

Hints on Dealing With Governments

Coexistence between business and governments is possible and perhaps even profitable — for both

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The subject of my paper refers to "Dealing with the United States and Canadian Governments." The fact that this might be of interest to an important group of



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professional people in itself suggests that such dealings are not regarded as general. (Or perhaps among some as possible or even desirable.) The majority of businessmen avoid dealing with governments, especially large federal governments, as much as possible. Business has a deep suspicion of the motives of governments. This suspicion is fully reciprocated. Yet suspicions aside, business can ill afford to ignore customers who dispose of over 40% of the Gross National Product. And this percentage appears to be increasing annually. Governments have to be the largest single market in North America.

We may not like the beast, but we can learn to live with it. After all, I have been told that in this part of the United States there live people who freely handle rattlesnakes. (I have also been told that the cemeteries are full of the less skilled ones.) Basically, corporations not only can deal with governments, but can deal with them profitably. It is not the same commercial game or environment that corporations are accustomed to operating in but like any other game can be mastered if one learns the rules.

Corporations when approaching governments must understand that their own goals and those of governments are fundamentally different, factually and philosophically. The main goals of government are power, administration, regulation and security. Those of business are profitability, efficiency, growth and stability. With such diverse objectives it is little wonder that they cannot comprehend one another. President John Kennedy said "My father told me that businessmen were S.O.B.s." President Charles Wilson of General Motors said, "What's good for General Motors is good for America." There's probably an element of truth in both statements, but how does one put these two philosophies together in brotherhood and trust? If you were a businessman, would you let your

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sister marry a politician? I have been both a businessman and a politician, and after due reflection I have decided not to let my daughters marry either one.

A serious error of corporations in dealing with national governments is to view them as if they were other corporations and subject to the same economic and judicial rules. An important truth is that national governments are sovereign powers which not only make the rules but can break them or disregard them

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almost at will. Speaking to you about five years ago I mentioned that after contract negotiations with the U.S. and Canadian governments I had concluded that in comparison with them, Attila the Hun was a sweet old lady. However, coexistence is possible and one can deal with governments, even profitably, as long as it is remembered that they are sovereign and powerful and work to rigid rules which reflect their prejudices, particularly those regarding business. Let's examine an example of these prejudices and the regulations which flow from them.

Deadly Sins

Profit is classified by governments among the seven deadly sins. It ranks with murder, arson, rape and membership in an opposing political party. "What profits a man if he gains the whole world and yet loses his soul?" When negotiating with governments remember that the civil servant across the table from you is determined to save your soul.

The Canadian Government allows a maximum profit of 7½% and the U.S. Government allows a maximum profit of 10% before taxes. On the surface these would appear to corporations to be satisfactory if not benevolent. (These percentages, incidentally, are not statutory nor written in any regulation, but have grown up through time like English Common Law, and they are engraved in the hearts of the civil service.) The reason that Canadians allow only 7½% is that they are believers in the Protestant Work Ethic which equates work with good. Consequently, if you receive good from the work in a contract why would you expect profit too.

Unfortunately, after accepting a solid 10%, or less solid 7½%, and ordering the new broadloom for the board room a corporation will read the contract's fine print and settle for sawdust. All contracts and tenders of any significant size are audited and many costs which corporations view as legitimate are disallowed.

Sales expenses of any sort are not allowable. For those who inquire about this it will be clearly explained that, since governments know exactly what

they require, they go out and buy it so no sales expense or effort is involved. In fact, salesmen are considered redundant. Again, finance or capital charges are not allowable corporation expenses.

The explanation is simple. If a corporation must borrow money from a bank or otherwise finance its operations, it is in their eyes clearly underfinanced. Governments don't like to do business with deadbeats.

Of interest is the fact that legal and accounting fees are not allowable in connection with reorganizations, security issues, capital stock issues or the prosecution of claims of any kind against the government. You can sue the government, but it will hurt. It's regarded as reprehensible — like kicking your own mother. Speaking of mother, you had better get her off the payroll because the government audit bureaus don't recognize motherhood. This seems strange because while all civil servants have mothers many believe very few have fathers.

Marketing Regulation

After this recital of the more liberal of our government's regulations one might ask why anyone not addicted to hair shirts would care to deal with the Canadian or U.S. governments. The answer, of course, is that such dealings can be profitable if you can work within the regulations, and that governments have a multitude of goodies to dispense which are not available from any other source. The trick is to be aware of, and, hopefully, to understand the regulations and to know what benefits are available. For example, under regulations it has been mentioned that sales expenses are not allowable. This is true but marketing expenses are completely acceptable. A wise corporation will not have a sales organization. Instead it will rejoice in a magnificent, and probably costly, marketing organization. All deductible.

An interesting variety of benefits are available from both the American and Canadian governments for those corporations which are prepared to go after them. New products can be developed under shared R&D programs. Government funding may range from 50 to 100% of the cost. As an example, last year the U.S. Government gave industry over \$35 million to develop wind energy machines, and most of the work was fully funded.

Value engineering clauses in many government contracts are written so that, if by a suggested design or engineering change, costs can be reduced, the innovating company not only receives a substantial portion of the costs saved on that particular contract, it also receives a portion of the resulting savings on all other similar contracts, even those performed by a competitor. Both governments are fairly generous with grants for new machinery especially if corporations are involved in essential services or defense work.

These categories are very encompassing and, if you manufacture paper rolls and sell a few to the army, you are obviously in a defense industry. If after the

machinery is installed and running there is a surplus of paper rolls, the Canadian government will pay you \$85.00 a day and half of your travel fare to travel outside North America and enthrall the citizens of Europe and Asia with the brilliance of your product. The preceding are only examples of the multitude of programs, funds, giveaways, taxpayer ripoffs — call them what you may — which are available to corporations from our governments. Dealing with governments rarely engenders large profits, but it can provide substantial side benefits, and you don't have to worry about whether you will be paid, only when. Incidentally, some of the people who are said to have made large sums of money from involvement with government have done so by selling their memoirs after release from prison.

Until now I have been outlining some of the problems involved in dealing with national governments and some of the benefits. On balance this may not have convinced anyone that they should enter the paper jungles and establish relationships with government. But there are other reasons and they are national in scope.

Governments are basically administrative and service organizations and as such probably will never be very efficient. Again, because they live by rigid regulations they tend to be introverted and divorced from the realities not just of commerce, but more importantly, of people. This is dangerous not only for governments, but especially for society. Governments must, at least to a degree, reflect their citizens if our democracies are to work and to prosper.

Obligation

Corporations have an obligation to work with governments and to maintain a constant communication with them. This is essential not only for the sake of society, but for the sake of the corporations themselves. Governments administer the legislative framework within which individuals, corporations and other members of the community interact with each other.

Sudden or improper changes in this framework, however innocently formulated, can have serious consequences. People can handle almost anything except surprise, hence the necessity of corporations maintaining a close relationship with government. This can never be a partnership. The two have different objectives. Further, a partnership is not necessarily desirable for society.

There are many other elements of our pluralistic community which must have an input into the dialogue. However, the interface between government and corporation can provide some understanding of each other and of each other's problems. This won't seriously change the milieu, but it can lead to more flexible governments who are more in tune with the community and of more service to our society.

The challenge of dealing with governments is there — and I believe that North American business is well equipped to do so. It's time that they got on with it.