

An Introduction to Non-Market Strategy

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A Brief Survey: Yes or No

- » Without politicians, the world would function better
- » The free market is the best way to organize productive activity
- » The less politicians interfere in markets, the better
- » Executives are politicians by definition

The Free Rider Problem

Payoff structure

- I get most if I free-ride while you contribute (3)
- I get a little less if we both contribute (2)
- I get still less if we both free-ride (1)
- I get the least if I contribute while you free-ride (0)

		YOU	
		Free-Ride	Contribute
I	Free-Ride	1 , 1	3 , 0
	Contribute	0 , 3	2 , 2

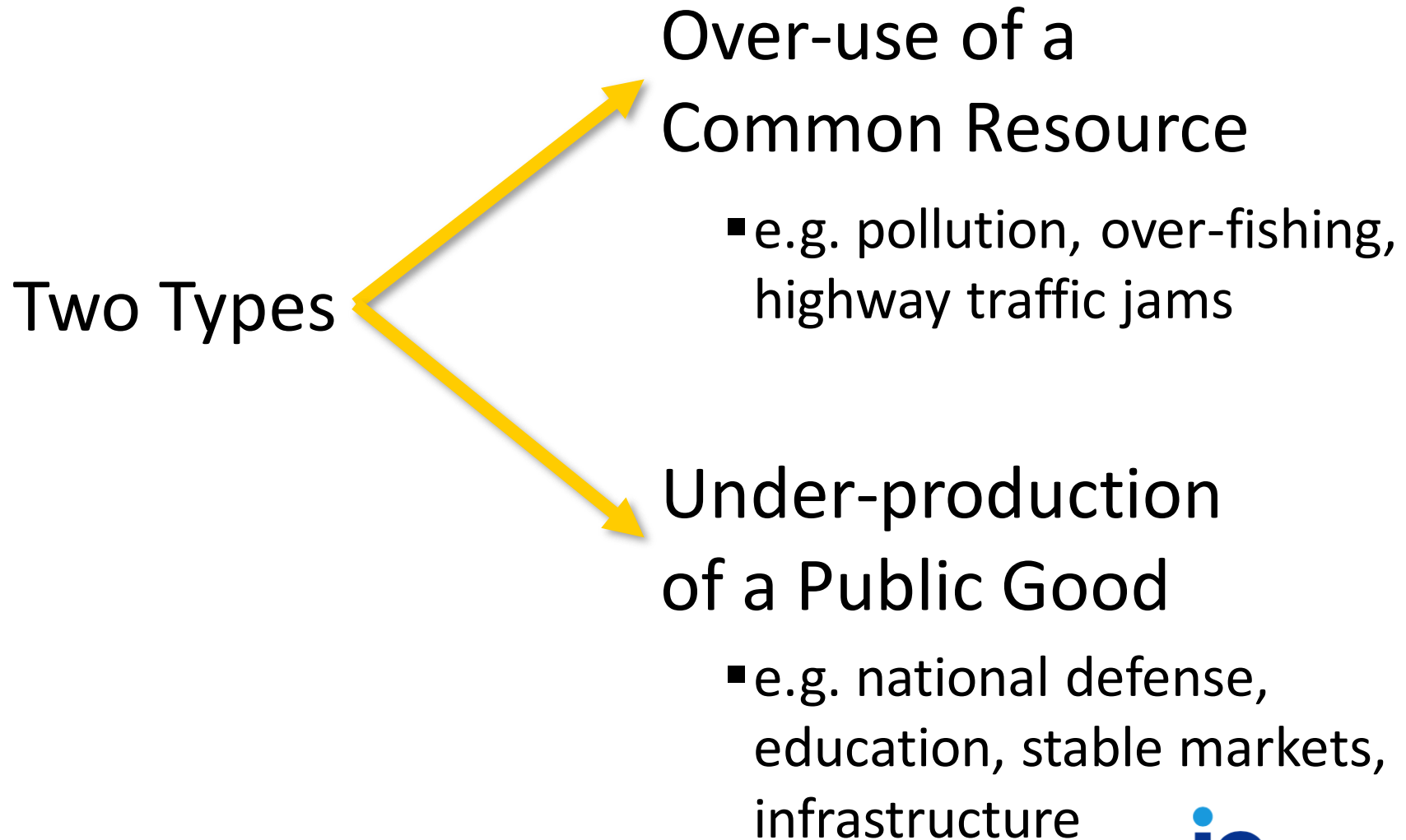
The Free Rider Problem

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	Contribute	0 , 3	2 , 2

The Free Rider Problem



Why So Hard to Solve?

