The role of employers’ organizations in growth and sustainable enterprise promotion

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Foreword

This working paper is a contribution by the Bureau for Employers’ Activities (ACT/EMP) to broader ILO work on job-rich growth and is funded by the Swedish International Development Cooperation Agency. It explores the link between the policy objectives of employers’ organizations and growth, in the context of the sustainable enterprise framework.

The sustainable enterprise framework received the unreserved support of governments, employers and workers at the International Labour Conference in 2007. Since that time, the framework has provided the ILO with an extremely useful and relevant strategy which has contributed greatly to achieving one of the Organization’s principal objectives – the creation of quality jobs.

The framework focused on the vital link between quality jobs and economic growth strategies, and merged the prerequisites underpinning both objectives to determine a common dominator – sustainable enterprises. An extremely useful strategic roadmap for the Organization was achieved by outlining clearly what kind of environment is vital to create wealth, enterprises and, as a consequence, jobs.

This working paper does not provide a detailed roadmap for organizations looking to reorient themselves. Organizations looking for such detailed guidance should consult ACT/EMP’s The effective employers’ organization series and the forthcoming Enabling environment for sustainable enterprises which are a set of policy tools for EOs. What this paper does try to do is broadly to outline the policy role of EOs in creating an environment for economic growth and wealth creation, sustainable enterprises and, most importantly, jobs.

This working paper takes from, and builds on, work carried out by Peter Anderson, Chief Executive of the Australian Chamber of Commerce and Industry, in 2009, for which we extend our gratitude. We also thank colleagues at the International Organisation of Employers (IOE), who provided important and useful insights during the preparation of this working paper, and Gary Rynhart (ACT/EMP), who was responsible for compiling it.

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Director
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1. **What are employers’ organizations?**

Employers’ organizations (EOs) are entities that promote the collective interests of business, across sectors, irrespective of enterprise size. Given that the range and content of such collective interests vary from one country to another, the structure, membership basis and functions of EOs differ widely between countries.

The core business of representative employers’ and business organizations is to advocate, on behalf of the business community, for policy and regulatory change that will ensure an economic environment conducive to enterprise creation and development.

While individual companies may join an EO for specific reasons, such as access to market or regulatory information, networking possibilities, or a specific service (e.g. representation at an industrial tribunal), the basic rationale for national business communities to establish and support a business organization is its advocacy function.

Being recognized as an effective advocate strengthens the public profile of an employers’ organization, both with policy-makers and with the business community. A strong performance in the field of advocacy leads directly to increased membership. It also provides the reputation and “brand recognition” necessary to promote the other revenue-generating services that the organization offers. Any advocacy objective of an EO must be fully grounded in its members’ needs.

This role is becoming increasingly important, because in countries that need to improve the enabling environment for sustainable enterprises, the impetus for reforms must ultimately take place through national political processes that require national actors.

National representative employers’ and business organizations are such actors.

1.1 **Key functions**

- To articulate members’ concerns as a unified voice to attract policy-makers’ attention.
- To meet regularly with decision-makers to discuss key policy issues and establish channels of communication and close working relationships with their staff.
- To provide sound policy-relevant information to policy-makers so that they may start automatically turning to EOs for policy advice.

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1 This section is adapted from an article by Peter Anderson (Chief Executive, Australian Chamber of Commerce and Industry): “What the private sector expects from its representative organisations”, in IOE: *International labour and social policy review* (Geneva, 2009).

• To engage in both proactive and reactive advocacy (to help set the policy agenda by voicing concerns and proposing specific policies as opposed to merely reacting to proposals already on the table).

• To keep abreast of current and imminent policy proposals in order to be able to examine the issue thoroughly and prepare a sound policy response.

• To help prevent frequent changes to the business-related legal and regulatory frameworks so that investors, and entrepreneurship, are not deterred.

• To monitor implementation of advocated policies to ensure that they are administered fairly, consistently, and swiftly, thereby strengthening the rule of law.

• To publicize successes to “brand” EOs as active agents of positive change.

1.2 Responding to employers’ needs

In order to win the hearts and minds of employers, and provide relevant services, EOs need to ask what the private sector expects from its representative organizations.

Healthy businesses will seek continuously to improve: to assess competitive forces, market positioning, and the relevance of customer and client needs. Similar to member businesses, EOs must move with the times and modernize.

1.3 Representation

It is important for an EO to be representative, in order to be recognized as the voice of its membership. Judging the representative character of EOs is often more difficult than for other groups. The simple arithmetic of adding up units is not enough. Representation, therefore, has to be judged by considering the final result: is the organization able to present the real views of those who will have to live with the results of any policy decision taken?³

Wide and inclusive membership delivers not only additional revenue, but also additional voice, influence and legitimacy. It provides an EO with a broader range of realities and experiences upon which to draw.

As a rule, the wider the group an organization represents the more influence it will potentially have. National representation wields more influence than regional representation, and business representation wields more influence than sectoral representation. If an EO can genuinely speak for all sectors of the business community and all types of enterprises large and small, governments and other key stakeholders are more likely to take on board what it is saying.

