one hand try to impose their standards on a global scale, thus leveling the playing field and equating the rules of the game for everyone, but on the other hand they also try to implement policies to enhance their own competitive power. The developing economies and their business organizations are looking at the other side of the coin, and they strive to overcome the protective attitude they bump into. This is a vital issue for all three developing economies covered in this study. The TTIP negotiation between the EU and the US is particularly crucial for Brazil and Turkey. Then again, these countries aim at boosting their place on the stage of global trade with high value added products, by increasing their innovation capacity and their level of technology. Naturally, this transformation and reaching a new equilibrium at the global level is not possible without some labor pain. In developing countries, the business communities are among the social segments to suffer the most from this pain.



S E C T I O N  
4

LOCAL DEVELOPMENTS



## **4. LOCAL DEVELOPMENTS**

As can be easily anticipated, while global trends affect all countries to a greater or lesser extent, the reflection of these trends on a certain country and the local dynamics they create vary largely. The historical conditions of each country, the peculiarities of its political and social structure, and the idiosyncrasy of its institutional bodies induce different developments. Some of the outcomes are triggered by global developments, while some others are the product of internal dynamics. For the organizations of the business community, local trends can be as influential as global developments. As the environment in which these organizations operate is strongly affected by local developments and by the local reflections of global developments, the investigation of these local dynamics is crucial to understand the conditions surrounding these organizations.

In this context, the general outlook of the countries covered in this report differs largely from each other. In the EU local developments are quite complicated and heavily occupy the agenda. The most important local developments for the EU business community are the implementation of the single market, European Monetary Union, the Euro crisis, the EU labor market, relations with social partners such as trade unions, the minimum wage, immigration, youth unemployment, and so on. On the one hand the problems of enlargement created by new members of the Union, on the other hand the hard work of handling the complications of implementing the single market, and additional problems of harmonizing the points of view of national governments and parliaments with that of the central bureaucracy in Brussels and the European Parliament divert most of the energy of the EU business community to domestic matters. The Euro crisis, which started as an offshoot of the global financial crisis and deepened significantly, aggravates this situation. While there are some signs of recovery and return to growth in the EU economies, because of the intricacies of the issues and problems in the function of the decision making mechanisms, it is estimated that it will be a long time before the EU will change its introverted stance.

In the US, the largest economy in the world, the primary local development that challenges the business community is the increase of the debts of the country. The public borrowing, which took a great jump during the crisis, is worrying because of its macroeconomic effects on the one hand, and because of crowding out private sector financing and borrowing possibilities on the other. Immigration and social, economic and political disturbances caused by illegal immigrants are also a matter of concern for the American business community. In addition to the social and political dimensions of the problem, the high proportion of illegal workers employed in the construction industry and agriculture makes it impossible for the business community to remain

insensitive to this issue. Decaying infrastructure and insufficient investments for the improvement of infrastructure worry seriously the business community. The shift of certain business abroad and particularly to China as a result of globalization is a cause of increasing unemployment in some sectors and regions. The reintegration of the unemployed in these sectors to working life through education and training programs is another area where the business community is closely engaged, following the principle of social responsibility.

As typical for a developing country, the local dynamics of Brazil include social and political issues as well as economic ones, and therefore form a large and complicated web. Economically, problems of access to technology, insufficiency of R&D activities, inadequate infrastructure, problems created by state controlled enterprises, the intricacies of the tax regime and the social responsibilities of private companies are among the important local issues. However, the population dynamics of the country, the inadequacy of the educational system, labor relations, rapid urbanization and the security problems it creates, the insufficiency of the healthcare system, the flaws of the judicial system and the need to further develop the democratic system are also underlined as major problems in the country.

In India, another developing country, among the local developments affecting the agenda and the activities of business organizations the initiatives to improve dialogue between the business community and the parliament, the political parties and NGOs are essential. The regional development efforts to overcome the political and social challenges created by the Naxal movement established by radical leftist groups constitute a major item of the agenda. Among the other issues, there are the efforts to lay the foundation to make India a knowledge society and leader in innovation, bringing the country's rapid economic growth to a fairer, more inclusive path, sustainability and enlarging the social responsibility work of businesses.

Finally, a closer look at Turkey reveals many local dynamics affecting business, as Turkey undergoes a serious transformation under the influence of its internal dynamics at a time when globalization is in full swing. One of these, is the evolution of Turkey since the 1980s toward a more open social structure as a result of more open economic policies and a matching foreign policy. During the 1980s, the liberalization and economic opening policies of the Özal period initiated an almost revolutionary process for the business community. In this process, the implementation of the Customs Union with the EU in 1996 and then the onset of the accession process toward full membership in the EU are the local dynamics with the greatest impact on Turkey and Turkish business. The severe economic crisis in the early 2000s and the following strong recovery and structural adjustment has had significant repercussions on the Turkish business community.

Furthermore, first during the ANAP, and then during the AKP governments, two waves of active policies to expand business abroad with a specific emphasis on the benefits from trade had a critical impact. Political developments culminating in the AKP rule from the year 2002 on, the political transformation and economic stability of this period and positive steps such as the peace process aiming at the solution of the Kurdish problem mixed with recent problems in the areas of democratization and foreign policy are among other local developments of importance for the business community.

The local dynamics taken together appear to have quite persistent effects, nearly as important as the global developments for business organizations. Notwithstanding some common features, local trends vary seriously from country to country or from region to region. Particularly there is a pronounced difference between the developing and the developed economies. For instance in the EU, activities aiming at the development of the single market take up a great part of the resources and energy of business organizations. As the EU is a huge, complex mechanism still in the process of forming itself, the efforts required are enormous. Consequently, business organizations in the EU realm strive to adapt to global developments on the one hand, and to balance regional, national and global interest within the EU on the other. The political polarization, budgetary issues, and the problem of immigration in the USA are of a very different nature than their counterparts in the EU. In contrast, in developing Brazil, India and Turkey there are local developments and deficiencies concerning social fabric and infrastructure, such as in the areas of education, law, social justice, and security/stability, in addition to the economic and political problems affecting the business community.



S E C T I O N  
5

CHANGING FUNCTIONS OF  
BUSINESS ORGANIZATIONS



## **5. CHANGING FUNCTIONS OF BUSINESS ORGANIZATIONS**

The global trends discussed in detail above and the local developments generated by these global trends or by local dynamics profoundly affect business organizations and transform their roles and functions. In this section, the main areas of transformation will be considered and discussed along with the new centers of focus and activities accompanying the new roles and functions.

### **5.1. Enhanced Social Role Of Business**

The most pronounced transformation caused by global developments affecting business organizations is the increasing relevance and importance of the roles and functions of non-governmental organizations, particularly that of civil society organizations and companies, despite a minimal loss of power by the central authorities/governments. Developments at the global level cause a widespread redistribution of the power reserved traditionally by the state/central authorities to many different institutions. In this context, companies and voluntary business organizations representing them become more and more prominent. According to the perspective shared by the then General Secretary of the UN, Kofi Annan, and all the participants of the "World Summit on Sustainable Development" held in Johannesburg in the year 2002, "the role of business and trade was understood to be central, if not pre-eminent, in meeting the economic, social and environmental aspirations of governments and peoples worldwide." (McKague & Wheeler 2002:1)

The stated prominence of business and the increasing and diversifying goals of business organizations direct them to initiate more dialogues with the governments and other stakeholders around them, to assume a structure capable of producing more policy alternatives, transparency and much more efficient communication policies. There is also a noticeable transformation in the expectations of individuals and of society from business and business leaders. According to these expectations, now companies are no longer merely organizations producing goods and services for commercial purposes, but also are active players in many areas of social life, maintaining great economic power in dealing with social and economic problems, hence touching many people's lives and interacting with the world around them. However, these expectations vary from country to country according to the development level of the society and the perception of the people. For example, a public opinion survey reveals that what is expected from companies is to produce safe, quality products in China, Russia and India, to protect the environment in Canada, Great Britain and Australia, to treat workers fairly in the USA, Brazil, France and Italy, and to donate to charities in Turkey.

(Cormack&Fitzgerald 2006:11-12) Notwithstanding these differences among countries, for the business community the most effective way of answering the expectations of society is not supporting certain social sectors through donations and various programs, but doing their business in a responsible and sustainable way. This approach will maximize long term benefits to society.

One should emphasize in this context the role to be played by the business organizations of developing Brazil, India, Turkey, and the new members of the EU in capacity building and in development and institutionalization of democracy. In all countries except the developed Western societies, the expected role of the business community in consolidating democracy becomes even more crucial with their increasing social power.

Another important global trend is the increase in the power and the importance of the "individual". The individual as consumer, as employee, and most importantly as citizen and stakeholder remains the counterpart facing businesses on many platforms. The rise of the importance of the individual as consumer on a global scale increased the value and the significance of the individual globally as much as technological developments and political liberalization. As the individual occupies such a privileged position at the global level, an individual-centered perspective and acting in accordance with it become the rule for business organizations.

The term "corporate social responsibility" conceptualizes what business can do in the context of their increasing social responsibilities. The term made its way into the everyday language of companies, first in the West nearly simultaneously with globalization, and then throughout the entire world. Corporate social responsibility signifies the rules of action that the business community voluntarily enforces on itself, which include not to act against the spirit of the laws, not to violate the ethical framework and to obey international rules. This means that corporate social responsibility is the totality of the rules and practices regulating the impact of companies on a society and their interaction with it. Currently many companies and business organizations have defined and declared their own principles of corporate social responsibility.

The ever-increasing importance of the social roles of business and business organizations forces them to become more active and vocal, both regarding their country and the world, and sometimes to take a stand on controversial issues. In this situation, business organizations have to build their position on many subjects and share it with the wider public most of the time; they may even find themselves in a position of actively participating in the implementation processes. This function requires that business organizations increase their capacity considerably. The business organizations burdened with this kind of function and trying to play their role properly collaborate increasingly

with universities, think tanks, NGOs, and similar specialist institutions as well as employ experts. At the global level, this function finds one of its expressions in the B20 platform organized as a part of the G20. Established at the 2009 G20 meeting in London, B20 is a platform where business representatives of the G20 countries meet in parallel with the G20 summits of political leaders. The purpose is to evaluate the business outlook together with the political outlook. In the B20 meetings, the EU is represented by Business Europe, the USA by the US Chamber of Commerce, Brazil by CNI, India by CII and FICCI, and Turkey by TÜSIAD.

One of the new functions of the business organization in this new context is the "unofficial dialogue", or the dialogue platforms they lead or participate in. As players at the global level, with well-developed relations with foreign politicians, businesspeople and international institutions, business leaders and institutions participate in such dialogue platforms ever more frequently. In this way, the opinions of business leaders on global economic, political and social issues are shared with a much larger section of society and reaches the wider public. These platforms are also very functional for the business leaders in capturing the views and expectations of various sections of society. In this fashion, the business community can enhance its interaction with the society around itself, and can better include considerations on the expectations and worries of various sections of society in its economic/commercial decisions. Sometimes business organizations participate in dialogue platforms where topics of a very crucial nature for their specific countries are discussed; they convey unofficially the views and recommendations shaped there to their public authorities, and hence take part in "unofficial diplomacy" initiatives.

This context brings the relations of the business community with politics to the fore. Always and nearly everywhere the business community has been entwined with politics; it even finances politics openly or covertly. Among the countries covered in this report, in the developed EU and USA, the relations of the business community with politics are dominated by communication, advocacy and lobbying activities. In an environment of conflicting interests, a developed civil society and high-level of institutionalization, the business organizations of these developed countries are in fierce competition with other sections of society in conveying their demands to the politicians. The politicians are in a continuous effort to balance the demands of various sections of society, the increasing demands of foreign actors, and the demands of the business community.

In developing countries, the relations of the business community with politics is more complicated and one-to-one relationships still carry a considerable weight. Because of the dual structure of the economy of these countries, even if practices similar to that of the developed countries as summarized above have appeared, non-institutional sections of the business community, such as relatively small and medium enterprises, rely heavily on the personal dimension of the relations. (Buğra 2013). In any case,

financing mechanisms of political parties and regulation and monitoring of lobbying activities in line with international norms are crucial for enhancing the transparency of the relations between politics and the business community.

## **5.2. Blurring Of The Global-Local Dichotomy**

One of the most salient features of the new environment facing the business community is the blurring of the global-local dichotomy as a result of current developments. Globalization requires that business organizations target a much larger geography, the entire globe in fact. The causes behind this requirement are not only of an economic nature, such as foreign trade, investment or the internationalization of production; from conflict in the Middle East to global warming, from immigration to sporting events, many economic, social and political factors also contribute to this result. The overlapping of local agendas in a globalized world necessitates that all the efforts and activities of business organizations are routinely carried out while taking into account all global platforms.

An investigation into the historical evolution of the prominent characteristics of business leaders reveals a transformation strongly supporting the situation described above. (Gitsham&Wackrill 2012:27) Before the Second World War, business leaders of the West were expected to be "great men"; strong, charismatic, inherently superior. In the 1950s and 60s the "rational manager" replaced this ideal. The mid-1970s and 80s were the era of the leader as the "change agent". In the 1990s and 2000s the concept of "relational leadership" became the dominant idea. The characteristic feature of the 21st century is conceiving the business leader as a "global citizen".

The blurring of the global-local dichotomy has caused a radical change in mentalities, and the structure and activities of business organizations are radically revised correspondingly. The consequences of these phenomena on the management of business organizations will be considered in detail in the following chapters of this report.

## **5.3. Struggle Against the Consequences of Increasing Competition**

Another trend deeply affecting business organizations is the increasing competition everywhere, as the world becomes more and more interconnected in every way. The competition is not only limited to export markets, as companies fiercely struggle to defend their home market. The competition for production inputs further complicates the situation. Technological developments and innovations affect companies in certain industries and areas faster and more severely than others. As competition sharpens and

creates serious pressure on natural resources, countries become more inclined to protect their companies. To fight these open or concealed protective policies requires wide-ranging technical, legal and political activities and initiatives.

A natural offshoot of this development is that these organizations are now obliged to follow, understand and influence what is going on abroad, and have to employ experts with the required capacity and experience to do so and/or work with consultants in many areas. As these protective measures are implemented in every country with government policies and parliamentary support, business organizations have to work closely with their governments in dealing with this issue. Hence, the situation necessitates the establishment of comprehensive communication and consultation platforms which include business organizations and related public bodies. Other important platforms to deal with this and similar issues are international organizations such as the WTO. All these entail the increased international activity and presence of business organizations in order to follow and influence important developments abroad as part of their efforts concerning competitiveness. Some business organizations demonstrate this effort with their visits and contacts abroad, while others open representative offices in certain countries, they consider important to manage their initiatives more effectively. These efforts necessitate that these organizations restructure administrative and financial aspects of their operations in many ways.

Another matter relevant for the issue of competition is the technological level and innovation capacity of the country and its business community. The technology owned or used is the most decisive factor for the competitive power of companies or countries. Technology may create a crucial competitive advantage for a company by reducing production costs, increasing production velocity or improving the quality of products. By the same token, the innovation capacity of a company/country may create a crucial advantage for it in the arena of global competition. Consequently, resources allocated to education, R&D expenditures and toward the transformation to a knowledge-based society, public policies and support in this area maintain a very special place on the agenda of business organizations. Business organizations make themselves more indispensable in the eyes of their members as much as they enable them with a vision and contribute to their concrete steps to obtain positive results.

An important dimension of the activities of business organizations in the field of competition is the efforts for advocacy which they initiate on various platforms. These advocacy activities are sometimes aimed at the home government and/or parliament, sometimes at the political authorities of other countries, and sometimes at international institutions. Particularly when aimed at international platforms, advocacy activities require a serious amount of labor, know-how and time. Therefore these activities raise the question of the capacity and resources of business organizations.