- Incompatible time horizons → may not be “rationale” for all stakeholders
- Failure of relevant stakeholders to grasp importance of problem (shareholders, customers, competitors, politicians)
- Easier to measure costs of change than benefits
- Monitoring of “free riders” is often expensive and sometimes impossible

Overcoming such “collective action” problems is the basic challenge of politics...

- Private Politics
(business coordination)
 - trust-building
 - self-regulation
 - provision of public goods
- Public Politics:
(government intervention)
 - Bully pulpit
 - Regulation: rules, rewards and sanctions
 - provision of public goods

And Ever More Important for Business

- Globalization = more market participants and more competitive markets
- More participants → scarcer resources → more *over-use of common resources*
- Greater competition → more innovation, increasing importance of human and physical infrastructure to support innovation → more *under-production of public goods*

The Nonmarket Environment of Business and Corporate Strategy

The Dilemma of Non-Market Strategy

- » *Public* politics are often the most effective way to overcome collective action problems
- » If firms believe that *private* politics cannot solve these problems, should they push politicians to “impose” solutions through conformity?

A Dilemma in Two Dimensions

- » *Ethical*: Should firms attempt to influence political decisions? If so, under what circumstances? If the result is good for society? If the result is good only for the business?
- » *Pragmatic*: In the real world, more and more firms *do* try to influence political decisions. How should they go about it?

The Environment of Business

Market environment

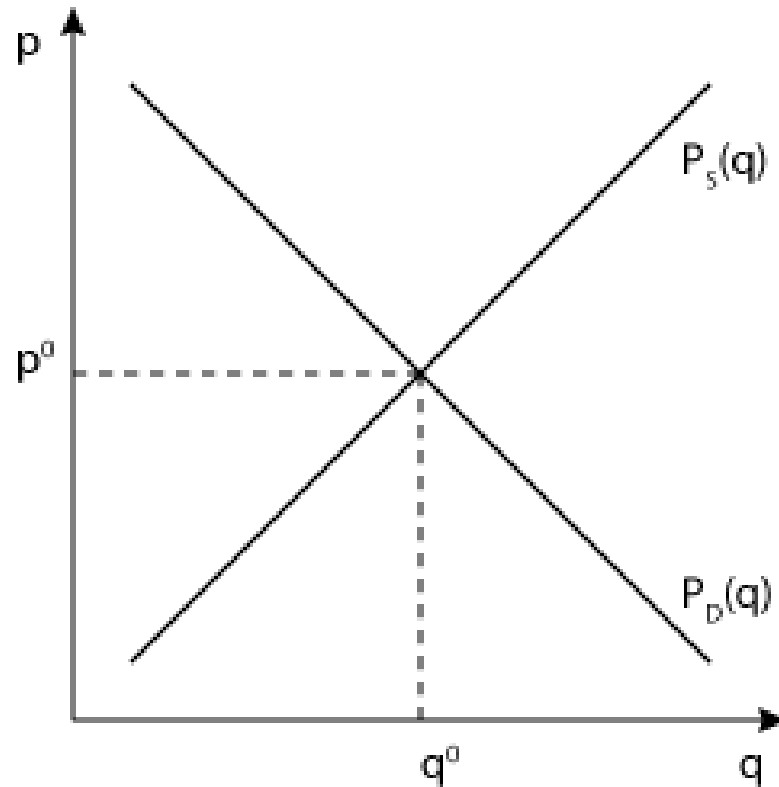
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Nonmarket environment

The Market Environment

» Consists of the set of relationships between a firm and other parties that are mediated by markets (i.e. price) or private agreements:

- Customers
- Suppliers
- Competitors



The Nonmarket Environment

- Consists of the social, political, regulatory, legal and natural issues that structure interactions outside of markets and in which markets are embedded.
- Includes relationships with governments, NGOs, the public, and even other firms that are not mediated by markets, but rather by public and private institutions.
- Characterized by complicated deliberation and decision-making processes that mediate the matching of buyer and seller via prices.