When governments invite representative organizations of the private sector onto national consultative bodies, they must make a choice of organizations to be consulted. In some countries, this choice is straightforward. In others, the choice is not clear, and this may enable the authorities

to choose the organization that will most likely give the response they are looking for. Therefore, an important condition for the credibility of an EO is to be representative, in order to be recognized as the voice of business.

1.4 Being relevant

The most fundamental expectation from the business community is that its EOs are relevant. Relevance means responding effectively to members’ changing needs and being a genuine demand-driven entity.

Relevance requires adaptability to changing business, economic, industrial and social environments. The pace of change in developed and developing economies, driven in part by globalization and technology, is far-reaching. The environment in which EOs operate is fast-moving, more complex and less certain.

The global economy is affecting business conditions as never before. At any given moment, decisions by governments can be affected by events on the other side of the world just as much as by events around the corner.

Economic and political change affects societies, not just economies. Social change affects workforce participation and attitudes to work. Communities expect more from businesses and business leaders, and corporate conduct is under closer scrutiny. The services provided by EOs also need to be tailored around these considerations.

These challenges carry both risk and opportunity for EOs. Regulation and compliance is increasing, as is competition. Mistakes in business management carry heavier risks. Running a business without access to good advice from effective EOs is a high-risk undertaking. Even knowing what is going on in national affairs, or knowing where to find out, is beyond many in business. In these environments, EOs can communicate a potent message to industry about the benefits of membership, provided their services are relevant and of high quality.

1.5 Strong policy role

EOs need to generate specific policy recommendations based on a real analysis of the constraints on enterprises. Yet, actually formulating specific policy responses that address the issues the EO has identified requires both creativity and expertise in policy analysis.

This requires an EO to investigate comprehensively what exactly its member enterprises feel are the most negative impacts on their businesses.

It may be tempting to skip this somewhat tedious stage of research and argument preparation, as an EO may feel it simply “knows” what needs to be done and is anxious to start advocating that particular solution. This can be true, but the most obvious obstacles, such as elements of labour law, are also the most difficult politically to change. By focusing on other issues, while continuing with an agenda for change on labour laws, an EO can provide broader value to its members.

An additional danger of the “we know the problems” approach is that it prematurely pushes the EO to the next phase in the advocacy process: direct contact with decision-makers, media and the larger public. Attempting this external persuasion without paying enough attention to preliminary research can backfire if EO representatives are caught ill-prepared to talk about the specifics of their policy recommendation or unable to support it with credible evidence.
Recommendations need to be as specific as possible. EOs will not be taken seriously by policy-makers if they simply say, for example, that corporation tax needs to be lowered. Why? How is it restricting investment? Does that mean corporation tax on all businesses? Are exemptions foreseen in the proposal? What are regional competitors’ corporation tax rates? And the list continues. The EO needs to have a credible answer to each and every question.

It is therefore important to think through the issue, define it clearly, and then test it vigorously. In reality, the initial issue may be neither the major problem, nor the policy imperative; rather, the way the legislation has been framed may be where difficulties are arising.

The issues identified by the EO have to be real. Even if an issue is seen in a survey to be a constraint on economic growth, perhaps in practice it is not. For example, a country might have very restrictive regulatory requirements with regard to exporting (in terms of time and procedures to export goods); however, perhaps because they are so onerous, in practice they are not applied and a blind eye is turned by authorities. The question the EO must consider, therefore, is why waste value political capital on an issue that is not directly affecting enterprises right now, when other constraints are actually hurting enterprise growth.

In order for EOs to be taken seriously by policy-makers it is important that they take all the issues into consideration when determining policy.

None of this is without its difficulties. EOs in developing countries commonly face a number of challenges:4

- An atmosphere of mistrust between private sector organizations and public bodies, leading to more political interference and supervision.
- Insufficient capacities to monitor the policy-making process, analyse the impact of proposed laws and regulations on their membership, and prepare informative position papers.
- Fragmentation of private sector interests.
- An informal style of interest representation, which favours influential bigger businesses and leads to frequent, unpredictable policy changes.
- Reliance on the part of the EO solely on large firms as members, leading to negative views of its representativeness.
- Vested interests of influential members and executives, which may lead to self-serving behaviour and a politicization of EO advocacy efforts.
- Advocacy efforts focused too much on current pressing issues – such short-term thinking often leads to highly personalized ad-hoc decisions on advocacy measures.

All these factors can endanger the public prestige and reputation of EOs and therefore diminish the effectiveness of advocacy efforts.

1.6 Being member-driven

The quality of the relationship between EOs and employers is paramount, and mutually reinforcing to both interests.

For EOs to be relevant and true to their purpose, they must be member-driven. An EO cannot be a credible voice for employers without knowing and advocating what its members believe, and without meeting their actual needs at a given point in time.

