

ATUG Focus – 22/04/09

This week's ATUG Focus comes from McKinsey & Company's The McKinsey Quarterly. The topic of the think piece is "Managing regulation in a new era".

As we head into the detail of Australia's NBN and the transitional arrangements, many stakeholders need to reflect on the role of regulation and new models of engaging that are fit for purpose in an NBN Australia.

Below is an extract. The full article is available online at

http://www.mckinseyquarterly.com/Managing_regulation_in_a_new_era_2273

The 2008 financial crisis may come to be seen as the demarcation between two regulatory eras. For the past generation, free markets have enjoyed a remarkable intellectual and political ascendancy, championed by academics and governments alike as the best way to promote continuing growth and stability. Now the world suddenly appears to think that some problems are too big and threatening to be solved by free-wheeling businesses. Politicians and commentators of every stripe are calling for greater regulation.

Like most big shifts in the intellectual and political climate, this one appears at first glance to have burst forth overnight. In fact, it's been bubbling beneath the surface far longer. There has been a gradual awareness that self-regulation and corporate social responsibility go only so far in solving big problems. On the day in September 2008 when Lehman Brothers collapsed and the financial crisis became a financial calamity, you may have missed a less prominent news item. Ian Cheshire, CEO of the UK retailer Kingfisher, told the BBC that "there are certain things that are too big, too long-term ... to deal with incrementally. We need a government framework." Cheshire, a member of the UK Corporate Leaders Group on Climate Change, was speaking in support of a European effort to reduce greenhouse gas emissions.

A comment by Peter Brabeck-Letmathe, Nestlé's chairman, also failed to attract much attention: "Even though we have perhaps more impact than any other food company, we can only be a small part of the solution [to food and water problems]. The fact is that all our efforts, and those of other companies and consumers, will be in vain if governments throughout the world continue with their short-sighted policies instead of working towards solutions." He too was calling for more state intervention, not unfettered free markets.

Today a pattern is emerging. Tight credit; looming energy, food, and water shortages; and greenhouse gas emissions are high on the minds of business leaders as well as politicians. Consumers too are increasingly worried—and aware that an interconnected global economy means interconnected global problems. They hear about ice caps melting and banks collapsing in distant countries and know that all this matters to their lives, their jobs, their homes, their families. What's more, they expect companies to help alleviate these problems. Such developments underscore the expansion of the "social contract" between business and society. The contract includes not only laws and regulations but also a growing obligation for companies to fulfill certain social responsibilities.

From antagonism to cooperation

Against this background of changing perceptions and priorities, regulation is set to assume fresh importance. As always, regulators should find the right ways to mitigate broader market failures—for example, to protect consumers and control environmental pollution—while also seeking to facilitate fair and intense competition among companies, for that will encourage larger increases in productivity, a faster-growing economy, and greater wealth for society to share.

How should companies prepare? In the previous era, the answer would have been to hire more lawyers and lobbyists and send them off to do battle with regulators. Robert Reich, President Bill Clinton's first secretary of labor, describes in his 2007 book, *Supercapitalism*, the way intense competition has driven US companies in particular to dramatically increase their efforts to contest every regulatory decision affecting their profitability. Regulation has developed from a legal and political system that is structurally adversarial, so it is no surprise that adversarial attitudes and skills have set the tone in regulatory affairs. But an arms race of investment in legal and lobbying capacity makes less and less sense if governments, policy makers, and companies are to find optimal solutions to huge economic and sociopolitical challenges.

ATUG will be holding a series of **Future Forums** focused on the **Digital Economy** <http://www.atug.com.au/futureforums.cfm> discussing issues such as regulation for a new era, what does a Digital Economy mean for businesses and their customers, how will business models be reshaped for a Digital Economy, how do we encourage use and take up of Digital Economy services, what barriers need to be removed.

The first of the national series of forums will be on:

Tuesday 5 May 2009 – 8.30am till 12 noon
Meeting Room 5C
Australian Technology Park
Bay 8, Locomotive Workshop Eveleigh, Sydney.

Cost (to cover meeting room and catering)
\$70.00 + GST

To download a Registration Form, [Click Here](#).