STRATEGY BEYOND MARKETS: A STEP BACK AND A LOOK FORWARD

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ABSTRACT

This paper provides a perspective on the field of nonmarket strategy. It does not attempt to survey the literature but instead focuses on the substantive content of research in the field. The paper discusses the origins of the field and the roles of nonmarket strategy. The political economy framework is used and contrasted with the current form of the resource-based theory. The paper argues that research should focus on the firm level and argues that the strategy of self-regulation can be useful in reducing the likelihood of challenges from private and public politics. The political economy perspective is illustrated using three examples: (1) public politics: Uber, (2) private politics: Rainforest Action Network and Citigroup, and (3) integrated strategy and private and public politics: The Fast Food Campaign. The paper concludes with a discussion of research issues in theory, empirics, and normative assessment.

Keywords: Integrated strategy; political economy; private politics

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INTRODUCTION

As an academic field strategy beyond markets, or nonmarket strategy, has matured considerably during the past three decades, yet the field remains somewhat disjointed and the remaining research agenda exceeds the accomplishments to date. This paper steps back and considers the events that gave rise to the field of nonmarket strategy, considers the development of research pertaining to nonmarket strategy, and discusses an agenda for future research. The paper does not attempt to survey the extant research, but instead references research contributions as illustrations of approaches and frameworks. The research agenda is both a set of topics that warrant further study and a set of challenges associated with theory, empirical studies, and strategy choice.

This volume is appropriately organized into sections on public politics, private politics, and integrated strategy. Integrated strategy can involve the integration of public and private politics strategies, but more importantly it refers to the integration of market and nonmarket strategies.[1] This requires a framework for market strategy, which is considered below, but the focus here is nonmarket strategies in the presence of private and public politics. This includes strategic corporate social responsibility, which is considered in the context of self-regulation.

Maturation of the field is evidenced by this volume, the Routledge Companion to Nonmarket Strategy (Lawton & Rajwani, 2015), a volume on the economics of corporate social responsibility (McWilliams, 2015), the Oxford Handbook on Business and the Natural Environment (Bansal & Hoffman, 2012), a 2012 Symposium on nonmarket strategy in the Academy of Management Perspectives (Doh, Lawton, & Rajwani, 2012; Henisz & Zelner, 2012), and the Oxford Handbook on Corporate Social Responsibility (Crane, McWilliams, Matten, Moon, & Siegel, 2008). Fourteen annual Strategy and the Business Environment conferences have now been held, attracting a core group of researchers and a broadening set of scholars who find the conferences a useful forum for their research. Mainstream economics, political science, and strategy journals publish research on nonmarket strategy, and specialized journals provide a home for the research. Yet, the field is still young, and much of the research is formative rather than definitive.[2] Much more remains to be accomplished.

Firms choose market strategies to guide their actions in markets, and firms also choose nonmarket strategies to guide their actions in their social, political, and legal environment.

Market strategy focuses on the sources of competitive advantage and sustainable performance and addresses issues involving the lines of business in which the firm operates, the markets in which it participates, its rivalry with competitors, investments in innovation, organizational boundaries, and so on. That is, market strategy focuses on positioning and choice in markets and the performance of the firm in those markets.

Nonmarket strategy also focuses on choice among strategy alternatives, not in markets but rather in the context of public and private politics arenas in which the firm competes against, and at times works with, its rivals, interest groups, and social activists. Nonmarket strategy thus focuses on choice as does market strategy, and the objective is to integrate market and nonmarket strategies to maximize overall performance.

Nonmarket strategy addresses issues that affect firm performance and are not fully resolved within markets and private contracting. Nonmarket strategy takes as exogenous the same factors as in economics and political science, but it does not take market strategy as given. Instead, market and nonmarket strategies are chosen together to form an integrated strategy. As elaborated below, Amazon had a market strategy that exploited its price advantage resulting from not collecting state sales tax on Internet sales, and its nonmarket strategy focused on defending against attempts by states to force the collection of the taxes. As it became increasingly clear that its nonmarket strategy could not be successful in the long run, Amazon switched its market and nonmarket strategies. Its new market strategy included emphasizing rapid delivery and building new fulfillment centers to fill orders. The company replaced its aggressive nonmarket strategy with a strategy that emphasized negotiating transition, using the location of new fulfillment centers in bargaining with states regarding the transition to sales tax collection.

Because nonmarket strategy is to be integrated with market strategy, firm leaders and managers must be responsible for both strategies. This is illustrated in more detail in the section "Applying the Approach" using the cases of Uber, Citigroup and the Rainforest Action Network, and McDonald's and the Fast Food Campaign.

The principal theme of this essay is that more attention should be given to firm-level strategy choice and implementation. Political economy provides the micro-foundations for the essay. The firm is the unit of analysis, and performance of a firm depends on its market and nonmarket strategy, the strategies of others, the markets and institutions in whose arenas the strategies are deployed, and exogenous factors such as demographics, macroeconomic conditions affecting markets, and institutional features.

Identifying the effects of these exogenous factors on strategy choice and performance is important, but the focus of the field of strategy beyond markets is on the actions of firms and other interested parties such as competitors, interest groups, activists, and government officeholders. The objective is to explain firm performance and guide strategy formulation and choice to improve performance. The task of firm leaders is to position and direct the firm efficaciously in both its market and nonmarket environments. The field of strategy beyond markets thus focuses on the nonmarket environment, nonmarket strategy choice, and its integration with the market strategy of the firm. Research on nonmarket strategy often takes the market strategy of the firm as given, recognizing that nonmarket forces can affect those strategies.

The next section offers a brief history of the demand for nonmarket strategy, and the following section addresses the roles of nonmarket strategy and the political economy approach applied at the firm level. The section "Applying the Approach" presents cases in public politics (Uber), private politics (Rainforest Action Network and Citigroup), and public and private politics (the Fast Food Campaign and McDonald's). The section "Market and Nonmarket Strategy" considers market and nonmarket strategy and self-regulation, and the final section offers observations on research topics.

A STYLIZED (U.S.) HISTORY OF THE DEMAND FOR NONMARKET STRATEGY

Although the field of nonmarket strategy is relatively young, some firms have been practicing it for a considerable time. Firms in regulated industries and state-owned firms have long interacted with government, as have firms in resource-extraction industries. Direct social pressure has also been a factor for some firms as evidenced by the boycott of Nestlé over the marketing of infant formula in developing countries and the anti-apartheid campaigns against firms operating in South Africa. Early research focused less on the strategies of these firms and more on the rationale for government regulation and on the responsibilities of firms to stakeholders.

The environmental movement was ignited by Rachel Carson's Silent Spring, and much of the early focus was on building awareness of environmental issues. Activists turned their attention to government and were an important force in the wave of social regulation enacted during the

1970s that focused on the environment, occupational health and safety, product safety, worker rights, and other social aspects of business. Importantly, this social regulation dealt with issues that cut across industry lines. Many firms that had operated largely free of government regulation found themselves having to deal with complex regulations that forced changes in their strategies and operating practices. Firms began to recognize that they needed to participate in public policy processes rather than have policy developed in response to opposing interest groups. The importance of nonmarket strategy also increased as a result of the deregulation and privatization movements. Firms honed their lobbying, coalition building, advocacy, grassroots mobilization, and judicial strategies. Researchers turned their attention from the evaluation of market failures and government intervention to the political strategies of firms participating in the development of the rules that governed market competition and shaped the nonmarket environment in which they operated.[3]

By the early 1990s, firms had sharpened their nonmarket strategies and slowed the pace of new government regulation. Some critics of business turned their attention from influencing government to directly targeting companies through, for example, naming and shaming campaigns. The nonmarket strategies of activist NGOs proved successful in many instances, and particularly after Greenpeace's success in stopping Shell from disposing of the obsolete Brent Spar oil platform in the North Atlantic, direct pressure on firms both intensified and broadened. Firms facing criticism and attacks on their market strategies began to develop nonmarket strategies to deal with the social pressure they faced. Some firms, however, were too difficult to challenge with campaigns, and activists innovated by targeting their supply and distribution chains. This exposed a much larger set of firms to social pressure and broadened the importance of nonmarket strategy. In response to this broadened threat from activism, firms began to self-regulate to lessen the social pressure and avoid targeting. In implementing their self-regulation, some firms partnered with NGOs, shifting the focus of the NGOs from confrontation to cooperation. This self-regulation was often called corporate social responsibility, but its motivation was different from the earlier version that focused on responsibilities to stakeholders. This corporate social responsibility was strategic and intended to alleviate or forestall social pressure. Some firms discovered that this strategic social responsibility could also be used in marketing and reputation-building. For these firms, nonmarket strategy was naturally integrated with their market strategy. For other firms, the nonmarket environment was sufficiently important to their performance that their nonmarket strategy had to be integrated with their market strategy.

The need for nonmarket strategy and its integration with a firm's market strategy increased considerably with the wave of outsourcing and globalization. Firms that had operated in developed economies where the rule of law was strong found themselves operating where the rule of law was weak, enforcement of regulation was often lax, and corruption in some cases was widespread. More firms found themselves embroiled in public and private politics, necessitating the development of effective nonmarket strategies integrated with their market strategies. Nonmarket strategy had evolved from being a response to government intervention to being an integral component of sustainable value creation.

NONMARKET STRATEGY

Roles of Nonmarket Strategy

Nonmarket strategies can be thought of as playing one or more of six roles. One is rent seeking, as when wind and solar power companies seek to continue their generous subsidization, or burden lifting, as when firms work for a lower corporate income tax rate. Another is handicapping competitors by, for example, raising their costs, as in bricks-and-mortar retailers working to require e-commerce firms to collect sales taxes. More important are strategies directed at unlocking opportunities, as when firms seek to open markets closed by a government or to deregulate an industry. Examples include MCI's ultimately successful entry into the telecommunications market in the United States (Yoffie & Bergenstein, 1985), the financial services industry's successful efforts to repeal the Glass–Steagal Act, and Uber's entry into local passenger transportation markets. Fourth, nonmarket strategies are used to defend against rivals and critics seeking to restrict a firm's opportunities or operations, to forestall social pressure led by activists, and to forestall initiatives of governments seeking to impose additional burdens on firms. For example, Internet privacy has largely been in the realm of self-regulation by individual firms, and attempts by Congress to address the issue have been furtive and rise and fall with privacy breaches or their absence but leave the status quo government policies in place. As discussed below, Amazon's nonmarket strategy supported its market strategy, and when the company changed its market strategy, its nonmarket strategy changed as well. Another example is restaurants resisting social pressure to raise workers' wages as considered in the section

"Applying the Approach".[4] Fifth, nonmarket strategy is used to attract customers with social preferences for environmental protection, social justice, or the protection of rights, as in the strategic use of corporate social responsibility. Sixth, nonmarket strategies are used to create value by positioning the firm to be able to anticipate and deal effectively with the nonmarket strategy challenges that may arise in the future. This includes strengthening reputations, building trust, and enhancing legitimacy. Self-regulation, the acceptance of social responsibilities, forthrightness, and relationship building are often components of these strategies.

The scope of nonmarket strategy does not include all activities with social or political aspects. For example, responding to consumer social preference with green products is straightforward profit maximization. Shaping those social preferences through the design and implementation of a corporate social responsibility policy requires a nonmarket strategy. Similarly, complying with government regulation is not nonmarket strategy, since companies like citizens are to obey laws and regulations. Lobbying to influence the content of legislation involves a nonmarket strategy. Public relations, involving communicating the firm's activities to the public, is not nonmarket strategy, but a communications strategy designed to develop a favorable reputation or an advocacy campaign to complement a lobbying strategy addressing legislation under consideration in Congress is nonmarket strategy. Nonmarket strategy involves the choice of actions to affect outcomes in the nonmarket environment and in conjunction with a market strategy to affect outcomes in the market environment.

Levels of Nonmarket Strategy Research

Research on nonmarket and integrated strategy can be thought of at three levels. The first focuses on the nonmarket environment and seeks to identify factors that can affect the choice of strategy and firm performance. This research can focus on a country, industry, or market or on differences across countries, industries, or markets. For example, Henisz, Dorobantu, and Nartley (2014) study the nonmarket environment of gold mining, and Holburn and Zelner (2010) study the global electric power industry to identify the nonmarket challenges firms face in operating in countries other than where they are domiciled.