Being member-driven has both internal and external elements. An EO is member-driven if it has governance and organizational structures that provide for meaningful consultation with, and feedback from, employers in the development of policy, strategy and work priorities. This internal element should operate both prior to the delivery of services by an EO (i.e. consultation in planning) and after the delivery of services (i.e. feedback on the effectiveness of services). The external element of being member-driven involves the EO communicating to external stakeholders those matters that members have collectively agreed on through internal member consultation and feedback. In practical terms, this means that the EO is truly the voice of its employer members and the bridge to external stakeholders. External stakeholders include unions, governments and the broader community.

In both internal and external processes it is important that EOs do not exist for the purpose of one individual office-bearer or the commercial interest of a single member. Rather, the collective nature of EOs means that they must operate in the service of members at large. This often requires governance and consultative structures in EOs to be robust, inclusive and fair. EOs must ensure that powerful or loud voices in their membership are reflective of majority views, if they are to be given influence. Office-bearers and executives must always be aware that members are commercial organizations competing against each other, and not put the organization in a position of a conflict of interest by associating with the views of one member or a group of members against the interests of other members. These are not always easy matters to resolve. The values of executives and senior officers can sometimes be tested in ensuring that the organization remains truly member-driven and professional in this broad collegiate sense.

When an EO is truly member-driven the benefits can be significant. First, the standing and goodwill of the organization is enhanced, making it more likely that external stakeholders such as governments will listen and take action as advocated by the organization. Second, the advocacy and representation work of the organization is made easier because members are more motivated to be involved and express third-party support for the work of the EO, which can also increase the chance of successful outcomes being achieved. Third, there are membership benefits: existing members are more likely to maintain membership if their views influence strategies or outcomes, and non-member employers in the industry or region are more likely to join if they believe their involvement would be valued and make a difference.
2. The role of employers’ organizations in development and employment

There is now broad recognition by the international community that entrepreneurial activity and enterprise creation and development are vital fundamentals to societies in order to tackle persistent poverty in a sustainable fashion.

Sustained economic growth empirically reduces poverty, and the private sector drives growth. As former United Nations Secretary-General Kofi Annan emphasized, “it is the absence of broad-based business activity, not its presence, which condemns much of humanity to suffering.” In particular, there is a focus now by the international community on the importance of creating a conducive enabling environment to facilitate private sector development as a key development goal:

An enabling domestic environment is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance. Efforts to create such an environment should be supported by the international community. (United Nations, 2008, para. 41)

In these endeavours, the role of EOs in pursing an agenda to create wealth, enterprises and jobs is paramount.

The private sector has not only a central role to play, but also an enormous stake in the creation and fostering of prosperous, stable societies. As the principal engine of job creation, business thrives when its workers and customers thrive; for economic actors and for human beings, it works best and most effectively in well-functioning communities.

Representative business organizations play a crucial role in private sector development, a fact increasingly recognized by the international donor community:

Some of the most effective ways of stimulating a greater demand for reform include: ... c) building the capacity of ... private-sector representative organizations ... f) creating opportunities for public-private dialogue that allow the business community to get across their experiences of the business environment...

To ensure sustainable results in the long run, it is important that the national government and private sector have full ownership of the business environment reform process... [and its] oversight structures and processes.

...developing their [local stakeholders] capacity to participate in business environment reform is critical for successful and sustainable reforms. (Donor Committee for Enterprise Development, 2008)

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5 The link is equally clear between economic growth and strong private investment. A study of 50 developing countries from 1970 to 1998 examined the relationship between private and public investment and growth and incomes. Countries with higher growth featured higher private investment (Bouton and Sumlinski, 2000).

Well-functioning business organizations are the link between enterprises and government, between the micro and the macro level, and crucial for establishing a business environment that benefits all sectors and society. Furthermore, there is a direct link between strong business associations and good economic performance, both from a micro- and a macroeconomic perspective.

At the macroeconomic level, EOs (or, more broadly, business associations) have proven to be an important partner in shaping the institutional conditions for economic growth and poverty alleviation. They have an important role as sources of market-place information for government in its policy-making endeavours: for their ability to identify constraints on enterprise growth and economic opportunities; for the pressure they exert to create or improve public goods, such as infrastructure, the availability of physical and human capital, information technology and finance; and for their role in reducing policy uncertainty, which adversely affects business decisions and investment.

There is a direct positive correlation between economic growth and effective business associations (e.g. in a study of business associations in South-East Asia, East Asia and sub-Saharan Africa). The case can also be made for a direct link between effective business associations and declines in poverty. The data suggest that more effective business relationships lead not only to higher rates of growth, but also to higher rates of pro-poor growth.

In terms of the microeconomic effects on enterprise performance resulting from membership of EOs, Qureshi and Velde (2007) established that membership of a business association enhanced Zambian firm performance in the form of productivity improvement in the range of 37–41 per cent. They also found that joining a business association was particularly useful for small and medium-sized enterprises (SMEs). In a study carried out across seven countries in sub-Saharan Africa, being a member of a business association improved firm productivity in the range of 25–35 per cent. These findings also point out the beneficial effects for workers (increase of average returns) and labour productivity.