Another issue related to competition which especially remains important in developing countries is "corruption". While corruption has both economic and social dimensions, from the standpoint of the business community it is a practice which reduces the efficiency of economic decisions, distorts competition and hence not only burdens companies with additional costs, but also creates a social cost. According to the estimations of the World Bank and World Economic Forum, the yearly social cost of corruption reaches 5 percent of the global gross product (2.6 trillion dollars) and increases the cost of doing business on a global scale by 10 percent.<sup>7</sup> The fight against corruption is among the new functions of business organizations as it will not only improve the competitive environment, but also enhance moral values in society, reduce unfairness and eliminate the social cost of corruption.

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<sup>7</sup> <http://www.theguardian.com/sustainable-business/blog/eliminating-corruption-crucial-sustainability> (Accessed 25.8.2013)

S E C T I O N  
6

CHANGE IN ADMINISTRATIVE  
STRUCTURE AND ACTIVITIES



## 6. CHANGE IN ADMINISTRATIVE STRUCTURE AND ACTIVITIES

The chief effects of globalization on the business community and the new functions generated by this transformation were discussed in the previous chapter. This chapter will examine concrete areas of change in the structure and operation of business organizations in light of the impact of globalization and the new functions assumed.

***Number of organizations and diversification:*** The new environment shaped by globalization has carried with it a diversification of the business organizations in all the countries covered in this report. The chief reason for establishing new organizations seems to be the generation of a distinct new global environment and the inability of the existing business organizations to adapt or their insufficient/delayed adaptation. The emergence of a new industry or a geographic region may also cause the establishment of new business organizations to operate in entirely new fields of activities. There is a marked increase in the number and diversification level of organizations in the covered countries, especially during the early period of globalization. However, in some countries a trend of consolidation appears in later periods of globalization. Among the countries covered in this report, in India and in the EU, there exists such a trend, although it is not very strong. Every aspect of globalization discussed above can also be considered among the causes of this consolidation. For the most part, business organizations experiencing difficulties in tackling the global developments choose to move in this direction, with the understanding that they may be more effective by combining their forces and resources.

In addition, there is a noticeable bent on collaboration among business organizations facing similar problems, even if consolidation is out of question. Furthermore, this is true not only for the organizations in a single country, but also among business organizations of different countries facing similar problems. For instance, in order to draw attention to the draft bill about the preferential treatment of the goods made in the US, already on the agenda of the US Congress, nine foreign business organizations holding representative offices in Washington DC, including CBI from Great Britain, BDI from Germany, TÜSIAD from Turkey, CII from India, BIC from Brazil, and Keidanren from Japan sent a joint letter to the US Congress on February 9th, 2009 emphasizing the probable negative impact of the draft bill on international trade.

***Shift from obligatory business organizations to voluntary organizations:*** An important aspect of the ongoing change is the observed rapid shift from official or semi-official business organizations with compulsory membership to voluntary organizations.

The unwieldiness of the semi-official business organizations inherent in their nature and their inability to meet the demands of the current era on the one hand, and the general move away from the official realm as another feature of the current era as well as the rising culture of NGOs on the other, boost the drift toward independent, voluntary organizations. Members not only benefit from the dynamism of this type of organization, but also enjoy many opportunities to steer the activities of the organization according to their own views; hence they gravitate towards them.

***The rise of new generations:*** There is a very visible aspect of this transformation with regard to the membership structure and direction of these organizations. As a result of the transformation brought by globalization and new technologies the numbers of young entrepreneur and professional members of the business organizations increase noticeably. The change started in the membership profile and soon affected the administrative structure as well. Frequently replaced young directors have started to take over from older, experienced, almost permanent long-term directors. Consequently, circulation in business organizations has begun to accelerate, and the capacities of the organizations to generate new ideas and to follow the current agenda on the one hand and the pulse of its members on the other have taken off.

***Increasing transparency and accountability:*** As a result of the developments cited above, the transparency of the organizations has become essential. While the number and the weight of organizations managed by almost permanent directors, without a well-defined budget or a control mechanism monitoring expenditures, and with opaque membership procedures decreases, business organizations that publish their balance sheets on their websites, employ independent auditing firms to evaluate their operations and announce the audit reports are everywhere becoming more and more numerous. The crux of the matter is that these practices are no more exceptions; they have become the rule. The positive developments in this regard help business organizations to be more effective in their relations with political parties, leaders and other sections of society and enable them to impose similar principles. By cleaning up their own backyard, business organizations enhance their trustworthiness and thus boost the efficiency of the social role they want to play.

***Activities abroad and representative offices:*** With the blurring of the distinction between home and abroad as discussed above in more detail, the contacts and relations of business organizations abroad have multiplied and diversified significantly. In addition to the increase in foreign contacts, business organizations build lasting collaborations with foreign or international organizations or join international umbrella organizations. For business organizations, another even more enduring and important way of enhancing international relations is establishing representative offices in certain important international

hubs. For instance, the Confederation of Indian Industry (CII), one of the leading business organizations in India, maintains representative offices in seven countries (USA, Australia, China, France, Great Britain, Egypt and Singapore); BDI, the chief business organization of Germany, in three countries in addition to Brussels (USA, Great Britain and Japan), and TÜSİAD from Turkey, in five countries (USA, Germany, Belgium, China and France).

Another point worth mentioning regarding business organizations is the increasing number of foreign companies operating in their countries and applying for membership. The business organization model that includes only national companies is disappearing slowly as a new conception of organization serving domestic and foreign companies and individual members representing them comes into prominence. In this situation serving only a "national" agenda loses meaning, and this in turn supports the general trend of the blurring of the dichotomy of home and abroad.

Another dimension of the blurring of the home/abroad distinction involves conferences and training programs organized with the participation of foreign delegations and participants coming from abroad. In addition to this type of activity open to members and/or the general public and the press, there are also meetings, seminars and training programs aimed at the staff of the business organizations, which should be mentioned among the activities with an international focus.

***New approaches in communication:*** On the one hand the new functions and important developments affecting the intellectual climate, and on the other hand the revolutionary progress in communication technology have laid the groundwork for the change in how business organizations communicate with their members and how they handle their public relations. The business community is no more a social group who pursue only "profit" and "interest" whose perspective is limited to a commercial lens. It is now a community of entrepreneurs, goods and services producers by profession, but also of active members of society acknowledging their responsibility as global individuals. Consequently, the business community is to be a social group that undertakes its social duties, ready to come to the front and lead when necessary. The language and the methods of public relations should be appropriate for this qualitative change. This means that what is called for is a new communication strategy which includes bringing tough problems to the social agenda even if it is against self-interest, promoting dialogue, and gathering people by engaging with the government, other business organizations, or wider society. (Gitsham 2012)

Similarly, with regard to relations with their members, business organizations are no more the aloof organizations of the past, disconnected from their members and acting on the whims and political preferences of their maverick directors. Instead they are

growing into institutions closely following the demands of their members, trying to understand them and providing the "services" they need. They are becoming accordingly transparent institutions, promoting participation, open to their members, and interacting with them on all issues.

***Providing information, education and training activities aimed at the members:*** The scope and the speed of global changes force business organizations to seriously increase and diversify their activities to inform, educate, train and inspire their members. Business organizations have become front runners and they are expected to enhance their "leading" and "guiding" functions. These kind of activities are now vital for business organizations if their members are to keep pace with global competition, grasp opportunities and use them efficiently. Hence, programs that aim at arming their members with a vision, developing policy recommendations and bringing decision makers and opinion leaders from home or abroad and their members together have grown into routine activities of today's business organizations.

***Increasing and diversifying collaboration with government bodies, think tanks, universities and NGOs:*** Another dimension of the above mentioned new functions is generating concise, high quality knowledge. Business organizations have realized the importance of producing knowledge and their inability to accomplish this job adequately by themselves, and thus have initiated permanent or project-based collaborations with other knowledge producing institutions. To this end, they work together with various public institutions, think tanks, universities, institutes, and NGOs, and share the knowledge they produce with their members and wider society. In some cases, business organizations establish institutes or research centers in cooperation with universities in order to ensure the permanency of these activities. This type of activity may take place abroad as well. For instance, TÜSİAD has established Foreign Policy, Economic Research and Competition Forums within three different Turkish universities and joint research centers and programs with the Brookings Institution and the German Marshall Fund in the US capital, Washington, DC. Similarly, BDI of Germany has launched the "Germany-Land of Ideas" Program jointly with the German Government and "Forum Vergabe" (The Forum of Public Procurement) in collaboration with institutions from Germany, Switzerland and Austria. The CII from India has established the "CII Quality Institute" and "CII-Triveni Water Institute" as well as dozens of similar programs with partners in India and abroad.

***Growing budgets:*** The increasing level and diversification of activities, the increase in the quality of these activities, and the blurring of the national-foreign distinction impose a sizable financial burden on business organizations. The main revenue source of many voluntary business organizations is their membership fees. These organizations

try to augment the total amount of revenue brought in by membership fees by increasing the fees on the one hand and enlarging the membership base on the other. However, even the increased amounts generated through membership fees are insufficient to meet the rising expenditures and hence additional financing methods, such as project based sponsorship and donations, are now used widely.

***Improvement in the quality of the staff:*** Nearly every topic covered in this report points to the need for increasing the human resource quality of the business organizations. The business organizations who have to inform and guide their members need well educated staff capable of following complicated global and local developments, analyzing them, and developing policy recommendations. The importance of employing such staff in order to inform and guide decision makers and the wider public is obvious. The pressure of improving the quality of the employed staff grows in line with globalization. Business organizations sometimes opt for project based employment or outsourcing and sometimes for employing expert staff within their organization. However, there is a visible transformation improving the human resource quality in all key business organizations of the countries covered in this report.



S E C T I O N  
7

COUNTRY/REGION CASE STUDIES



## **7. COUNTRY/REGION CASE STUDIES**

This chapter includes original case studies for the five countries/regions, written by five different authors. The criteria to determine these countries were explained in the introduction. These countries/regions are the European Union, the United States, Brazil, India and Turkey.

Some of the essential facts were mentioned in earlier chapters, usually with country/region references. The case studies below contain much more detailed and in depth information about the country/region experience. Reading these case studies will be very useful in order to comprehensively and deeply grasp the experience of these countries/regions with regard to the main concerns of this report.

The authors of these case studies, each living in a different country and time zone, were asked to write a study framed by a number of questions aimed at creating coherence and assuring the inclusion of all the required basic information and analysis. It was also indicated that this was only a general framework, and within this broad framework, the authors were to freely deliver their own original contributions. As could be expected, both on account of the differences among the countries and the different personal experiences and perspectives of the authors, the case studies came out not as similar texts answering the questions directly in the same way, but rather as more or less self-contained, independent short monographs. The first drafts of the authors were revised in order to ensure that each study covers certain basic topics and has a certain parallelism and comparability. The studies answer the following questions to a great extent, although each deviates from the common structure here and there to discuss certain important particularities of the discussed country/region not observable in other cases. All things considered, the following monographs are esteemed as very informative and illuminating.

### **7.1. Framing Questions**

The seven questions sent to the authors to provide a framework for the country/region studies at the stage of writing are listed below. The country/region case studies of the following chapters were written with these questions in mind.

1. Considering that the business community isn't uniform and, therefore, isn't represented by a single organization, briefly describe the organizational composition of the business community in your region.

2. What are the key global trends that have an impact on your country/region's business organizations? (For instance, population dynamics, increased competition, clean technologies, urbanization, sustainability, and so on). What are the specific effects of global trends on business organizations in your region? (Please note that I'm interested in the impact on business organizations, not businesses themselves, even though there is a strong correlation between the two.)
3. What are the emerging "local" business/social/political trends, demands and pressures that business organizations feel compelled to respond to? (Examples: Implications of global competition on your region's companies, labor and natural resources; the diminishing role of the state and increasing role of private enterprise in economic activities; corporate social responsibility; immigration; pollution; so on)
4. What role do business organizations play in the areas of democratization, freedom of speech, transparency, and consolidation of the market economy in your region?
5. How does the business community in your region deal with such global and local challenges? What are the new functions assumed by business organizations as a result of both global and local trends?
6. What are the challenges faced by the business community in your region in terms of adapting itself to the new environment and assuming new functions while abandoning some of its traditional functions?
7. How are these global and local changes affecting business organizations' missions, activities, administrative and financial structures, and membership compositions? In what direction are business organizations headed?

## **7.2. European Union<sup>8</sup>**

When you think of Europe you think of both: unity and diversity. This is certainly true for the business community and their organizations. The European Union as we have it now went through a rapid development of both deepening and enlargement. 12 countries have joined since the iron curtain fell and a new legal framework, the Lisbon Treaty is in place. This treaty enhances the legislative powers of the European Parliament and streamlines decision making. More countries are expected to join the Union and negotiations for accession with 9 countries are underway or envisioned.

Since the project of the European Single market was launched in 1986 by the Single European Act and implemented in 1992, the pace of globalization has accelerated

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<sup>8</sup> *This section is written by Bernhard Welschke*

dramatically, with great potential but also challenges for European companies and their business groups. The European Union is the largest integrated economic region in the world. At a time when global supply and value prevail, open markets are critical for the competitiveness and success of companies. Dependable rules for trade and investments are therefore a major item on the agenda of European Business groups. Still, the functioning and the further development of the Single Market, the European Economy and the European Monetary Union are at the heart of their mission and activities at home and in Brussels.

### ***Structure and Mandate of Business Federations***

The business groups in Europe vary considerably in size, scope, membership and mission. In most countries, the leading groups represent a majority of companies, large, medium-sized and small. With some exceptions, notably in Germany, they speak on behalf of business and also act as employers engaging in negotiations on social and labor market issues. In some countries, notably in Germany, federations hold on to a dual structure of independent industry and employer groups. In addition to federations, other groups such as Chambers of Commerce in various legal capacities work on behalf of the business community.

On the European level, these groups are members of Eurochambres, an institution that has a strong regional focus and structure. BusinessEurope, formerly known as UNICE, is the umbrella for national industry and employers federations. BusinessEurope engages in advocacy towards the European institution, the Commission and the European Parliament. Since trade and international investment are among the exclusive competencies of the EU, BusinessEurope also plays a strong role in coordinating the views of European business in these important areas.

### ***European Federations as Social Partners***

In most European countries business federations with a broad mandate for advocacy also serve as social partners. In some countries, they engage in a process independent of governments, negotiating wages and the terms of employment with labor unions. In other countries, particularly in new EU member countries, the tradition of tripartite negotiations persists. With European enlargement and globalization, the range of issues for social partners is growing. The integration of European labor markets and the freedom of movement for labor have been at the center of recent activities. So are youth unemployment, minimum wages and the migration of the workforce across borders.

On the international level, European federations engage in the International Organization for Employers, itself an official advisory body of the International Labor Organization (ILO), together with the International Trade Union Council (ITUC). These groups, based in Geneva, are engaged in negotiations about the basic terms of employment and social standards globally and about related issues. Currently, the IOE engages in the G20 process of Labor Ministers, offering advice on issues such as apprenticeships and structural reforms for labor markets.

All these activities require considerable commitment of European employers and their federations in terms of financial resources and qualified personnel.

### ***Resources, Management and Structural Change***

Business federations in Europe have a diverse portfolio to serve the interests of their members, be it companies large and small, or sector and branch federations. For some, policy advice and analysis as well as advocacy are core business. Others focus on specific services in markets at home and abroad. Most engage in both fields of activities. This leads to specific demands in terms of resources, financing and administration. Pressure on budgets varies depending on the commitment of members and the demand for core services. In most cases, there is a constant effort to prioritize and to adjust resources. In order to respond to these challenges, some federations introduced or are in the process of introducing advanced tools for quality management such as ISO terms.

Budgets of European business federations can be exposed to considerable fluctuations according to the financial situation of members and companies. In most cases, subscriptions for members correspond with the turnover of companies and/or the level of employment. Federations are challenged to raise funds in times of an economic downturn and to keep companies on board.

With the changing patterns of competition in European and international markets, the commitment of companies changes as well. Some members question the multiple layers of federations on the regional, national and European level. Consistently, adjustments have to be made in terms of mission and accountability. Expectations for additional and more targeted services and advocacy are growing accordingly. For some time, it was expected that federations who operate on the European level would increasingly take over from federations that represent national business and sectors. The trend is clear: business needs adequate representation on the European level and as a consequence some consolidation in the structures of national and sector federations is ongoing. But in light of the weight of national interests and the guiding principle of subsidiarity the consolidation of business federations in Europe will find limits.