The Political Issues Board Directors Care About, by Region

PERCENTAGE OF DIRECTORS WHO SAY THE ISSUE IS IMPORTANT	Africa	Asia	Australia/ New Zealand	Central & South America	Eastern Europe/ Russia	Middle East	North America	Western Europe
The economy	60%	73%	74%	80%	70%	48%	65%	71%
Regulatory environment	67	64	67	57	40	57	60	64
Cybersecurity	21	19	36	27	40	14	46	36
Corporate tax rates	13	17	12	17	30	19	28	18
Political instability	35	25	27	53	30	62	12	21
Health care costs	8	12	7	0	0	10	23	10
Environmental sustainability	17	24	19	17	30	10	11	17
Education	25	15	4	3	0	14	8	11
Energy costs	4	8	6	7	30	5	9	10
National budget deficits	2	2	9	17	0	5	9	8
Unemployment	21	5	3	3	0	5	4	6
Equal rights for women	6	10	8	3	0	19	5	4
Foreign policy	0	5	1	0	0	5	4	3
Economic justice	10	5	7	3	0	5	2	3
Immigration policy	2	3	0	0	0	5	3	3
Personal tax rates	0	5	1	0	0	0	3	5
Natl. retirement program costs	2	0	7	3	0	0	2	4
Carbon tax	4	0	2	0	10	5	3	3
Other	2	10	7	13	10	5	5	4
NUMBER POLLED →	48	59	140	30	10	21	1,195	600

SOURCE BORIS GROYSBERG AND J. YO-JUD CHENG, BASED ON A 2015 SURVEY OF OVER 4,000 GLOBAL BOARD DIRECTORS

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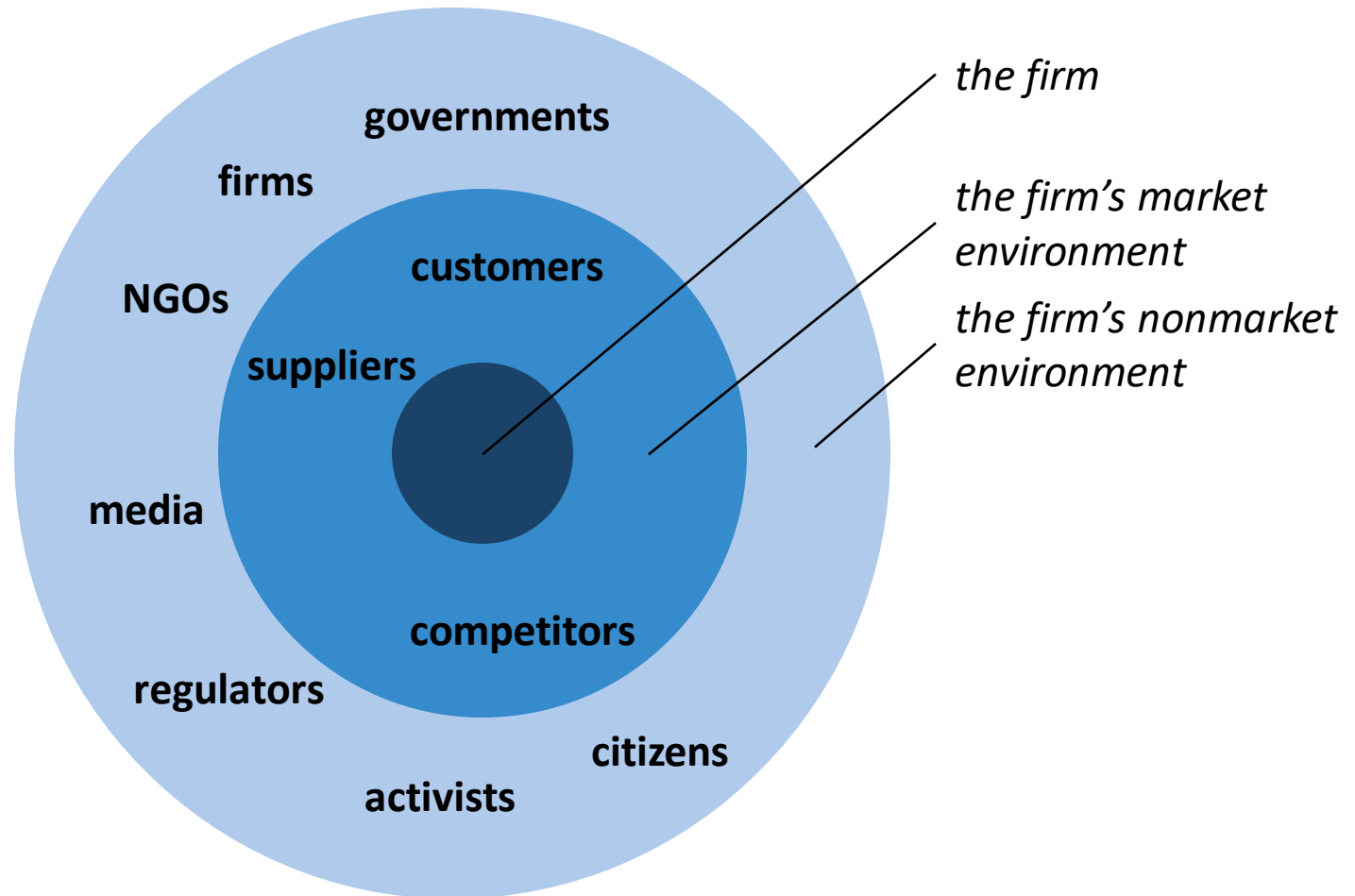
The Political Issues Board Directors Care About, by Industry