The second level focuses on explaining differences in performance among firms. In the market strategy literature, this research must control for industry-specific factors, such as the intensity of competition, that affect all firms in a more or less similar manner. The objective then is to identify firm-level factors, or better yet choices, that cause and hence explain differences in performance. The challenge is to identify those causal factors. Some nonmarket issues are industry-specific and amenable to relative performance analysis, but many nonmarket issues cut across markets and traditional industry lines complicating the identification of causal factors.

The third level is that of the individual firm, and the focus is on strategy choice and implementation, taking into account the nonmarket competition on the issue. At this level the challenge is to understand the specifics of the strategic situation, how those specifics relate to strategy alternatives, and how those alternatives are likely to fare in competition with the strategies of others that will be active on the issue.

The Political Economy Approach

A number of frameworks have been proposed for understanding the nonmarket environment and generating hypotheses about firm behavior, strategy choice, and performance. Some frameworks start at the first level, as in the case of those that focus on country-level characteristics relevant to nonmarket strategy, such as the likelihood of expropriation or the strength or weakness of the rule of law. This approach is useful in understanding the nonmarket environment, but the step from country analysis to strategy choice by firms can be a long one. The political economy approach recognizes the importance of understanding the nonmarket environment but focuses on operationalizing that understanding in a manner that facilitates strategy choice. That is, it focuses on interests that may act on an issue and on the institutions in whose arenas the issue will be contested. The intersection of issues, interests, and institutions and their implications for individual firms are at the heart of nonmarket strategy.

The political economy approach begins with micro-foundations for the behavior of firms, citizens, and government officeholders, and from those foundations builds theories to predict behavior and identify effective nonmarket strategies. It focuses on actions, interactions with the actions of others, and the likely outcomes of those interactions. This approach takes politics seriously and views it broadly. In particular, the political economy approach looks inside government institutions, which is necessary for strategy choice and implementation. For example, in the case of an issue before a legislature, it is important to understand the preferences of pivotal legislators and to know how much political action is likely to be taken by those potentially affected by the proposed legislation. As Olson (1965) argued, common interests may not lead to common action, since some may free-ride. This means that for the Internet taxation issue unorganized interests such as consumers are unlikely to play a role, whereas bricks-and-mortar merchants are well organized and have strong incentives to act. In private politics the political economy approach takes into account the strategies of activists and NGOs and the structure of the campaigns they conduct against firms (Baron & Diermeier, 2007). For some nonmarket strategy issues, formal models can be constructed to identify equilibrium incentives, strategies, and outcomes and to generate hypotheses that can be taken to the data.

Performance attributable to a nonmarket strategy is not controlled by the firm any more than is performance attributable to a market strategy. A market strategy competes with the market strategies of other firms, and a nonmarket strategy competes with the nonmarket strategies of other firms, interest groups, and social activists. Nonmarket strategy thus focuses on choice and competition, as does market strategy. The disciplines most closely related to choice and competition are economics and political science, and the political economy perspective is based primarily on those two disciplines. This does not mean that insights from other social science disciplines are not drawn upon in choosing strategies but instead that the framework for approaching strategy choice begins with those two disciplines.

The Firm Level

The challenge for a strategy field, either market or nonmarket, is to identify the best strategy for a firm in a particular situation. At the teaching level this is the realm of cases and basic models of strategy choice, competition, and bargaining.[4] Examples of basic nonmarket models include the median voter theorem and extensions to gridlock theory, free-rider analysis, hold-up problems, lobbying models, election models, activist campaign models, self-regulation models, and so on. That is, given a fairly detailed description of a firm and its situation, what is the best course of action to maximize its long-term value given that other firms and interests are also choosing their strategies optimally? This is not a static exercise but rather a dynamic one, since ideally the strategy takes into account the situation the firm might be in at future points in time, depending on uncertain factors and the outcomes of earlier choices. This recognizes that the firm will have the opportunity to reevaluate its strategy and adapt it to the situation in which it finds itself, and this means that current strategy choices have option values to the extent that they can be adapted to new or changing market and nonmarket circumstances.

Since observing the specifics relevant for firm-level strategy choice is difficult from afar, a framework should include a methodology that in combination with the specific details of the competitive situation leads to the choice of the best strategy. The framework and methodology for nonmarket strategy choice used here is developed and presented in my book *Business and Its Environment*, 7th ed. (Baron, 2013). In short, the methodology is organized around a nonmarket issue or challenge faced by a firm or collection of firms and focuses on the actions they and other interests take to influence the outcome of the issue. This approach is illustrated in the three cases in the section "Applying the Approach".

The goal is an integrated strategy that guides a firm's conduct in its market and nonmarket environments. When conditions in one environment change, strategy may need to change. Nonmarket strategy often enables a market strategy, and when the market strategy changes, the nonmarket strategy changes. Amazon had a well-integrated strategy with an aggressive nonmarket component directed at avoiding having to collect sales taxes from its online customers. Amazon claimed protection from an earlier Supreme Court decision in a case involving catalog sales that held that unless a company had a nexus in a state it was not required to collect sales taxes. A nexus was interpreted as a retail store, warehouse, or office. Amazon maintained that the decision applied to Internet as well as catalog sales and hence collected sales taxes only in its home state of Washington and in the few states in which it had facilities. It also maintained that warehouses did not constitute a nexus but instead were simply fulfillment centers. The company strategically limited the number of fulfillment centers to limit its obligation to collect taxes.

Since sales taxes are state taxes, Amazon was forced to deal with the issue on a state-by-state basis. Some states, most notably New York, took Amazon to court in an attempt to require it to collect the state sales tax. Amazon vigorously contested the lawsuit. Internet sales grew rapidly, and a number of states began to consider legislation requiring large online retailers to collect sales taxes from residents in the state.[5] Amazon responded aggressively by not only lobbying legislators and the governor's office, but also by threatening to sever its contracts with local associates that operated Internet sites and received a payment when their site directed a user to Amazon's website. This caused direct harm to the associates and resulted in hesitation in some states. In some states such as Maryland and Texas where Amazon planned to open fulfillment centers, it threatened to cancel its plans. Amazon, however, failed to prevent California from passing a law requiring the collection of sales taxes.

Amazon knew that this was a battle it would eventually lose, in which case it would lose a competitive advantage relative to bricks-and-mortar retailers. Needing a new strategy and a new competitive advantage, Amazon adopted a market strategy emphasizing rapid delivery and particularly one-day delivery. To implement its new market strategy, it needed more fulfillment centers. In California it used its bargaining power from the promise of new jobs to negotiate a moratorium on sales tax collection in exchange for committing to open several fulfillment centers in the state. With its new market strategy it backed off its aggressive nonmarket strategy and began to collect sales taxes in an increasing number of states.

APPLYING THE APPROACH

Public Politics Example: Uber

Some entrepreneurial firms are able to operate without a nonmarket strategy or to free-ride on the efforts of others, but many others face nonmarket issues early in their lives. Uber immediately faced regulations governing taxi and limousine service, and those regulations varied not only by country and state but also by city. In many local markets interest groups including taxi companies and their drivers, and in some countries public transportation workers organized demonstrations and worked for more stringent regulations to limit Uber's penetration of their markets. The principal nonmarket opposition was taxi companies. Uber founder and CEO Travis Kalanik said, "Our opponent – the Big Taxi Cartel – has used decades of political contributions and influence to restrict competition, reduce choice for consumers, and put a stranglehold on economic opportunities for its drivers."[6] This section illustrates the political economy approach applied to Uber's strategic situation with an emphasis on its nonmarket strategy.[7]

Uber's value proposition is to be "Everyone's Private Driver" by coordinating efficient and high-quality car service. Its market strategy is to allow passengers to use mobile devices to arrange a pickup with a car arriving usually in 2 or 3 minutes. When requesting service, customers click an app and GPS gives the location to Uber's software. People requesting service give their credit card information in advance and pay online automatically at the end of the trip with the amount determined by the time and distance of the trip and the time of day, so drivers do not have to carry cash. Uber's fares were 40–100% higher than taxi fares because of the quality of the cars and the compensation of drivers, and are higher during high-demand times. Drivers in Uber's network receive 80% of the fare with the other 20% going to Uber. Drivers are not employees but instead are private contractors who join Uber's network and respond directly to the requests by passengers. Uber's business model is to be the connection between passengers and car service and only the connection. For example, drivers are independent, at-will contractors paid directly from their fares, and they provide insurance to cover themselves and passengers in the event of an accident.

Drivers participating in the Uber network were required to take all customers and to deliver them to any location in the local area. This policy gives Uber a nonmarket asset, since it makes service available in areas poorly served by taxi companies. Drivers initially were recruited from among licensed limousine drivers and in some cases through limousine companies, and the drivers carry insurance. Drivers make considerably more driving for Uber than driving a taxi or a limousine. Drivers and limousine companies own the cars. Uber cars are black with no distinctive markings, do not have meters, and do not roam to pick up passengers, all of which differentiate them from taxis. Uber cars are also clean and comfortable, and drivers are restrained. Uber relies on mobile devices and GPS technology not only for connecting passengers and cars but also to position cars efficiently for serving passengers. Technology also allows Uber passengers to rate drivers, and drivers can report troublesome passengers.

Uber's service has strong network externalities and positive feedback, since the more drivers in its network the better is the service for customers and the more customers the easier it is to recruit drivers and limousine companies. Uber's market strategy is also scalable and can readably be deployed in new cities. The technology of Uber's service is easy to replicate, so entry into the market is easy as Uber demonstrated. Markets are local, and economies from operating in multiple markets are relatively small, so entrants can range from companies serving a single market to ones operating globally. There, however, is a first-mover advantage to the extent that the first-mover can achieve scale to reduce fares and wait times. Nevertheless, competitive services can be expected, particularly if the entrant can offer a price advantage. The first-mover also has an advantage in the selection of drivers and limousine companies. As a second phase of its market strategy in 2012, Uber introduced a lower fare service UberX that uses hybrid vehicles to reduce operating costs, allowing fares closer to those of taxis. Uber also introduced a low fare service Uberpop in Europe. In June 2012, Uber raised $1.2 billion from private investors, which gave it an implied valuation of $18.2 billion. By 2015, the implied valuation had increased to $40 billion.

The initial market strategy decision was where and how to enter a market, and this involved the nonmarket issue of whether its service was legal, since in many cities its service could violate regulations established for taxicabs and limousine service. For example, some states required a time interval such as an hour between when a customer called for a pickup and the car arrived and some prohibited limousine fares varying with time and distance. Some cities had minimum fares to protect taxi companies, and some required dispatch offices in the city. A myriad of other local regulations were present.

Uber could have chosen a nonmarket strategy of working within the regulatory system to unlock opportunity in local passenger markets and shape local regulations to accommodate its market strategy. Uber could seek regulatory authorization from city or state agencies, but that could be a lengthy process since taxi and limousine companies would surely attempt to delay or block its attempts. Moreover, they could well be successful. Another approach would be to enter directly a market and deal with nonmarket issues and public politics as they arose. Since licensed limousine drivers would be used, Uber had an arguably allowable service. Moreover, if Uber were successful in serving passengers, it would have the beginning of a rent chain on which a nonmarket strategy could be based. Passengers are constituent of mayors and city council members, and their voice would be heard. The best market to enter was one that was underserved by taxies, where a constituency could be developed quickly. Since Uber planned to serve the entire community, it could receive strong constituent support in underserved areas of cities, many of which were low income and largely minority. The direct entry strategy was clearly the better.

Uber's integrated strategy thus was to enter a market with scale and deal with nonmarket issues as they developed. Its nonmarket strategy then focuses on the response by interests and institutional actors to its market penetration. The more successful that penetration the stronger is the incentive of the opposing interests to restrict the company. The principal role of Uber's nonmarket strategy then is to protect its position from opposing interests attempting to impose restrictions on it or shut it down completely.

Kalanik decided to charge ahead and entered the underserved San Francisco market in 2009 as UberCab. After being shut down by the State of California for the use of the word “Cab,” Kalanik removed the word and resumed operations. As the adage goes, Uber shot first and asked questions later. In each market, Uber studied the licensing and local regulations to avoid overt violations, but it was comfortable operating in the gray areas between what was clearly legal and what was clearly illegal. For example, Uber did not serve hailing passengers, which would be a clear violation of taxi regulations. The distinction, however, between hailing a taxi at the curb and using a smartphone app to call for an Uber car was a fine one. By mid-2014, Uber operated in 170 cities in 43 countries.