## ***Enlargement and Deeper Integration***

The enlargement of the European Union brought new challenges to the representation of business interests. The business community in accession countries invested in capacity building for new groups with a mandate for advocacy and policy, seconded by the Commission and with the support of established federations in EU countries. One of the main responsibilities of these groups was to facilitate the implementation of European legislation and the business aquis for companies and investors. Today, these groups play a major role in their countries and in Brussels advocating open and competitive markets and measures to promote efficient economies.

Parallel to enlargement, European business organizations were strongly involved in discussions about the deepening of the European Union and a new European Treaty. After a long debate at national level and the failure to ratify earlier treaties, the Lisbon Treaty is finally in place. It strengthens the role of the European Parliament in many areas, but notably gives the Parliament a final vote on the ratification of trade agreements and other treaties. With the growing importance of bilateral and regional trade agreements at a time of rapid globalization and the current standstill of multilateral trade negotiations, this is a considerable responsibility. European business federations are challenged to speak with one voice across sectors and countries, if they want to have an impact on the decisions of the European Parliament and the Commission. Here, the diversity of the European economies, with a strong manufacturing base in some and more important services in others, is sometimes a drawback. Still, most federations, including a series of European sector groups such as CEFIC or ACEA opt for broad negotiations on the elimination of remaining tariffs and other barriers to markets.

## ***Advocacy on the EU Level and Beyond***

European Business federations are challenged to respond to the complexities of policy making in Brussels and Strasbourg. All federations who want to contribute and to influence this process must have a presence in Brussels. The EU Commission with a broad range of competencies and the initial right to initiate legislation is one addressee. The European Parliament with more than 500 members has gained much ground and importance for the agenda of business. Voting of the Parliament is often hard to predict. But it is also the European Council and the governments of member states that need to be addressed. If European business federations want to have an impact on the European level, they need to employ significant resources and sophisticated staff on the European level. They are also challenged to respond to activities of individual companies and sector federations in Brussels and in European capitals. Often, it is advisable to develop a multiple approach with input to all relevant institutions and

stakeholders. Traditionally, business federations are also formally engaged in the European Economic and Social Committee (ECOSOC) where the social partners and civil society develop positions on a wide array of legislation and regulatory activities. According to the Treaty, ECOSOC must be heard on all major legislative and regulatory initiatives of the EU.

For some time, there is a discussion concerning the transparency of private sector advocacy in Brussels and in particular at the European Parliament. Business federations respond to this debate with a reference to their broad mandate to present balanced and sound policy advice. As a rule, the leading business federations strive to be comprehensive, representative and politically independent. It is their expertise and knowledge of markets that can make an important contribution to policy decision by the European Commission, the Parliament and the Council.

With the rapid development and use of information technologies, European business federations must engage in new ways of communication and outreach. The social media provide a new platform for policy debate and the media. Non-governmental Organizations often employ new and sophisticated tools to reach their constituencies and to influence the public opinion. Business federations are challenged to develop their own means of communication with members, the media and the public. This requires considerable investments in equipment, know-how and skills. One recent example for the power of an accelerated debate and the Internet as a forum for public policy is ACTA, the controversial Anti-Counterfeiting Trade Agreement. Business federations must be prepared for similar debates about issues that invite a new and extended audience to join the debate and to shape the outcome.

### ***The Importance of Global Markets***

All European economies are strongly connected and dependent on regional trade and the development of global markets. As a region and Single Market, the European Union is the largest trading block globally. As a consequence, business federation must devote considerable resources to all matters of regional and international policies on trade and investment. An important institution for analysis and policy advice is the Organization for Economic Cooperation and Development (OECD). This institution, created in 1962 to facilitate the efficiency and competitiveness of European Economies, is now a knowledge partner for governments in 34 countries on almost all continents and has an outreach to many other emerging and developing economies. The scope and relevance of the OECD policy work, and the many legal instruments it develops to provide for a level playing field in markets, is mirrored by BIAC, the Business and Industry Advisory Committee to OECD. Many European federations, along with their counterparts in Asia, in America and in Pacific engage in policy work at BIAC.

With the standstill of multilateral trade negotiations, the propensity for governments to engage in negotiations on bilateral and regional trade agreements has increased dramatically. European business federations must respond to range of fundamental and technical issues. The recent decisions to begin negotiations on a Transatlantic Trade and Investment Partnership and on a Trade agreement with Japan are cases in point.

Another arena for European Business federations on the international level is the G20. Together with partner federations abroad they engage in advocacy towards the G20 governments and a process that emerged over the past years known as B20. Here, as in other international activities it is important to understand the position of member companies in the regional and global value chain. As a rule, European business federations argue strongly for open and competitive markets and level playing field.

### ***Global Challenges Beyond Trade and Investment***

But the rigors of a rapidly globalizing world go beyond trade and investment. As we have seen at the outset of the financial crisis, European economies are highly connected and dependent on other economies across the globe. The scope of the European and global agenda requires a sophisticated approach to and analysis of the diverse interests of members. This in turn leads to further requirements for the qualifications of highly trained staff, being able to converse across borders and continents, and engaging in international institutions for business and governments. The consequences are also additional demands on budgets and difficult choices concerning domestic, European and international priorities. A presence in foreign markets and beyond Brussels can be of advantage for the profile and range of European federations. National governments still seek ways to promote their own economies and offer commercial services for companies in foreign markets.

The European Commission is developing a pan European network of institutions abroad that support companies from Europe doing business in international markets.

The internet and advanced information technology also put great demands on federations and their members based in Europe. Sophisticated technical equipment and proficiency of staff in this area are a must for federations that want to be seen as efficient and competent in advocacy. With globalization and the further deepening of European integration, the requirements for communication on the national and international level, with members, governments, international institutions and the media and have increased exponentially.

Cyber security and the security of critical infrastructure are of great and still growing concern for companies. Federations that want to respond have to engage in this arena and understand the technical and international scope of related challenges. National governments will expect federations to communicate appropriate steps with their constituents to safeguard the functioning of companies and the economy. Small and medium sized companies in particular need appropriate guidance. Federations often work committees to meet these goals.

### ***The Consequences of the Recent Economic and Financial Crisis***

The severe crisis on financial markets and the subsequent global recession had and still has serious consequences for European business federations. The more immediate impact was a significant loss in subscriptions, since membership is voluntary and subscriptions correspond in most groups with fundamental economic indicators such as GDP and level of employment. Many federations had to make painful cuts both in personnel and services. With the financial crisis in the Euro zone still pending, the recovery for federations from the fallout is in some cases delayed.

In terms of substance, the crisis challenged federations to find common position concerning appropriate steps for stability in financial markets, sound public finance, and structural reforms. Business federations in Europe are constantly navigating between the national agenda and common European positions for their members. This has consequences for the appeal of federations to companies, the balancing of resources in national capitals, Brussels and in terms of contributions for membership in European groups. Today, the structure of European business representation resembles a matrix, with Pan European federations on the sector level and national federations. Their members, the companies, have a variety of interests that often go beyond the national level. Small and medium sized companies still tend to focus on their home markets and some see activities from abroad mainly as competition. Others understand that open markets and value chains across Europe are a necessity for sustainable success of companies, national economies and a prosperous Europe. Governments and local authorities often try to support companies with targeted measures to be successful in their respective markets. Single market rules will make sure that there is a level playing field for competition. But there is also concern that a trend for over regulation could stifle competition and burden companies. This is the current environment for business federations in Europe. If they want to keep and attract members, they must offer balanced and comprehensive messages as well as valuable services.

## ***Global Markets and Responsible Business Conduct***

Companies in European and global markets are expected to meet certain social and environmental standards. Of course, standards and legal obligations vary from country to country and jurisdiction. A leading standard for companies across borders are the OECD Guidelines for Multinational Enterprises.

The Guidelines are comprehensive and include references to areas such as human rights, employment and industrial relations, the environment, bribery, consumer interests, technology, taxation and competition. Governments of OECD countries are committed to promote the Guidelines on a voluntary basis in their business community.

So are the federations in Europe. They work with their OECD contact points to assist companies to implement the Guidelines in an appropriate and responsible way.

Issues of responsible business conduct are increasingly on the front page of the European and global public. With the importance of global trade and value chains, they cannot be seen in an isolated context. The recent tragedy in Bangladesh with the collapse of a textile factory that supplied leading European and other retailers is a case in point. European federations, as much as their counterparts in other regions are challenged to support their members in finding the right answers for this case and others.

### ***Conclusions***

With the rapid development of European integration, the acceleration of globalization, and the impact of new information technologies on markets and trade, business federations in Europe face a myriad of challenges. First, they must find the means to position themselves successfully in a complex European market for policy advice and advocacy. Second, they must understand and integrate the diversity and the complexity of interests in their membership. And finally, they must find new ways to communicate, internally as well as with governments, the media and a broader public.

The process of consolidation for federations in Europe will see a natural limit where members and companies see added value both in advocacy and services on the national and regional level. National federations will continue to play an important role to guide the companies through the legislative and regulatory process at home and in Brussels. Federations in the new member countries are still engaged in capacity building and an effort to respond to new responsibilities as employers and in the EU. The membership of business federations in Europe changes with deeper integration and globalization. Companies from the US, China and other emerging economies may knock on their doors and ask to be admitted as good corporate citizens. Europe is coming together and the world knocks on our doors.

## 7.3. United States<sup>9</sup>

### ***The U.S. Business Organization Landscape: Diverse, Influential, and Global***

The U.S. business community is as large and diverse as the country itself. Sitting at the top is the 100-year old U.S. Chamber of Commerce, which with 3 million members from companies both large and small is the world's largest business federation. The Chamber also counts among its members thousands of state and local chambers of commerce from across the United States. In addition, the Chamber has a global network of over 100 American Chambers of Commerce located on six continents, which represent the interests of U.S. companies with operations in these markets.

The Chamber is the largest business organization with membership that spans industrial sectors, but there are several others of note, including the National Association of Manufacturers (NAM), the Business Roundtable (a CEO-focused organization), the Coalition of Services Industries, and the U.S. Council for International Business (which represents the business community's interests in the International Chamber of Commerce, the OECD, and the International Organization of Employers).

Another feature of the U.S. business association landscape is the presence of a number of sectoral, bilateral, and issue-focused groups. Business organizations can be found for all sectors of activity, many of which are represented by more than one group owing to their different areas of policy focus. High technology, pharmaceuticals, chemicals, energy, aerospace, automobiles, finance, agriculture, and entertainment are some of the industries with the largest and most influential business associations. Associations also exist to represent business interests with a particular issue focus, particularly trade and investment. One of the oldest is the National Foreign Trade Council, while others include the Emergency Committee for American Trade and the Organization for International Investment.

U.S. business organizations have become increasingly international as foreign trade has grown as a percentage of economic activity in the United States and U.S. foreign direct investment (FDI) has risen. As a result, not only do traditional business organizations like the U.S. Chamber (whose international division is its largest) or NAM devote increasing resources to global issues, but a number of bilateral groups have been created to develop commercial relations between the United States and important partner economies. Some are inter-regional organizations like the Transatlantic Business Council (the U.S. and the EU) or the U.S.-ASEAN Business Council (the U.S. and Southeast Asia), while others focus on individual markets such as the U.S.-India Business Council, the Brazil-U.S. Business Council (both housed at the U.S. Chamber of Commerce), the U.S.-China Business Council, and the U.S.-Russia Business Council.

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<sup>9</sup> *This section is written by Peter S. Rashish*

In addition, the U.S. business organization landscape has also become internationalized from abroad as groups such as the Federation of German Industries/ Association of German Chambers of Commerce and Industry, the Confederation of British Industry, the Confederation of Danish Industry, the Turkish Industry and Business Association, the Union of Chambers and Commodity Exchanges of Turkey, and the Confederation of Indian Industry have established a presence in the United States. In parallel, some U.S. business associations maintain offices in key capitals, such as Brussels or Beijing,

At first glance, the sheer number of business organizations in the United States and the fact that there is sometimes an overlap in the issues and sectors they represent could lead to the conclusion that the private sector would be more effective advocating for its interests with a more streamlined structure. The fact is, however, that both behind the scenes and publicly there is a notable degree of cooperation among various associations geared to promoting their shared objectives. That does not mean that these associations are not competing to remain relevant to their members - they are. But it is often the case that a coalition of business organizations can have a particularly strong impact on policymakers, legislators, and the public where important interests are at stake.

### ***An Accelerating Process of Internationalization***

Over the last 20 years, the U.S. economy has undergone an accelerating process of internationalization. The combined outward and inward investment flows of the United States were under \$100 billion in 1990, but grew to over \$600 billion by 2011, while the total stock of U.S. FDI stands at over \$4 trillion. U.S. trade in goods and services (exports and imports) was equal to 10 percent of U.S. GDP in 1990 but rose to 30 percent by 2012. According to the U.S. Chamber of Commerce, 38 million U.S. jobs currently depend on trade. This increasing integration of the U.S. economy with the world has been spurred by the inter-linked phenomena of a rising global middle class, stronger competitive pressures at home and abroad, and a growing global economic multi-polarity.

The BRICS (Brazil, Russia, India, China, South Africa) and other large emerging markets such as Turkey, Indonesia, and Mexico have experienced strong economic growth over the last decade owing to the successful implementation of structural reforms, stability-oriented macroeconomic policies, and an opening of domestic markets. These changes have led to the creation of new swathes of middle class citizens in these and other countries who have become actual and potential consumers of U.S. goods and services.

At the same time, domestic firms across a wide spectrum of industries from these emerging economies (including consumer goods, electronics, energy, transport, construction, and food and agriculture) have expanded their international footprint on the back of success in their domestic markets. These companies have not only become competitors but also important suppliers and joint venture partners for U.S. firms. As the emerging economies grow and their domestic corporations become stronger international competitors, the position of the United States in the global economy may be affected. The U.S. share of the global economy in the last 20 years has remained surprisingly strong in the face of these new economic powerhouses at a little more than 25 percent; whether and how it will continue to do so in the years to come is a key question for policymakers and the business community alike. While the U.S. economy should be in for a period of healthy growth owing to a revived manufacturing sector and new domestic energy sources, the chances are good that the BRICS and other emerging economies will post higher rates of growth for several years to come as they continue to catch up with the more advanced economies of the United States and the European Union.

The cumulative effect of a decade or two of fast growth outside the transatlantic region has implications for global economic governance. As the rise of the G20 as a policy making forum after the onset of the 2008 financial crisis attests to, the United States and its European partners have needed to respond to this shifting balance of global economic power by stepping up their political engagement with emerging economies. The inability to conclude the Doha Round of multilateral trade negotiations after more than 10 years is another manifestation of this evolving international economic landscape.

There are a number of important consequences these new global trends are having for the business community.

### ***Leading Role in Trade and Investment Advocacy***

First of all, business organizations are devoting increasing resources to promoting an activist U.S. trade and investment policy as part of a broader desire for vigorous U.S. international economic engagement. So much so, that it is not an exaggeration to say that the major trade policy achievements of the last two U.S. Administrations would not have made it past the finish line without the combined efforts of the leading business organizations.

Not only does the business community seek better access for U.S. firms to foreign markets - however important that is for economic growth and job creation. There is also a concern to keep U.S. markets open to foreign investment, as corporations from

abroad are responsible for 5 percent of total U.S. employment, 15 percent of U.S. R&D, and 18 percent of its exports. More recently, the importance of maintaining efficient global supply chains has become a priority as U.S. companies increasingly source and add value to their goods and services via a complex series of interactions that can crisscross borders multiple times before reaching their end user. The supply chain phenomenon has raised the importance for business organizations of keeping barriers to entry low for foreign products entering the United States that serve as inputs to finished products. Free trade in both directions - imports as well as exports - is a priority.