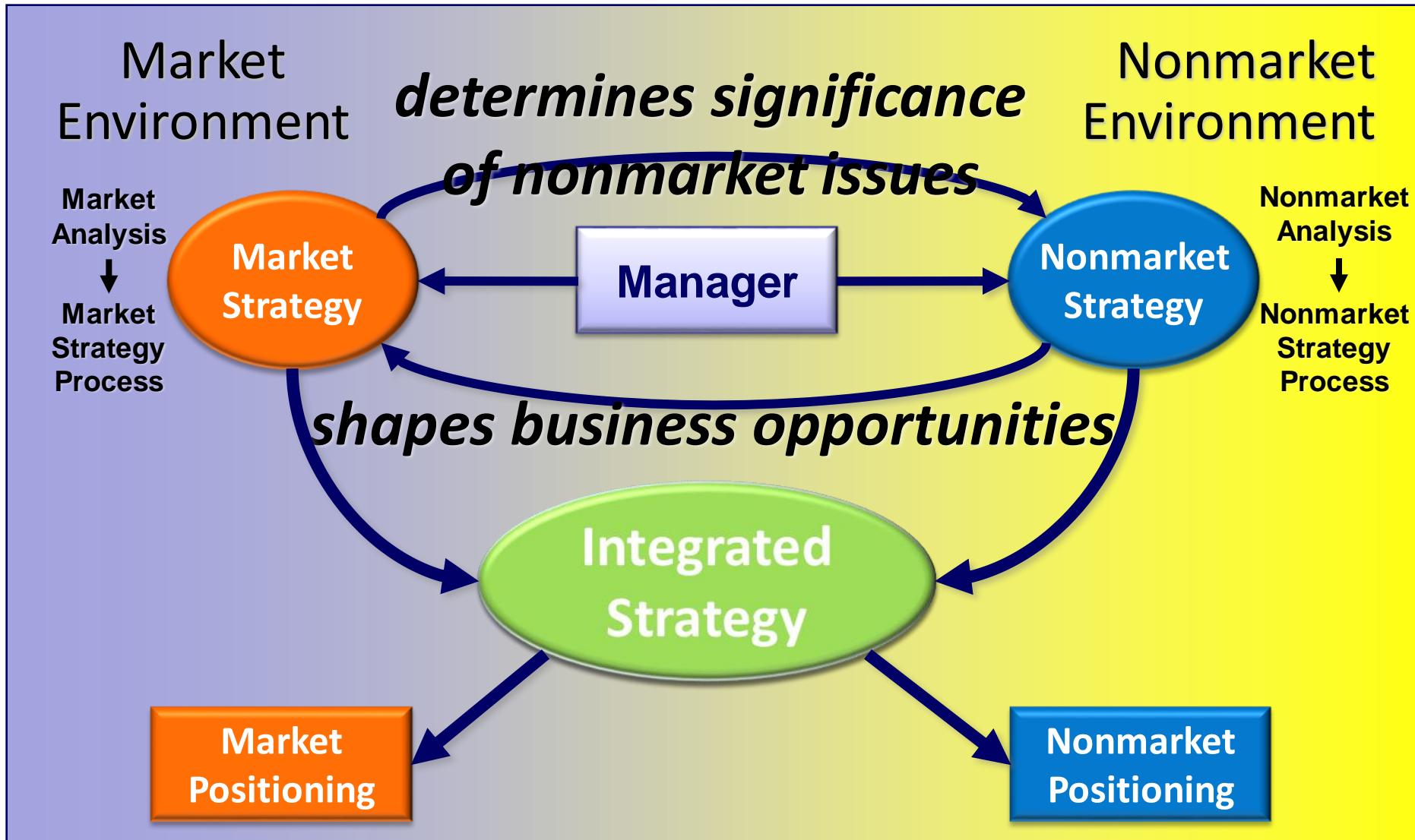
PERCENTAGE OF DIRECTORS WHO SAY THE ISSUE IS IMPORTANT	Consumer discretionary	Consumer staples	Energy/Utilities	Financials/Profit systems	Health care	IT/Telecom	Industrials	Materials
The economy	76%	75%	62%	73%	52%	61%	67%	71%
Regulatory environment	51	58	69	73	64	50	55	59
Cybersecurity	43	45	28	48	31	57	35	25
Corporate tax rates	25	21	17	17	24	32	28	25
Political instability	16	17	17	17	17	14	21	24
Health care costs	15	19	9	12	51	17	9	17
Environmental sustainability	12	17	29	8	9	7	17	17
Education	11	7	4	9	10	14	8	11
Energy costs	6	6	29	3	3	3	11	18
National budget deficits	4	6	5	8	11	10	11	6
Unemployment	8	4	2	7	1	5	6	3
Equal rights for women	8	4	2	6	3	4	6	3
Foreign policy	4	4	2	2	3	7	3	3
Economic justice	4	2	2	3	4	3	3	3
Immigration policy	3	3	2	2	1	7	3	1
Personal tax rates	6	2	3	2	5	5	1	1
Natl. retirement program costs	2	2	0	5	2	0	3	2
Carbon tax	1	1	14	1	0	2	1	7
Other	6	5	3	4	3	5	8	5
NUMBER POLLED →	251	124	232	572	258	241	262	154