The nonmarket issues Uber faces center on the enforcement of existing regulations and the adoption of new regulations intended to restrict its market strategy. The nonmarket issues differ by country, state, and city, and each market has somewhat different issues, interests, and institutions, but there are some common characteristics. In the United States, limousine services are typically licensed by the state, whereas taxi fares and regulations are set by municipal governments. Similarly, qualifications for limousine drivers are set by the state, whereas qualifications for taxi drivers are set by the municipality. The structure of municipal governments varies, but typically they have an elected mayor and city council and a taxi regulatory agency. The municipal government could impose regulations on Uber’s service, including limits on prices and conditions of service. In many cities, each taxi is required to have a medallion, and the number of medallions is tightly controlled with the market price of a New York medallion trading over $1 million. In other cities entry into the taxi market is unrestricted. Entry into the limousine market is typically unrestricted other than for licensing.

The principal interests affected by Uber are passengers and taxi companies and their drivers.[8] Passengers are typically thought to be costly to organize, but Uber’s passengers can at very low cost use social media to express their support for Uber’s service. This also provides an opportunity for a local politician to represent their interests, which has been the case in underserved areas of cities. Uber can also serve as a political entrepreneur and represent their interests. Washington, DC, has 37 Advisory Neighborhood Commissions that represent local neighborhoods and represent their interests before the city council and city regulatory agencies. Uber brought car service to many neighborhoods that were underserved by taxis, and the neighborhood commissions expressed support for UberX, which was under consideration by the city council.

Limousine services could compete with Uber's system, but the companies and their drivers have the substitute or alternative of joining Uber's system. Taxi companies and their drivers are different. The taxi companies and their drivers cannot easily join Uber, since they would have to obtain a commercial license, which is costly to obtain. The costs of organizing the taxi interests for nonmarket action are low, and in some cities a union represents the drivers. The costs of organization are lowest where entry into the taxi market is restricted and highest where it is freely open. The taxi companies could enter Uber's market segment, but that would require a costly upgrading of their fleet. Facing competition from Uber and other car services, the taxi companies could improve the quality of their service. The better alternative for the taxi companies and drivers is a nonmarket strategy. The taxi companies and their drivers are important parts of the electoral constituency of mayors and city council members. They also provide contributions for electoral campaigns. At times, the financial and electoral support is in exchange for higher fares or more favorable regulations.

One advantage for Uber is the widespread public dislike of taxi service because of the low quality, lack of cleanliness of the taxis, and aggressive driving. Also, taxi companies are hesitant to serve parts of cities where a return fare is unlikely and where there is risk to the drivers, who often carry significant amounts of cash. Some city council members and local community groups see Uber as better serving their constituents. Nevertheless, the taxi companies and their drivers constitute a well-organized interest group with significant resources and often long-established political connections. In some countries such as France, taxi unions are aligned with public transportation unions, which supported demonstrations against Uber.

The nonmarket strategy objectives of the taxi companies and their drivers are to constrict Uber's ability to connect with potential passengers, to raise its costs, to regulate its prices, and to restrict its service. In some jurisdictions, regulations place a floor on Uber's fares, which poses a threat to short trips and particularly to UberX. In Germany, the taxi companies took Uber to court for violating a regulation on fares, and the court ruled against Uber. Berlin had banned Uber, and the court ruling could lead to a national ban. Uber announced that it would appeal the court ruling and vowed to continue to operate.[9]

Uber's drivers are not employees but could be organized by Uber, but they do not represent a traditional constituency for local elected officials. Uber also has little experience with local or state regulators, so has limited specialized political knowledge or a history of political connections. Uber could form a coalition with similar firms in some markets, but in most cases those companies are small with few political resources. In addition, Uber and Lyft had been trading allegations that the other was trying to sabotage its operations. Uber's greatest nonmarket asset may be the public's dissatisfaction with taxi service and the obvious fact that the public is better served by Uber's presence in the market. Nonmarket decisions, however, are not always dictated by the public interest.

Uber deals with both state legislatures and regulatory agencies as well as with municipal regulators. Although the company's rent chain consists only of passengers and the drivers in its network, it could act as a political entrepreneur mobilizing its customers, who clearly value its service. Although the taxi companies have allies in the districts in which Uber operates, state legislators understand that Uber's service is very popular. Uber hired lobbyists to bring this message to state legislatures and regulators. On an insurance issue in California, it employed grassroots and mobilization strategies in the district of a key state legislator, sending mailers to her constituents and producing a television ad with a former professional basketball player delivering the message. Uber's basic strategy when facing restrictive regulations was to use bargaining, and the aggressive strategy in California was intended to strengthen its bargaining position.

State law can override municipal regulations, and one of Uber's nonmarket objectives at the state level is explicit language allowing its service. In California, Uber was able to obtain regulations by the Public Utilities Commission to allow the use of its on-demand car service app. By the end of 2014, 18 cities had adopted ordinances allowing Uber service. Uber also seeks state authorization for those cities in which its operations had been blocked.

Uber's nonmarket strategy is as aggressive as its market strategy. Its principal nonmarket strategy is lobbying city councils, mayor's offices, and state legislatures and participating in regulatory rule-making. This requires knowledge of the regulatory institutions and the specific issues before them. To provide knowledge and help address the specifics of regulations, Uber hired a top official with the New York City Taxi and Limousine Commission.

Uber's rapid success resulted in entry at the low price end of the market. Companies such as Lyft and Sidecar entered with a ride-sharing model. Rather than using licensed limousine drivers, these companies allowed anyone with a car to join their network and carry passengers. Ride-sharing posed a major threat not only to taxis but also to Uber. Taxi companies and drivers unions attacked the ride-sharing companies with a nonmarket strategy to raise their costs and restrict their operations. Consumer advocates criticized the companies because their drivers did not have special licenses or commercial insurance as taxi companies were required to carry and Uber chose to require for its network. Most cities did not enforce existing regulations on ride-sharing companies, however.

After a year, Uber was forced to respond and entered the ride-sharing segment of the market. Its entry was soon followed by a new component of its integrated strategy. Uber had to recruit drivers without limousine licenses, and the recruited drivers might not have adequate insurance. To reduce the cost advantage of ride-sharing, Uber announced that each ride-sharing trip would be covered by a "$1,000,000 per-incident insurance policy" and that it will conduct "extensive and strict background checks" on its ride-sharing drivers.[10] Uber challenged regulators to impose these requirements on all ride-sharing companies. Uber's nonmarket strategy had come full circle from opposing regulation to seeking regulation to protect its position and increase the costs of its rivals.

Uber also became engaged in private politics fueled by the media. Uber's aggressive integrated strategy attracted extensive media coverage that included at times combative exchanges with the media. Travis Kalanik countered with media interviews and commentary, but things turned worse when an Uber executive was quoted at a private dinner party saying that he would like to investigate the personal lives of critical journalists. This ignited a sea of media coverage, forcing Kalanik to reject and criticize the executive's comments. Private politics had arrived at Uber.

The taxi companies and their drivers can be expected to continue their efforts to restrict Uber, and the threat posed by UberX, Uberpop, and ride-sharing strengthens their incentives. Since city markets are largely independent, Uber faces the challenge of potentially working in a different institutional setting in every city and state in which it operates. This requires monitoring and action when its interests could be affected. Uber deals with nonmarket issues city-by-city, state-by-state, and country-by-country, but as the number of cities served increased, it became important to develop a broader nonmarket strategy and coordinate its nonmarket actions. In addition Uber's continued to raise new nonmarket challenges. For example, its opponent argued that Uber drivers should be classified as employees rather than as independent contractors. This would require Uber to provide health insurance, pay Social Security and Medicare taxes, and incur additional burdens. Moreover, Uber had begun to explore a complementary service of using its fleet of drivers to transport items as well as passengers, which would raise a new set of nonmarket issues.

In 2014, Uber hired as executive vice president David Plouffe, who was an architect of President Obama's 2008 election campaign and served as a top advisor to the president from 2011 to 2013. Kalanick said, "Uber has been in a political campaign but hasn't been running one. That is changing now."[11] Plouffe stated, "We're on an inexorable path of progress here. Uber is making transportation safer; it's providing jobs; it's cutting down on drunk and distracted driving. I think the mission is really important."[12] Matthew Daus, a former commissioner with the New York Taxi and Limousine Commission, commented "hundreds of millions of dollars are being spent by a Silicon Valley cartel in this hostile takeover of the city's taxi industry."[13]

Uber's success was accompanied by an explosion of its nonmarket issue agenda, fueled by media coverage of its every move and every problem it encountered. An Uber driver in India was charged with raping a passenger, igniting a wave of protests around the globe. Critics complained about inadequate screening of drivers' safety records, resulting in calls to require a commercial license and to assure that drivers did not have criminal records. Uber collected data on passenger hailing locations and destinations, raising calls by privacy advocates to disclose what information it collects and how it is used. Complaints also arose about its surge pricing, threatening the possibility of fare regulation. Uber was also proactive, partnering with MADD in studying the effect of Uber's car service on drunk driving. Uber also partnered with an insurance-by-the-mile company to close the insurance gap. The company strengthened the screening of drivers and added a "panic button" to its app for use in case of an abusive driver. Uber was learning the importance of nonmarket and integrated strategy.

Private Politics: Rainforest Action Network and Citigroup

The Rainforest Action Network (RAN), a radical environmental NGO based in San Francisco, was concerned with harm to ecosystems in developing countries caused by large infrastructure projects such as roads, telecommunications systems, pipelines, etc. The projects were owned or authorized by national governments, which contracted with large international construction companies to construct the projects. Many of the construction companies were privately owned and were headquartered in the United States, Europe, and Asia. There was little that RAN could do to influence the countries, and the companies were also beyond its reach not only because they were headquartered in different countries but because most did not have a public face or interact with the public. Instead of attempting to target a construction company or a government, RAN decided to conduct a value chain campaign.

An essential factor of production for the infrastructure projects was project finance, since 80–90% of the project cost was financed by loans from large banks. RAN reasoned that if it could limit the availability of project finance or have environmental standards required for lending, it could limit the harm to ecosystems. RAN researched the project finance lenders and found that Citigroup was the largest supplier of project finance. It decided to campaign against Citigroup on the theme that it was causing environmental damage through its financing. The campaign was intended to harm Citigroup and cause it to restrict lending. In contrast to Citigroup, RAN was an organization consisting of 23 people with a budget of $2.5 million for all its campaigns. The campaign and Citigroup's actions are detailed in the case entitled "Anatomy of a Corporate Campaign: Rainforest Action Network and Citigroup (A)(B)(C)," published in *Business and Its Environment* and available in the Stanford Graduate School of Business case series, so only a brief sketch is provided here.

RAN planned to mount a naming and shaming campaign augmented with more aggressive measures including demonstrations, banner hangs, blockades of branches, and more. RAN began its campaign by writing to Citigroup with its assessment of the harm caused by project finance and demanding that the bank stop the destruction. Citigroup was perplexed by the letter, since in its view it was not causing any harm to the environment. For nearly two years Citigroup met with RAN, but from RAN's perspective no progress was made. RAN ramped up its campaign including hanging a banner from Citigroup's headquarters, demonstrating in front of its headquarters, chaining closed the doors to branches, and having grade school children write to Citigroup CEO Sandy Weill. RAN also organized "days of protests" with demonstrations in a number of U.S. cities and countries, conducted by aligned activist groups. RAN also took out ads in several publications showing the destruction caused by the projects, and also took out an ad in The *New York Times* accusing Citigroup of damaging the environment. RAN also urged Citi credit card holders to destroy their cards to put pressure on the bank. The campaign actions by RAN caused little direct harm to Citigroup, but it became clear to Citigroup that RAN would not go away. RAN escalated its campaign by handing out posters in Greenwich, Connecticut, where Sandy Weill lived. The posters headline was "Wanted" with a picture of Weill, followed by text. RAN also went door to door in Weill's neighborhood, passing out posters. RAN even went to Weill's home and handed a poster to his son.

