Integrated Strategy:
Market and Nonmarket Components

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The field of strategic management looks both inside the firm and outside it. A guide to strategy formulation and implementation, it looks inward to distinctive competencies and outward to the environment in which the firm operates. The environment of business is composed of market and nonmarket components, and any approach to strategy formulation must integrate both market *and* nonmarket considerations.

The market environment includes those interactions between the firm and other parties that are intermediated by markets or private agreements. These interactions typically are voluntary and involve economic transactions and the exchange of property. The nonmarket environment includes those interactions that are intermediated by the public, stakeholders, government, the media, and public institutions. These institutions differ from those of the market environment because of characteristics such as majority rule, due process, broad enfranchisement, collective action, and publicness. The interactions in the nonmarket environment may be voluntary, such as when the firm adopts a policy of developing relationships with government officials, or involuntary when government regulates an activity or activist groups organize a boycott of a firm's product.

A market strategy is a concerted pattern of actions taken in the market environment to create value by improving economic performance, as in the case in which a firm decides to enter a country that has open markets. A nonmarket strategy is a concerted pattern of actions taken in the nonmarket environment to create value by improving its *overall* performance, as in the case in which a firm

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works through its home government to use trade policy to open a foreign market. For a business strategy to be effective these two components must be integrated and tailored to the firm's market and nonmarket environments, as well as to its competencies.

One purpose of a nonmarket strategy is to shape the firm's market environment, as when a firm lobbies in support of legislation to lower trade barriers. The interrelationships such as this between the market and nonmarket environments require that the managers responsible for performance in the market environment also be responsible for the performance of the firm in its nonmarket environment. Since performance in the nonmarket environment is the responsibility of managers and not just of corporate affairs, legal, and government relations specialists, managers are also responsible for the integration of market and nonmarket strategies and the analysis that underpins them. This perspective is illustrated in Figure 1.

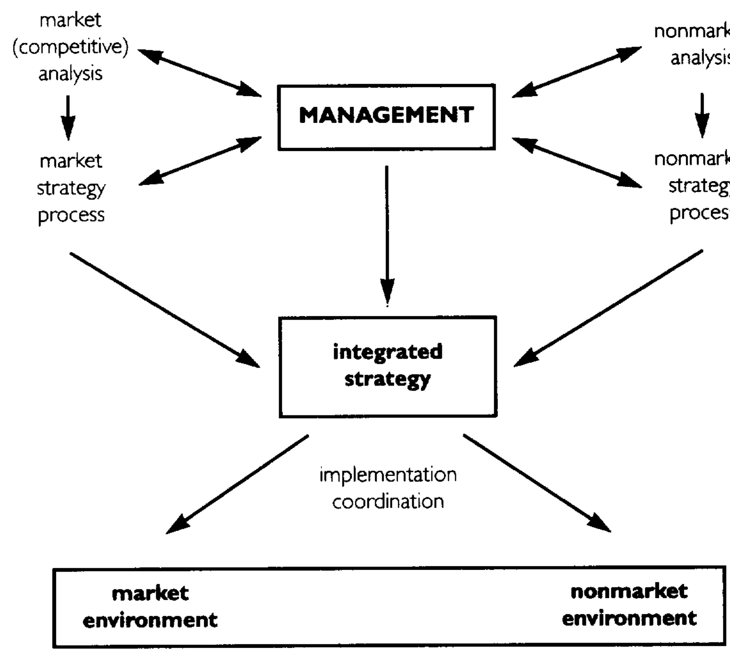
Market strategies are the focus of modern strategic management as exemplified by the work of Porter, Oster, and others.[1] Nonmarket strategies are addressed by Baron; Marcus, Kaufman, and Beam; Preston and Post; Shipper and Jennings; Weidenbaum; Yoffie; and others.[2] The theory of modern competitive strategy concludes that strategies must be tailored to the structure and dynamics of the market environment and to the competencies of the firm, and similarly a nonmarket strategy must also be tailored to the firm's nonmarket competencies and the characteristics of its market and nonmarket environments.

The nonmarket environment consists of the social, political, and legal arrangements that structure the firm's interactions outside of, and in conjunction with, markets. The nonmarket environment is characterized by four I's: issues, institutions, interests, and information. *Issues* are what nonmarket strategies address. For example, revision of the Modified Final Judgment that settled the federal antitrust suit against AT&T is a nonmarket issue. The relevant set of *institutions* for telecommunications issues are the Federal Communications Commission, Congress and its committees, state regulatory commissions, and the federal courts. *Interests* are individuals and groups with preferences about, or a stake in, an issue. In the case of telecommunications policy the interests include telecommunications companies, cable companies, media organizations, equipment manufacturers, and consumer and activist groups.[3] *Information* pertains to what the interested parties know or believe about the relation between actions and consequences and about the preferences and capabilities of the interested parties. In the case of telecommunications policy, information pertains primarily to the likely consequences of deregulation alternatives.