Methodology

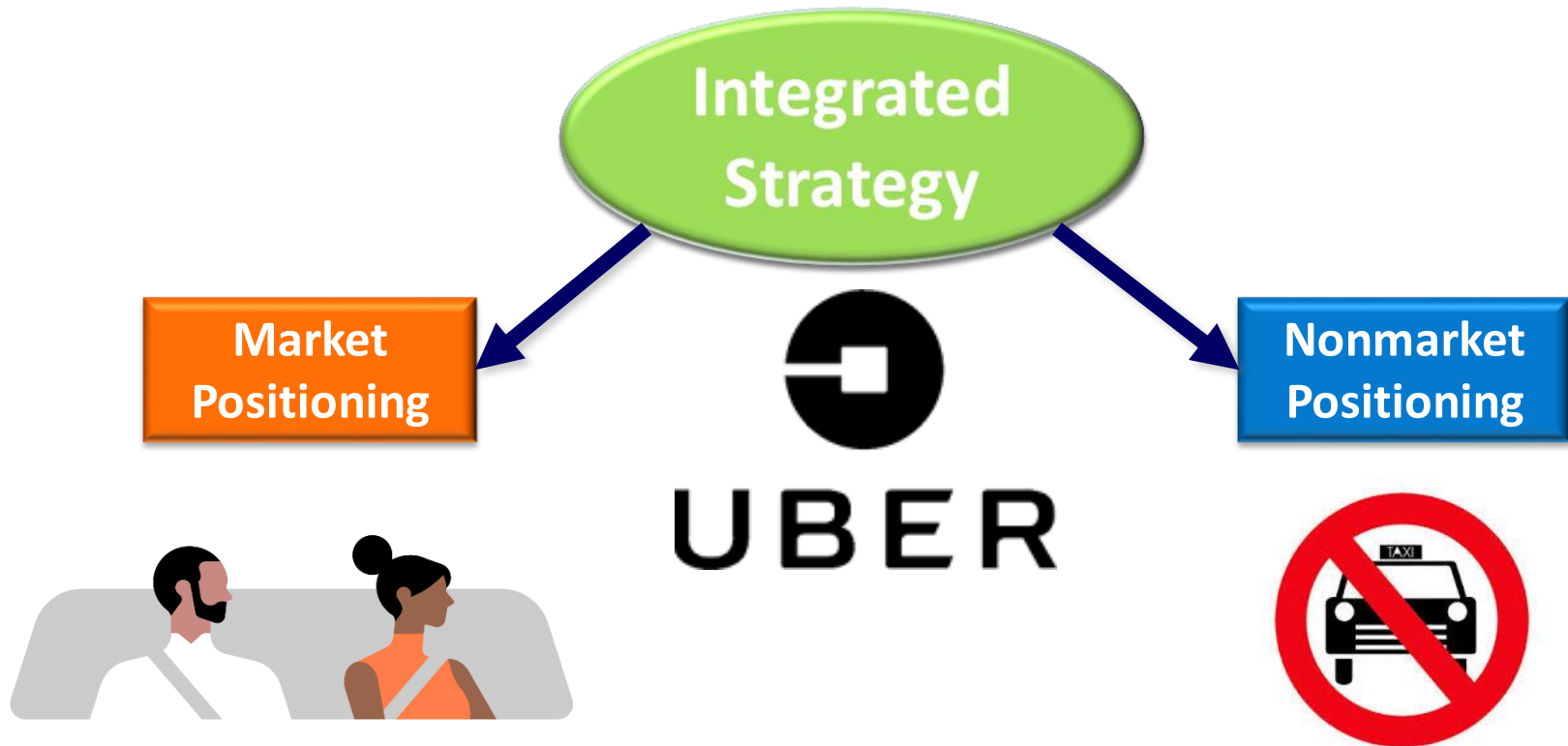
More than 4,000 board members of companies headquartered in 60 countries (U.S. boards made up 48% of the sample) responded to the