When it comes to trade policy, business organizations in the United States have traditionally been strong supporters of liberalization at the multilateral level, including the World Trade Organization's (WTO) Doha Development Round begun in 2001. And the business community remains committed to a robust, rules-based international trading system embodied in the WTO. At the same time, as the Doha Round proved too complex to conclude after 10 years of talks owing to differences of view between the U.S. and the European Union on one side and a number of large emerging economies on the other, the emphasis on both bilateral and plurilateral talks has sharpened. The U.S. has Free Trade Agreements (FTAs) with 19 countries, the majority signed since 2000, and both U.S. exports and imports with its FTA partners have grown at a faster rate than overall U.S. foreign trade.

Business organizations were at the forefront of advocating for passage by the U.S. Congress of the U.S.-Korea, U.S.-Colombia, and U.S.-Panama FTAs in 2011. Business backing has also been an important factor in the ongoing negotiations of the Trans-Pacific Partnership Agreement (TPP), which includes 12 countries from the Asia-Pacific region: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The TPP is an ambitious enterprise which aims to set new standards in areas like regulation, intellectual property, and investment policy that go beyond what has been achieved in any previous bilateral, plurilateral, or multilateral trade agreements. U.S. business associations have also been among the strongest supporters of an International Services Agreement, a plurilateral agreement currently being negotiated by 18 countries under the auspices of the WTO.

### ***Innovation in the Transatlantic Economic Relationship***

A particularly noteworthy example of the impact the U.S. business community can have in the trade policy field is the new Transatlantic Trade and Investment Partnership (TTIP) launched by U.S. President Obama, European Council President Herman Van Rompuy, and European Commission President Jose Manuel Barroso in June 2013. The European Union is the largest commercial partner of the United States when trade in

goods and services, foreign investment, and commercial sales by overseas affiliates are all accounted for. The transatlantic economic relationship is responsible for over a third of world trade and nearly half of global GDP.

Attempts to deepen the economic relationship between the United States and the European Union date back to the 1995 New Transatlantic Agenda, which initiated talks designed to reduce regulatory barriers between the two markets, and were given a more formal structure through the 2007 creation of the Transatlantic Economic Council. But neither side could agree that the time was right to embark on a full-fledged free trade agreement until a coalition of U.S. and European business organizations led by the U.S. Chamber of Commerce put its full weight behind the idea in 2011.

The U.S. Chamber and its partners on both sides of the Atlantic made the case that slow economic growth in the U.S. and the EU - along with the need to preserve their joint role in global economic governance - required a major leap forward in transatlantic economic relations. At their summit meeting in November 2011, the U.S. and EU leadership created a High-Level Working Group on Jobs and Growth chaired by the U.S. Trade Representative and the European Commissioner for Trade, whose work then forged an official transatlantic consensus that an ambitious and comprehensive bilateral trade policy initiative was needed. Given that the United States and the EU are both advanced economies with similarly high levels of labor, environmental, and social protections, it can be expected that the TTIP will set new standards for what a trade and investment agreement can accomplish, as well as create new rules that can one day be adopted at a plurilateral or multilateral level.

Beyond a more determined focus on trade policy broadly defined, changes in the global economy have led business organizations increasingly to concentrate their energies on a new set of specific policy issues, including intellectual property rights, competition policy, state-owned enterprises, local content and localization. The U.S. business community has pursued its goals on these issues through trade talks but also outside the trade negotiating forums.

Among these issues, intellectual property (IP) has acquired particular salience. According to the WTO, in 2011 the U.S. earned \$104 billion in royalties and licenses from cross-border flows of intellectual property, which at 39 percent is by far the largest share of any major economy (the next largest are the EU at \$40 billion and Japan at \$29 billion). U.S. Patent and Trademark Office figures show that in 2010, 27 million jobs were directly attributable to IP-related industries in the U.S. economy, with almost 13 million additional jobs accounted for by indirect IP activities - all in all, well over a quarter of total U.S. employment. As the internet increasingly facilitates the creation

and dissemination of IP-based products and services - but also the ability to engage in IP piracy - it is likely that IP will continue to be a key concern of the U.S. business community in both trade negotiations such as the TPP and TTIP and also for U.S. engagement with the BRICS and other key trading partners.

As foreign investment has become a leading factor in the performance of the U.S. economy, the preservation or creation of a level playing field for U.S. companies abroad vis-à-vis their home country competitors is another key concern of the U.S. business community. Even where countries may be legally open to the operations of U.S. firms, there is a concern that governments in a number of emerging economies are using policy measures to favor indigenous companies over foreign ones. The right of establishment, national treatment and a fair dispute settlement process cannot meet their full promise if competition policy, the behavior of state-owned enterprises, as well as local content and localization rules, distorts the functioning of domestic markets.

### ***On the Home Front: Infrastructure, Immigration, Education and Training***

Looking closer to home, business organizations have become acutely aware that the U.S. domestic posture can have a major impact on the success of U.S. companies not only within the 50 states but in foreign markets as well. Even if all of its trading partners welcomed goods and services from the United States with open arms, without the right mix of home-grown policies U.S. firms would not remain globally competitive for long. Much like other advanced economies, as the U.S. population ages the government faces the challenge of bringing its spending on health care and pensions in line with expected revenues. Although the United States finds itself in a privileged position compared to Europe and Japan owing to the size and level of integration of its economy, its capacity to generate economic growth, abundant domestic energy sources, and the global role of the U.S. dollar, over the long haul the country will not be able to see its debt continue to rise without crowding out the private sector's ability to finance investment and job creation.

Beyond this uncertain fiscal policy horizon that to a greater or lesser degree looms for all highly industrialized economies, there are a number of challenges that are more particular to the United States. Chief among these are infrastructure, immigration, and education and training.

While it is often the virtual highway of high-speed internet connection that makes the headlines, more traditional forms of infrastructure will be crucial factors in the U.S. economy's future success. The outlook is troubling: the American Society of Civil Engineers recently awarded the United States a barely passing "D+" grade for the state

of its infrastructure, and suggested that the country needs to invest \$3.6 trillion by 2020 on necessary improvements. Bridges, roads, ports, waterways, and energy are only some of the areas that require revitalization. A public-private infrastructure bank is an idea that has benefited from bipartisan support in the U.S. Congress and has been welcomed by important voices in the U.S. business community as a way to help the country mobilize the resources needed.

The related issues of immigration and education and training are also high priority ones for the U.S. business community. The rise of the global middle class not only presents millions of potential new customers for U.S. products and services, but also a reservoir of skilled labor who can bring their talents to the U.S. workforce and to U.S. companies wherever their operations may be located. The United States is in competition with other advanced and emerging markets to attract this pool of professionals. Business organizations have supported efforts in the U.S. Congress to pass immigration reform, which in addition to creating a path to citizenship for undocumented workers would also make it easier under the H1-B visa program for companies to hire well-trained foreign workers in the STEM fields (science, technology, engineering, and math) who are in demand globally. They have also been among the strongest backers of language in trade negotiations to allow the free movement of company employees between various locations around the world, especially in the technology and service sectors.

If keeping the United States open and attractive to the growing class of globally mobile professionals is a priority of the business community, so is ensuring that the domestic workforce has opportunities for education and training to keep it responsive to the needs of U.S. industry. While it is likely to continue to be a powerhouse of innovation through a combination of high R&D expenditures, flexible and efficient labor and capital markets, and the presence of leading research universities with mutually reinforcing ties to business, there is anecdotal evidence to suggest that the country is not producing enough workers with the skills necessary to participate in an advanced manufacturing economy - with as many as 600,000 jobs going unfilled.

A number of U.S. business organizations have stepped up their advocacy on the need for improved worker training programs, and European business groups have also become engaged on the issue. For example, in 2012 the Chamber of Commerce and Industry of Karlsruhe, Germany and Central Piedmont Community College (CPCC) in Charlotte, North Carolina signed an agreement under which the Karlsruhe Chamber will offer certified job-training programs to CPCC students. The goal is to provide CPCC graduates with the skills they will need to be attractive to the numerous German manufacturers who are established in the Charlotte region.

## ***Peering into the Future***

It is becoming clear that in the years to come the ability of the United States to assert its national interests will increasingly depend on the health of its domestic economy, strong trading and investment relationships, a leading role within global economic organizations, access to cheap and reliable energy sources, and finding favor on international capital markets. As these geo-economic issues move to the forefront, business organizations will have greater opportunities to influence the direction of U.S. policy through their private-sector diplomacy.

While promoting business-to-business contacts will remain a key function of business organizations (particularly those below the national level), policy development and advocacy - both domestic and international - is likely to grow in importance. In order to perform this function, business groups will continue to evolve so that convening high-level and high-profile policy events, media impact, and partnerships with other organizations (from the business community and beyond) will become essential elements of success. So will balancing independence from government with maintaining strong and open lines of communication with leading decision-makers from the executive and legislative branches in the United States and abroad, as well as bridging the gap between domestic and international constituencies and interests.

Indeed, many of the most pressing global challenges on the horizon will be in areas where the distinctions between international and domestic policy no longer hold sway as they once did. In the future, eliminating trade barriers, for example, will not only involve creating zero-tariff regimes for goods crossing borders; equally if not more important will be aligning national regulatory regimes, which either willfully or not can keep out or disadvantage competitive foreign products. As a result of the growing importance of these hybrid issues - part domestic, part international - the way that business associations are organized will likely grow more complex. International departments can be expected to become increasingly fluent in a number of domestic issues that have a bearing on market access abroad for U.S. companies, such as anti-trust enforcement, financial regulation, and consumer health and safety. Concurrently, there will be a natural inclination for domestic departments to keep abreast of global developments as they set their agenda for the national debate. While one business organization will structure itself somewhat differently from the next, the pressure will be on to consolidate cooperation across departments.

Barring major disruptive events, economic integration on a global scale is likely to continue, as will public debates about its value to citizens. As a consequence, business organizations may find that they will need to devote increasing resources to broad

information and education efforts about the contribution of greater trade and investment to U.S. prosperity. This shift is already underway with the increased use of social media platforms to reach target audiences. To be effective in these efforts, the business community may be aided by striking up partnerships with like-minded groups from outside the business world, such as think tanks, universities, foundations, and international organizations. By diversifying who sends the message and how it is sent, business associations should find that what they have to say about globalization will reach the widest possible group of sympathetic listeners. Moreover, while larger companies can be expected to continue to play a prominent role within the membership of business groups, small- and medium-sized companies are the most important source of new job creation in the United States. As part of broader education and outreach activities, business associations may also begin to look for ways to take account of and communicate the priorities of smaller firms.

While the United States still faces longer-term fiscal challenges, the worst of the 2008 financial crisis appears to be over as the economy begins to rebalance toward savings, manufacturing, and exports and away from consumption, services, and imports. Business organizations have played a part in this process through their vigorous support of U.S. international economic engagement in the form of new trade agreements, a growth-oriented agenda in the G8 and G20, and a continued leadership role for the country in the organizations of global economic governance such as the WTO and the IMF. If the United States is going to place this process of economic recovery and revival on a sustainable footing, a strong and active contribution from business organization will be a vital ingredient for success.

## **7.4. Brazil<sup>10</sup>**

### ***Business Organizations in Brazil***

Business organizations in Brazil can be divided into two different classes: one with voluntary funding contributions and membership, and another with compulsory membership. In reality, companies are participating in both classes, forming one powerful, though uncoordinated, system of business organizations.

Associations with voluntary funding and membership started over 150 years ago, through the Chambers of Commerce and Agriculture (Associação Comercial), which also involved industry. This association currently represents over 2500 branches in more than 5000 municipalities. Altogether, they are the largest association, with small business covering Brazilian territory. In addition, you can also find a strong and large nationwide organization of shops (CDL), which offers a credit evaluation service recognized as one of the best in Brazil.

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<sup>10</sup> *This section is written by Štefan Bogdan Šalej*

Beyond voluntary associations, the agricultural sector established a large system of cooperatives involved in all business activities, such as production, distribution and marketing of member products, as well as the supplement of goods and materials needed by farmers, like fertilizers, seeds and machinery. Some of the cooperatives became strong exporters of agricultural commodities, like soya beans and corn.

Another part of the system is referred to as "national", with sectoral associations mainly based in Sao Paulo, the largest Brazilian city. National Associations of manufacturers of machinery (ABDIB), electrical products (ABINEE), textile and apparel (ABIT), the automotive industry (ANFAVEA), the pharmaceutical industry (ABIFARMA), and more than a hundred others, have strong membership and are active in promoting members' business interests. Besides nationwide business associations, there are a lot of regional ones, mainly in the more developed southern part of the country.

Some other associations exist according to specific business interests, such as CEAL, with a small number of members but strong member representation, joining heavyweights with interests in Latin America. Likewise, there are associations with interests in Mercosul, the regional market association, and the EU, which are a vivid example of flexibility in forming new associations. Additionally, there are organizations for innovation and others specifically oriented toward foreign trade activities. There are also over 150 foreign trade chambers in Brazil, which play an important role in the country's relationship with foreign partners. Such chambers are strong competitors in delivering services to local business associations and some of them exist nationwide (the best example is AMCHAM - American Chamber of Commerce). Additionally the banking sector has specific and strong organizations; they are highly professional and very efficient (FEBRABAN and others).

In the compulsory system, according to legislation established in 1930 based on the Italian Carta del Lavoro, a fascist approach to labour relations, every worker as well as every company in Brazil has to be a member of a trade union or a business union (both called *sindicato*). And workers, as well as companies, are required to pay a union membership fee. Besides this membership, the companies also have to pay a contribution to the system of social services and education for workers (system called S, for SESC, SENAC, SENAR, SEST and SEBRAE -SME) amounting to 1 to 3.5% of the payroll. Altogether, such collected resources represent roughly over 30 billion dollars a year and are essentially shared by four economic sectors and their representatives. This system, ruled under specific legislation and controlled by the National Court of Auditing, is managed by business associations, which receive 10% of that total amount in the form of management fees. This amount is not government controlled. The system of the so-called social services (S system) also includes the participation of government representatives and workers in the board, but not necessarily in management.

The main business associations in this system, running their respective social services are:

- Industry (National Confederation of Industry-CNI)
- Commerce, Tourism and Services (including the financial sector) (National Confederation of Commerce - CNC)
- Agriculture and Agribusiness (National Confederation of Agriculture-CNA)
- Transportation (land, sea, air, logistics) (National Confederation of Transports-CNT)

Also included is the already mentioned special agency for development of small and medium businesses, SEBRAE, run both by business and government and funded with compulsory payroll contributions as well as APEX Brasil, the trade, investment and export promotion agency (organized the same way as SEBRAE).

The Brazilian business organization system is large (the majority of companies are members of many associations, besides the obligatory one) and strongly tied to government. The compulsory funding associations (Confederations and Federations at the provincial level and business union associations-sindicatos) have legal restrictions on political activities, thus the main reason of establishing independent associations of business is to be independent in lobbying on behalf of business community interests.

### ***International Issues Facing Brazilian Business Organizations***

The currency war and world financial instability are the most urgent concerns of Brazilian business associations. Brazilians have had a bad experience with the Mexican and Russian crises some years ago, as well as with the excessive inflow of cheap dollars lasting recent years with the aim of speculating on the Brazilian currency, the Real. Even the country's last 18 years of much more consistent monetary policies as well as its higher foreign exchange reserves do not make it immune to the international crisis, in particular to exchange speculations. The unfair exchange rate for the export of manufactured goods is compensated by higher prices of commodities, but also pushes imports of consumer goods to a corrosive level, such as in the case of the textile manufacturing sector.

Unfair international competition, particularly from China, in the case of industry, not in agriculture (see the CNA home page in Chinese), is also one of the challenges faced by business organizations. Brazilian business associations did not support the government's decision to give market economy status to China in the WTO, understanding China as an important commodity market but considering it a competitor.

The matter of population dynamics in aging Brazil, with education as one of the main problems, is solved by selected immigration and larger involvement of business

in education. Professional education, which is a part of business associations' responsibility (which partly financially fund it) has improved very much in the last few years, but not at a level that could be considered satisfactory for the improvement of the competitiveness of Brazilian business and organizations.