The Significance of Nonmarket Strategy

Many factors affect the importance of nonmarket issues for the performance of a firm. Perhaps the most important is the control of a firm's opportunities. Viewing control as a continuum, opportunities can be controlled by

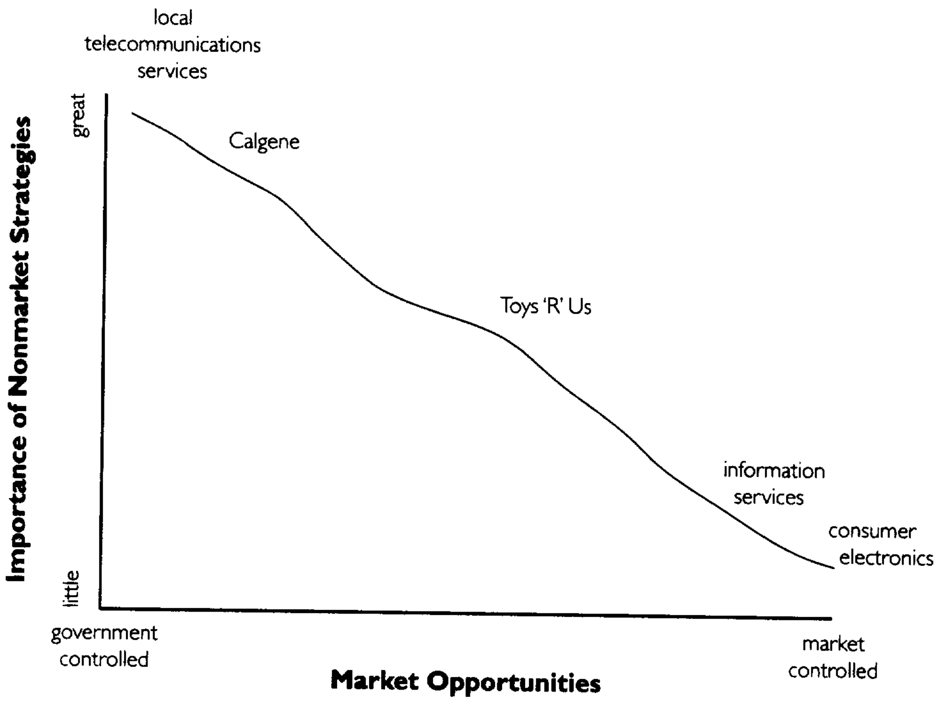
FIGURE 1. Integrated Strategy: Analysis through Implementation



government at one extreme and by markets at the other extreme. This is illustrated in Figure 2, which presents the relation between the control of opportunities and the importance of nonmarket strategies to performance. Those strategies are less important for firms in consumer electronics and information services, more important for firms entering foreign markets, and crucial for biotechnology and local service telecommunications firms. Over time, industries may move along the control axis. In many countries government controls the provision of telecommunications services through ownership of a monopoly supplier, which is located at the far left of the control continuum. In the pursuit of improved performance, some of these countries have privatized their telecommunications companies and replaced ownership with regulation, which represents a middle position on the control dimension. In the United States the regulation of telecommunications is being replaced by market competition, with information services being the most completely controlled by markets. Generally, nonmarket strategies are more important the more opportunities are controlled by governments and are less important when opportunities are controlled by markets.

Other factors, such as direct challenges by interest and activist groups also affect the importance of nonmarket strategies. Activists and interest groups have formed to oppose agricultural biotechnology, and their challenges have been mounted in the institutional arenas of regulatory agencies and legislatures. They have also challenged agricultural biotechnology firms by organizing boycotts of

FIGURE 2. Nonmarket Strategy and Market Control



products, seeking media coverage to air their concerns, attempting to influence the views of consumers, and pressuring firms that might use the products.

Examples of Integrated Strategies

Three examples illustrate the nature of nonmarket strategies and their integration with market strategies.

Calgene and Agricultural Biotechnology

Calgene, Inc. is a small agricultural biotechnology company that was the first to bring a genetically engineered food to market. Its FLAVR SAVR tomato contains an antisense gene that retards the natural production of the enzyme that causes rotting. This allows the tomato to remain on the vine longer, and hence ripen longer, before being picked and shipped. When bought in the supermarket the tomatoes are better tasting than the tomatoes that are picked green and ripened in warehouses using ethylene gas.

In the mid-1980s, Calgene recognized that there was no established approval process for genetically engineered plants and foods. Approval of products thus would have to await both the development of an approval process and the application of that process to specific plants and foods. Calgene adopted an integrated strategy of accelerating the development of the regulatory approval process in conjunction with moving its products through the product development and testing stages to the market.

Calgene took a broad set of actions to address the issue of agricultural biotechnology regulation, including lobbying Congress, developing relationships with the regulatory institutions (FDA, EPA, DOA), voluntarily providing information to the regulators on its proprietary research and testing, cultivating the media, participating in national and international biotechnology forums, and working to organize the agricultural biotechnology industry to present a coordinated position on public policy issues. Some of these actions were intended to make it easier for the regulators to develop approval policies, and others were intended to address threats to Calgene and the industry from activists and interest groups opposed to genetically engineered plants and animals. Calgene worked to combat this publicity by providing commentary to the media and providing information to the regulatory agencies and Congress to shore up their support for biotechnology.

Calgene's nonmarket strategy had a dimension not often present in markets. Its efforts to facilitate the development of regulatory policy had the property of a public good in the sense that an expedited regulatory approval process would make it easier for other agricultural biotechnology firms, including competitors, to have their products approved—thus reducing Calgene's first-mover advantage. In part as a means of mitigating this effect, Calgene filed for FDA food additive (pre-market) approval of its marker gene. This may have set a precedent so that rivals would have to obtain similar approval for their own marker genes, thus subjecting them to the same lengthy regulatory process that Calgene hoped to complete quickly. Filing the petition, however, may have delayed the marketing of its tomato by over a year.[4]

Cemex and the Antidumping Threat

Cementos Mexicanos, S.A. (Cemex), headquartered in Monterrey, Mexico, is the largest cement producer in North America and the fourth largest in the world. In the late 1980s, Cemex embarked on a new strategic direction by entering the U.S. market. It established distribution facilities in Southern tier states extending from Florida to California. Its strategy was successful, and Cemex's exports to the United States increased substantially at a time when the U.S. economy and the construction industry in particular were experiencing a downturn. To meet this competitive inroad, eight U.S. cement producers and two unions filed an antidumping petition alleging injury by Mexican imports.[5] In August 1990, the U.S. International Trade Commission (ITC) and the International Trade Administration (ITA) ruled that Mexican imports had materially injured the U.S. industry, and the Department of Commerce imposed a 58% duty on Cemex's imports. To address this challenge, Cemex developed a nonmarket strategy integrated with its market strategy both over time and across institutions.