National EOs, therefore, are well placed to be change agents in the operation of their economies and labour markets, and to play a key role in delivering greater stability, transparency and sustainability. However, in many countries it will require significant adjustments for existing EOs to meet the many developmental challenges.

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7 BusinessEurope Note: “The private sector as an engine for development” (Brussels, 2010).

8 H. Kondoh: Comparative analysis of governance: Relationship between bureaucracy and policy co-ordination capacity with particular reference to Bangladesh (Tokyo, Tokyo International University, 2005).


Across the world, EOs have evolved in particular circumstances, for often quite different reasons. In Europe, EOs began to emerge around the same time as trade unions and they focused on industrial relations. For a good part of the past century, EOs in most countries belonging to the Organisation for Economic Co-operation and Development (OECD) remained organizations with a strict industrial relations focus. That has now changed, with most developed country EOs now dealing with all or most policy areas affecting business, becoming business and employers’ organizations.\(^{12}\)

In many Latin American countries, the tradition was different and business organizations were established not to deal with industrial relations matters but rather to deal mainly with such questions as fiscal legislation or foreign trade. In time, they also assumed an industrial relations role.

In Eastern Europe, a compulsory chamber system that was in place during the cold war has now largely been replaced by broader organizations that are also acting across the policy spectrum. In the Arab world, some of these challenges remain.

Many Asian and African countries have followed the pattern of former colonial countries to a large extent and have established traditional EOs predicated on industrial relations’ models. Consequently, today the business voice can be dispersed in some of these countries.

The key reasons for the shift from organizations focused on industrial relations issues to ones acting on broader policy issues are numerous, complex and sometimes nation-specific, but would include: i) policy benefits of a unified business voice (i.e. avoiding a divide-and-conquer approach by governments and others); ii) cross-benefits from belonging to one collective organization; and iii) stronger national organizations that are able to speak for business across a range of policy areas with authority. The impact of globalization has also been an important factor.

Rising to the developmental challenges and playing a fuller policy role on behalf of the business community will require, in some cases, difficult structural changes for a number of EOs.

\(^{12}\) Ibid.
3. Developing growth strategies

Growth lies at the heart of economic policy. Its importance for increasing productive employment and reducing poverty levels and unemployment is incontestable. No economy has advanced without it. In the past 30 years, absolute poverty has fallen substantially. This is almost entirely due to sustained growth.

While a growing economy means wealth, enterprise and employment creation, it also means that resources are better deployed, and techniques mastered and advanced. Advancing the growth agenda is, therefore, the core business of EOs everywhere.

Go for growth is BusinessEurope’s agenda for growth in the European Union for 2010–2014. BusinessEurope centres its entire approach around the following proposition: “Go for growth should be more than just a slogan. It should inspire every political decision.” The basis of the approach is that:

Growth and employment will be achieved if EU decision-makers put development of companies at the centre of their policies, if the Single Market is completely revitalised and if Europe’s position in the world is strengthened. When they can operate in a business-friendly environment, companies are successful in producing first-class goods and services, in creating jobs, in developing new technologies. When companies are successful, they create the wealth that is needed to finance public services and social security.

3.1 What is growth?

Growth does not evolve organically. It must be a deliberate and conscious decision. Specific and realistic goals and targets need to be put in place. There needs to be ownership of those goals along with recognition that sustainable growth can entail a decades-long commitment, and a fundamental trade-off between the present and the future. This will only be accepted if it is clearly communicated in a credible fashion along with an achievable strategy for getting there.

And, ultimately, it must be clearly understood that the private sector is the engine of growth, with government playing a facilitative role:

Government is not the proximate cause of growth. That role falls to the private sector, to investment and entrepreneurship responding to price signals and market forces. But stable, honest, and effective government is critical in the long run. The remit of the government, for example, includes maintaining price stability and fiscal responsibility, both of which influence the risks and returns faced by private investors. (Commission on Growth and Development, 2008)

Growth strategies should not be defined in terms of specific targets such as employment generation or income distribution. These are potential albeit very important outcomes, not specific goals. Growth strategies should be about creating the environment, through the removal of obstacles and constraints, to invigorate enterprise creation and development, productivity growth, productive

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employment, and ultimately human development. Growth provides societies with the means to achieve important societal and individual goals.

But economic growth is not an end in itself. Growth must translate into positive outcomes for workers, employers and society at large (e.g. jobs, profits, investments, rising living standards and social progress).

3.2 The influence of macroeconomic policy on employment

Macroeconomic policy-making, including fiscal and monetary policy, is the primary mechanism for promoting economic growth.

This is a highly complex and often contentious political process. A wide range of government decisions influences the performance of national economies (including fiscal, regulatory and governance decisions). These include taxation or regulatory imposts, which drive up the cost of employment and drive down returns on investment; trade policies; and policies affecting inflation and the cost of capital.