The issue of access to new technologies as well as to R&D for business in Brazil is one of the problems faced by business associations. The question is how to partner with universities and research centers in the country and around the world with full access to the latest technological achievements.

Market access and the formation of specific regional trade blocs, the most recent by Pacific Latin American countries, is another situation where business associations in Brazil are strongly acting. The Free Trade Agreements implemented by the US and EU with a number of countries, regional agreements and especially the worries for Brazilian business in the case of the EU-US free trade agreement are questions on the daily agenda of important business associations in Brazil. Such events supersede individual company interests and everyone understands that business community strategy has to be overridden by larger associations in dialogue with government and foreign trade and policy makers.

### ***Domestic Issues***

Labour relations, in particular the high cost of labour in Brazil, mainly due to government taxes and social contributions, are an issue that no business association in Brazil can avoid. The pressure for higher wages and indirect labour cost without appropriate government policies to foster competitiveness is at the top of the agenda of Brazilian business associations. The so-called labour reform is one battlefield of a never-ending campaign for Brazilian business. Labour conflicts and strike management are the responsibility of business unions and trade unions. An extraordinary effort is made by business unions, which are legally binded to such negotiations, to avoid or manage strikes and, especially, to negotiate sectoral wage agreements.

The next item on business associations' agenda is the completely unacceptable Brazilian infrastructure (roads, ports, airports, energy, telecommunications) situation. This situation very much increases the structural cost of Brazilian business and thus is on the top of the agenda of business associations. The case of reducing the cost of energy by a rate of almost 20% shows clearly how business associations could campaign and achieve extraordinary results (led by FIESP-Federation of Industries of Sao Paulo). The federal government's unclear policies regarding the privatization process and PPP models led to a strong campaign of business associations pressuring government to change its policies and speed up the process.

The dramatic situation on the management of ports, with the cost of processing a container in Brazil almost double that in Europe, came to an end with new legislation, wherein the business interests of different business groups and their associations forced political groups to act against the national interest.

In the case of sustainability, specifically regarding forest management, it was not only international pressure to change the legislation but also domestic public opinion that forced the government to act on this issue. Long negotiations, especially with farmers and agricultural groups, led to a compromise solution which enabled sustainable development at minimum internationally accepted standards.

Due to rapid urbanization, almost 70% of the population of Brazil, the 5th largest country in the world by area (8.5 million sq. km), are living in cities. Public transportation is a problem all around the country; on average the Sao Paulo inhabitant wastes almost two hours per day in traffic. This item is one of the infrastructure problems and a leading issue on the agenda of business associations.

Crime, drug trafficking, individual insecurity with increased kidnapping at big centers and truck robbery, as well as attacks to ATMs all around Brazil, is another issue affecting the costs and daily operations of Brazilian business. Companies' expenditure on security is one of the highest in the world. Cyber security is still not an important issue for business associations but some of them are already worried about it and associations specifically dealing with IT businesses are working on the problem.

One of the social issues handled by Brazilian business is the health conditions of all the population, especially the working class. A lot of business associations offer private health insurance plans, in addition to the social services (health assistance, especially dental) offered by the four big S to employees.

Business in Brazil promotes and is strictly committed to the highest level of corporate social responsibility, a process led by business associations. Specific programs, like volunteers, partnerships with communities and especially public educational programs, are common and implemented nationwide. The sustainability and pioneering role of business associations in assisting companies, especially SME's, to reach higher environmental standards, is one of the most important roles of such associations. Almost all business associations are pushing companies hard to fulfill government regulations as well as to find a responsible way in partnership with law enforcement agencies on environmental issues.

Consumer protection is another issue in which the role played by business associations is important. Claims are growing and consumers in Brazil are highly motivated to exercise their rights. So in this case and many others mediation is one of the roles performed by business associations.

Since the judiciary works very slowly, in particular in the case of the very complex tax legislation, an arbitration process led by business is an alternative option. The participation of business associations in special tax arbitration bodies with legal power for finding solutions is crucial for companies struggling with the sometimes corrupt and inefficient tax system.

Brazil has a strong presence of SOE's, especially in the energy and oil sector. The omnipresence of the government at all levels in business is a foregone conclusion in Brazilian economic life. The SOE's are also big contractors and sometimes leading development partners. Business associations are usually present on the board of such companies, as well as state development banks, but the increasing number of SOE's in Brazil worries the private sector, especially regarding micromanagement in such business by governmental bodies.

Business itself expresses its concerns about government actions through associations, since it is not recommendable to do this on an individual company basis with fear of uncertain consequences. Business associations in Brazil are the main channel to deal with government. Even big business and foreign companies prefer the double way to deal with governments: business associations for problems and an individual approach for positive matters. All of the important listed companies have a specially appointed director for institutional affairs which deals with government and business associations.

The permanent struggle of all business associations in Brazil is for reducing the complexity and voracity of the tax system. The Brazilian tax system (over 85 different taxes) is so complex that all companies are permanently under scrutiny by some governmental department, not only the tax and revenue department. For this reason all business associations invest heavily in assisting companies in this insane struggle between the voracity of government and business.

### ***Business Organizations and Politics***

The political involvement of Brazilian business associations is part of country's history. On the one hand, in the last fifty years, business strongly supported the military coup of 1964. Business associations, especially from the federal state of Minas Gerais supported by all means the military effort to throw out the leftist government of President Jango.

Recently some historical facts have surfaced showing that some business associations were deeply involved in the struggle against leftist fighters, even going so far as to assist the military in all means, including support for torture.

Later on, in 1975 a group of eight preeminent businessmen started a campaign for democracy against the military dictatorship. In the presidential election in 1989, the President of the Federation of Industries of Sao Paulo (FIESP), one of the most powerful business associations in Brazil, declared that in the result of Lula's victory over 800 thousand businesspersons would leave Brazil. Lula was elected in 2002 with a typical representative of business associations, Jose Alencar, as Vice President. Alencar is the former President of Federation of Industries of Minas Gerais (FIEMG), the second largest business association in Brazil, which strongly supported the military coup in 1964. In the present day, Brazilian business associations are democratically oriented, lead a process to reinforce democratic institutions and support the strong nation building process.

A market economy and democracy are moving forward together. The examples of neighboring countries in South America and the Caribbean show to business in Brazil exactly how important the democratic market economy is for the country. Thus the dialogue among different players, like politicians, parties and justice, economic and social players, both domestic and foreign, is crucial and seems to be something in which Brazilian business associations have already entrusted.

The presence of business associations in almost all government bodies dealing directly with economic issues (as the already mentioned development banks and business related councils on the government level demonstrate), as well as the Social Economic Council chaired by the President of Brazil, with the participation of representatives of all social and economic classes, assures a channel of open dialogue. But business is also present in governmental education and research bodies. The remaining question is if the business associations well their representatives for partnership, or even lobby functions to be performed in these bodies, in the interest of all partners and especially of business itself.

### ***Important challenges***

The challenges facing business, especially regarding the larger Brazilian role on the international stage as an economic and political partner and regional leader, with reasonable soft power, obliged business, even someone only oriented to the local market, to better understand the dynamics of international affairs as well as international trade. Competition has come to Brazil's doorstep.

Moreover, there is a change in social relations in Brazilian society. The relationship between trade unions and business leadership, to be exercised through dialogue instead of confrontation with workers, has become the most important tool to foster business and its interests. The partnership between business and workers and a better understanding of governmental social policies, leading to the creation of a market economy and stabilizing sometimes tense social relations, was a Herculean task for business leadership all around the country.

On one hand Brazilian businesses and politicians are tightened by many interests, specifically funding during the electoral process. Even if the legislation regarding financing of political campaigns is clear in limiting funding, it is even clearer that it is business (since the country has almost nonexistent public financing for politicians) who pays the bill. Business associations usually do their homework and present suggestions and plans to the candidates. But what candidates truly want is money, because they have their own ideas. On other hand, we face an almost unbelievably great number of businesspersons involved in politics. The last four presidents of the Confederation of Industries, CNI, were members of the Upper house of the Parliament (Senators). The current presidents of the Confederation of Agriculture and Transport are also members of the Senate. The mayor of the third largest city in Brazil, Belo Horizonte, and former board member of an industrial association, is a businessman. In the Brazilian parliament, almost 40% of members declared that their profession is business. In the same house, the agriculture bench composed of farmers is considered one of the most powerful. Every business association has special advisers and departments dealing with lawmakers at all levels. So, although the business associations (compulsory funded) are by law not allowed to be involved in politics, they are all political. And everyone accepts it. At the state and municipal level, it is quite normal for the appointment of government officials in charge of agriculture and economic development to be under the responsibility of business associations. The CNA, Confederation of Agriculture, even promotes special courses for future agriculture secretaries of the municipalities.

### ***Competitiveness***

Another challenge for business is coping with the competitiveness of Brazilian companies. On the one hand, you have the improving performance of government, parliament and the justice system, but not at the pace required by the dynamism of the global economy and Brazilian competitors at home and abroad.

Some business associations such as the Federation of Industries of Minas Gerais, representing the second largest state in Brazil, prepared a few years ago a development plan (Grow-Minas/Cresce Minas), in partnership with the local government and with

the assistance of McKinsey Consulting Co., to foster competitiveness and employment, as well as increase income. The plan based its methodology on cluster development, which later on became the basic development methodology for all of Brazil. Thus, the role of leadership in development as well as competitiveness could be the most important task for business associations in the future. The lobby functions will exist and will probably be governed by much more transparency (Brazil has no law on lobbying), but leadership in fostering companies' competitiveness and local development will be crucial.

### ***The Future of Business Organizations in Brazil***

Brazilian companies, whether or not obliged by law, are active in business associations which offer them the most business opportunities, as they connect them to the market. The case of some business associations in Brazil, where the same team remains in power for decades and the benefits are only realized for a few or for the same team, will require a new approach. There is strong criticism in Brazil on such organizations, and the proliferation of so many business organizations in Brazil is in some way an answer from businesses unsatisfied with the work of such organizations. Symptomatic is the fact that almost none of the business associations in Brazil publish their annual report with a balance sheet. The same happens with labour trade unions. Such lack of transparency will be unacceptable in the future. You cannot ask politicians to be clean and transparent if you maintain different standards. The business associations have to be clean and lean.

Business associations will also require the highest qualified and knowledgeable workers in their organizations. If you want to maintain a productive dialogue with other players on the national or international level, you must be prepared. There are, for instance, very few PhDs working at business associations in Brazil. This is especially important for discussing macro matters, presenting scientifically based research and, not least, in tax matters. Sometimes Brazilian business associations very much insist on lobbying government at all levels, including political and parliament, but they have very few propositions leading to win-win partnerships. To work out such proposals, the organizations not only need excellent business leaders with a good understanding of politics, economics, market, and social relationships, but also excellent coworkers. Human resources at such organizations have to be first class and knowledgeable, also in addition to maintaining an efficient dialogue and understanding what business wants. Business expertise and updating business practices are required, among other qualifications. The business of business associations in the future will be based on a win-win partnership and cooperation, not just the use of bargaining power and hard pressure on government.

It is crucial to understand that business associations are not above business, but at the service of business. To whom is a business association accountable? What is most

important for a business leader: to be a friend of influential politicians or to be able to develop meaningful and productive partnerships with politicians aiming at business as well as country development?

Last but not least is the discussion on competition and cooperation between business associations. Only in one case in Brazil are over 170 business associations, the Coalizao Brasileira, working jointly on the issue of foreign trade. There is too much infighting among business associations instead of cooperation. Business leadership essentially means cooperation, especially with partners in business in order to benefit everyone. In the cases when there is no understanding on an important issue, the winners are government, politicians and business competitors (companies or countries). And of course good and clever politicians take advantage of such divisions and foster the fight among the business leadership in order to divide and rule. Specific leadership education for business leaders is also recommended. An existing example in Brazil at the regional level produced outstanding results for the entire business community. Managing business associations is not exactly the same as managing your own business, especially when you are dealing with large amounts of money and employees.

Business associations in Brazil could hold an important role and power in accordance to the law that channels resources and protects them, but, in a very competitive business environment, as well as with a dynamic political and social life in the country, they will only maintain their membership basis if they increase dialogue with all economic and political actors i.e. politicians, workers, trade unions, civil society and government. And, for this dialogue, the quality of propositions has to be technically well prepared and highly accountable. The key words are dialogue with proposals.

Any serious reform of the tax and political system in Brazil must include a reform of the current system of funding of the compulsory sustained business associations. The increase in importance and the well accepted role in government of the voluntary business associations clearly show the way forward: business participates where its interest is clearly at the frontline of the association and not a political aim or personal interest of their leaders. In such cases, the source of financing is not a problem, but effective accountability is required. The complexity of the organization of business associations in Brazil will lead to the simplification of the system and an effective partnership for higher competitiveness of Brazilian business.

Brazilian business is quite globalized. The high percentage of foreign companies in Brazil (almost 40% of total business) and strong trade relationships (almost 500 billion dollars of annual trade) lead the business associations to promote FDI and foreign trade. Besides the high participation in government trade promotion efforts on all levels, there

is a strong dialogue among all government departments and business, especially in the ministry of foreign affairs, known as Itamaraty. Brazilian business associations are constantly present at all levels of international missions (there is no way that Brazilian government officials will visit a foreign country without coordinating efforts with business associations) and negotiations. But they are not leading efforts for increasing a Brazilian presence abroad. Very few business associations establish representation offices abroad, mainly in the US and EU or Geneva, and very few Brazilian chambers of commerce exist abroad (in Japan, US, Argentina, UK, Germany and Sweden, among others). The 4 Big Confederations have no representations abroad.

The economy and the market are very dynamic and so have followed the business associations. Even the government in Brazil is dynamic. Business associations have to lead a step further to business development. Clear objectives, a clear mission statement and a permanent review of strategy and planning, as well as accountability evaluation are required. Some of the associations are well aware of this and prepare strategic plans and reviews based on a business perception of development of the country and markets. Of course, daily or short term problems, such as exchange rate, infrastructure deficiency, and so on, are part of the business associations' activities in Brazil.

## **7.5. India<sup>11</sup>**

India's sheer diversity makes it natural that the business community and the organizations which represent them are also diverse and dynamic. With a population of 1.2 billion people in 28 states and 7 Union Territories and an economy with a GDP size of \$ 1.84 trillion estimated to grow at 6 per cent in 2013-14, comprising services (65 per cent), industry (18 per cent) and agriculture (17 per cent), the business organizations and their interests are as complex and varied.

The organized business history in the country dates back to the early 19th century. However, it was only with the economy gathering speed after the 1991 economic liberalization in India and the growing globalization forces across the world that the modern phase of business organizations emerged. While the traditional business houses still command a large share of voice of the Indian industry, professional-led public and private companies, start-ups and large multinationals comprise the other business interests. Crucially, the small and medium sized businesses still form the bulwark of the Indian industry and even the business organizations; but even though they may be vocal, they are not as visible as the large companies.

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<sup>11</sup> *This section is written by Kiran Pasricha*

## ***Historical Perspective: the Evolution of the Chamber Movement in India***

However, to understand the lay of the current landscape of Indian business organizations, it is important to reflect on the history of India's business communities and the business organizational development over the centuries.

In the early 19th century, Kolkata (or Calcutta as it was then known) was the seat of the British colonial power. It was therefore not surprising that it was the Calcutta Chamber of Commerce that was the first of the modern industry chambers that was established in 1833. It was followed in quick succession by the Bombay and Madras Chambers of Commerce in 1836. Seven British and three Parsi traders came together to form the Bombay Chamber. This was perhaps the beginning of the involvement of the homegrown Indian business leaders in the Chambers. The Bombay and Madras Chambers made a mark for themselves by focusing a lot on the development of infrastructure in their respective cities. At that time, most of the new chambers were promoted by British industrialists. The Calcutta Chamber was rechristened the Bengal Chamber of Commerce in 1853 and set the tone for the growth of the chamber movement in the country right up to 1920.