The objectives of its integrated strategy were to maintain a presence in the U.S. market, reduce the duty, and eventually overturn the decisions of the U.S. agencies. The market components of its strategy included reducing imports by withdrawing from markets such as Florida where cement prices were low, and remaining in markets such as Arizona and California where prices were higher. In addition to the obvious market effects, this strategy had the effect of reducing the dumping margin. The dumping margin is based on the difference between the Mexican Net Mill Price and the U.S. Net Mill Price in the markets in which the imports are sold. Restricting sales to markets with high prices thus resulted in a lower difference in mill prices, which provided the basis for a lower duty. Its margin on sales thus was improved both directly because of the higher price and indirectly through a lower duty.

The mill prices used in calculating the antidumping duty are for identical or comparable products. The U.S. cement market is primarily bulk, whereas in Mexico 78% of sales are of bagged cement sold through retailers.[6] If bagged cement were the comparable product, the calculated duty would be higher because of the higher price at which bagged versus bulk cement is sold in Mexico. Cemex continued to sell bulk cement in Mexico, which remained the relevant reference product for the price comparison. Cemex then requested an administrative review of the dumping margin based on its revised market strategy of limiting exports to selected markets. The request was opposed by the U.S. petitioners, which alleged that Cemex maintained a fictitious market for bulk cement in Mexico. The Department of Commerce found for Cemex and reduced the duty to 30.74%.

Cemex also sought to overturn the U.S. ruling imposing the duty. Before the U.S. Court of International Trade (CIT) Cemex appealed both the ITC's determination that the U.S. industry had been injured by cement imports from Mexico and the ITA's imposition of a duty. The CIT rejected both appeals, and Cemex appealed the ITC ruling to the U.S. Court of Appeals only to lose again.[7] Mexico then petitioned the General Agreement on Trade and Tariffs (GATT) requesting that a 3-member panel be established to hear Cemex's complaint. The United States consented to the formation of the panel, and in 1992 the panel found for Mexico on the grounds that the petitioners did not sufficiently represent the U.S. industry.[8] A panel decision, however, is implemented only if all GATT signators concur, and the United States withheld its approval.

Toys 'R' Us and Globalization

By the early 1980s Toys 'R' Us had grown from a single store established in 1957 to the largest retailer of toys in the United States. Its market strategy was founded on three principles—price, selection, and stock—and was implemented by selling toys in large stores with an average of 18,000 items on hand and in locations with ample, adjacent parking. To overcome problems caused by seasonality, Toys 'R' Us worked to develop a year-round demand for toys. It supported this strategy with a worldwide supply system governed by a sophisticated control system operated centrally from its headquarters. The system not only controlled inventory, but was used to identify items that were hot sellers.

Although Toys 'R' Us had entered the Canadian and United Kingdom markets in 1984, its expansion beyond those markets was almost by chance.[9] It was approached by firms in Singapore and Hong Kong seeking franchises, but its policy of owning all its own stores led it to reject the requests. The firms persisted, and Toys 'R' Us decided to form joint ventures with them. The success of those ventures led to a globalization strategy.

Toys 'R' Us's globalization strategy was designed to take advantage of both its distinctive competencies and the characteristics of its market environment. The characteristics of its market environment used to determine which countries to enter were: high income; underdeveloped (year-round) demand; and inefficient (small-scale) local competitors. Its market strategy was thus to enter countries with a large population and high income and take advantage of market opportunities for high-volume, low-price, wide-selection retailing in an industry in which incumbent toy retailers were invariably small and had not developed demand for toys on a year-round basis.

The fact that local retailers were small meant that their competitive threat was limited. Their fragmentation, however, was a source of nonmarket strength, since political influence depends more on the number of constituents than on their wealth. In Japan, the Large-Scale Retail Store Law established an elaborate consultation process that in effect gave rights to local retailers to review, comment on, and oppose the construction of any large store.[10] The opposition faced by Toys 'R' Us in Japan was fierce and required an integrated strategy to cut through the complex and non-transparent Japanese procedures. Toys 'R' Us's strategy had two principal components. First, it formed a joint venture with McDonald's of Japan to provide expertise in finding store locations and in dealing with the Japanese regulatory system. Second, it sought to turn the Large-Scale Retail Store Law and its attempt to enter the Japanese market into an international trade issue that the U.S. government could address in its ongoing negotiations with Japan. The strategy was successful, and pressure from the United States resulted in revisions in the Law, making entry considerably easier. At the same time, the joint venture worked with local merchant councils to reduce the delays in the simplified consultation process. Toys 'R' Us opened its first store in Japan 1991.

In Germany, Toys 'R' Us did not face a federal law restricting large stores, but it faced local merchants who intervened in the permit process and also pressured German toy manufacturers not to sell to it. The German Toy Manufacturers Association also complained about self-service stores and Toys 'R' Us's policy of selling items such as diapers, baby food, and sporting goods in addition to toys. The first stage of Toys 'R' Us's strategy was to win approval for a single store in some town and then show that its substantial advertising would not drive incumbent retailers from the market, but instead would increase total demand and reduce seasonality. The company's German managing director worked city by city to overcome the opposition by local merchants. Once it had opened its first store and the local merchants found that its entry did not drive them out, opposition lessened and Toys 'R' Us was able to open 18 stores in Germany by 1991. German toy manufacturers began to supply Toys 'R' Us.