Management Beyond the Market





Uber's Integrated Strategy



Nonmarket Strategy *enables* Market Strategy

Starbucks's integrated strategy



Nonmarket Strategy *reinforces* Market Strategy

Microsoft hits back at Google

By Richard Waters in San Francisco and Joshua Chaffin in New York
Published: February 4 2008 19:29 | Last updated: February 4 2008 23:22

Microsoft hit back at **Google** on Monday over the search company's attempt to derail its bid for **Yahoo**, threatening to fight back through the regulators if its ambitions were stymied by any partnership between the two.

The flare-up came as Yahoo's options for finding a "white knight" to save the internet company from Microsoft's cash-and-stock offer, valued on Monday at \$43bn (£22bn), appeared to be narrowing fast. **News Corp**, which last year proposed merging its MySpace business with Yahoo, and NBC Universal both ruled themselves out. "We are **definitely not going to make a bid** for Yahoo," said Rupert Murdoch, News Corp chairman.

An alliance with Google, which was considered but rejected last year, has sprung to the top of Yahoo's list of options. Eric Schmidt, Google's chief executive, phoned Jerry Yang of Yahoo at the end of last week after Microsoft unveiled its bid, although a person familiar with the approach characterised it as a very informal conversation.

Google went public with its objection to the Microsoft-Yahoo deal over the weekend, claiming that it could lead to less competition for internet services and might allow Microsoft to create a new monopoly.

Steve Ballmer, Microsoft's chief executive officer, on Monday hit out at the idea of a Yahoo-Google alliance, arguing that only a deal with Microsoft could create a true rival to the search group.

▼ EDITOR'S CHOICE

Microsoft not only option, Yahoo says - Feb-06

John Gapper: Haze obscures Microsoft's path - Feb-06

Fear and loathing amid takeover threat - Feb-06

In depth: The Microsoft-Yahoo merger bid - Feb-04

The fast rise of Microsoft's Mr Fixit - Feb-05

Time Warner to split AOL businesses - Feb-06

NM strategy *complements* Mkt Strategy

Google raises internet monopoly alert on Microsoft bid for Yahoo

By Richard Waters in San Francisco and Andrew Edgecliffe-Johnson in London

Published: February 4 2008 02:00 | Last updated: February 4 2008 02:00

Google raised a red flag over Microsoft's unsolicited takeover offer for Yahoo, yesterday arguing it could open the way for the software developer to extend its PC monopoly to the internet.

The intervention is the latest example of the growing enmity between the two companies and echoes Microsoft's denunciation of Google's proposed acquisition of online advertising company DoubleClick.

While Microsoft claimed that deal could give Google inordinate power to control online ads as they become the lifeblood of many internet companies, Google believes Microsoft would be in a position to influence the evolution of the web itself. However, Brad Smith, general counsel of Microsoft, said: "Microsoft is committed to openness, innovation, and the protection of privacy on the internet."