As early as those days, the sectoral industrial associations representing the jute, textiles, tea and mining industries were formed under the aegis of the Bengal Chamber. The Chamber movement by Indians in particular progressed rapidly with the call for Swadeshi and Independence. The Marwari Chamber, Indian Chamber of Commerce and the Southern Indian Chamber were formed in quick succession in 1905, 1907 and 1909 respectively.

It was in this atmosphere that the country's current premier chamber Confederation of Indian Industry took roots with the formation of the Engineering and Iron Trades' Association in 1895 when five engineering firms, all members of the Bengal Chamber of Commerce and Industry, joined hands to form the EITA.

It was initially after the First World War and then later, after the Second World War that Indian business groups began to take on the hegemony of the British industrialists and traders. Business groups of the Tatas, Birlas, Godrej and Bajaj rapidly grew and started supporting Mahatma Gandhiji and India's call for freedom.

New dimensions of the Chamber movement were added in the same period and at the apex level, two national groupings, one representing the overseas group and the other, the Indian group were formed. The former was the Associated Chambers of Commerce (Assocham) founded in 1920 and the latter, Federation of Indian Chambers

of Commerce and Industry (FICCI) was formed in 1927. Thus by the beginning of the 20th century, the three apex national business chambers as we have now, CII, Ficci and Assocham had acquired their identity, though perhaps not quite in the form that we now have in the country.

EITA was a counter-organization set up with the aim of pressurizing the British government to place government orders for iron and steel and engineering goods with companies based in India. At that time the practice was to place all government orders with firms based in UK. Till 1942, IEA was the only all-India association of engineering industry and represented mainly the big engineering companies, particularly the British firms. This led to a situation where the interests of the Indian firms (mainly medium and small scale) were not sufficiently represented. Thus the Engineering Association of India (EAI) was established in 1942 as an affiliate of the Indian Chamber of Commerce. EAI represented small and medium engineering firms mostly owned and promoted by Indians, and had different origins and management styles from the IEA.

In April 1974, IEA and EAI merged to form the Association of Indian Engineering Industry (AIEI). Foreseeing the upcoming challenges in the future, the leadership at AIEI felt the need for greater consolidation and solidarity that would put the industry on a stronger footing and would help it meet the challenges of competition and globalization. In 1986, there was a change in name from AIEI to the Confederation of Engineering Industry (CEI), reflecting the growth and expansion of the organization since 1974. CEI now became an apex body for manufacturing industries at the national level. (source: Building India with Partnership: The Story of CII)

In 1991, industrial licensing was abolished and economic reforms on a wide scale started taking shape. With effect from 1st January 1992, in keeping with the government's decision to opt for the liberalization of the Indian economy, the name of CEI was changed to Confederation of Indian Industry (CII). In a new policy environment, it was natural that there would be intersectoral integration through a process of diversification and expansion, where the engineering units would diversify into non engineering units and vice versa. CII was a response to these changes that were happening in Indian economy and business. And by then, the hot seat of India's business organizations shifted from Kolkata to New Delhi.

The most recent phase of Indian industry that coincides with the last two decades of liberalization has spawned a host of new entities that reflect the changing economic and trade landscape. One, there have been the formation of the bilateral country associations like the Indo-US and Indo-German Chambers of Commerce. Second, specific entities representing different interest groups functioning either within or outside the

larger business chambers like Ficci Ladies Organization (FLO), Young Indians (CII) and the Dalit Chamber of Commerce (independent entity of scheduled caste business leaders) were formed. Third, expanding the scope of overview from purely city or state related activities, associations like the PHD Chamber of Commerce and industry also came into being to look after the interests of some of the north Indian states Punjab, Haryana and Delhi. Finally, associations representing the new-age businesses like the National Association of Software (Nasscom) and the Manufacturing Association of Informaton Technology (MAIT) have risen to become the powerful voices of the various growing and emerging sectors.

Business organizations work to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes. They catalyze change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialized services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programs.

Many industry associations also partner with NGOs across the country to carry forward initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water. While many of these are not strictly business issues, but since they contribute to national development, in today's larger agenda of these business organizations, they have become part of the works that industry associations like CII, Ficci and Assocham does.

There are also institutions of public-private partnerships that the government and industry associations work together: National Skills Development Corporation (NSDC), India Brand Equity Foundation (IBEF); Overseas Indians Facilitation Centre (OIFC) and the National Foundation for Corporate Governance.

When global heads of state visit the country, the three apex chambers come together with the Indian government to host the state guest. Heads of states of countries like the United States, UK, China and Germany and their industry delegations have interacted on a global India Inc platform in a show of unity and strength.

### ***Global Trends, Local Impact***

Economies around the world are aligning themselves to the requirements of rapid globalization. For India, globalization has resulted in a few key trends. One, there has

been a proliferation of multinationals into the country calling for business chambers to cater to their needs. Second, Indian business groups like the Tatas, Mahindras and Birlas are increasingly upping their international presence that require the business organizations to cater to their needs in terms of market development and international linkages. Third, many of the major countries in response to the global presence of companies from outside their countries are becoming protectionist calling for strong lobbying efforts. This, in the Indian case, is especially seen in sectors like software and services. Fourth, the Indian and global marketplace is increasingly becoming competitive and industry associations are becoming catalysts to improve the competitive capabilities of the MNC and Indian business groups. Fifth, as India grows in its global economic power, it is increasingly attracting the best leaders from the business, government and academic platforms. Business organizations in India are fast becoming platforms to host these leaders and are reinventing themselves to knowledge entities. Sixth, non-resident Indians from across the world especially from North America, Middle East, Africa, Australia, UK and South East Asia are returning to the country. CII and Ficci in particular are taking the lead to organize Partnership and Pravasi Bharati (non-resident Indians) Conclaves to woo NRIs back to the country. Finally, realizing that the government itself cannot do all in taking India globally to the next stage, business organizations in partnership with global think tanks like Aspen are engaged in track-II strategic dialogues.

Towards increasing the competitiveness of India Inc, specialized services divisions of national associations aim to provide solutions to organizations not just for their competitiveness needs, but also to help them become more self reliant by helping them develop flexible strategies that cater to changing needs. Total Cost Management and Total Quality Management services are offered as a company-wide systematic and structured approach, which involves providing a holistic framework to control, reduce and eliminate costs, across the value chain.

Business chambers organize Made in India Shows in several countries and are among the largest overseas exposition of Indian goods and services. Trade fairs cover diverse sectors, ranging from biotechnology, information technology and railways to water. Councils for MNCs within business chambers have been set up in recognition of the crucial role being played by multinational corporations in global integration and overall development of the Indian economy. WTO Advisory Services are provided by experts who track all relevant developments at international fora. As India continues to attract the attention of the world, business organizations endeavor to strengthen India's international engagement globally and also work towards making them the first port of call for overseas delegations that wish to engage with India and for Indian industry that wish to access traditional and emerging markets overseas. Invest India on the other hand is a joint partnership between Ficci and the Ministry of Industry to facilitate inward investment into the country.

With 63 offices including 10 Centers of Excellence in India, and 7 overseas offices in Australia, China, France, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 223 counterpart organizations in 90 countries, CII serves as a reference point for Indian industry and the international business community. Many of them are well established offices with up to five people in each office.

### ***Local Trends, Local Impact***

It is more than two decades since liberalization came to India. Today, even as there is greater balance than before in the policy regime and interests affecting the home grown companies and MNCs, the path towards this destination was not always smooth. In the early days, some of the powerful local businesses formed what was broadly called the "Bombay Club" to argue and lobby for a level playing field with multinationals. The Bombay Club did receive tacit support from some of the apex industry associations. Today, there are two major differences from those days. One, there has been a generational change in the leadership of India's business houses. Younger generation leaders schooled and worked overseas are able to work in collaboration with the world's best MNCs rather than in conflict. Second, the policy regime has changed dramatically since those early days and a variety of possibilities exist today that enables local and global organizations to work together. Balancing these diverse and sometimes complementary interests is now a crucial role of the business organizations.

Small and medium enterprises are key drivers of the Indian economy. They generate substantial employment and have earned global recognition for cost effectiveness and technology adaptation. Industry associations work towards keeping small industry at the forefront of change. In fact, in terms of numbers, the SME companies form a large chunk of the national business organizations.

Bringing to the modern context, a trend that was started almost about fifty years back was the pattern of linkages between the sectors and broader business chambers. For example, CII has Ascon that brings together the work of more than 50 sectoral associations. Ficci also has focus on sectoral lines. Today, in a bid to take care of the specialist government relations and business development needs of the various sectors of the Indian economy, there are over a 100 associations.

Business organizations also strive to build consensus on contentious economic, political and social issues. Firm in its belief that an economy built on consensus is an economy headed for success, public policy initiatives engage in dialogue with members of Parliament, political parties and NGOs on issues as diverse as electoral reforms, impact of globalization, good governance, patents regime, WTO and communication convergence.

The Naxalite Movement that has affected more than 200 of the 600 districts is a major socio-economic challenge before the country. The Naxals have taken to arms and many of them are affected tribal and unemployed youth. The Naxal Movement is also a response to the unmitigated natural resource exploitation of rural hinterland. Business organizations have taken the lead in working with the government to restore employment opportunities. They have also worked closely with the state and Union government in the reformulation of policies that guard overall national interests.

There are also issues of national importance on which the business organizations work with the Central government and different states to push a national agenda. In recent times, there have been four critical areas that industry is working on: Manufacturing Innovation, Knowledge and Skills, Sustainability and Inclusive Growth. For example, CII has a public-private partnership with the Union government where it has set up the National Skills Development Corporation (NSDC) to train 500 million workers over the next few years.

To build a vision of India in the future, a path breaking initiative called India@75 was started in 2008 under the leadership of Professor C K Prahalad and CII to envision how India should be in her 75th year of Independence. CII took India@75 as a grassroots initiative to convert into a vision shared by people from all walks of life and geographies. While commemorating the 60th year of India's independence, on 23 September 2007 during the Incredible India@60 commemoration at New York, Prof. Prahalad articulated the idea of holistic three dimensional development of India to acquire enough economic strength, technological vitality and moral leadership by 75 years of independence. CII adopted his vision on 8 May 2008. In the initial implementation process, sensitization sessions were done across 7 metros involving interactions with Chief ministers; more than 100 workshops and 1000 interviews were done; vision documents were created for 17 states; and district development plans for 18 districts in four states were also completed. Today, even though Prof. Prahalad is no more with us, the plan is on a roll out mode at a national level, grassroots up.

### ***Beyond Business***

Despite the fact that economic reforms are well entrenched by now, Indian business organizations still do not take on the political leadership in the country. This is due to two reasons: one, business still needs the government on a host of policy issues and therefore cannot afford to antagonize the government. Second, the hand of corporates is seen in many contentious issues. For example, corruption is an issue that is endemic within the country. However, despite mass campaigns in the country, business organizations have played it safe. Few business leaders still call a spade. Unless deeper

electoral reforms come that legitimize election funding and lobbying, business organizations will continue to tread in the twilight zone. Mild efforts like the Integrity India Campaign for "working to improve probity in public life" continues.

Affirmative Action task forces from business organizations have brought out detailed reports on the concrete steps that industry would take voluntarily to intervene and bring into the mainstream the marginalized sections of the society, viz the Scheduled Castes and the Scheduled Tribes. This is the first time that Indian industry has come together to undertake an initiative, which has far reaching implications and effects on Industry and on society at large.

Their role beyond business is gaining importance on other fronts too. These include: development projects in some of the most backward districts states like Bihar; development of art in the neglected North Eastern regions of the country to provide market linkages for handlooms and handicraft products from North East and development of Rural Business Hubs that involve fruit cultivation, Bio diesel generation, carpet weaving and 'Blue Pottery'.

### ***Impact and Way Forward***

The changes in the economy and the businesses have been having an impact on the working and structure of business organizations. One, the leadership of the business organizations from the industry and within the secretariat is giving way to a younger generation. Second, more often than not, they are trying to be apolitical especially in an era of coalition politics in the country. Third, even though they are not for profit institutions, the income and budgets have been increasing. More and more corporate sponsorships and services are improving the financial prowess of these organizations. However, despite this, talent and leadership pipeline have been issues, especially since corporates pay-packets are higher than what the business organizations typically pay. Further, the state offices of the national apex chambers play a more active role as chief ministers and corporate captains from regions have greater clout in a democratic and resurgent India where wealth is being redistributed across the country. In a new era post the economic reforms when there has been debureaucratization within the government, the focus of the business organizations has shifted partly from policy orientation to helping companies gear up for the new economic environment. This is done through an array of services to help their members become more productive and efficient in order to match global benchmarks and compete globally. These range from building a better climate for doing business to international networking and creating robust platforms for business interaction.

Services are also provided through Centres of Excellence which specialize in aspects such as quality, energy management, sustainable development, logistics and small business competitiveness. Consultative and advisory services as well as training programs are available from a dedicated and professional staff with high qualifications and experience. CII has proactively set up an infrastructure of Centres of Excellence which provide key services. These are the CII Institute of Quality, Bangalore, for quality management; CII Institute of Logistics, Chennai; CII Avantha Centre of Competitiveness for SME's, Chandigarh; CII Naoroji Godrej Centre of Excellence, Mumbai; CII Sohrabji Godrej Green Business Centre for energy consultancy; CII ITC Centre of Excellence for Sustainable Development; and CII Centre of Excellence for Skill Development in Chindwara.

Regional and state offices also provide consultancy and professional services that include legal metrology, water management, Six Sigma, food safety and quality, IPR, trade agreements, etc. A special range of services for small and medium enterprises has been institutionalized. The Cluster bundles training in Total Quality Management, Total Cost Management, Total Productivity Maintenance, Lean Manufacturing, Waste and Energy Management, and HR practices in a single program. Business organizations have also taken the lead in organizing trade fairs, both within the country and outside to boost international trade.

The two way globalization has also opened up new avenues for business organizations to proactively promote this. As some of the large Indian companies become global enterprises, business organizations, have subtly and otherwise, taken the lead in helping Indian companies in acquisitions, negotiating with other governments, helping with information and generally lending a helping hand. On the reverse side, for those MNCs which want to build deeper inroads into the rich Indian market, business organizations have taken the lead in setting up MNC Councils in India that actively support the interests of those MNCs operating in India. Engaging in track-II dialogues has been another way in which institutions like CII and Ficci have helped in economic diplomacy and globalization.

All of the above have pushed the national business chambers towards consolidation. Over the years, there have been many attempts at merging some of these organizations. In the years gone, Assocham's possible merger with CII has been one that had been on the horizon. But so far they have not succeeded. Perhaps, that might be the way forward in the coming years.

## 7.6. Turkey

### ***Business Organizations in Turkey - Organizational Structure and a Short History***

The oldest and quintessential organizations of the Turkish business community are the chambers of commerce based on cities and a number of towns. The oldest among them is the Istanbul Chamber of Commerce (İstanbul Ticaret Odası -İTO), established in 1882. Only three years after that, in 1885, the Izmir Chamber of Commerce was established in this important commercial center of Turkey. Then industrialization got under way and chambers of industry were launched. In 1927, following the İzmir Economic Congress, the Izmir Union of Industry was founded and in 1954 it was reorganized as the Aegean Region Chamber of Industry (Ege Bölgesi Sanayi Odası - EBSO)<sup>12</sup>. The Istanbul Chamber of Industry (İstanbul Sanayi Odası İSO) was founded in the same period in 1952. In larger and more important cities such as Istanbul, Ankara and Izmir these two chambers are established separately, but in relatively small cities chambers of commerce and industry are usually organized as a single body. The umbrella organization of the chambers of Commerce and Industry, The Union of Chambers and Commodity Exchanges of Turkey (Türkiye Odalar ve Borsalar Birliği -TOBB) is the business organization with the largest membership base. TOBB began its activities according to the Law #5590 effective on March 15<sup>th</sup>, 1950 and following its first General Assembly on February 6<sup>th</sup>, 1952. The Law #5174 replaced Law #5590 on June 1<sup>st</sup>, 2004. TOBB is the public statutory institution of the private sector. As of June 2013, TOBB has 365 members in the form of local chambers of commerce, industry, commerce and industry, maritime commerce and commodity exchanges. More than 1 million 200 thousand firms of various size and industry are registered members of these chambers and commodity exchanges<sup>13</sup>.