Market and Nonmarket Strategies

Porter launched the field of modern market, or competitive, strategy. The unit of analysis for competitive strategy is the firm, and the focus is on its performance in industries. The framework for understanding industries and strategy is based on the theory of modern industrial organization, which focuses on industry structure and dynamics, and on the distinctive characteristics of firms. Toys 'R' Us's market strategy is illustrated in Figure 3 and is based on a number of economies:

- economies of scale (store volume, distribution scale, direct supply bypassing local distribution systems),
- bargaining power over suppliers,
- economies of scope (diapers, baby food, clothing, books), and
- economies of partial backwards "integration" (through its supply system).[11]

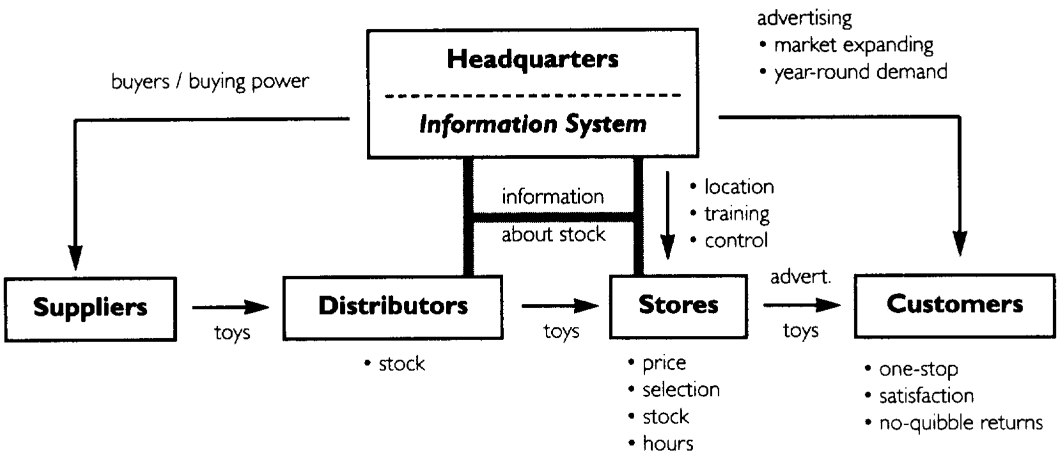
In addition, Toys 'R' Us exploited local market conditions—undeveloped demand and the inefficiencies of local competitors. The challenge was to incorporate new markets into this system by implementing a globalization strategy.

Porter identifies five market forces with which a firm must contend:

- rivalry among existing firms,
- threat of new entry,
- threat of substitute products or services,
- bargaining power of buyers, and
- bargaining power of suppliers.

From Porter's perspective the key to an effective strategy is defending against the five forces: "An effective competitive strategy takes offensive or defensive action in order to create a *defendable* position against the five competitive forces."[12] With respect to these forces and its globalization objectives, Toys 'R' Us did not face a global rival, no potential entrant was on the horizon, and there was little risk from substitutes. Its rivals are local merchants and some discount chains that carry toys, and those rivals employed both market and nonmarket strategies in trying to deal with Toys 'R' Us's entry. As a retailer Toys 'R' Us does not face significant bargaining power from customers, but some suppliers initially attempted to exercise power by refusing to sell to it. The bargaining power,

FIGURE 3. Toys 'R' Us—Business Strategy



Market strategy

generic: cost leadership
focus on toys and related items

strategy elements:
- low prices and high volume
- wide selection and stock on hand
- customer satisfaction
- develop year-round demand

Nonmarket Strategy

basic: enable and complement market strategy

strategy elements:
- take a market-opening position
- make LSRSL a trade issue
- gain public and media attention
- work with local governments
- consult with local merchants

however, typically rests with Toys 'R' Us, and the German electric train manufacturer that had refused to sell to it eventually became a supplier in part because Toys 'R' Us offered to sell the trains in its stores in other countries. In Japan, Toys 'R' Us had somewhat more difficulty because some Japanese toy manufacturers balked at selling directly to it and others, such as Nintendo, refused to sell at prices lower than those at which they sell to local toy retailers. Toys 'R' Us thus faced few threats from these market forces. Instead, its principal challenge was to deal with nonmarket forces.

Since many nonmarket issues arise from market activity, one approach is to view nonmarket strategies as complements to market strategies that in some cases can be used to address directly the five market forces Porter identifies.[14] The principal challenge to Toys 'R' Us in Japan was the political strength of local retailers as reflected in the Large-Scale Retail Store Law. This required a nonmarket strategy directed at the Japanese government and relying on the bargaining power of the U.S. government.

Nonmarket strategies can have the characteristics of a public good, in which case the incentive to take nonmarket action is diminished. The private incentive can still be sufficient, however, particularly when a firm has few close rivals. Toys 'R' Us's strategy of working toward a revision in Japan's Large-Scale Retail Store Law represented a public good to both domestic and foreign large-scale retailers, but since Toys 'R' Us faced only limited rivalry, the public goods dimension did not deter it from acting.

Nonmarket strategies not only can help realize competitive advantage as in the case of Toys 'R' Us, they can also help offset competitive disadvantage.[15] The Southern-Tier cement producers have a competitive disadvantage due to Cemex's modern facilities and lower wages, but they have been able to offset that disadvantage through an antidumping duty. Nonmarket actions thus can serve as an isolating mechanism, in this case for offsetting a competitive disadvantage.[16]

In some cases, nonmarket strategies can be used more broadly to structure the rules of market competition. Consequently, some nonmarket strategies are pursued by industries rather than by individual firms and hence do not provide a competitive advantage against industry rivals. Calgene benefited from its efforts to expedite the development of regulatory policies for agricultural biotechnology, but it also benefited the industry by accelerating the development of rules for product and market approval. The industry supported this development and worked in parallel with Calgene.