Citigroup had no nonmarket strategy to deal with the campaign and largely remained silent. It knew that RAN was planning a demonstration at its annual meeting, and on the evening before the meeting Citigroup called RAN and asked for a cease-fire, agreeing to meet with RAN to negotiate the issues. RAN agreed to a three-month cease-fire and negotiations began.

Citigroup was also under some pressure from the International Finance Corporation (IFC), a member of the World Bank Group, which had what RAN viewed as a very weak set of environmental standards for project finance. Other project finance banks in Europe also were under social pressure from environmental activists and the IFC. Citigroup decided to initiate self-regulation and began meeting with those banks to address the project finance environmental concerns by designing more stringent environmental standards for loans. In the midst of the cease-fire, Citigroup and three European banks, accompanied by six other banks, issued the Equator Principles for project finance. The Equator Principles are designed to reduce the environmental and social risks from projects and have largely been applauded by environmental NGOs. Eighty banks from 34 countries now participate in the Equator Principles.

The Equator Principles were not enough for RAN, which continued negotiations focusing on implementation and reporting details. Citigroup agreed to provide advance notice of financing and to report on developments, and also pledged to implement a detailed set of Environmental Initiatives. RAN ended its campaign against Citigroup and turned its attention to the Bank of America and JPMorgan Chase.

Citigroup's absence of a nonmarket strategy to deal with RAN and its campaign had delayed a serious focus on the environmental effects of project finance. Ultimately, its nonmarket strategy had two components. One was to negotiate with RAN to end the campaign. The other was to self-regulate to address the environmental concerns. It is not clear how much harm RAN had caused Citigroup, but at a minimum it was a nuisance and a source of negative media coverage. Today, few companies targeted by an activist group would allow a campaign to continue for nearly four years.

Integrated Strategy and Private and Public Politics: The Fast Food Campaign

The Fast Food Campaign (FFC) illustrates the approach to integrated strategy. The FFC and the broader restaurant and minimum wage campaigns are well designed, well directed, and well funded. The principal targets are fast food chains, and the analysis here takes the perspective of a chain such as McDonald's. In contrast to many activist campaigns that are top down; that is, an activist NGO designs a campaign with the hope that the public will support it sufficiently to cause its target to change its practices, the FFC originates from ongoing community organizing efforts with the objective of empowering low-income community residents. A leader and innovator in community organizing was Saul Alinsky, who organized Chicago's Back of the Yards community, so named because it was in the shadow of the Chicago stock yards. The goal of community organizing is community development and empowerment and the local provision of public goods for the community. The current version of these organizations is a worker center, and the FFC and the related campaigns build on this base. The difference is that the worker centers are funded in part by unions seeking to recruit new members.

The ostensible goal of the FFC is a wage of $15.00 an hour, but it has four principal private and public politics objectives. The first is to impose social pressure directly on employers to raise wages. The second is to support union organizing. The third is to spur grassroots support for higher government minimum wages at the federal, state, and local levels. The fourth is implicit: to strengthen the base of the Democratic party. The public politics portion of the campaign for higher wages operates at three institutional levels. The first is federal, but divided government means there is little chance that the increase in the minimum wage to $10.10 sought by the Obama Administration will be enacted. The second is in states where pro-labor Democrats have a unified government. The third is the city level, which in some regards is the easiest, since most large cities have a government controlled by Democrats, and in many of those cities the governments are backed by public sector unions as well as unions such as the Service Employees International Union (SEIU) and United Food and Chemical Workers (UFCW). The Obama administration led by Secretary of Labor Thomas Perez embraced the campaigns, with Perez justifying the campaigns on social justice grounds.

Fast Food Forward, the coalition conducting the FFC, is led by New York Communities for Change (NYCC), formed in 2010 by former ACORN leaders and backed by unions as well as private foundations. In 2012, the SEIU contributed $2.5 million to NYCC for "support for organizing."[14] The SEIU has 2.1 million members with 150 local chapters. In 2012, its cash receipts were $411 million and its expenditures were $453 million. In the 2012 election cycle, the SEIU spent over $23 million, almost all of which was in support of Democrats. The SEIU has substantial resources to fund a campaign, but the key to success is the participation of local residents and community groups.

The union money funded demonstrations. They began in 2012 with demonstrations by 200 people against 20 New York restaurants and continued in 2013 with a series of one-day strikes, as the organizers called them. The strikes, however, were in name only, and very few restaurant workers participated. One-day strikes were also conducted against McDonald's for the purpose of attracting media coverage. Demonstrations were organized in a number of U.S. cities and countries.

Fast Food Forward funded a study that estimated the public assistance paid from four major government programs to fast food workers. The study found that 52% of frontline fast food workers received assistance from at least one of four federal programs compared to 25% for all workers. The cost of that assistance was estimated at $6.99 billion a year. Overall, 20% of fast food workers had income below the federal poverty level, compared with 5% nationwide. The study also examined the mix of people employed in fast food jobs.[15] The study reported that members of "historically disadvantaged classes of workers" were over represented among fast food workers. Twenty-six percent of the workers had children, 23% were between 16 and 18 years of age, and 20% were married. The study called for higher wages for fast food workers and identified a higher minimum wage and collective bargaining as effective means of achieving that objective.

The National Employment Law Project (NELP) used the Fast Food Forward-funded study data to issue a report entitled "Super-Sizing Public Costs" and estimated a $3.8 billion cost of the public assistance attributable to workers in the 10 largest fast food companies. The report compared the cost to the profits of the companies and the compensation of their CEOs. The Fast Food Forward and the NELP reports were released on the same day to coincide with planned demonstration by workers and union representatives. Michael Saltzman of the union watchdog Employment Policies Institute (EPI) commented, "It's no surprise that two organizations the SEIU funds generously would carry the union's water in these specious new reports." The EPI paid for full-page advertisements in major newspaper with the headline "The Best Weapon in the War on Poverty is a Job," showing a picture of a man in a hoodie and cutoff gloves holding a cardboard sign reading "I don't need a raise I need a job." The advertisement opposed a minimum wage of $10.10 and stated "Of those who would receive a raise, just 13 percent live in poor families."[16] The ad referred the reader to minimumwage.com. The EPI was headed by a lobbyist for the restaurant industry.

Many of the jobs in question commanded the minimum wage or close to it. The low wages were due to labor supply driven by a large number of low-skilled workers, including millions of undocumented workers. An increase in the minimum wage was the solution from the point of view of the social activists, unions, and the Obama administration. Professor Arindrajt Dube of the University of Massachusetts said that a $15.00 hourly wage would increase average wage costs by 60% and increase the price "of a $3.00 hamburger to $3.50 or $3.60." He said, "Would I be concerned about possible job losses if there were a $15 minimum wage in the restaurant industry, yes, I'd be concerned. It might lead to the substitution of automation for workers."[17] The Congressional Budget Office estimated that the Obama administration's proposed increase in the federal minimum wage to $10.10 would cost the economy 500,000 jobs. The Obama administration's proposal was nearly dead on arrival in Congress, and the nail in the coffin was provided by the CBO.

The minimum wage campaign posed a threat to several industries including restaurants, hotels, and retail. These industries are unconcentrated with many thousands of firms, and they conduct nonmarket strategies primarily through industry associations. The National Restaurant Association opposes any increase in the minimum wage, pointing out that the median earnings for waiters are $16−22 an hour, depending on experience. The opposition to the minimum wage campaign was spearheaded by the Chamber of Commerce, since thousands of small companies would be adversely impacted by a significant increase in the minimum wage. The Chamber and the associations conduct informational lobbying and grassroots nonmarket action. The opposition also includes a number of conservative organizations dedicated to countering union-funded campaigns. For example, Americans for Limited Government provides a website www.seiuwatch.com. The Chamber of Commerce hired Professor Jarol Manheim to assess the impact of worker centers. He produced a detailed and publicly available report (Manheim, 2013) reviewing their history, their organization, and their funding. He concluded that the unions had outsourced some of their traditional organizing activities to the worker centers in exchange for funding, but he observed that there remained a tension between the objectives of the centers and those of the unions.

In addition to supporting the public objective of a higher minimum wage, social pressure was directed at individual firms. With funding by the SEIU, NYCC organized one-day "strikes" by some McDonald's workers. In Chicago, Fight for 15 was the local union organizing campaign formed by the local worker center Workers Organizing Committee of Chicago, which is staffed and funded by the SEIU. On its website it called on McDonald's, Whole Foods, and Sears to pay a living wage. The broader campaign organized coordinated demonstrations in several countries, and McDonald's was a convenient target for attracting media coverage. Some of the demonstrators were McDonald's workers, who were made available for media interviews. The workers argued for justice and higher wages. A few cities and states increased their minimum wages, but typically not by the amount demanded by the campaigns. Internally, some SEIU members questioned why it should spend so much in an industry in which it had never sought to represent workers.

McDonald's faced two primary nonmarket issues, one private politics and the other public politics. The private politics issue was the social pressure generated by the campaigns and the associated efforts to unionize its employees. The public politics issue was the legislative efforts to increase city and state minimum wages. An integrated strategy was needed. McDonald's had long experience in dealing with nonmarket issues, and its public and private politics strategies were often effective. It monitored its environment carefully and maintained the capability to act quickly on issues. It had, for example, responded effectively to health concerns such as mad cow disease and other potential health threats. Its reputation for effectively dealing with nonmarket issues was among the best.

Formulating a nonmarket strategy for addressing the private politics campaign begins with an assessment of vulnerability of the firm as a function of the scale of the campaign. McDonald's brand is its principal asset, and that brand is to some extent a function of public perceptions, but McDonald's has extensive experience with such issues, including unionization attempts. In contrast to an environmental issue, the wage issue involves no externality and generates less sympathy. Moreover, unions are not held in high regard by the public. The next step is to assess the degree of public support for the issue, recognizing that the support is uncertain and can vary by locale. This step involves assessing the support among employees for the issue. Possible spillovers to public politics also must be assessed.

The activists' capacity must also be assessed, beginning with their fervor and resources. Worker centers are a relatively new phenomenon, so McDonald's has little direct experience with them. It does have experience with the unions, however, and understands that they have the resources to conduct a multi-year campaign. Perhaps the best example for McDonald's is the multi-year, union-funded campaign against Wal-Mart during the previous decade. The campaign had little effect on Wal-Mart's employees but may have tarnished the company's attractiveness to upper income customers.

McDonald's principal strategy alternatives are (i) to do nothing, rely on the Chamber, industry associations, and the anti-union groups to oppose the campaigns, and hope the SEIU gives up, (ii) respond in a low-profile manner by providing information to employees and the media to counter the claims by the campaigns, (iii) mount a higher-profile media response with advertisements, interviews, and lobbying, (iv) bargain with the campaigning NGOs, and (v) self-regulate by raising wages above market rates.

McDonald's workers are difficult to unionize in part because of turnover and the expectation by many that they will quit as soon as they find a better paying job. Most restaurant employees do not expect to make a career at McDonald's. McDonald's knows that its workers who participated in the "strikes" are paid by the unions and are unlikely to strike otherwise. John Jones, a manager at a Burger King restaurant who participated in the September 2014 demonstrations added, "The majority of my co-workers don't speak English very well, and the idea of walking off the job is not financially feasible."[18] McDonald's also knows that the concern of many workers is the number of hours they can work and less so the wage, since McDonald's paid the prevailing local labor market wage.

If McDonald's were to pay significantly higher wages, it would be at a competitive disadvantage if it passed on the higher costs. If it did not pass on the cost, its profits could be substantially lower. Moreover, providing significantly higher wages would not likely bring in any more customers – nor is the campaign likely to convince many customers to go elsewhere. In the midst of the minimum wage debate, Gap, Inc. announced that it was increasing its wages for 65,000 of its 95,000 U.S. employees to $9.00 an hour in 2014 and $10 an hour in 2015. GEO Glenn K. Murphy explained, "We are investing in our workforce, because we think going forward, stores, and the service our workers provide will become even more important to our customers."[19] McDonald's did not have a service problem.[20]

The SEIU was spending nearly $3 million a year financing the campaigns, and a central question was how long it would continue to do so in the absence of success. The unions eventually gave up on their campaigns against Wal-Mart and at some point would likely do so in this case as well. The campaigns and the worker center strategy had electoral objectives, however, and activities were designed to support the mobilization of the base of the Democratic Party. On Labor Day 2014 President Obama gave a speech in which he supported the campaigns and said that if he were a worker in the restaurant industry, he would join a union. The campaign organizers decided to escalate their protests in advance of the 2014 elections by engaging in what they referred to as civil disobedience, and nearly 500 were arrested during the September 2014 demonstrations. McDonald's replied, "These are not 'strikes' but are staged demonstrations in which people are being transported to fast food restaurants."[21] The company said all its restaurants remained open. In their media strategy the demonstrators continued to refer to strikes, and the mainstream media began to call them strikes rather than demonstrations.