One of the essential characteristics of the chambers of commerce and industry and their umbrella organization TOBB is that they are established according to the law; membership is compulsory for the firms operating in their region and they have a number of obligations determined by said law. Historical developments as well as this legal structure distinguish the chambers of commerce and industry and TOBB from the voluntary business organizations which are the main focus of this study.

Starting in the 1950s and 60s with the development and diversification of the Turkish economy, many voluntary business organizations emerged at the national, local and sectoral scale. The 1961 Constitution, the first fundamental legal document regulating labor relations in the modern sense, was one of the main factors accelerating the

<sup>12</sup> [http://www.ebso.org.tr/icerik.php?sayfa\\_no=507](http://www.ebso.org.tr/icerik.php?sayfa_no=507) (Accessed 15.8.2013)

<sup>13</sup> <http://www.tobb.org.tr/Sayfalar/Tarihce.aspx> (Accessed 30.6.2013)

emergence and the activities of voluntary business organizations. The first among these organizations was the Confederation of Employers' Associations of Turkey (Türkiye İşveren Sendikaları Konfederasyonu -TİSK). In 1961, six sectoral associations came together to establish the "Istanbul Union of Employers' Associations". This association was renamed TİSK in 1962, and started to organize country-wide<sup>14</sup>.

The end of the import substitution industrialization policy of the 1960s and 70s, partly as a result of developments abroad such as the collapse of the Bretton Woods system, instigated a search for new ideas in the business community; the Turkish Industry and Business Association (Türk Sanayicileri ve İşadamları Derneği -TÜSİAD) began its activities in 1971 to meet the demands of this pursuit. The establishment of TÜSİAD may be seen as an outreach effort of a new class of entrepreneurs, defending the transition from the closed command economy to a new economic model open to the world and to competition<sup>15</sup>.

Following the liberalization and opening up of the economy in the 1980s, a number of business organizations focusing on foreign trade and investment emerged. The most important among them is the umbrella organization the Foreign Economic Relations Board (Dış Ekonomik İlişkiler Kurulu -DEİK). DEİK was established by the joint initiative of TOBB and other business organizations and now carries on its activities under the aegis of TOBB. Founded in 1986 and active since 1987, DEİK comprises 112 business councils with voluntary membership; however it is established with a legal framework and as a matter of course it operates in close collaboration with the public authorities, especially the Foreign Ministry<sup>16</sup>.

The Independent Industrialists' and Businessmen's Association (Müstakil Sanayici ve İşadamları Derneği -MÜSİAD) established in 1990, Turkish Confederation of Businessmen and Industrialists (Türkiye İş Adamları ve Sanayiciler Konfederasyonu -TUSKON) and Turkish Enterprise and Business Confederation (Türk Girişim ve İş Dünyası Konfederasyonu -TÜRKONFED), both active since 2005, are the other main voluntary umbrella business organizations established after 1980.

Among these umbrella organizations, TÜRKONFED deserves a closer look as it is the end result of the SIAD (Industrialists and Businessmen Association) movement widespread as a grassroots initiative all over Anatolia during the 1990s. The SIADs started as independent local associations, interacting during annual summits. In the summit of the year 2000 they established the "SIAD Platform of Turkey". During the same year various sectoral associations established a "Sectoral Associations Platform" as well. Later,

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<sup>14</sup> <http://tisk.org.tr/tr/Tisk-Tarihce> (Accessed 14.8.2013)

<sup>15</sup> <http://www.tusiad.org/tusiad/tarihce/tusiad-retro/> (Accessed 14.8.2013)

<sup>16</sup> <http://www.deik.org.tr/287/DeikHakkinda.html> (Accessed 14.8.2013)

following the promulgation of the legal framework of umbrella organizations, federations of SIADs were created. The establishment of six regional federations paved the way for a national confederation.

On November 4th, 2004, the Enterprise and Business Confederation was established with BASİFED, DASİFED, DOĞÜNSİFED, İÇASİFED, MAKSİFED and SEDEFED as founding members. The confederation officially added the "Turkish" attribute to its name on April 14th, 2005 and became the Turkish Enterprise and Business Confederation<sup>17</sup>.

The landscape of business organizations today includes many other sectoral, regional or partner-country based organizations, as well as the ones cited above. The analyses and assessments of this study are developed from the perspective of the voluntary business organizations.

### ***Key Global Trends Affecting the Turkish Business Community***

While the Turkish business community experiences the impact of global developments as in any other country, because of certain special conditions such as the opening up and liberalization efforts of the 1980s it felt and adapted itself to these global effects earlier than most developing countries. Key global developments shaping the Turkish economy and its business community are discussed below:

*Changing environment of trade, investment and competition:* The opening up of the Turkish economy in the 1980s after decades of effort aimed at self-sufficiency caused a transformation of the Turkish business community, particularly strong in the areas of foreign trade and competition. While the ratio of the total foreign trade volume to GDP was merely 6 percent in 1970, this ratio rose to 16 percent in 1980, to 23 percent in 1990, and to 53 percent in 2005<sup>18</sup>. This means that it may be safely said that Turkey felt the impact of globalization firstly and most directly in foreign trade. The Turkish business community, warming to foreign trade, started to compete with foreign companies in international markets. The transition from the environment of restricted competition in the internal markets to the environment of fierce competition in foreign markets marked the agenda of the business community and permanently reshaped its mindset.

With the domestic liberalization measures this new competition also had a domestic market dimension, forcing Turkish companies to compete with foreign companies in the domestic market as well. Another dimension of the opening up was the need to struggle with the administrative and regulatory practices of foreign country governments, such as taxes, tariff barriers, quotas, etc. Hence, a new conception of the "trading state"

<sup>17</sup> <http://www.turkonfed.org/taribce> (Accessed 18.8.013)

<sup>18</sup> Author's calculations

based on national commercial interests appeared in this period and became dominant in the business community and among public authorities (Kirişçi 2009). However, the real liberalization challenge for the Turkish business community was the Customs Union agreement with the EU which came into effect in 1996. This agreement instigated a customs-free trade regime between Turkey and the EU for manufacturing industry products and Turkish and EU companies started to freely compete in each other's markets. This topic will be discussed in detail in the following section. However it is important to emphasize here a current issue related to this topic. With regard to foreign trade, as a result of the customs union with the EU the manufacturing industry, or one fourth of the Turkish economy, is part of a major trade bloc and the ongoing negotiation between the EU and the USA on the Transatlantic Trade and Investment Partnership (TTIP), also known as the "economic NATO", is a great concern in Turkey. When the TTIP comes into effect, Turkey will have to open its doors to goods manufactured in the USA because of the customs union with the EU, but the USA will not be obliged to reciprocate. In order to prevent this unfair situation Turkey proposes to participate in the TTIP process as an observer and to sign a Free Trade Agreement with the USA to be implemented simultaneously with the TTIP. (Yılmaz 2013).

The impact of globalization was also manifested in the tourist in- and outflow. The increase in personal incomes on the one hand and decreasing costs as a result of the progress in transportation and communication technologies on the other boosted tourism activities considerably. For instance, while in the year 1995 only 545 million people in the world traveled for touristic purposes, this number rose to 1 billion 25 million in 2011. In the same period, tourist inflow to Turkey increased from 7 million in 1995 to 34 million in 2011<sup>19</sup>. In this period of 16 years, tourist arrivals to Turkey increased 5-fold while the total number of tourists worldwide only doubled. A similar increase can be seen in the numbers of Turkish citizens traveling to other countries. These numbers show that tourism, an offshoot of globalization having not only economic but also cultural and social dimensions, had an immense effect on Turkey.

*The increase of financial flows:* Another feature of globalization is the incredible increase of capital flows. According to a report by McKinsey Global Institute, the total amount of cross-border capital flows increased from 500 billion dollars in 1980 to 11.8 trillion dollars in the peak year of 2007<sup>20</sup>. (MGI 2013:23) Turkey, which had been quite conservative with regard to capital flows, decided to liberalize capital flows in 1989 with Decree No.32 on the Protection of the Value of Turkish Currency. The implementation of this Decree aimed essentially at easing the inflow of foreign savings in order to compensate for the savings to investment gap and accelerate growth.

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<sup>19</sup> <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators> (Accessed 18.7.2013)

<sup>20</sup> This amount has decreased to 4.6 trillion dollars in 2012 because of the crisis

Turkey benefited extensively from the external financing opportunities made possible by Decree No.32 and thus it was able to keep its growth rates at a high level. However, short term foreign funds rendered the Turkish economy vulnerable to fluctuations and financial crises. As a matter of fact, in the 1994, 1997-98 and 2001 crises, short term foreign funds caused serious damage.

Turkey still benefits from foreign funds being evermore accessible and less costly as a result of increasing global liquidity and growing risk appetite; however a sizable portion of the credit is now received by private companies. Consequently, the subject becomes gradually an issue for the private sector and the business community. As the size of foreign funds has reached serious levels, the "current account deficit" has grown into a major issue in Turkey, and the financing of this deficit and the risks it generates has become one of the most controversial current economic topics.

To sum up the matter, Turkey has been one of the emerging economies who benefited the most from the capital flows of the new environment shaped by globalization. While at first the largest part of the foreign funds were the portfolio investments in Turkish government debt securities, portfolio investment in the equities and debt instruments of Turkish companies has increased considerably as well. Most recently a sizable portion of the foreign funds consists of credits to Turkish banks and companies. On the other hand, in the 2000s, when the Turkish economy was stable and enjoying relatively high growth rates, direct foreign capital inflows increased impressively as well. Financial flows decelerated following the global financial crisis of 2008, and in the course of the last few months, a noticeable fund outflow occurred from developing countries including Turkey as a result of the economic recovery of the USA and the expectation of higher interest rates.

*The end of the Cold War and political liberalization:* Another worldwide effect of globalization is the liberalization of the political realm and as the natural result of this, the increasing importance of individual rights and freedoms. Thinking and behavior centered on the individual has become gradually more entrenched in societies. Closed societies are usually more oppressive; hence the opening up of the societies with globalization brings about a significant transformation by reducing the political prohibitions and constraints of closed societies. Also, the developments first in communication, then in internet technologies facilitated the interaction of people all over the world regardless of borders, and thus empowered democratization movements and enlarged the domain of individual freedoms.

This trend certainly had far-reaching consequences for Turkey. During the early period of the opening up process Turkey was under the control of a military regime,

so at first the political consequences were rather limited. However following the 1983 elections a civilian government was restored and particularly in the 1990s the political and cultural effects of globalization were felt more intensely.

Still it must be underlined that the political liberalization and democratization process in Turkey bears the mark of two specific developments. One of these developments is the end of the Cold War, and the other is the beginning of the EU process. The EU process will be considered in detail in the following section. Regarding the end of the Cold War, it should be said its importance for Turkey, a NATO member and a country located directly on the front, was tremendous. During the Cold War era political discussions in Turkey were completely overwhelmed by the perspective of communism, and the fear of "communism" always in the minds of political leaders did not allow even the most innocent democratic demands to be met. Hence the collapse of communist ideology and the disintegration of the Soviet Union paved the way for a suitable mindset for serious steps toward political liberalization.

### ***Major Local Developments Affecting Business Organizations***

In addition to the global developments summarized above, certain concurrent local dynamics specific to Turkey have also greatly affected the Turkish business community.

*The opening up and liberalization measures of 24<sup>th</sup> January:* The Turkish economy was dominated by economic policies of import substitution during the 1960s and 70s; but this domestic market-oriented economic model, unable to create necessary foreign currency flows, suffered serious bottlenecks aggravated by external shocks such as the oil crisis and was officially terminated in 1980 with the 24<sup>th</sup> January Decisions.

The 24<sup>th</sup> January Decisions and then the government of Turgut Özal, who came into power in 1983 after the interim military regime following the coup, mark the beginning of the opening up and introduction of the Turkish economy to the global economy. This means that, excepting countries such as S. Korea who realized their take off and development with an open economy model, Turkey is among the first developing countries who encountered the precursors of globalization, and globalization itself. The 24<sup>th</sup> January Decisions and the following legal arrangements and their implementation had caused a revolutionary transformation of the Turkish business community. The transformation was not only about certain rules and practices; it was a total "transformation of mindset". For business organizations this was an important period of conversion from an introverted mentality and behavior to an extroverted, more open-minded and competitive attitude.

*The EU Process:* Turkey has officially been in the EU process since the Ankara Agreement signed in 1963, but the last 30 years have been particularly turbulent; in this period a number of different stages may be observed. Following the official application for full membership in 1987, a Customs Union with the EU was implemented in 1996; however shortly after this, the Luxemburg summit of the EU decided against the full membership of Turkey. Still, two years after Luxemburg, the Helsinki summit of 1999 was of historical importance for Turkey, as it was decided there to accept Turkey's application for full membership. The process progressed through various intermediate stages and in the year 2005 EU accession negotiations with Turkey began.

In spite of its ups and downs, the EU process generated considerable effects on Turkey and the Turkish business community and still continues to do so. The first effects were related to the implementation of the Customs Union. The discussions at this stage were largely on the economic effects of the Customs Union; some businessmen and business organizations opposed the Customs Union, arguing that Turkish companies could not keep pace with the competition of the big EU companies. Nevertheless a preponderant part of the business community supported this process and the political authorities decided accordingly.

With the implementation of the Customs Union, the "second period" of opening up of the Turkish business community began. In the period of 1984-1995 which may be tagged as the first period, the focus was rather on Russia and the ex-Soviet bloc countries (particularly Central Asia and Caucasia) and this region was targeted mainly by Turkish SMEs who became very active in this geography. In the second period, the area in question was the EU, one of the richest and most developed markets of the world, hence large Turkish companies came to the fore. In this period Turkish business organizations began to open representative offices in Brussels and set to develop and diversify their communication and contacts with the EU countries in every area, especially in the field of economic relations.

With the green light of the EU for the accession of Turkey in December 1999, the relations of the Turkish business community with the EU started to change shape. The business community, who had begun to understand the EU system and to build substantial relations with the implementation of the Customs Union, was becoming gradually acquainted with the political, social and cultural dimensions of the EU. But the real leap forward in this regard occurred after 1999 and brought a greater perspective than merely an economic one.

As a result of this leap, the political dimension of the EU, designated the "Copenhagen Political Criteria" and which includes the existence of a stable and institutionalized democracy, a state of law and the supremacy of law, respect for human rights and

protection of minorities, made its way into the outlook of the business community. Certain business organizations such as TÜSİAD played a leading role in this process, but as this was the key issue for Turkey no organization could remain indifferent. The EU process also raised awareness about civil society organizations and strengthened the NGOs. The NGO movement supported by the EU as an important element of democracy influenced the business organizations as well.

Here an initiative of the Turkish business community supporting the target of EU membership in the 1960s should be remembered. The Economic Development Foundation (İktisadi Kalkınma Vakfı -İKV) was established in 1965, thanks to the joint efforts of the Istanbul Chamber of Commerce and Istanbul Chamber of Industry<sup>21</sup>. Later, other business organizations supported İKV as well. The primary mission of the İKV was to organize informative activities on EU related topics and raise public awareness. However, the naming of the foundation reflects how EU membership was perceived by the business community in earlier times.

*The crisis of 2001:* As part of the process of opening up and integration with the global economy that started in 1980, Turkey liberalized its capital accounts in 1989 with Decree No.32 and thus paved the way for a more fragile structure prone to financial crises. Some of the following crises (such as the crises of 1997-98 and 2008) were reflections of foreign crises, but the crises of 1994 and 2001 were "home-made". However, the openness of the economy aggravated the dimensions and the impacts of the crises generated by internal dynamics as well.