Defending Against Rivals

Nonmarket strategies can provide competitive advantage by defending against rivals. U.S. cement producers were able to file a successful antidumping petition against their new rival Cemex, but Cemex responded with an integrated strategy to reduce the duty and possibly overturn the antidumping petition. Calgene chose to file for FDA approval of its marker gene as a food additive in part because it believed that approval would be forthcoming quickly, since it had provided extensive test data over the previous several years. That filing also provided it with a potential competitive advantage because its rivals would now be required to file for food additive approval for their marker genes.

Threat of New Entry and Substitutes

Nonmarket strategies can be essential in creating market opportunities and defending against new entrants and substitutes. The antidumping petition filed against Cemex is a component of a strategy to deal with a threat from imports. Similarly, Japanese retailers took a variety of nonmarket actions to oppose the entry of Toys 'R' Us, ranging from pressuring the governing party not to revise the Large-Scale Retail Store Law to using the local consultation process to delay applications for new stores.

Calgene's FLAVR SAVR tomato is a substitute for conventional tomatoes and represents an entry threat to the industry. The industry, however, is composed of many relatively small producers and little opposition from the industry can be expected. Entry, however, can be opposed not only by market rivals, but also by nonmarket forces. Calgene faces opposition by anti-biotechnology activists, a group of chefs and restauranteurs who have pledged not to use bioengineered foods, and some environmental interest groups.

Bargaining Power of Suppliers and Buyers

Nonmarket strategies can also address threats arising from the bargaining power of suppliers and buyers. By expanding internationally Toys 'R' Us increased its sales volume, which increased its bargaining power with respect to suppliers. The power of buyers can in some instances be harnessed and directed against a firm, although seldom by a rival. Prominent examples of this are consumer boycotts of firms. Under pressure from activists and fearful of possible consumer opposition to bioengineered foods, Campbell Soup Company, which had funded the research on Calgene's tomato, announced it would not use genetically engineered tomatoes until there was broad public acceptance of such foods.

Integrating Market and Nonmarket Analysis

One approach to bringing nonmarket analysis into the strategy formulation process is to treat nonmarket strategies as instruments for addressing Porter's five forces. For example, strategies for addressing regulation regarding who may provide services, as in the case of telecommunications, could be incorporated into the analysis of the rivalry among existing firms, potential new entry, and the threat of substitutes. The drawback to this approach is that the institutions in which regulatory policies are decided are quite different from the institution of markets. For example, in the arenas of market institutions only those who transact play a role, whereas in nonmarket institutions many others are enfranchised to participate, as illustrated by the activist and interest groups opposed to genetically engineered plants and animals.

An alternate approach is to consider nonmarket factors as a sixth force to be defended against. This approach involves the assessment of threats such as those arising from government action, interest groups, activists, and public concerns such as those that lead to boycotts. Viewing nonmarket forces as a sixth force has considerable merit, but its weakness is the strength of the previous approach. Treating nonmarket issues as a sixth force does not sufficiently emphasize the interaction between the five forces and nonmarket issues. As indicated in Figure 1 managers are responsible for both market and nonmarket strategies, and nonmarket analysis should be integrated with the analysis of market forces. Another drawback to the approach of treating nonmarket forces separately is that nonmarket action can be, and often is, directed at creating or realizing market opportunities for firms. Nonmarket actions can focus on opportunities from lowering foreign trade barriers or further deregulating the telecommunications industry and thus moving to the right on the control dimension in Figure 2.

The most effective approach is to integrate nonmarket analysis and strategy formulation into the strategy process and focus both on specific nonmarket issues that affect the firm and on nonmarket action as complements to, or substitutes for, market actions. That is, both market and nonmarket strategies should be considered in addressing and defending against market forces and realizing market alternatives. In addition, some nonmarket issues that arise externally or in response to a firm's actions should be considered as a sixth force to be addressed by market and nonmarket strategies.