These decisions are often highly political and take place in the context of competing interests and competing economic theories. In seeking to make the best possible decisions, governments need the best possible statistical, analytical and evaluative information, including quality labour market statistics.

3.3 What are the prerequisites for growth?

There is no one-size-fits-all approach to be applied to growth strategies. Each country has different constraints, shaped by their own national and regional specificities and cultural and historical experiences. Countries that have experienced sustained rates of high growth are certainly not identical. But in all cases of countries that have or are currently experiencing high sustainable growth, the following set of commonalities can be identified:

- **An open market system**, where policies have been clearly outlined as market-driven and government has demonstrably shown that it has/is/will effectively liberalize product markets, allowing new and more productive firms to enter and obsolete firms to exit.

- **Openness to the global economy**, which greatly facilitates exposure to ideas, expertise and technologies from the rest of the world while also drawing on global demand to complement domestic components.

- **Macroeconomic stability**, including control of inflation and sound public finances.

- **High rates of saving and investment**, especially public and private sector investment (in physical and social infrastructure, e.g. education and health).

- **Committed, credible, and capable governments** that act in a manner that is representative of the interests of the citizens of the country.

- **Promotion of domestic and foreign investment.**
• Labour mobility enabling the movement of people from rural to growing urban job-creating centres.

• Investor protection in terms of property rights and contract enforcement. Without such protection, firms and entrepreneurs do not have the incentive to accumulate capital and improve productivity.

• Economic institutions that define property rights, enforce contracts, convey information, bridge informational gaps, and influence investments in physical and human capital and technology.

• Social cohesion and political stability; without these the economy cannot perform adequately.  

These general principles do not neatly map into specific, universally applicable policies that operate equally well across countries; however, they do represent a policy floor on which national sustainable growth strategies can be devised, tested and implemented.

Similarly, growth strategies have often failed for some of the following reasons:

• Insufficient analysis in the first instance of the necessary and appropriate conditions for growth and development.

• Policy approaches that are not centred on private sector development and productivity increases.

• Lack of political leadership in identifying a viable strategy, communicating an understandable vision, and building a consensus around a growth strategy.

• Failure to consider and debate all policy options robustly and rigorously. Bad policy options need to be identified and rejected.

• Policy-making processes that are confined to government circles, with little input from business.

• High expectancy in a short timeframe: growth strategies evolve over time and are often a multi-decade endeavour.

• Ineffective communication of both policy and strategy. Failure to ensure popular support for a set of growth-enhancing reforms.

• Assumptions that policies that have had a positive effect in one country can be transposed to another with similar positive outcomes.

• Growth that is not inclusive and does not seek to deliver equality of opportunity for individuals and firms.

• “Known unknowns” – the inevitable changes and events that will impact on an economy from the external environment.

3.4 The private sector – essential for driving growth and societal change

The role of the state and the private sector need to be in harmony to deliver sustained inclusive growth.

The state plays a critical role in providing the institutions required for private companies to grow. It sets the climate for investment and commerce through trade policy, competition policy, regulation of utilities, commercial justice systems, taxation, land reforms, labour codes, and environmental management.

In tandem, the private sector, operating in efficient markets, is the key catalyst for sustainable growth. Productivity improvements and investment drive growth, and improvements in productivity result from private sector innovation. Competitive pressures in markets increase efficiency (the best use of resources) and provide incentives for continued innovation and investment. Tellingly, nine out of ten jobs in the developing world are in the private sector.\textsuperscript{15}

Markets that function well also have wider economic benefits. They encourage firms to innovate, reduce costs and provide better quality jobs, goods and services to more people. Private companies that drive growth and create jobs are the major source of tax. Without a sustained source of domestically generated revenue, governments are in no position to provide essential public services such as health and education to their citizens.

3.5 Inclusive growth

Inclusiveness is an important concept in developing sustainable growth strategies. This is a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions. Equality of opportunity in terms of access to markets, resources and an unbiased regulatory environment for businesses and individuals is equally important.\textsuperscript{16}

For growth to be inclusive, productivity must be improved and new employment opportunities created. In short, inclusive growth is about raising the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities.\textsuperscript{17}

Employment growth generates new jobs and income for the individual, while productivity growth has the potential to lift the wages of those employed and the returns to the self-employed. Hence, inclusive growth is not just about employment growth, but also about productivity growth.\textsuperscript{18}


\textsuperscript{17} World Bank: \textit{What is inclusive growth}, World Bank knowledge brief (Washington, DC, 2009).

\textsuperscript{18} Ibid.
The main instruments through which sustainable and inclusive growth pathways can be achieved are sustainable enterprises and productive employment.

3.6 Can growth polices be manipulated to lead to certain outcomes?

As economic and societal actors, EOs want growth that can facilitate and enable enterprise creation and development that will lead to wealth and, importantly, to employment creation. Enterprises and jobs lead to wealth, prosperity and positive social outcomes.