The distinctive aspect of the 2001 crisis was that it opened the way for structural reforms. The crises were engendered essentially by the huge budget deficits and unsound ways of financing them; so in the aftermath of the crisis some of the most basic problems of the Turkish economy were seriously confronted and the foundation for the high performance of the Turkish economy in the 2000s was laid. Moreover, the measures taken following this crisis, especially banking reforms, were helpful in the recovery of Turkey after the 2008 global crisis, limiting the damage received.

The Turkish business community supported the much needed reforms of this period aiming at the elimination of the unhealthy aspects of the economy and the government. Apparently the 2001 crisis had created an environment where an "enough is enough!" attitude prevailed against the crisis breeding factors of economic imbalance. In May 2001, Mr. Tuncay Özilhan, then the President of TÜSİAD, made a speech with the following points: "... It is important to see this and to feel its full weight. We are spending huge amounts of resources to fight against the crisis. We are struggling to build a competitive economic structure. These efforts cannot succeed without reforms radically

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<sup>21</sup> <http://www.ikv.org.tr/icerik.asp?konu=ikv&baslik=Hakk%FDm%FDzda> (Accessed 14.8.2013)

transforming the existing structure of public administration. If this radical transformation does not take place, the problems that we think solved today will reappear in front of us tomorrow. And tomorrow comes too fast"<sup>22</sup>.

*Turkey's active foreign policy and waves of opening up:* During the entire Republican era Turkish foreign policy was essentially in line with the Western Bloc, although rather undemonstrative and conservative. However after 1980 this second aspect gradually changed. Under the prime ministry and the presidency of Turgut Özal a more pragmatic foreign policy with a focus on economic interest became prominent. This decade, which can be labeled as "the first wave of opening up", ended with the death of Turgut Özal and Turkey returned to its earlier traditional foreign policy.

However, after the AKP came to power in the year 2002, Turkey started to follow an active foreign policy once again, and this time not merely opening to its Eastern neighbors but to the whole world, particularly to Middle Eastern and African countries. Economic relations and interests were also among the important factors determining foreign policy during this period of "the second wave of opening up". The number of Turkish diplomatic missions in Africa rose from 12 to 34 during this period<sup>23</sup>. Although it has its problematic aspects and from time to time it is adversely affected from socio-political instability in the countries in question, this active foreign policy has created a suitable environment for the initiatives of the Turkish business community across the world, especially in the Middle East and Africa. As a result of these initiatives, the share of exports to these regions in total exports increased and the negative impact of the crisis in the EU, the largest foreign trade partner of Turkey, has been relatively mild. Another effect of these efforts on the business community was a shift from developed markets to developing markets and an enhanced endeavor to establish a permanent presence in these new markets.

How business organizations are being affected of these winds of change? The global and local developments described above caused a sweeping transformation of the Turkish business community. The transformation of the business organizations cannot be detached from the general transformation of society; nevertheless because of their leading position and their openness to global currents, business institutions were usually the first to take action, far earlier than other sections of society. Furthermore with their organizational ability, better resources and relations they made themselves heard more effectively. Hence business organizations deserve special treatment and evaluation among other NGOs. The transformation of the business community will be discussed below under seven headings:

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<sup>22</sup> [http://www.tusiad.org/\\_rsc/shared/file/2001-05-09-TOzilhanin5SIADZirvesiKonusmasi.pdf](http://www.tusiad.org/_rsc/shared/file/2001-05-09-TOzilhanin5SIADZirvesiKonusmasi.pdf) (Accessed 19.8.2013)

<sup>23</sup> [http://www.mfa.gov.tr/disisleri-bakan-yardimcisi-buyukelci-naci-koru\\_nun-turkiye-\\_amerika-sivil-bavacilik-konferasi\\_nin-acilisinda-yaptiklari-konusma.tr.mfa](http://www.mfa.gov.tr/disisleri-bakan-yardimcisi-buyukelci-naci-koru_nun-turkiye-_amerika-sivil-bavacilik-konferasi_nin-acilisinda-yaptiklari-konusma.tr.mfa) (Accessed 19.8.2013)

*Change in the mindset:* The most important and permanent effect of the period of integration with the global economy from the year 1980 on is the change in the mindset. For a business community accustomed to produce and trade in a closed and relatively static environment with very little competition, the opening up was a very radical move. In such an environment of transition many rules and practices began to be questioned. The executive teams were renewed and the path of the younger generations was smoothed. The use of new technologies and closely following developments became a must. With the increasing international relations of the business community who made not only Turkey but the entire world its playground, political and cultural effects became palpable. In this sense, the deepening of democracy, individual rights and freedoms, the social value of women, minority rights and similar topics entered into the agenda of the business community and climbed noticeably towards the top. By the same token, the opening up process extended the use of new technologies and put such concepts as the protection of the environment and sustainability in people's daily lives. These phenomena indicate the evolution of the business community from a local mindset to a global one, and toward a common platform with the global business community.

*The increasing importance of the international dimension:* Another important fact which may be considered as an element of the change in mindset is the transition from targeting only Turkey and its domestic market to targeting all the global markets. Turkey was a country with limited interaction with the rest of the world, with the exception of sending guest workers to Germany and other European countries in the 1960s, but following the change in mindset Turkey virtually started a late exploration expedition to the world, under the leadership of the businessmen. Consequently, many entrepreneurs doing business abroad emerged and formed local organizations to enhance their power and influence institutionally. Then the need for an umbrella organization to coordinate various activities became the main topic of the day. Efforts to this end culminated in the establishment of the World Turkish Business Council (Dünya Türk İş Konseyi - DTİK). The Council "aims to gather all the small dispersed networks of Turkish entrepreneurs and successful Turkish professionals, who have gained authority in decision-making processes of big international companies abroad, under one big structure to waken and enhance the lobbying activities"<sup>24</sup>. Another development was the foundation of foreign representative offices by the business organizations to insure their permanent presence abroad. The most favored cities for the representative offices were Brussels, as it is the principal center of the EU, and the strategically important Washington DC.

*A proactive stance of developing policy recommendations beyond the framework of narrow economic interests:* The globalization process has also incited the Turkish business community to move beyond the traditional framework of business organizations aiming essentially toward "business development". The business organizations redefined

<sup>24</sup> <http://www.dtik.org.tr/KonseyYapilanmasiTanitim.html> (Accessed 19.8.2013)

themselves as an important institutional element of their society, and adopting a new mission and new practices, they initiated activities in political, social and cultural spheres targeting both their members and the wider society. These activities included meeting with the political leaders of different countries as part of their foreign relations programs, preparing constitutional drafts, working to build an economic cooperation platform between two foreign countries, campaigning for aid to Africa, publishing exemplary textbooks for secondary education, investigating theoretical works and practices of local governments, and so on. As a result of the broadened mission and activities, business organizations discovered that their role was particularly enhanced in the area of "policy recommendations" and started to develop the recommendations of the business community on education, social security, the judiciary system, etc., and made them available to the relevant authorities, politicians and the general public. These organizations also share their positions and policy recommendations with the general public by means of conferences, seminars and press meetings they organize.

*Increase in the number and diversification level of business:* A characteristic aspect of the general panorama of Turkish business organizations in the 33 years of integration with the global economy was the significant increase in the number and diversification level of organizations. As summarized in the introduction of this chapter, the efforts to organize started in the 1950s, accelerated in the 1980s and then began to diversify. In the 1990s and 2000s, for instance, as a reaction to the more traditional business organizations focusing on the domestic market, the SİADs were established to represent the new and more globally oriented businesspeople. The increase in organizations as a result of the new areas created by integration with the global economy is not a surprising development, however the Turkish case has a particular dimension of diversification. Political turmoil and breakthroughs during the same period marked the emergence of new business organizations within the business community. Business organizations were created not only on the basis of sectoral, geographical or focus differences, but also on the basis of political and ideological differences and cultural belonging<sup>25</sup>.(İnsel 2012:13-16). These dividing lines still persist to a large extent.

*Change in member profile:* The post-1980 period is also a time of serious change in the membership profile of Turkish business organizations. The weight of the second and third generations of businesspeople, more open and inclined to the ideas of opening up and globalization, started to increase in the business organizations. These younger members, some working in their family business and some working as professional managers, mostly educated abroad, were able to establish relations with the rest of the world more easily, and they could take the necessary steps to adapt their business relations to the requirements of the global arena with more self-confidence and awareness.

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<sup>25</sup> According to İnsel 2012, MÜSİAD, TUSKON ve USİAD (Independent Industrialists' and Businessmen's Association) may be mentioned as example of this type of business organization.

With the increasing number of this new generation of businesspeople in business organizations, the capacity of the business community to undertake social and political responsibilities and to act accordingly was boosted remarkably.

*Diversification and qualitative change of activities:* As a natural outcome of the developments mentioned above, the activities of the business organizations went far beyond organizing traditional meetings aiming at business development or informing members. The topics covered in the meetings, conferences and publications diversified; the settings of these activities also changed to include locations abroad as well. Another characteristic feature of this period is the increasing importance of knowledge production and hence the establishment of knowledge producing centers such as institutes, forums and think tanks with specific focus areas by TÜSİAD and other business organizations in collaboration with universities. The knowledge produced by the experts of these institutions is shared not only with members, but also with the relevant public authorities and the wider public. The process is further supported with the third party reports and studies prepared by domestic and foreign specialists. In this sense, business organizations have started to contribute seriously to the knowledge and know-how producing capacity of the country. To put it succinctly, in this period the concept of business organizations answerable to their members has become out of date and the entire national and international public has turned into the target audience of the business organizations.

*More qualified staff and diversified sources of finance:* As the activities of business organizations increase and diversify, an associated qualitative change is also observed. One of the consequences of this transformation is the visible qualitative improvement in the staff of these organizations. In this era the number of the staff was augmented and well educated, experienced staff started to work for these institutions. During the previous period, when the single area of activity of these organizations consisted of advocacy and business development, business organizations were rather following their members from behind. Today, these organizations are expected to run in front of their members, closely follow developments at home and abroad, conduct research and analyses in order to inform their members and equip them for the future. A new function of the business organizations is to achieve the capacity "to orient" their members. All these new functions add to the need for qualified staff. The financial capacity of these organizations should be similarly increased in order to meet the demands of the increasing and diversifying activities. As this necessity became more urgent for business organizations, they initiated new project-based financing methods in addition to membership fees, with the aim of creating sources of finance to meet the requirements of the new era.

S E C T I O N  
8

GENERAL ASSESSMENT  
AND RECOMMENDATIONS



## **8. GENERAL ASSESSMENT AND RECOMMENDATIONS**

In the current era, business organizations have become one of the most important actors on the global playfield and their influence keeps growing. The business community has the greatest impact on globalization with the entrepreneurship, production and inventions it represents. The business community is also the most affected social group as it is the most open to global competition. Hence the organizations representing the business community are among the best surfers of the globalization wave; perhaps even the very best. In this regard, business organizations can be singled out among NGOs and civil society organizations as the institutions that most intensely experience the impact of globalization.

Various global developments affect business organizations. The most important among these may be listed as follows: the shift of the centers of economic activities and the increasing weight of the emerging countries, the rise of a new consumer profile, the change of the demographic structure, the acceleration of the already rapid technological developments, the increasing power and importance of individuals, the advent of new social actors, the surging demand for natural resources, the new concerns for sustainability, and the intensification of mutual dependence. In addition to these global developments, the impact of some local elements on current issues has crucial importance as well. The local factors differ from country to country covered in this report. For the EU, the creation of the single market, European Monetary Union, European labor markets, immigration, youth unemployment and the Euro crisis are the vital local issues. In the US, issues such as the growing budget deficit, deficiency of the infrastructure, immigration, education and training are prominent. From the standpoint of the Brazilian business community, population dynamics, education, technology and R&D investments, insufficiency of the infrastructure, security, the judicial system and development of democracy are the primary local issues. Outstanding local factors in India include innovation capacity, production of knowledge and know-how, fair and inclusive growth and social development, production of policy alternatives and dialogue. In Turkey, the EU process, political and economic opening up, liberalization and active foreign policy initiatives are among the main local factors, together with the 2001 crisis which paved the way for a comprehensive structural transformation.

In response to these global and local developments, business organizations of the countries covered in this report are all evolving functionally and structurally in the same direction. The functional dimension of this evolution can be defined under three headings. First, the social role of the business community is increasing considerably. Consequently, business organizations get involved with many issues which were previously out of their

scope, and now have new functions and duties, such as to prepare policy alternatives, to participate actively in policy shaping processes, to respect human rights/the environment, and so on. Second, with the blurring of the global-local distinction, activities and functions classified under the rubrics of national and international lose their previous meaning. This has repercussions on organization, activities, financing and other areas. Third, the increasing competition requires serious efforts. The organizations representing business communities who struggle in a challenging environment of competition, because of both continuous technological progress and vanishing borders, have to take necessary steps in order to inform, to equip and to protect their members. This requires serious education programs, the establishment of knowledge centers and developing a capacity to defend members at home and abroad, which includes political initiatives, advocacy campaigns, promotional and awareness raising activities.

The administrative, organizational and financial structures of the business organizations undergo a transformation reflecting the functional changes. To put it succinctly, business organizations are proliferating, diversifying, and most important of all, they evolve toward "voluntary" organizations. In this regard, while there is serious competition among business organizations, there is a tendency of consolidation in certain countries as well. The organizations multiply their activities to enhance the capacity of their membership, increase their collaboration with third party specialist institutions both in activities aimed at their members and in their efforts to develop policy recommendation aimed at the wider public. They also spend a great amount of time and money for their international activities. Younger generations take over the leadership of business organizations, transparency increases, growing budgets permit more diversified activities and dynamism, and a perceptible improvement in the quality of the staff goes along with all of these changes.

Globalization has diminished the intensity of the employer-employee conflict which is, traditionally in the form of continuous struggle with labor unions, one of the most obstinate problems for the business community. Many factors combined to produce this outcome. While legal arrangements made a positive contribution, so did the change in the mindset of the business community regarding social rights and occupational safety. Similarly, the development of democracy and general acceptance of the notion of concurrence of the market economy and democracy contributed as well. On the other hand, the intensification of competition at the global level, threatening the employer and the employee simultaneously, created a common feeling of "being in the same boat" and made considerable contributions to social peace.

As discussed in the section about the USA, it is not always easy for voluntary business organizations to balance the requirements of remaining independent from the state and

the needs of establishing strong and open channels of communication with decision makers in the executive and legislative bodies at home and abroad. Similarly the importance of bridging the development of domestic and international public relations on the one hand and interest group advocacy activities on the other is increasing. However, implementing this approach is becoming harder than ever. The responsibilities multiply and get more complicated with the enlarging playing field, and this creates some serious risks for business organizations and their directors.

Developments show that business organizations lacking a vision, an orientation and a capacity as discussed in this report within the framework supplied by the five country studies, will soon be outdated and pulled out of the market. The organizations remaining afloat with the help of compulsory membership and the support of the public authorities may survive for a while but their functional weight is diminishing. An option for the voluntary organizations unable to achieve the indispensable transformation by themselves may be merging in order to make a move in this direction. But beyond such local moves, as the domestic and the international overlap more and more with globalization, similar business organizations have to find ways of joining their forces at the global scale in order to operate more efficiently. Multiple identities are another aspect of the globalization process; hence attempts at eliminating differences and diversity are both difficult and unnecessary. However building common platforms and searching for ways of working more effectively is now a must for business organizations.

The most important mission of business organizations today is making a human centered approach their guiding principle. For the companies, people are their employees, their consumers creating demand for the goods and services they produce, their stakeholders affected by various activities of the business community, but most significantly fellow human beings, sharing the same world with the business community, even if they live in another country. All these factors, together with the increasing power of the individual clearly means that in a globalized world, business organizations not focusing on people cannot retain their efficacy and respectability. As the ex-CEO of ABB Göran Lindahl expresses, the business communities of the 21st century should "act as co-guarantors of human rights"<sup>26</sup>.

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<sup>26</sup> <http://content.time.com/time/world/article/0,8599,2051379,00.html> (Accessed 25.8.2013)

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