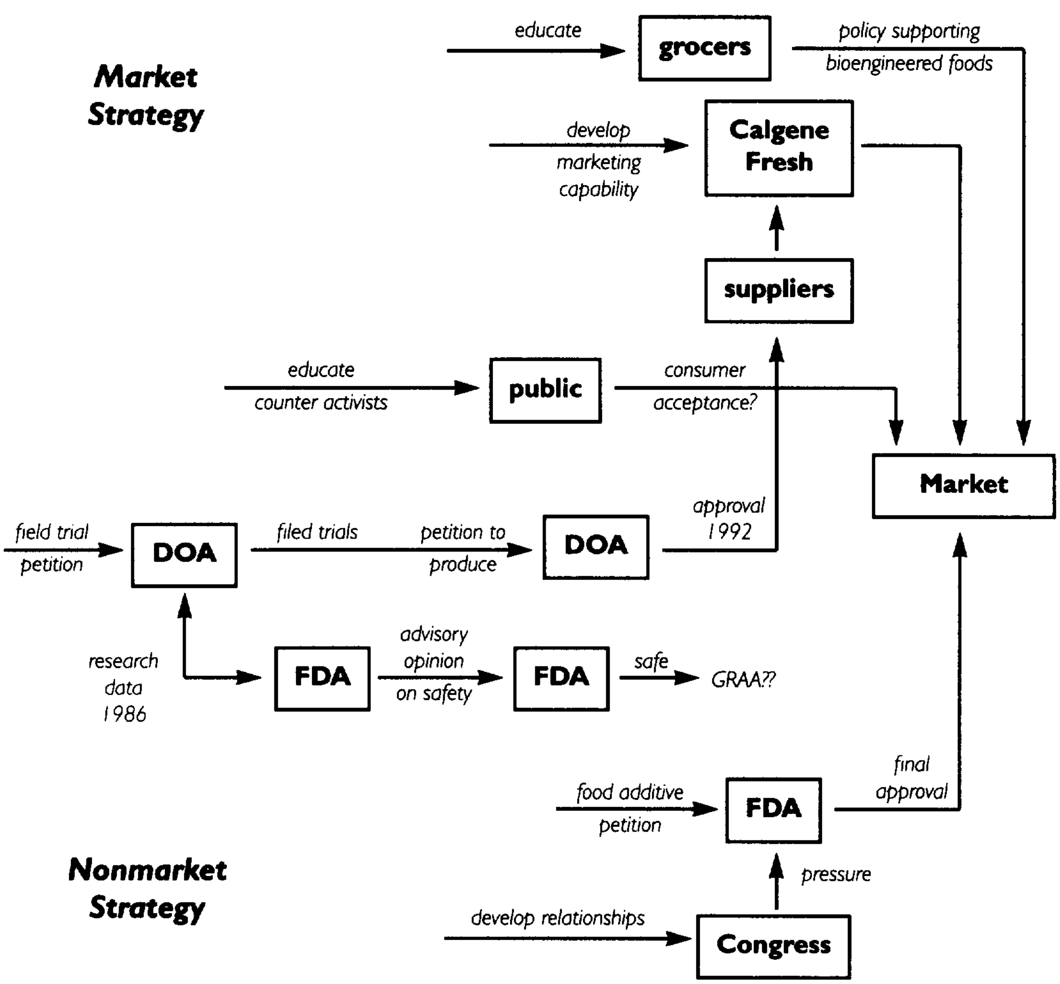
It is also important to view the nonmarket environment as endogenous rather than as exogenous. Competitive analysis and strategy formulation often take the nonmarket environment as given and analyze the competitive positions of the firms in an industry, the present threats from potential entrants and substitutes, and the power of suppliers and customers. When a firm looks forward, however, neither the market nor the nonmarket environments can be assumed to be static. Furthermore, those environments cannot be viewed as changing in some exogenous manner, since the actions and strategies of firms (existing firms, potential entrants, producers of substitutes, suppliers, and buyers) and other interested parties (interest, activist, and advocacy groups, political entrepreneurs, and stakeholders) can all employ nonmarket strategies to influence the market environment. In agricultural biotechnology, Calgene did not take the regulatory environment as exogenous but instead sought to facilitate the development of regulatory procedures. Toys 'R' Us did not take the regulatory environment in Japan as fixed but instead worked to change it.

Nonmarket issues have effects at two levels—the firm and the industry—and hence strategies for addressing them can be undertaken at both levels. Collective action by firms in their nonmarket environment is generally allowed by the law, so firms address many nonmarket issues through coalitions and industry associations. Calgene, for example, worked through the Industrial Biotechnology Association to provide support for agricultural biotechnology. Because of differences among the firms in an industry, however, the nonmarket strategies of most firms include individual actions as well. Those difference can result from market factors such as market shares, patent protections, locations of facilities, and brand names. Calgene's filing for food additive approval reflected a firm-specific strategy.

Integrating Market and Nonmarket Strategies

Figure 4 illustrates the integration of Calgene's market and nonmarket strategies. The nonmarket strategy depicted at the bottom of the figure focused on the product approval process involving several institutions, including the DOA, FDA, and Congress. The strategy included actions pertaining to the

FIGURE 4. Calgene's Integrated Strategy



deregulation of the tomato plant for production, an advisory opinion on its safety, and the petition for food additive approval for the marker gene.

Calgene's market strategy, depicted at the top of the figure, was integrated through timing with its nonmarket strategy and included the formation of a company, Calgene Fresh, to market the tomato and contract for its supply. It also involved developing a market by educating the public about genetically engineered foods and convincing grocers that the tomato, and the wide variety of foods already in the testing and approval processes, were safe and would be well received by consumers. The market strategy also required nonmarket strategies to deal with the actions of activists opposed to genetic engineering.

Cemex's market strategy for pursuing its growth objectives had two parts. First, it embarked on a domestic expansion program by acquiring the second and third largest cement producers in Mexico. Coupled with an aggressive capacity expansion and modernization program, this brought it over 60% of the Mexican market. Second, it decided to expand internationally, by exporting first to the United States market at a substantial scale and then to Japan. It also acquired two large cement producers in Spain, giving it a foothold in the European Community (E.C.).

As discussed above, Cemex had to develop a nonmarket strategy in response to the antidumping petition filed by its U.S. competitors. Its strategy was well integrated, and although it met with only modest success, there was little more that it could have done given U.S. trade law and administrative processes. The decisions to maintain a bulk cement market in Mexico and export only to markets with high prices were effective in reducing the dumping margin. Cemex's actions were also coordinated over time, using the available regulatory and judicial channels and ultimately filing the GATT petition not only for redress, but also for leverage in the United States. After Cemex had exhausted all avenues in its nonmarket environment, it altered its market strategy. It began exporting cement to the United States from Spain, and then it acquired a cement producer in Texas. Cemex's strategy was thus consistent in the sense that actions taken in the market environment were complementary to the actions taken in the nonmarket environment. Indeed, Cemex found synergy between the two.

The nonmarket components of Toys 'R' Us's strategy are to some extent tactical, since they involved actions required to allow its market strategy to progress. The nonmarket actions, however, were critical for entry into Japan and important for speeding entry in Germany, since markets were subject to government regulation and pressure from interest groups. Toys 'R' Us's nonmarket strategy thus was a necessary component of its business strategy and was well integrated with its market strategy.