To achieve this, growth strategies should adopt a long-term perspective which is broad-based across sectors.\(^{19}\) They should also look beyond the domestic market. In developing countries, the domestic markets are often too small. For sales to rise, prices have to fall. Size is not the only problem. The pattern of domestic spending may not correspond well to the strengths of domestic supply.

Growth strategies that rely exclusively on domestic demand eventually reach their limits. The home market is usually too small to sustain growth for long, and it does not give an economy the same freedom to specialize in whatever it is best at producing. (Commission on Growth and Development, 2008)

Growth will impact on a country in different ways: some regions and cities may advance quickly, others may lag. Numerous factors can influence these determinants: a geographical position closer to a major market; a natural advantage, such as a natural port; the presence of commodities; a history of agglomeration (enterprises moving to a location because others have already moved there). Governments can very definitely influence these forces, by deciding where to invest and build infrastructure.\(^{20}\)

Countries with the same growth rate may have different levels of poverty. The ability to convert growth into more equitable outcomes and to reduce poverty will depend partly on the structure of the economy, but above all on the quality of governance.

Governance sets out the regulatory power exerted by all institutions, standards and policies with respect to the operation of a given economy and society. The quality of such governance must allow for the operation of the decentralized decision-making process inherent in market economies and must allow democratic governments and communities to have coordinating mechanisms putting economic growth to work for the improvement of enterprise conditions, social cohesion and poverty reduction.\(^{21}\)

In some cases, governments may wish to help large firms in specific sectors to achieve minimum efficiencies of scale. This allows these enterprises to compete in export markets such as those for automobiles, steelmaking and shipbuilding. In other sectors, governments may wish to support the development of enterprise clusters that are made up predominantly of small firms.


Policy-makers may choose a specific sector for targeted policy support if they feel that they have a comparative advantage or an emerging comparative advantage in that sector. For example, the presence of low-skilled labour, geographical position to major market, or favourable trading conditions (e.g. recent trade agreement) may suggest to policy-makers that, for example, the manufacturing sector should be an area of special policy focus. Support may consequently come in the form of an export-processing-zone/special-economic-zone arrangement that enables enterprises to have more favourable operating conditions. Alternatively, cheaper high-skilled labour and strong information technology infrastructure, along with existing supportive industries, may direct policy support in the direction of those sectors relating to information and communications technology. Tax exemptions for clusters of enterprises may be the policy responses in this case.

A related question currently being posed is whether growth can be manipulated to serve certain goals, such as increased employment. This throws up many, possibly unanswerable, questions.

In countries with large cohorts of unemployed and underemployed people, can policy focus on increasing the employment content of growth strategies? Should growth strategies favour the sectors of the economy in which these individuals are found (i.e. agriculture)? Or should policy seek to advance the sectors in which they are not found, so as to provide increased employment opportunities in the higher earning parts of the economy?

For example, growth in labour-intensive manufacturing raises the incomes of the poor. So, should these industries be targeted? The answer may be “yes” if no other sectors are showing any potential, but “certainly not” if other sectors with increased wealth creation are. For instance, financial services will usually create few jobs (compared to other industries, such as manufacturing), but they may make a significant contribution to economic growth and employment in indirect ways. They may create ancillary demand for directly related services (e.g. property rental, insurance provision) and for unrelated services (e.g. retail or other services); workers may be paid more and can spend on labour-intensive services, creating new employment; the enterprises themselves will contribute to the tax base, enabling government to redistribute and also to invest in other sectors.

Therefore, the premise that growth must always be accompanied by a proportionate or prescribed level of employment, as well as the implication that growth without employment (or without a particular level of employment) is undesirable, is certainly debatable. The correlation between aggregate demand and employment demand ebbs and flows over time. So-called deficient growth may be yielding greater efficiency, or herald the emergence of new industries or new technologies, or be a temporary process in the course of economic transformation.

This is a long and extensive debate with no definitive final outcome, or certainly one that is beyond the scope of this publication.

The position of EOs should be led by the analysis provided by their sectoral associations, combined with their overall national priorities and focus. Suffice to say that EOs should promote the following key principles to policy-makers in devising growth strategies:

- Growth strategies should be market-driven, with the government playing a facilitating role.
- Growth strategies should be broad based and look beyond domestic markets.
- The private sector, in pursuit of profit, will discover where a country’s comparative advantage lies and invest accordingly.
• Any profit-seeking activity that needs permanent subsidies or price distortions to survive does not deserve to do so.

• Growth strategies will not succeed without a commitment to equality of opportunity as a key operating principle of government policy.
4. Sustainable enterprises

While the overarching policy goal for all economies is sustainable growth, the “hard goods” in achieving this objective is sustainable enterprise creation. Without sustainable enterprises there will not be that principal source of growth or employment.