The social pressure and publicity generated by the campaigns was more of a threat on the customer side, since some customers might respond to the campaign message. This effect was likely to be small, however. Nevertheless, it was worthwhile countering the claims made by the campaign, but to do it in a low-profile manner. McDonald's principal strategy was information provision, and while its customers were unlikely to see the information, the media and politicians would see it. McDonald's conveyed its messages on the Internet and in press releases. For example, it emphasized that wages were set in local labor markets and that the company served as a first-step for many workers who then moved on to successful careers at the company or elsewhere. McDonald's wrote on a company blog, "as with most small businesses, wages are based on local wage laws and are competitive to similar jobs in that market. Our history is full of examples of individuals who worked their first job with McDonald's and went on to successful careers both within and outside of McDonald's."[22]

The FFC argued that wages were so low that many fast food employees were receiving welfare payments and that the composition of the workforce had changed as a result of the recession with more principal breadwinners now working at fast food restaurants. Whereas both of these arguments had some truth to them, the same could be said for retail and hospitality workers. The same arguments had been made in the union-backed campaigns against Wal-Mart and the associated unionization efforts with little effect. McDonald's also knew that the economy was recovering and the unemployment rate was falling, so there were more job openings for breadwinners. If the unemployment rate continued to drop, there would also be labor market pressure for higher wages. The best strategy in such an environment is to maintain a low profile and let the anti-union NGOs such as EPI directly address the claims of the campaigns. The worker centers could target individual restaurants for unionization, but doing so is costly, and the worker centers, as Manheim concluded, have other issues on the agendas.

The major associations such as the Chamber of Commerce and the restaurant and retail associations were active on the issue, and their message was the hardship a higher wage would have on small businesses and the resulting loss of jobs. Wal-Mart, which had in the past supported an increase in the minimum wage, chose not to participate in the debate this time. Wal-Mart vice president David Tovar said, "This time we decided we're going to stay neutral. Elected officials can have the dialogue and ultimately decide what the right thing is to do about this."[23] McDonald's would be affected more by a higher wage than would Wal-Mart, but maintaining a low profile and leaving the battle to others was the right strategy. The anti-union NGOs would continue to mount a high-profile campaign.

One uncertainty for McDonald's was whether the unions would back off after the November 2014 elections. If a movement for a higher minimum wage were to strengthen after the election, McDonald's could begin to actively participate in the public politics. Some cities and states would surely increase their minimum wage adversely affecting McDonald's, but its competitors would also be affected. Higher prices and lower demand would result, but the magnitude of the effect was hard to predict. McDonald's and its franchisees, however, would have stronger incentives to reduce labor costs. The failure of Democrats in the 2014 congressional elections took some wind out of the sails of the campaign, but the labor market continued to tighten and a few cities and states increased their minimum wages. Restaurant wages began to rise.

In terms of an integrated strategy, McDonald's must prepare for an eventual higher minimum wage and higher labor costs. The principal market alternative to address higher labor costs is to substitute technology for labor. The most straightforward opportunity is in order taking. If people can book Uber's cars by clicking an app on their mobile devices, McDonald's customers can order on a touch screen. This makes service less personal, but after all it is a fast food restaurant.

MARKET AND NONMARKET STRATEGY

Strategic Management

The field of strategic management is based on the "value minus cost" framework that focuses on specific assets that generate competitive advantage because they are costly for others to duplicate and their value is not competed away. This approach was initiated by Porter (1970) based on the economics field of industrial organization. The currently popular version of this approach is the resource-based theory (RBT), which is a theory of management focusing on resources and capabilities that allow the firm to generate value and sustain competitive advantage. The logic is the same – resources on which the operations of the firm are based are more valuable the better is the performance that flows from them and the more costly it is for others to replicate them. Capabilities are intangible counterparts of resources and include factors that are difficult to observe and measure. Capabilities include how the firm is organized, employee engagement, the quality of management, leadership style, knowledge, and so on. This resource-based approach focuses on management, and the step from resources and capabilities to strategy choice and implementation is not always immediate. Resource-based theory is informal, making it relatively easy to incorporate insights from other fields and to generate hypotheses.[24]

As Foss (2011, p. 1420) notes, "Part of the initial success of RBT arguably was that it represented an ingenious way of reconciling the unique and idiosyncratic with the basic tools of economics." RBT seemingly moved away from the foundations of industrial organization that underpin Porter's work to more conceptual and behavioral versions. The political economy approach has remained closer to the micro-foundations of economics and political science, so the distance between the two approaches may have widened.[25] Economics and political science, however, have broadened to incorporate behavioral factors such as moral motivation, network relationships, and leadership. But, those fields remain less able to accommodate the unique and idiosyncratic, which can be important in firm-level applications. By structuring analysis within its framework and focusing on the firm level, the political economy approach attempts to take into account the unique characteristics of firms and their market and nonmarket environments in strategy formulation and implementation.

One approach used in the RBT literature for studying nonmarket strategy is to consider the demand and supply of public policy based on the Chicago school approach (Becker, 1983; Stigler, 1971) to public politics. This approach focuses on competition, but it is both reduced-form and institution-less. More importantly, demand and supply are "large number" concepts, which seems inconsistent with a world in which most of the large number free-ride and only a small number act. This approach explains some variation in performance, but it is less able to identify the effectiveness of the strategies used by those on the demand side or the institutions that supply the policy. Moreover, bringing this approach to the firm level is a challenge. The competition also depends on the nonmarket issue, and the institutions governing policy. Legislatures, regulatory agencies, and courts are very different in how decisions are made and hence in the strategies firms use. Bonardi, Hillman, and Keim (2005), Bonardi, Holburn, and Vanden Bergh (2006), and Kingsley, Vanden Bergh, and Bonardi (2012) expand the supply side by incorporating measures such as the competitiveness of elections, partisan control, and political constraints at the country level.[26]

A central research focus in RBT is explaining inter-firm heterogeneity in performance. This typically is studied empirically through reduced-form specifications that relate performance to resources and capabilities. Strategies, however, are based on bundles of resources and capabilities, and one challenge is to identify how resources and capabilities are combined and deployed. In addition, competition within an industry has to be taken into account, and when nonmarket considerations affect performance, the relevant institutions in whose arenas nonmarket strategies are deployed must be included in the empirical specification. Structural methods may be necessary to obtain the level of specificity needed to attribute performance to individual resources and capabilities and to identify causation.

Nonmarket Strategy

For nonmarket strategy the variation across issue, industry, and country may be greater than it is for market strategy because of variation in political systems, the rule of law, and culture. This means that striving for universal characterizations of the nonmarket environment or strategy prescriptions may be less productive than in market strategy, so theories are constructed as much for developing understanding as for strategy choice. For example, in deciding whether to enter a seemingly attractive country market, political risk must be taken into account. In countries where the rule of law is weak or regime change is possible, firms, and particularly foreign firms, may be subject to hold-up problems. In Venezuela, this has meant expropriation, but in most countries the practice is more subtle and may involve restrictions on repatriating profits, currency convertibility, or favoritism of local firms.

Conceptual frameworks are useful for understanding the nonmarket environment, but a framework should have an accompanying method for structuring analysis and bringing it to the firm level. Some strategies are global and are applied uniformly in all countries, but most are tailored to a particular region, country, market, or in the case of Uber a city. Strategies are also tailored to specific issues. For example, a firm may use informational lobbying for a legislative issue and use communication and bargaining when addressing a private politics challenge.

Nonmarket actions in public politics include, for example, lobbying, participation in regulatory hearings, the filing of a lawsuit, self-regulation to forestall further regulation, and formation of a coalition to collectively address an issue. In private politics the actions include, for example, developing a capability for community interaction, partnering with an NGO, self-regulation to forestall social activism, and corporate social responsibility (CSR). The actions may themselves determine outcomes, which is often the case in private politics, but in public politics the actions are directed at the institutions governing the outcome. In the case of Uber, the relevant institutions are city councils, the office of the mayor, regulatory agencies, courts, state governments, and in the case of Germany the national government.

Strategies that are effective in countries where the rules of the game are clear are often ineffective where those rules are unclear or at times arbitrary. Effective nonmarket strategies, for example, in emerging markets, have to address new forms of political risk and an often country-specific set of challenges. Corruption and lax enforcement of regulations complicate the market and nonmarket environments that firms face. The wave of outsourcing and globalization exposed more firms to the challenges of operating in emerging markets and increased the importance of nonmarket strategy.

In public politics, nonmarket actions are directed at formal institutions and their officeholders, and the characteristics of those institutions can be crucial to strategy formation. Decisions are typically made according to majority rule, so there can be winners and losers. More often than not, no legislation is enacted on an issue. Legislation in the United States requires approval in both houses of Congress and the signature of the president. The possibility of a filibuster in the Senate, a veto by the president, and divided government means that a supermajority typically is needed to advance legislation. This means that there is a gridlock interval, and a firm seeking to preserve the status quo located in the gridlock interval has a considerable advantage. Officeholders in regulatory agencies are arguably more difficult to influence than are legislators, and courts are designed to preclude influence activities.

Nonmarket knowledge is needed by all firms, and that knowledge can reside in management. The logic that governs the nonmarket environment, however, is different from that governing the market environment because, for example, in public politics policies are chosen in institutions that use majority rule instead of the unanimity rule used in markets. Experience can be an important teacher in public and private politics, and it may take time for managers to develop the needed knowledge. To some extent that knowledge is available in the marketplace. Firms can hire political advisors, specialists in nonmarket reputation-building, and lobbyists for access to institutional officeholders. If a firm must address nonmarket issues on a regular basis, it can bring the knowledge inside the firm by hiring people with expertise or by using advisors. Uber, for example, hired expertise to address municipal regulations and to help formulate and implement a broader nonmarket strategy pertaining to states and countries. It also engaged a privacy expert as a legal advisor. Amazon hired President Obama's former press secretary, Apple hired the former head of the Environmental Protection Agency in the Obama administration, and Google hired a former congresswoman.

Nonmarket strategy ultimately involves integration with the market strategy of a firm, but the logic is somewhat different from that in RBT. The principal nonmarket asset for public politics, and particularly for distributive politics, is a firm's rent chain, and the principal capability is knowledge. In contrast to RBT that views resources as available in markets and intangible capabilities as firm-specific and internally developed, the rent chain is costly to develop and replicate, whereas knowledge and expertise, while intangible, are learnable and available in the marketplace.

The rent chain is composed of all parties that earn rents or benefit from the operations of a firm. The rent holders are constituents of legislators, and regulators are often charged with taking their interests into account in their rulings. Employees, suppliers, and local communities in which facilities are located are in the rent chain, as are customers if they have no close substitutes for the good or services provided by the firm. Pharmaceutical companies often use patient advocacy groups to pressure the FDA to approve new drugs.

A firm with a limited rent chain is at a disadvantage in distributive politics, but it may have the opportunity to form coalitions with other firms or interest groups. If a firm does not have a significant rent chain and coalitions are costly to form and maintain, it may have to rely on a strategy emphasizing the risk from change (if it seeks to preserve the status quo) or the risk that the industry will fall behind international competitors that are less restricted. The major money center banks have relatively small rent chains, but the risk of disrupting credit markets by intervening in complex and interconnected financial markets makes reform difficult and favors the status quo. Even after the financial crisis and the reform legislation that eventually passed, the Volker rule took three years to promulgate, albeit in a weakened form.

The focus on resources and capabilities in RBT means the acquisition of resources and the development of capabilities define the boundaries of the firm. An alternative view is that boundaries are determined by the complementarities among activities (Roberts, 2004). Activities with complementarities should be within the firm, and otherwise the activities should be outside the firm and hired as needed. The rent chain includes both those within the boundaries of the firm and rent holders outside the firm. Although a firm without a significant rent chain does not have a constituency base that can be used for access, it may be able to hire access in the marketplace for political capabilities. If access for the purpose of lobbying is crucial for success on a nonmarket issue, a firm can prefer a broader to a narrower rent chain and may select suppliers for their contribution to access in addition to commercial reasons. If a firm is vulnerable to social pressure through private politics, it may choose to reduce its footprint and shift pressure to suppliers or retailers.