Nonmarket Assets and Distinctive Competencies

Just as firms create value by developing and deploying market assets, they employ nonmarket assets to add value. Nonmarket assets take a number of forms. They include expertise and competency in dealing with nonmarket forces, government, the media, interest and activist groups, and the public. They include a reputation for responsible behavior earned with consumers, government, stakeholders, and the public.

To the extent that its nonmarket assets and competencies are unique or difficult to replicate, a firm has a nonmarket advantage. For a nonmarket advantage to be sustainable, it must be costly for other firms to replicate the assets and competencies that give rise to that advantage. The advantage provided by a nonmarket asset can not only be dissipated through replication by rivals, but it can also be damaged by activists and other interest groups. Calgene's relationships with elected officeholders and the staff of regulatory agencies constitute a nonmarket asset that is sustainable but challenged by the activist groups opposed to agricultural biotechnology. In addition, other firms could replicate those relationships, although only at some cost. A nonmarket asset can also provide market or competitive advantages. Calgene's knowledge of the U.S. regulatory process for agricultural biotechnology has led firms, particularly those from other countries, to approach Calgene as a joint venture partner. Access to legislators is an important nonmarket asset, and many firms develop personal relationships between their executives and members of Congress and state legislatures. A firm that has developed and cultivated such relationships has an important nonmarket asset. Calgene, for example, called on its friends in Congress to speed the final administrative stages of the FDA approval process.

The value of a nonmarket competency also depends on the competencies of the firm's allies, and of its competitors, in dealing with nonmarket issues. On many nonmarket issues, a firm's market competitors may be its nonmarket allies. In the market environment, firms are prohibited by antitrust laws from joining together to implement market strategies, unless the vehicle for doing so is a joint venture or other formal alliance allowed by specific antitrust exemptions. In the nonmarket environment, the law (the Noerr-Pennington doctrine) generally allows firms to join together to formulate and implement nonmarket strategies. Many nonmarket issues affect members of an industry in a similar manner, and hence industry members frequently work through a trade association or an ad hoc coalition to implement nonmarket strategies. In addition, firms can economize on nonmarket assets by joining together. U.S. cement producers thus can jointly file an antidumping petition, which both adds weight to the petition and reduces the legal costs for each participating firm. In addition, they can jointly undertake political action to seek protection through trade policy.

At any instant in time, these distinctive competencies and firm-specific nonmarket assets are fixed, but over time they can be developed (or lost). Firms can configure their competencies in a variety of manners. Certain competencies can either be maintained internally or contracted for externally. Firms can hire outside legal counsel, public affairs experts, lobbyists, and other political advisors. Rather than developing relationships with and access to legislators, a firm can hire a Washington lobbyist to represent its interests and can choose the lobbyist based on his or her set of established relationships. Similarly, a firm may be able to obtain access through campaign contributions by its PAC.

The principal nonmarket capability that cannot be replicated is the knowledge, expertise, and skill of managers in addressing nonmarket issues. Even if a Washington lobbying firm is hired, members of Congress are more interested in speaking with the company's CEO and local plant managers than with its lobbyist. The better the CEO and other managers understand the issues, interests, and institutions of the nonmarket environment, the more effective they will be.

The reputation of a firm for addressing nonmarket issues in a responsible manner is also an important nonmarket asset. Calgene worked to earn a reputation for voluntarily providing all its scientific information on its products to the relevant regulatory agencies. It also worked to develop personal relationships between its managers and scientists and the leadership and staff of the regulatory agencies. Calgene's CEO interacts with agency heads, the head of regulatory affairs interacts with the regulatory staff, and its scientists interact with their counterparts in the agencies. Calgene has also worked to build a reputation for accessibility to the media, which provides it with opportunities to present its perspective on agricultural biotechnology policy and issues.

The reputation of the firm with the public is also an important nonmarket asset. Reputations are established, or destroyed, by actions. Many firms invest in their public reputations just as they invest in their market reputations for service or quality. A reputation can be durable if sustained by actions consistent with it, but reputations can be fragile and can easily be lost by careless actions. A tarnished reputation is difficult to rebuild as Nestlé, Exxon, and Drexel, Burnham, Lambert have learned.

Strategies and Borders

Bartlett and Ghoshal characterize market strategies as multidomestic, international, and global. A global market strategy is one in which "products and strategies are developed to exploit an integrated unitary world market."[17] Global market strategies may focus on achieving cost advantages through global-scale operations, as exemplified by Honda's early strategy of selling the same motorcycles in all countries in which it chose to market. In the nonmarket environment, examples of global strategies are:

- supporting and working for free trade in every country,
- building constructive working relationships with the governments of the countries in which the firm operates,
- applying universal ethical principles in all its operations, and
- implementing environmental policies in which the same abatement standards are maintained in every country.

Bartlett and Ghoshal define an international strategy as centering on transferring the parent's expertise to foreign markets. International strategies are thus specific applications of policy and expertise in other countries. Toys 'R' Us transferred its market expertise by applying the principles of wide selection, high volume, low prices, and customer satisfaction to markets outside the United States. Cemex applied its market expertise in entering both the U.S. and the E.C. markets.

A comprehensive global or international nonmarket strategy seems unlikely to be successful, however, because strategies must take into account the institutions in whose context nonmarket issues are addressed, the configuration of interests in a country, and other country-specific factors. Many nonmarket issues have a strong domestic orientation and are more likely than market strategies to require multidomestic strategies. The successful implementation of a multidomestic strategy involves issue-specific action plans that are tailored to the configuration of institutions and interests in individual countries. Nonmarket strategies are more likely than market strategies to be multidomestic when institutions and the interests differ across countries.