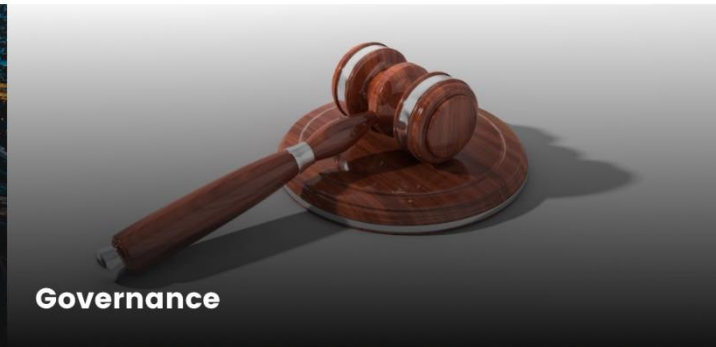
Microsoft has not ruled out launching a proxy fight for control of Yahoo by 13 March, the last date it can nominate its own directors to the board ahead of this year's shareholders' meeting.

Separately, an alliance with Google is being seen inside Yahoo as one of the main options as the company tries to fight off Microsoft's hostile approach, according to one person familiar with its thinking. The cash-and-stock offer was worth \$43bn (£22bn) at the end of last week.

How to Build a Non-Market Strategy



Smart Infrastructure



Governance



Health & Well-being



FinTech



Education



Digital Security

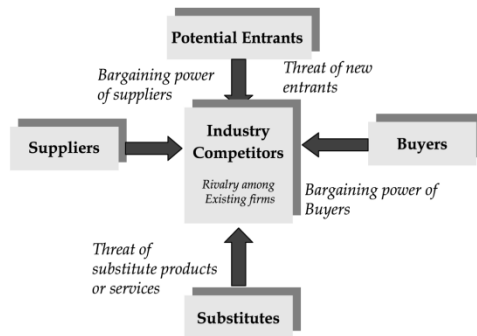


How can we build
value through the
Co-Creation Hub?

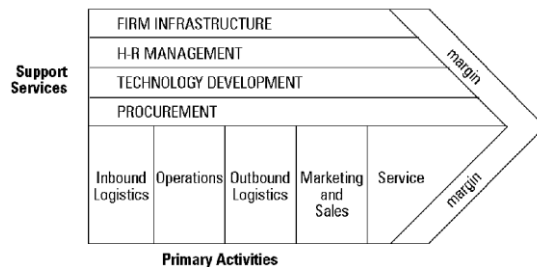
Market

Nonmarket

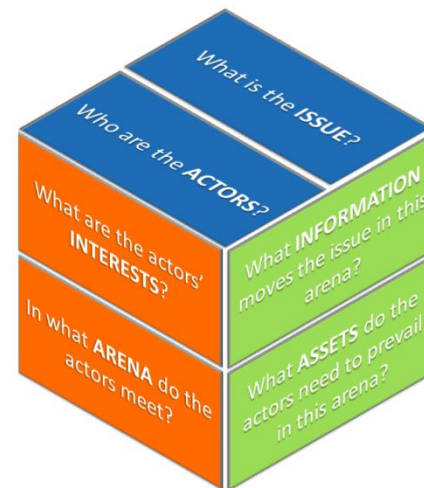
“Five Forces”



“Value Chain”