Sustainable enterprises are the entry point for achieving the ILO’s main objective of decent work: 22

Sustainable enterprises are a principal source of growth, wealth creation, employment and decent work. The promotion of sustainable enterprises is, therefore, a major tool for achieving decent work, sustainable development and innovation that improves standards of living and social conditions over time. (ILO, 2007, para. 3)

The term “sustainable enterprises” comes from the Conclusions concerning the promotion of sustainable enterprises negotiated between employers, workers and governments and adopted without reservation at the 96th Session of the International Labour Conference in 2007. It enumerates 17 “interconnected and mutually reinforcing conditions” that are required to create an enabling environment for sustainable enterprises.

These 17 pillars are: i) peace and political stability; ii) good governance; iii) social dialogue; iv) respect for universal human rights and international labour standards; v) entrepreneurial culture; vi) sound and stable macroeconomic policy and good management of the economy; vii) trade and sustainable economic integration; viii) enabling legal and regulatory environment; ix) rule of law and secure property rights; x) fair competition; xi) access to financial services; xii) physical infrastructure; xiii) information and communication technologies; xiv) education and training and lifelong learning; xv) social justice and social inclusion; xvi) adequate social protection; and xvii) responsible stewardship of the environment.

In summary, the sustainable enterprise framework overarches the political, economic, social and environmental spheres. And it fits with the definition of sustainability as a set of economic, social and environmental conditions that meet society’s needs without having a negative impact on the well-being of future generations. 23

22 The Decent Work objective emerged from the Report of the Director-General to the 87th Session of the International Labour Conference in 1999. It takes the four strategic objectives of the ILO: i) to promote and realize fundamental principles and rights at work; ii) to create greater opportunities for women and men to secure decent employment and income; iii) to enhance the coverage and effectiveness of social protection for all; and iv) to strengthen tripartism and social dialogue, and brings them together as a single concept. It is now the main policy goal of the Organization. From the perspective of employers, decent work, in the first instance, requires the creation of employment opportunities. It does not mean universal standards applicable to all workers and jobs throughout the world. It is a relative concept, a moving target, and a goal to be achieved within the capacity and development goals of each country. It does not mean every worker performing comparable work must receive the same quantum of wages and enjoy the same conditions of work everywhere. It is conditional on a country having an adequate level of sustainable economic development and capacity, which are prerequisites to alleviating unsatisfactory social and economic conditions.

The 17 pillars represent a comprehensive approach to, and framework for, enterprise conditions; this is its strength. However, the framework should not be viewed through a restrictive lens: it is not, as was outlined when the framework was developed, a rigid structure:

...there is no one-size-fits-all solution to the design and implementation of policies to promote sustainable enterprises. (ILO, 2007, para. 9)

The approach to sustainable enterprises is grounded in what policy-makers can do to create enabling conditions for their creation and development (the sustainable element):

Promoting sustainable enterprises is about strengthening the rule of law, the institutions and governance systems which nurture enterprises, and encouraging them to operate in a sustainable manner. Central to this is an enabling environment which encourages investment, entrepreneurship, workers’ rights and the creation, growth and maintenance of sustainable enterprises by balancing the needs and interests of enterprise with the aspiration of society for a path of development that respects the values and principles of decent work, human dignity and environmental sustainability. (ILO, 2007, para. 5)

The framework was designed in the context of broad recognition by the international community that enterprise creation and entrepreneurial activity, which lead to employment and wealth generation, are essential ingredients for well-functioning and developing societies. When they are hampered, weakened or not properly cultivated, progress and innovation are held back. This can create major economic and social pressures that can, in turn, compromise political stability.

The sustainable enterprise framework is designed to generate growth through thriving enterprises and productive employment. For growth to be accompanied by an employment increase, it needs to be based on investment in value-added activities. The rate of labour absorption in growth is affected by productivity and labour costs, which figure prominently in investment decisions. Thus, the investment framework is highly relevant to growth strategies and employment increases.

4.1 Why this framework is useful

The sustainable enterprise concept not only provides a holistic framework for enterprise creation, but it also demonstrates the link between sustainable enterprises and larger societal goals.

The principle of sustainability appeals to enlightened self interest, often invoking the so-called “triple bottom line” of economic, social and environmental performance. In other words, enterprises should operate in ways that secure long-term economic performance by avoiding short-term behaviour that is socially detrimental or environmentally wasteful. The principle works best for issues that coincide with an enterprise’s economic or regulatory interests.24

The elements of the sustainable enterprise framework can be accommodating or constraining, and they play an important role in whether an economy will grow. An accommodating business environment is one that encourages firms to operate efficiently. Such conditions strengthen

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24 M.E. Porter and M.R. Kramer: “Strategy and society: The link between competitive advantage and corporate social responsibility”, in Harvard Business Review (Boston, MA, Harvard Business School Publishing, 2006), Vol. 84, Issue 12, pp. 78–92. Dupont, for example, has saved over US$2 billion from reductions in energy use between 1990 and 2006. Changes to the materials McDonalds uses to wrap its food have reduced its solid waste by 30 per cent. These were smart business decisions entirely apart from their environmental benefits.
incentives for enterprises to innovate and to increase productivity – important factors for sustainable enterprises. A more productive private sector, in turn, expands employment and contributes taxes necessary for public investment in health, education and other services. In contrast, a poor business environment increases the obstacles to conducting business activities and decreases a country’s prospects for reaching its potential in terms of employment, production and welfare.  