Toys 'R' Us formulated a multidomestic nonmarket strategy tailored to the market and nonmarket characteristics of each country. The market component focused on characteristics of local demand and supply and in many cases required developing relationships with local toy manufacturers who were concerned about jeopardizing their present customers and channels of distribution. The nonmarket component focused on dealing with local zoning ordinances and with local retailers who exerted influence in the application of those rules. In Japan, this required nonmarket action in the United States to make the Large-Scale Retail Store Law an international trade issue. In Germany, it required dealing with municipal governments as well as with the opposition of local merchants.

Multidomestic nonmarket issues include antitrust policies, liability rules, safety regulation, intellectual property rights, and environmental regulations. Although there are common principles (such as lobbying as information provision) that underlie the strategies used to address such issues, differences in the institutions can require country-specific or, more appropriately, institution-specific strategies. For example, lobbying must be tailored to the specific institutions and political structure of a country. In the United States, lobbying focuses on the Congress and its committees. In Japan, lobbying focuses more on the bureaucracy and political parties and their leaders. In the European Community, lobbying focuses on the Commission and the Directorate Generals as well as on national institutions as a means of influencing the Council of Ministers. In Germany, lobbying occurs through peak associations and their chambers as well as directly between individual firms and government bodies. Strategies may also involve multidomestic coordination of the activities in various countries, as when Toys 'R' Us coordinates its entry and expansion strategies across countries.

Conclusions

A business strategy must be congruent with the capabilities of a firm and the characteristics of its environment—both the market component and the nonmarket component. Just as the environment has two components, a business strategy has both market, or competitive, and nonmarket components. The principal focus of the strategy formulation process is on the market environment and competitive strategy, but for many firms the nonmarket component can be just as crucial. This is especially the case when the opportunities of a firm are controlled by government or challenged by public pressure. When the nonmarket environment is important to the success of a competitive strategy, nonmarket strategies must not only be formulated and implemented effectively, but they must also be integrated with market strategies. Nonmarket strategies can be directed at competitive forces or at realizing opportunities blocked by the nonmarket environment. Since these strategies depend on the issues, interests, institutions, and information that characterize the nonmarket environment for a country, they are more likely to be multidomestic than global.

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3. Institutional officeholders are best viewed as a part of their institution rather than as interests, even though they may have personal policy preferences.
4. Since the FDA had already declared the tomato to be no different than a regular tomato, Calgene's alternative was to declare it as GRAS (Generally Regarded As Safe) and market it.
5. Cemex might have recognized that it was vulnerable to an antidumping petition, since in 1986 U.S. producers had filed an antidumping petition against cement producers in eight countries including Mexico. That petition had been rejected because the International Trade Commission found that the U.S. economy was growing and concluded that the industry had not been materially injured. When the U.S. economy faltered and the construction industry in the Southern tier states contracted, Cemex's U.S. penetration strategy was vulnerable.
6. Cemex brand bagged cement is sold through 4,500 exclusive dealers.
7. While the antidumping petition was being decided and appealed, Cemex also conducted limited lobbying activities to make certain that legislators, particularly those in states in which it had operations, understood Cemex's position on the antidumping issue. More extensive lobbying was not worthwhile because the issue was under the institutional jurisdiction of administrative agencies and the judiciary.
8. The petitioners represented approximately 61% of the industry in the Southern tier states.

9. The company decided to enter those markets because they were similar to the U.S. market, and volume retailing seemed to work there.
10. This opposition sometimes forced Japanese retailers to wait up to ten years for approval to open a store. More often, however, the retailer would either drop its plans to enter or negotiate an arrangement with the local merchants.
11. Toys 'R' Us does not design or manufacture toys, so it is not vertically integrated beyond its supply system.
12. Porter (1980), op. cit., p. 29.
13. Porter (1985), op. cit., p. 25.
14. Gale and Buchholz also discuss the relationship between political strategies and Porter's five forces. Jeffrey Gale and Rogene A. Buchhholz, "The Political Pursuit of Competitive Advantage: What Business Can Gain from Government," in Marcus, Kaufman, and Beam, op. cit., pp. 31-42. Yoffie characterizes strategies in terms of the style of approach to political issues. David B. Yoffie, "Corporate Strategies for Political Action," in Marcus, Kaufman, and Beam, op. cit., pp. 43-60.
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47 **Integrated Strategy: Market and Nonmarket Components**

David P. Baron

A business strategy must be congruent with the capabilities of a firm as well as both its market and nonmarket environments. The market environment includes those interactions between the firm and other parties that are intermediated by markets or private agreements. The nonmarket environment includes those interactions that are intermediated by public institutions. A business strategy must integrate both market and nonmarket components.

66 **The Family and Medical Leave Act of 1993: How Fully Is Business Complying?**

Andrew E. Scharlach, Stephanie L. Sansom, and Janice Stanger

This article examines compliance with the federal Family and Medical Leave Act (FMLA), based on a survey of primarily California employers conducted three months after the implementation of the FMLA and nearly two years after passage of similar California legislation. Survey results reveal that 40% of respondents were out of compliance with at least one of the four basic provisions of the FMLA: availability of at least 12 weeks of unpaid leave a year for all eligible employees with personal or family illness or a new child; continuation of health benefits while on leave; restoration to the same or equivalent job; and notification of employees regarding their rights under the FMLA. Firms with fewer employees generally were least likely to be in compliance and had implemented fewer policy components related to the law's implementation.

80 **Building a Visionary Company**

James C. Collins and Jerry I. Porras

What distinguishes visionary companies? How can they be created? Contrary to much conventional wisdom, visionary companies do not require a high-profile, charismatic leader. Nor are they dependent on a great idea or fabulous initial product. Rather a visionary company is best understood as a particular kind of organization—one which builds in a unique and distinctive vision that is capable of enduring changes in leadership as well as market conditions. In short, building a visionary company is like building a clock, rather than simply telling time.