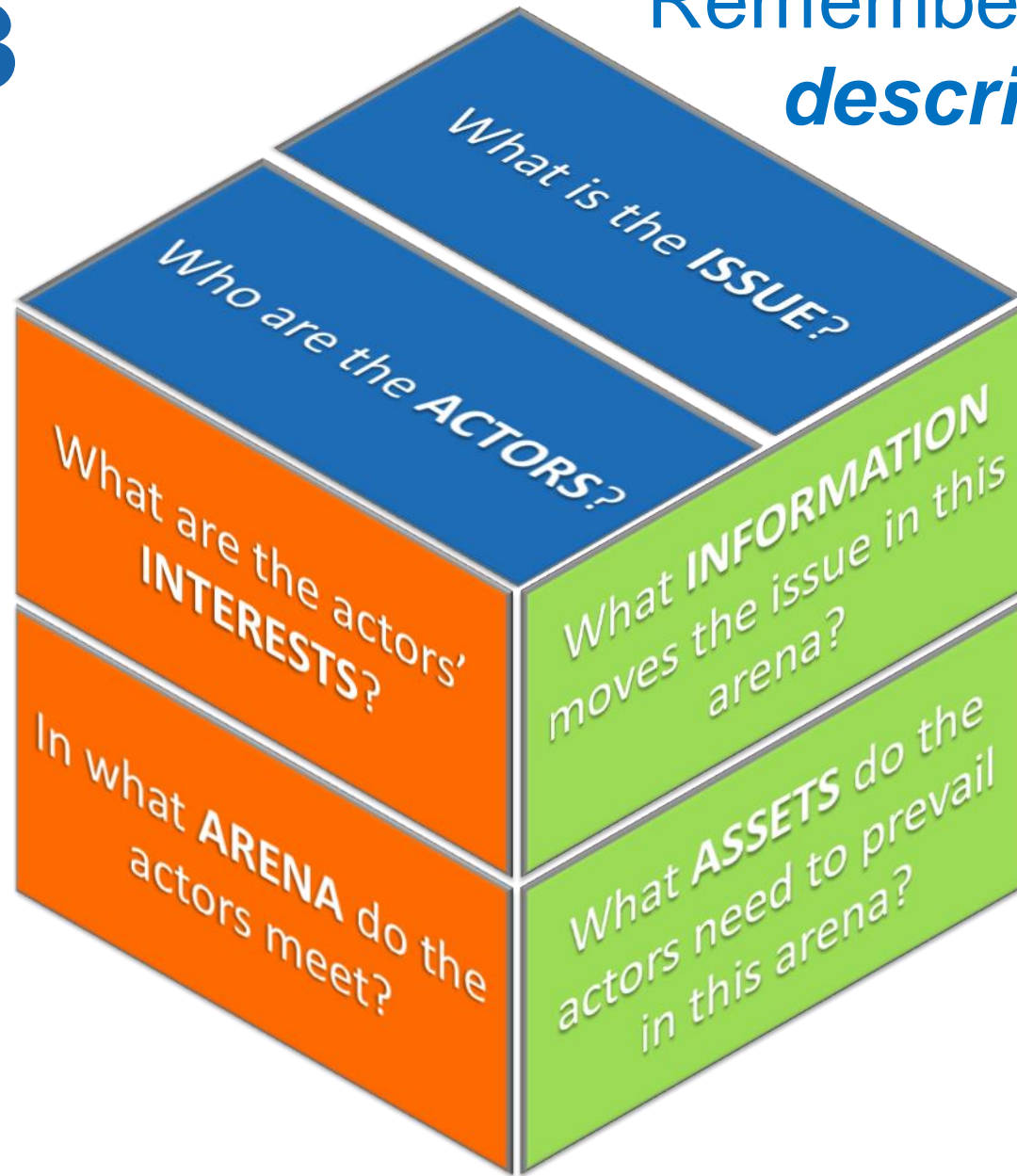


“(ia)³-Framework”



$(ia)^3$

Remember: $(ia)^3$ is a ***descriptive*** tool!



Actors: Individuals and groups with an “interest” in the issue

Organized

Unorganized

Homogeneous



Heterogeneous



Arenas: Where the actors meet and where key decisions are taken

- Parliaments, Congresses—national, state, local
- Regulators and courts
- Multilateral agencies (IMF, WTO, etc.)
- A “kingmaker’s” favorite restaurant
- The media
- The street
- Etc.

Information: “Critical data and knowledge that shapes the evolution of the issue”

- *Facts* favoring particular issue framings/solutions
- *Scientific* evidence
- Preferences of key interest groups
- Public sentiment
- Polling data

What information do you need to shape the evolution of the issue?

Your Deceptively Simple Strategic Challenge

- Build a **winning coalition** of the **right actors**, in the **right arena**, around:
- Your preferred definition of the issue (problem)
- Your preferred solution

How to Frame “Issue(s)”

- A ***question*** around which collective action may be organized
- A question asked by multiple actors that ***affects*** the company—the subject is not “our company”
- Potential answers must therefore imply *collective* action—legislation, a court ruling, a boycott, etc.

The goal of a non-market strategy is to organize a ***winning coalition*** around a particular framing of an issue and/or your preferred answer to the question that defines the issue

The Building Blocks for a NM Strategy

**Deploy Assets to
Build Coalition
Around Desired
Framing**

- critical information
- access to decision-makers
- knowledge of decision-making processes
- networks, contacts, and allies
- reputation
- money often helps, but not always

**Who are the actors?
What do they want?
Where do they meet?
What are their assets?**



**Understand
the Non-Market
Space with
(ia)³ Analysis**

Take-aways

- The firm's business environment consists of the market environment and the nonmarket environment
- Leading firms develop nonmarket strategies to enable, complement, or reinforce existing market strategies
- To be effective, nonmarket strategies must be coordinated with market strategies, forming integrated strategies
- Non-market networks are critical, but they are *not* a strategy
- **Nonmarket management is your responsibility**