The principal nonmarket capabilities in private politics stem from reputation, and the principal liability is the relatively low trust the public has in business and particularly big business. Reputation can be strengthened by innovative products, for example. Apple has a very favorable reputation, and allegations of poor working conditions at factories of one of its principal suppliers, Foxconn barely dented its reputation. Self-regulation and corporate social responsibility can also strengthen a firm's nonmarket reputation.

The field of nonmarket strategy sits somewhat uncomfortably with RBT and the field of strategic management. Nonmarket strategy is chosen by firm leaders, but it is not general management. As discussed above, strategic management, and particularly the resource-based view of it, focuses on management, which encompasses all the activities and components of a firm. As such it necessarily operates at an aggregate level and focuses on broad issues, leaving particular aspects, such as finance, operations management, and marketing, to more specialized fields. The market strategy component of strategic management focuses on the sources of competitive advantage and sustainable performance and addresses issues involving the lines of business in which the firm operates, the markets in which it participates, its rivalry with competitors, investments in innovation, organizational boundaries, and so on. That is, market strategy focuses on positioning and choice in markets and on the performance of the firm in those markets. Nonmarket strategy also focuses on choice among strategy alternatives, not in markets but rather in the context of public and private politics arenas in which the firm competes against, and at times works with, its rivals, interest groups, and social activists. Firms and other actors in the nonmarket environment choose nonmarket strategies, but the outcomes stemming from those choices are typically determined in government institutions and amongst the public. Nonmarket strategy thus focuses on choice, but like market strategy it is not general management itself, but instead is an activity in which managers address challenges and opportunities.

Henisz and Zelner (2012, p. 40) lament that nonmarket research has failed to coalesce. They write, "the diversity of research approaches employed, together with the infrequency of cross-citations by scholars working in different traditions, has hindered the field's coalescence." Coalescence, however, is not necessary for a field to advance. An alternative perspective is that there is a long-distance horse race among alternative approaches with each innovating, progressing, and bringing with it a knowledgeable base for strategy formulation.

For nonmarket strategy to assume a more important position in the broader field of strategic management, however, it must speak to the scholars in that field. That remains a challenge, particularly for the political economy approach. For example, private politics is important because of the direct impact it can have on firm performance, but more importantly because its threat can induce self-regulation. Self-regulation is also important in public politics to forestall legislation and more restrictive regulation. Self-regulation arguably is pervasive, yet social pressure and self-regulation receive relatively little attention in the field of strategic management.

Self-Regulation

Self-regulation refers to voluntary actions by firms to mitigate the likelihood that private or public politics will impose burdens, such as more stringent regulations, higher taxes, or expanded duties. The burdens may come from the actions of government or from social pressure outside the institutions of government. Social pressure is the instrument of private politics and is directed at firms to cause them to change their policies. Self-regulation is undertaken by individual firms and by industries. Self-regulation can forestall public politics or private politics, or lessen their intensity. In public politics, a firm or an industry can self-regulate to the boundary of the gridlock interval, and the legislature is then unable to change it further.[27] In private politics, a firm can self-regulate to the point at which an activist is indifferent between incurring the cost of conducting a campaign and accepting the self-regulation and not campaigning (Baron, 2014, 2016).

The most noticeable aspects of private politics are the campaigns conducted against firms, but the greater effect is from the threat of private politics. That is, many more firms are threatened by confrontational activists than can be targeted, and many of these firms self-regulate to forestall a campaign even though they recognize that the probability they will actually be targeted is not high. Firms must self-regulate ex ante, which gives activists leverage, since more firms are threatened than can be targeted with a campaign. Those firms that prefer to forestall a campaign must do so in advance of the choice of targets by activists. So to forestall a campaign, a threatened firm must self-regulate to the point at which, if targeted, the activist will accept its self-regulation rather than campaign. Self-regulation forestalls a campaign because it allows the activist to avoid the cost and possible failure of a campaign. The scope of activism, that is, the set of firms threatened, is increasing in the saliency of the social issue, since the activist then has a stronger incentive to campaign. A campaign against a more vulnerable firm is more likely to succeed and hence more costly to forestall, and some soft firms can find forestalling a campaign too costly and choose to incur a campaign. In that case, they may self-regulate to reduce the probability that a campaign succeeds if they are targeted. Radical activists pose a greater threat than do moderate activists, so the scope of activism is greater the more radical are the activists (Baron, 2016). Some firms, however, are too hard for activism and are not threatened. The reach of private politics thus has limits.

Gupta and Innes (2011) study the effect of boycotts on the adoption of environmental management systems (EMS) by firms. They find that soft firms as measured by KLD strengths for social responsibility are significantly more likely to be the target of a boycott and proxy resolutions than are hard firms as measured by KLD concerns. Confrontational activists prefer to target more vulnerable or softer firms, since less vulnerable or harder firms are either too hard to target or self-regulate sufficiently to avoid a campaign. Soft firms must self-regulate more to avoid a campaign than must hard firms because activists expect to obtain more from a soft than a hard firm if a campaign is launched.

An alternative to this self-regulation is partnering with a cooperative activist. A cooperative activist, however, has bargaining power to the extent of the threat by confrontational activists. That is, if the cooperative activist can provide a shield against confrontational activists, it can extract concessions from the firm with which it partners (Baron, 2012). Cooperative activists thus may be able to accomplish as much as can confrontational activists. Cooperative activists can prefer to partner with soft rather than hard firms.

The impact of activism thus is at two levels. One is the impact of the campaigns that are actually launched, some of which succeed and some of which fail. The larger impact may be from the leverage on firms that are threatened and choose to self-regulate to forestall the activists, reduce the probability that a campaign succeeds, or partner with a cooperative activist. This self-regulation results in smaller changes in practices than those obtained from a successful campaign, but there are many more firms that make the changes. This self-regulation is often given the label of corporate social responsibility.

Corporate social responsibility can have three types of motivation. The first and most fundamental is moral, where a firm acts when it is best placed to address a moral wrong. For example, a manufacturer or a firm dealing with a supplier may be best placed to address hidden hazards in the workplace. Under social pressure Nike set a minimum age for employees in its suppliers' factories and chose a two-year higher minimum age for shoe factories than for apparel factories. The reason is that the manufacture of shoes requires the use of adhesives and other chemicals whose potential toxicity may be unknown to workers and difficult to observe in the workplace. Those chemicals are not used in the production of apparel. The second motivation is strategic and intended to maximize the value of the firm. The extent of this strategic corporate responsibility is determined by equating the marginal return from the action to its marginal cost.[28] The distinction between the first and second motivations does not mean that there are no potential returns for Nike from its higher minimum age. Instead, it means that Nike is to take the action regardless of whether there are any returns. The third is to label self-regulation taken to forestall or mitigate private or public politics as social responsibility. Rather than equating marginal returns and marginal costs, forestalling CSR involves acting to the point at which the opposition is just willing not to act. The second and third forms of CSR involve choices, whereas the first involves fulfilling a duty.

RESEARCH

Theory

A wide variety of private politics theory questions remain to be investigated, and two are addressed here. The first is extending the models of activist and firm encounters to include agency issues on the part of firms. This could focus on managers' allocation of effort between private politics strategies and activities that more immediately yield a financial return. The allocation of effort to private politics could be disaggregated to allow for effort allocated to general reputation-building to reduce the harm that could be generated by a campaign and the effort to forestall a campaign through self-regulation. Self-regulation and reputation-building that generate accolades from NGOs and the public could not only benefit the firm in private politics but could also represent a perquisite to managers that value the recognition.

On the other side of private politics an important research issue is how activists choose their targets and whether they prefer to target firms individually, sequentially, or as an industry. Baron (2016) distinguishes among firms based on their vulnerability to an activist campaign and shows that low vulnerability firms forestall campaigns whereas high vulnerability firm may choose to incur a campaign because forestalling the activist is too costly.

The second is the study of firm versus industry strategies for private politics.[29] Some firms such as McDonald's act separately on private politics issues, whereas others act through their industry or allow an association to represent their and other firms' interests. This requires recognition that firms are heterogeneous. Acting as an industry requires addressing collective action issues as well as how a collective strategy would be chosen by heterogeneous firms. For example, do the firms choose strategy by majority rule, unanimity, or weighted majority? A unanimity rule would attract more participants than would simple majority rule, but the standard chosen would be lower and would be less effective in deterring private politics. More generally, the choice of a governance structure affects which firms choose to participate in the collective action and how effective the collective action is.

Public politics theory is a flourishing research field in economics and political science and provides a good understanding of institutional behavior and outcomes. What is needed is to better characterize the strategies of firms and other interest groups and to relate those strategies to outcomes. Much of the research on nonmarket strategy has been in the context of U.S. institutions, with less attention given to parliamentary systems. One reason is that in parliamentary systems much of the nonmarket strategy implementation takes place behind closed doors and out of the view of the public, since policy choice in parliamentary democracies is party- or coalition-controlled. In Westminster systems with first-past-the-post electoral systems two-party competition tends to result with one party having a majority in parliament. Since the parliament chooses the government and the government is composed of a single party, it can choose any policy it wants – provided that it can maintain party discipline, which is often the case because candidates for elections are chosen with strong party influence. The same is true in parliamentary systems with proportional representation electoral systems, although the mechanism is somewhat different because more parties are present and typically no party wins a majority in an election. Coalition governments then result, and policy can be thought of as resulting from bargaining to form a government and, once formed, among the coalition members subject to the threat that a party could quit the government causing it to fall. Proportional representation electoral systems often use list systems which give parties the power to choose the candidates they put on the election list and the order in which they are placed, resulting in strong party discipline. Nonmarket strategy in parliamentary systems thus focuses on the majority party or government coalition, and as such it takes place outside of formal institutions. Research is needed on influence strategies in parliamentary systems, and in particular how firms use lobbying and information provision to influence policy choice.

Congressional elections in the United States have resulted in the "vanishing center," meaning that Congress is polarized with few members with centrist policy preferences. Theories of policy-making based on the median voter theorem thus seem inappropriate for a world with two ideologically separated blocks, neither of which has the votes to meet the supermajority hurdles. This suggests that bilateral bargaining with an eye of the next election may be a better framework than the median voter theorem for predicting policy outcomes. This in turn means that theories of influence, such as those that focus on pivotal voters, may need to be revised. It also means that the status quo is more secure, and addressing emerging issues may be more difficult.

Theoretical research is particularly needed for environments in which the rule of law is weak or the government is authoritarian or single party. Many of the market and nonmarket environments in emerging markets have these characteristics. Assessing political risks and providing contingencies for adverse government actions is important for decisions about whether to enter these markets and how to manage once there. Both theory and empirical work are needed, and detailed case studies can identify factors that need to be taken into account. The wave of globalization may have peaked, but the choice of nonmarket strategy for firms operating in multiple national market and nonmarket environments with varying strengths of the rule of law remains an understudied research topic.

A central nonmarket strategy question is when a firm should delegate nonmarket action to a general business association such as the Chamber of Commerce or the National Association of Manufacturers, when it should rely on an industry association, when it should form an ad hoc coalition, and when it should act individually. These alternatives are not mutually exclusive, and on some issues such as international trade agreements firms may engage in all of them. One answer is simply to apply the methodology for nonmarket strategy choice, but guidance from theory or empirical evidence about which nonmarket issues and nonmarket environments call for particular types of strategies would be helpful to focus the analysis.