4.2 What sustainability means to business

For an economic system to be sustainable, it is not necessary for each enterprise individually to be sustainable. Indeed, the start-up, growth and, for some, the demise of enterprises constitute part of an evolution. There would be less innovation, and hence opportunities for growth, if no risks were taken.

If sustainable enterprise growth is less than actual growth over a protracted period, the enterprise cannot sustain such activity without funding that growth. It must either plough more profits into the enterprise, increase net profit margin or turnover performance, or fund from risky sources, such as increasing the debt level. When sustainable growth is greater than actual growth, the company has the potential to ratchet up growth.

4.3 Sustainability as the nexus between business and society

Society and enterprises are interdependent, and societies need successful enterprises, as they are the main creators of the growth, employment and wealth that over time lead to improvements in living standards and positive social outcomes. Without sustainable enterprises there can be no job-rich growth.

By providing jobs, investing capital, purchasing goods and doing business every day, enterprises have a profound effect on society. The most important thing an enterprise can do for society and for any community is to contribute to a prosperous economy.

Sustainability in a business sense is the collection of policies and processes that enhance the financial, environmental, societal, human and other resources on which a given enterprise depends for its long-term health. Sustainability, therefore, is not about mitigating what companies are perceived to have done wrong or about corporate philanthropy. Rather, it is about recognizing that business should be good for society and society good for business.

25 For example, Hallward-Driemeier and Aterido (2007) found that weak business environment conditions do not necessarily translate into lower employment growth. Rather, the more challenging business environment conditions are associated with shifting down the size distribution, lowering the relative growth of larger firms, or in some cases expanding micro-firms. In particular, unreliable electricity and less efficient government services are associated with relatively higher growth for micro-firms and lower growth for larger firms. This is consistent with firms choosing less capital-intensive production technologies and incentives to stay below the radar screen of officials.

26 studyfinance.com (Tucson, AZ, University of Arizona, 1999–2010), maintained by Dr. S. Garrison.


To survive and thrive in the long term, business must be in tune with how society and its expectations are changing, and it must be able to translate these changes into new products, markets or business processes. This will help business to be adaptive, manage risk, be competitive and continue to make profits.

Business needs stakeholders that view it favourably, support its development, appreciate the talents of entrepreneurs, and supply the capital stocks – human, social, natural, physical and financial – that it needs to survive.

The longer-term mission for business, in partnership with government, trade unions, civil society and the general public, must be to create a more sustainable and secure growth model that will build enduring competitiveness by increasing productivity and productive jobs, fostering innovation, and reducing business costs.
Conclusions

Ultimately, the policies needed to create sustainable enterprise and “job-rich growth” must take place through national political processes that require national actors. National representative business organizations are such actors, with distinct roles, respected in their communities, and with clear and definable values and objectives. They can promote the collective interests of business. That is their key added value – they can speak for business as a whole, not just for parts of it.  

Different sectors can have different needs and different ideas about how the economy should operate. Larger companies may be able to adapt easily to a new regulatory or policy change, while that same change could have a devastating effect on the small business sector. Different sectors may wish for different policy directions.

However, a collective approach needs to be taken when representing to government major policy issues that impact on all business. This entails a consolidation of all the various, and occasionally competing, interests into a collective view from the business community. The fact that EOs have to speak for all business – an often slow and cumbersome process – should not therefore be seen as a hindrance, but as an advantage.

Overall, EOs around the world are facing new and competitive pressures. While many organizations are adapting and changing to new demands from their members, others are struggling. Some organizations are based on models designed for a different policy environment. Across all regions, the market in which EOs compete is becoming more and more crowded. Traditional partners, such as trade unions, and old certainties are changing. Many enterprises (especially SMEs or new enterprises) are yet to be convinced of the value of paying to belong to representative business organizations. New global economic realities are affecting all enterprise actors.

The strengths of EOs are their independence, their established standing, their respected and representative voice, and the capacity of that collective voice to be stronger and more effective than its members operating individually. It will be these qualities that put EOs in a position to meet the challenges of serving the employer community into the 21st century. This will only occur, however, if a conducive environment is created for the free and independent operation of EOs, and if EOs themselves implement strategic and operational goals to assess and respond to the needs of the employer community as economic and social circumstances rapidly evolve.

EOs need to move towards modernization with renewed vigour, to embrace changed paradigms and build new relationships, but to keep their values intact.

The most enduring economic value of employers is their support for, and belief in, open markets and private sector entrepreneurship and investment that can lead to sustainable enterprises and productive jobs. The challenge is to meet multiple social, environmental and economic goals contemporaneously in an informed and evidence-based way.

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29 Joint views of the International Organisation of Employers (IOE) and the International Chamber of Commerce (ICC) to the ECOSOC High-Level Segment, 3–5 July 2006, Geneva.

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