A natural extension of extant theory is to dynamics and the durability of policies and strategies. As de Figueiredo (2009) discusses, policy durability can differ between parliamentary and presidential systems. In parliamentary systems policy is durable during an inter-election period but can change as a result of an election. In a presidential system policy is determined by bargaining between the president and Congress and within Congress under the constraint that a supermajority may be required and that the bargaining has to take place with both chambers of Congress, which may have different partisan control. This can give rise to a gridlock interval, and once in the interval a policy is durable and elections that leave the gridlock interval intact then have little effect on the policy.[30]

A policy in the gridlock interval is stable if the political environment is stable, but elections and changing circumstances can result in changes in that interval and in policy. Incorporating uncertainty is not as straightforward as it might appear, particularly if there are exogenous shocks and changing events. For example, policy choice in a parliamentary system with proportional representation elections is stable if the supporting government coalition is durable, but exogenous events and crises can lead to changes in the government and in policy.[31] If the firm is affected by a change in government policy, its nonmarket strategy may have to change. Dynamic nonmarket strategy theory has yet to be developed, and dynamic political economy theory is in its early years. Understanding these dynamics and choosing strategies that are robust to change or can adapt to change is an important research topic.

Empirical

Data and Methods

Empirical research that characterizes the nonmarket environment in a country or a region is useful in identifying factors to take into account in strategy choice. Cross-sectional studies, however, can be difficult to interpret because of unobserved heterogeneity among the countries or regions. Unobserved heterogeneity in a cross-sectional study can be along a number of dimensions. The nonmarket issues can differ, institutions can differ, the set of active participants in the politics can differ, and their characteristics can differ and be difficult to observe and measure.

One approach to reducing unobserved heterogeneity is to restrict attention to issues characterized by client politics, so that only firms on one side of the issues are active. Alternatively, an empirical study could focus only on issues characterized by interest group politics, where interests on each side of the issue are active. Outcomes in interest group politics are jointly determined by the strategies of all players, and outcomes reflect equilibria of the competition on each issue. Since outcomes are jointly determined, identifying the effect of individual components of an integrated strategy is a challenge. This is a classic problem of joint production, and structural methods may be the best hope.

Another approach is to study the strategy choices of a single firm. For example, Ingram, Yue, and Rao (2010) examine Wal-Mart's attempted store openings to identify location-specific public and private politics factors that affect success or failure.[32] Similarly, Locke, Qin, and Brause (2007) study Nike's supplier factory inspection data to assess compliance with the company's workplace standards. A broader approach is to develop data on a panel of firms and use firm-fixed effects to control for unobserved time-invariant characteristics of the firms. Then, within variation can be used to examine firms' responses to changes in the nonmarket environment. Finding data remains a challenge, however.

A particular challenge is observing the strategy choices of firms. In market strategy studies, accounting data are available, and data on prices and quantities are also available for some industries and firms. Accounting data are not particularly useful for drawing inferences about nonmarket strategies, although some firms now report on their expenditures on environmental programs. Surveys and rankings can serve as a data source, but some, such as the Fortune 100 most-admired firms, require firms to apply to be considered, leaving an endogeneity problem. If a firm's rent chain is an important nonmarket asset, it is necessary to obtain data on where the firm's employment is located and where its suppliers are located. Few firms make such data public.

Consistency in the data is also a major challenge. Some firms hire outside lobbying firms to implement an informational strategy in public politics, and their expenditures are publicly reported and available on opensecrets.org. Other firms use their executives for lobbying, and unless the executives spend a substantial portion of their time on lobbying, their efforts are not reported. This omitted variable confounds the assessment of the effectiveness of lobbying strategies. This is a particular problem in cross-sectional studies, and controlling for variables such as assets, size, advertising expenditures, and other reported accounting measures is helpful but does not remove the omitted variable problem. Attributing outcomes to a measurable component of a nonmarket strategy, such as lobbying or campaign contributions, thus is difficult.[33]

The government does not require reporting on private politics as it does for public politics, so data sets must be developed directly. Data on CSR is collected by KLD, now a part of MSCI, which has spurred a large research program, but data on social pressure, the responses to it, and self-regulation in anticipation of it are more difficult to obtain. One source of data is media coverage of events such as demonstrations, environmental accidents, lawsuits, and the like. Lenox and Eesley (2009), Eesley and Lenox (2006), Gupta and Innes (2011), Minor (2013), and Krüger (2015) have developed databases using media searches.

Causation is the most elusive issue in most empirical studies. To illustrate the issue, consider regressing the market value of firms on their KLD strengths minus concerns, controlling for other factors using data from COMPUSTAT. Suppose the coefficient is positive. One interpretation is that a higher KLD score causes the market value of the firm to be higher, and another interpretation is that a higher market value gives management the resources to spend on CSR. A third possibility is that there is there is no causal relation between CSR and financial performance and that the positive correlation is due to unobserved firm characteristics. For example, some managers may view CSR, and the accolades that can accompany it, as a perquisite, and those managers, for whatever reason, might be better than others at extracting value from the assets of a firm. They might be more aggressive in risk-taking, which might cause the higher market value. Selecting a closely matched control group or using a difference-in-differences or synthetic control approach on time series data can address some but not all concerns. Harrison and Scorse (2010) use the differences-in-differences approach in studying the effect of the anti-sweatshop campaign on wages in suppliers' factories in Indonesia.

Aggregation is also an issue. Studies that use a count of KLD strengths minus concerns as a measure of the net "goodness" of the firm or the net contribution to firm reputation are problematic because strengths and concerns represent different forces. Strengths represent CSR policies that strengthen reputation, brand equity, employee engagement, etc., whereas most concerns are factors that give rise to social pressure in either private or public politics. For example, protests are a direct indication of private politics social pressure, and environmental concerns are an indicator of possible government enforcement measures, protests by environmental NGOs, or liability exposure. These can impair reputation and employee engagement, and they also can directly reduce market value independently of reputation and engagement by, for example, alienating customers, business partners, or investors. Social pressure thus should decrease market value independently of reputation, whereas strengths should increase market value if reputation and engagement matter. Moreover, if CSR is a perquisite of management, it should be increasing in market value or other measures such as free cash. In addition, KLD strengths could represent a resolution of social pressure or self-regulation in anticipation of social pressure. Strengths then would be increasing in concerns and concerns decreasing in strengths if the strengths rectify a source of social pressure. A simultaneous equation empirical model is required to investigate these effects. Baron, Harjoto, and Jo (2011) estimate a simultaneous equations model that takes social pressure into account by using KLD strengths as a measure of CSR and KLD concerns as a measure of social pressure. They find that financial performance is decreasing in social pressure, whereas CSR has no significant effect on financial performance. CSR is increasing in social pressure, but social pressure is increasing in CSR. The latter may be due to activists targeting soft firms, as Argenti (2004) suggests and Gupta and Innes and others find.

Public Politics

Researchers naturally look for readily available data, which in the case of public politics includes campaign contributions by corporate PACs and expenditures for registered lobbyists. But, there is little consensus about the purpose of corporate PAC contributions or about the relation between contributions and lobbying expenditures. Empirical studies (Ansolabehere, de Figueiredo, & Snyder, 2003) find little evidence that contributions affect voting by members of Congress. The most common explanation for the contributions is to gain access for the purpose of (informational) lobbying.[34] An important reason for hiring a registered lobbyist is for connections that yield access, so a natural hypothesis is that the greater are corporate PAC contributions to members of Congress the less likely the firms are to hire a registered lobbyist for access purposes. However, if corporate PAC contributions are so important for access, why do a third of the Fortune 500 firms not have a PAC? Are these firms more likely to hire registered lobbyists than firms that make contributions? Also, do these firms not make contributions because they are little affected by legislation, have chosen to free-ride, rely on associations for their influence strategies, have learned that contributions have little effect on outcomes, or something else? The access value of PAC contributions to candidates' campaigns may be less, or perhaps more, important after the Michigan United ruling that allows unlimited spending in election campaigns by unaffiliated groups.

de Figueiredo and Edwards (2007) take a different approach and estimate the effect of contributions on policy outcomes rather than on individual votes of regulatory commissioners. The policy issue studied is the price for access to local telecommunications networks, and the contributors are from local telecommunications companies and potential entrants and are made to state legislators. They find a robust negative effect of contributions on access prices for local networks. Studying outcomes rather than votes is a useful approach and may allow identification of both an agenda setting effect and a voting effect of political contributions.

Studies of hard money contributions to candidates' election campaigns focus on the induced behavior of officeholders, but those contributions are used by candidates to improve their election prospects. If greater contributions increase the probability of winning an election, an alternative hypothesis is that firms make contributions to candidates they want to win. Cooper, Gulen, and Ovtchinnikov (2010) study the relation between contributions and election outcomes and find that there is positive relation between firm financial performance and the number of candidates supported through contributions. One complication is that most contributions go to incumbents and incumbents have a high probability of being reelected. The relation between supported candidates and financial performance is stronger the longer the period of support for a candidate and the more powerful within Congress is the candidate. This suggests that the causation runs from the likelihood that a candidate will win to contributions.

Characterizing the nonmarket environments of countries is an important research topic, and political risk is at the center of that topic. Aggregate data can be used to assess the effect of the rule of law on foreign direct investment and firm performance. Much of this research relies on characteristics of the government system and institutions that protect property rights. An alternative is to rely on market data to assess the political risks present in a country. Jensen (2008), for example, uses the prices of political risk insurance to measure risks and relates the prices to the government institutions in a country. He finds that democratic institutions are correlated with lower political risk, and the most important features are constraints on the discretion of the executive. Utilizing such market data can deepen the understanding of both political risks and the effect of institutions on those risks.

Delving deeper into political risk in a country, Graham, Johnston, and Kingsley (2013) identify a relatively prevalent form of political risk associated with government restrictions on the repatriation of profits. They find that transfer risk is more of a deterrent to foreign direct investment than is the risk of expropriation and that there is less protection from the rule of law for transfer risk than expropriation. A deeper understanding of the nature and magnitude of such political risks is an important research topic.

Most research on nonmarket strategy focuses on established firms, yet innovation often begins with entrepreneurs that have new ideas for value creation. Some entrepreneurial firms are able to operate without a nonmarket strategy or to free-ride on the efforts of others, but many others face nonmarket issues early in their lives. As considered in the section "Public Politics Example: Uber", Uber immediately faced regulations governing taxi and limousine service, and taxi companies and their drivers worked for more stringent regulations to limit its penetration of their markets. Similarly, Tesla faced a host of local regulations on the marketing of its automobiles, and well-organized auto dealers sought to erect new barriers. Amazon and Airbnb initially were able to avoid collecting sales and value-added taxes, but nonmarket forces developed to force collection, reducing their competitive advantage over traditional retailers and hotels, respectively. The study of nonmarket strategy for entrepreneurial firms is in its infancy, providing many research opportunities.

Private Politics

Self-regulation has been studied theoretically, and self-regulation as CSR has been studied extensively. Empirical research, however, on self-regulation to forestall private and public politics is scant. An open question both theoretically and empirically is the extent to which self-regulation by an individual firm is effective or whether an industry has to self-regulate to cause social pressure to dissipate. Malhotra, Monin, and Tomz (2014) conducted an online experiment with members of the Audubon Society to assess the effect of firm and industry self-regulation on member's preferences for stricter government regulation. They found that environmental self-regulation by a firm has little effect on preferences but self-regulation by an industry has a significant effect. They conclude that "the breadth of the participation by companies is more important than the depth of measures taken by firms." Such field experiments are an underutilized approach to the empirical study of nonmarket strategy.

Baron, Neale, and Rao (2016) conducted an online experiment to examine the matching of cooperative and confrontational activists with profit-maximizing and a CSR firm. They find that subjects in the role of the cooperative activist prefer to partner with a CSR firm, and anticipating this, the profit-maximizer bids more for an engagement with the cooperative activist than does the CSR firm.

An important line of research focuses on identifying the consequences of intangibles such as reputation or policies such as corporate social responsibility. Nyborg and Zhang (2013) find that firms in Norway with good reputations for social responsibility paid lower wages than firms without such a reputation. Similarly, Burbano (2014) and Cassar (2014) conduct Internet and laboratory experiments, respectively, that show that workers are willing to accept lower wages when they work for socially responsible firms. This research cannot establish whether there was a selection effect where the workers attracted were more or less qualified than the average, nor does it indicate whether employee engagement was higher among the workers attracted or whether those attracted were distracted by their interest in social issues. Burbano's experiment, however, suggests that the workers who accepted lower pay were more productive than other employees. Further research on the effect of intangibles on employee motivation and productivity would be worthwhile.

A major empirical challenge is to identify causal relations such as that between CSR and financial performance. Insight can be obtained by disaggregating the data to examine more fine-grained relations. Minor (2013) views CSR as providing protection against adverse events and distinguishes ex ante CSR investments that reduce the likelihood of adverse events from CSR actions that primarily bolster reputation. Using product recalls as the adverse events, he finds that CSR investments are associated with the avoidance of substantial losses from the events, whereas general CSR that bolsters reputation provides no discernable protection. The latter finding is consistent with the hypothesis that some CSR spending is motivated by warm glow preferences of managers and allowed by agency problems. Baron et al. (2011) find that CSR is increasing in social pressure suggesting that firms respond to social pressure by increasing their CSR. Kotchen and Moon (2012) also find that firms with poor CSR ratings in the KLD categories of environment, community, and human rights respond by improving their CSR on those issues. The relations identified in these studies are best viewed as correlations, since there could be unobserved characteristics of firms that affect CSR, financial performance, and social pressure.

One unobserved characteristic is management. Hong and Minor (2013) attempt to identify the effect of individual managers by first estimating a manager fixed effect and then using it as an explanatory variable for financial performance and social performance. They find a negative relation between managers' effects on financial performance and on social performance and that social performance is greater for managers with a smaller share of incentive compensation. The latter finding is consistent with managers having warm glow preferences for CSR, and the former is consistent with financial and social performance being substitutes in production.

The effect of social pressure or CSR on firm performance is likely to be issue-specific. In an event study, Epstein and Schnietz (2002) found that firms targeted during the 1999 WTO protests in Seattle for their environmental practices had significantly lower abnormal returns, whereas firms targeted for their labor practices experienced normal returns. Krüger (2015) studied the response of the financial markets to positive and negative events pertaining to firms and found that negative events associated with the environment or communities were associated with significantly negative abnormal returns, but negative events for four other KLD categories had no effect. Positive events were associated with small decreases in returns, from which he concludes that the market was penalizing warm glow CSR allowed by agency problems.

In such studies establishing causation remains a challenge. One informative approach is to ask whether the entry into or exit from a CSR index of firms with strong social responsibility has an effect on performance. Chatterji and Toffel (2010) and Becchetti, Ciciretti, Hasan, and Kobeissi (2012) take this approach and find that firms exiting the KLD social index experienced a significant negative abnormal return. Hong and Kacperczyk (2009) report a similar finding. These findings have one or both of two causal interpretations. One is that exit from an index has information content, and that content then must be that CSR and financial performance are positively related. The other is that social investing has become sufficiently pervasive that firms with worse CSR have lower demand for their shares and hence lower prices.

Krüger (2015) argues that his multiple-event study allows the direction of causality to be determined. Event studies should be free from reverse causality, but those studies typically draw inferences from a single event. Krüger collects data on over 2,700 events and relates each to one of six KLD categories. He also disaggregates the events into those that are positive and those that are negative. He in effect conducts event studies on all the events and finds that negative events relating to the environment and communities are associated with strongly negative abnormal returns, suggesting that negative events on those issues cause a decrease in returns. This approach appears to be a fruitful way to address causality. Delving into the relation between a financial and social performance remains a fertile ground for research with the identification of causal effects the principal challenge. Distinguishing among the various motivations for CSR would be a major research accomplishment.

Incomplete information is a fundamental characteristic of the nonmarket environment, particularly with respect to the social dimensions of a firm's operations. Certification of a firm's environmental practices or a cooperative engagement with an NGO can provide a signal to consumers, business partners, and investors with social preferences. Determining the value of the signal is a considerable challenge. Some evidence is provided by the entry and exit into indices, but empirical research relating financial performance to firms' environmental practices that are and are not certified would be useful.

Minor and Morgan (2011) and Becchetti and Ciciretti (2011) study the role of CSR as insurance against adverse events, and CSR could also serve as insurance to mitigate private politics pressure. For example, the public could respond less to a campaign against a firm with a good reputation for social responsibility than a campaign against a firm with a poor reputation. This suggests that the ex-ante threat of private politics is less severe and targeting by activists less likely. Theory (Baron, 2016), however, suggests that a firm that is less vulnerable to private politics self-regulates less than a more vulnerable firm. Whether activists target more or less vulnerable firms and why remain attractive research questions.

The theory discussed in the section "Self-Regulation" predicts that firms anticipate social pressure and (ex ante) self-regulate to forestall it or to mitigate the probability of campaign success. If a firm is actually targeted with a campaign, (ex post) self-regulation can be viewed as the outcome of bargaining between the activist and the firm to resolve and end the campaign. Empirical research that distinguishes between ex ante self-regulation motivated by a threat and ex post self-regulation that results from the resolution of a campaign would deepen our understanding of private politics and self-regulation.

Firms and industries seek shields against private politics. Shields can be provided by three principal means: (1) self-regulation, (2) cooperative partnering, and (3) multi-stakeholder organizations. Little is known about the effectiveness of each of these for particular issues. Moreover, cooperative partnering may provide a shield from moderate activists but not from more radical activists, who may seek greater changes in the practices of the firm. One purpose of industry-wide private governance organizations is to strengthen their resistance to social pressure and prevent defections so as to reduce the likelihood that the industry will be targeted and, if targeted, to reduce the likelihood of success. The Sustainable Forestry Initiative (SFI) has forestalled some pressure by the activists backing the Forest Stewardship Council (FSC), but those activists continue to criticize the SFI and work to convince retailers to sell only FSC-certified products.

If activists are impeded by a shield, they can use low cost alternatives such as criticism through social media, although those alternatives likely produce less social pressure. Similarly, in public politics a legislature may be in gridlock, but officeholders can still press regulators to use their discretion on a nonmarket issue. The effectiveness of a shield as a function of how far a firm's or industry's policy is from the demands of moderate and more radical activists and what alternative sources of social pressure are used are important research topics in private politics.

Normative

Although the perspective taken in this essay is positive, an important normative question is whether private politics and the associated self-regulation address a market or a government failure or whether the politics are the result of the intense preferences of segments of society. Private politics can go beyond the economist's concept of social efficiency and embrace distributive and justice objectives, and activists can seek more stringent regulation than justified by efficiency considerations. An environmental standard that equates marginal social costs and marginal social benefits achieves the socially efficient level of emissions, but the remaining emissions could still pose a risk to the environment or human health. Activists could seek to reduce or shift that risk even though it would be socially inefficient to do so. That is, at the socially efficient level of emissions, there remains uncompensated harm that can motivate private or public politics actors. Data show that minorities and the poor are over represented in areas where the remaining emissions are the highest, raising environmental justice issues. Wolverton (2009) studied the original siting of polluting facilities and found that minorities and the poor were not disproportionately represented when the facilities were built. Instead, facilities were sited where land was cheap and where other facilities emitting toxic substances were already located. The low land prices subsequently attracted low cost housing, and the low cost housing attracted low-income individuals, among whom minorities are disproportionately represented. Whether this is the case more broadly warrants further research.

More fundamentally, an important question in private politics is what activists of various types want. Some may want social efficiency, but others have distributive objectives, as evidenced by the campaign for a higher minimum wage. The book Good Cop, Bad Cop edited by Thomas Lyon (2010) provides some insight into the preferences and strategies of activists, but rhetoric and reality can differ. Studies of the preferences of activists and NGOs are needed to help assess whether their actions move firm practices toward or away from social efficiency.

Another approach to the question of whether private politics addresses a government failure is to view a government failure as a political failure rather than as a welfare issue. Gridlock could be viewed as a government failure, and the question is whether social pressure-induced self-regulation is a substitute for a blocked government action. Self-regulation can result from either public or private politics as discussed in the section "Self-Regulation," with public politics-generated self-regulation moving policy to the boundary of the gridlock interval but not into the interior. Private politics, however, can move policy into the interior of the gridlock interval. It also can thwart the will of the majority by targeting individual firms that a majority prefers not having targeted, since even small interest groups can prevail in private politics.

A more limited question is what private politics can do more or less effectively than government. For example, private politics might be more effective at targeting an individual firm (public laws cannot single out a firm or individual by name and hence can only legislate or regulate by characteristics; private politics is not so-constrained), tailoring campaigns and self-regulation to the specifics of a firm and its situation (avoiding one size fits all), monitoring local compliance with regulation or cross-border self-regulation, yielding results more quickly than government, and circumventing gridlock. Public politics might be more effective at enforcement, measuring compliance and identifying hazards, covering an industry or alike firms (with respect to some issue), regulating firms that are too hard for private politics, subsidization (e.g., clean energy), and redistribution (higher minimum wage).

NOTES

1. Integrated strategy is considered by Baron (1995, 2001), de Figueiredo (2009), and Bonardi and Vanden Bergh (2015).

2. This paper does not review the research in the field. de Figueiredo (2009) and Hillman, Keim, and Schuler (2004) provide reviews. Margolis, Elfenbein, and Walsh (2007) and Orlitsky, Schmidt, and Rynes (2003) provide assessments of the empirical research on the relation between corporate social and financial performance. The citations used here are illustrative and do not necessarily represent the most important contributions.

3. Early examples include Baysinger (1984), Keim (1981, 1985), Keim and Zeithaml (1986), Keim, Zeithaml, and Baysinger (1984), Yoffie and Bergenstein (1985), and Yoffie (1987).

4. For example, for strategic management Besanko, Dranove, Schaefer, and Shanley (2013) provide economics-based models of particular strategy problems and identify relevant strategies.

5. The legislation typically identified a resident by a shipping address in the state.

6. Cited in Gordon Crovitz (2014).

7. This section relies in part on Stanford Graduate School of Business Case P-81 "Uber: 21st Century Technology Confronts 20th Century Regulation," September 25, 2012, by David Hoyt and Steven Callander.

8. Other interests such as Zipcar are also affected but are unlikely to have a significant influence on outcomes.

9. Uber lost in court and stopped operating in Germany.

10. Uber Policy White Paper 1.0, "Principled Innovation: Addressing the Regulatory Ambiguity Around Ridesharing Apps," posted April 12, 2013 by Travis Kalanik.

11. *The New York Times*, August 10, 2014.

12. *The New York Times*, August 10, 2014.

13. Quoted in Jenkins (2014).

14. This section is based in part on Manheim (2013).

15. "Fast Food, Poverty Wages," Center for Labor Research and Education, University of California-Berkeley, and Department of Urban and Regional Planning, University of Illinois at Champaign-Urbana, October 15, 2013. The data period 2007–2011 covered the depth of the severe recession caused by the financial crisis and the subsequent slow recovery. The study covered workers who worked at least 10 hours a week for at least 27 weeks and did not include restaurant management.

16. *The New York Times*, January 14, 2014.

17. *The New York Times*, December 5, 2013.

18. *San Jose Mercury News*, September 5, 2014.

19. *The Wall Street Journal*, February 20, 2014.

20. Wal-Mart subsequently increased its minimum wage to $9.00 an hour and $10.00 an hour the following year, but the increase affected only 6,000 of its 1.3 million U.S. workers. Rather than higher wages, many workers wanted the opportunity to work more hours.

21. *The Wall Street Journal*, September 5, 2014.
22. *San Jose Mercury News*, October 16, 2013.
23. *The Wall Street Journal*, February 20, 2014.
24. Wernerfelt (1984) presents a formalization of the resource-based approach, and Makadok (2001) provides a model that incorporates both resources and capabilities.
25. See, for example, Barney, Ketchen, and Wright (2011).
26. Kingsley, Vanden Bergh, and Bonardi disaggregate the supply side by relating political competitiveness in a country to regulatory uncertainty and identify corresponding strategies in terms of their profile, coalitions, and political targets using examples from the global telecommunications market.
27. Krehbiel (1998, 1999) and Baron (2014).
28. This view is taken by McWilliams and Seigel (2011).
29. Lyon and Salant (2014) provide a first look at activism and industry transformation.
30. Baron (2014) considers self-regulation and lobbying in this context, along with private politics social pressure. The effectiveness of nonmarket strategies in a parliamentary versus a presidential system remains an open topic for research.
31. Baron (2015) presents a dynamic theory of policy choice in a proportional representation parliamentary system with occasional crises, and equilibria yield temporally durable policies.
32. Endogeneity of Wal-Mart's choice of where to attempt a store opening remains a concern.
33. de Figueiredo and Richter (2014) assess the challenges in conducting empirical research on lobbying.
34. Ansolabehere, de Figueiredo, and Snyder conclude that campaign contributions represent consumption for corporate executives.

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