
A Study on 'Non-Market Strategy': Competitive Advantage for Firms and Indirect Benefits from Government and Interest Groups.

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1. Abstract:

International Management, the new and rapidly changing field, is reshaping the business environment among countries. Hence, the scope of international management has augmented in recent years in developed and developing countries. International Management not only helps firms in creating their global presence but also leverages economies all over the world.

Today, international firms or multinational corporations are able to setup their marketing offices or manufacturing subsidiaries in multiple countries to capture the domestic demands with local expertise in favourable business conditions. To perform this efficiently, firms are required to follow rules in every market in which they choose to operate because international management is driven from national business environments. Nevertheless, firms find issues related to market and non-market in fast changing business environment including government and non-government factors. The best way to deal with these issues is by highlighting how the non-market environment differs from markets and how firms get monetary benefits out of it. Usually markets issues are straight to the point, precise, uniform and predictable cause-and-effect relationships. Whereas non-markets issues are less predictable and less uniform as operational and legal processes are vary across the countries and sectors.

Hence, research in International Management, more specifically in non-market, is required to harmonize the interactions and relations of firms with various government and non-government bodies. In line with this, the present research paper is prepared which will tackle issues of firms in non-market area. The outline of the research paper will be under three main themes. Firstly, it provides an overview of international management and its impact on firms and various government bodies from non-market perspective. Secondly, theoretical relevance of non-market is depicted along with its connected factors such as government and business relations, importance of regulations and interest groups, non-governmental organizations (NGOs) etc. Thirdly, it explains how non-market approach is conceptually different from CSR activities. This research paper explains the importance of non-market strategy and its benefits.

Keywords: *Non-Market Strategy, Impact on Firms, Organisational Growth, Interest Groups, Business-Government Collaboration.*

2. Introduction:

The major intention of this research paper is to find out an integrated non-market approach for firms. From the economic context, firms play an important role in any economy in which they choose to operate. Therefore, firms should engage dynamically with non-market factors such as government and non-government bodies. The specific objective of this paper would be increasing firm's overall performance as well as benefitting government in economic, social and environmental terms. Since no

holistic model of non-market is accepted under rapidly changing business environment, the present paper provides base to develop a new approach which will be a competitive advantage for firms.

3. Theoretical Background:

In 1990s, the globalization emerged as a progressive era in developed and developing countries. The trade barriers were reduced to catch the attention of Foreign Direct Investments (FDI) from international corporations in mutual interest of development of economies. After two decades, the scenario changed, multinational corporations became bigger and powerful and since then international management became a main concern not only to business firms and their managers, but also to the governments and other institutions (Boddewyn, Toyne & Martínez, 2004). Many researchers forecast that globalization will continue to benefit multinational corporations which will also reinforce overall growth of the economies. Over the period, export and import duties will be reduced with emerging worldwide accounting standards and business practices that encourage more competition which will become even more widespread (McFarlin, S.B., Sweeney, P.D. 2011).

In 21st century, the firms operate in market and non-market environment. Both are different from each other. The market environment consists mainly of suppliers, customers, and competitors while non-market environment functions with social, political, legal, and cultural arrangements. The hunger for revenues and profits remains dominant among firm which should be complemented with ethical behaviour, policy attainment, and social responsibility. Hence firms have to balance both sides of the coin.

3.1 Review of Literature:

The non-market topic is relatively young for the researchers. The most significant explanation of non-market was given by Baron (1995) as, "social, political, and legal arrangements that structure the firm's interactions outside of, and in conjunction with, markets". According to some researches, firms do engage in political activities (Schuler, Rehbein, & Cramer, 2002) and that these activities improve firm's economic performance (Bonardi, Holburn & Vanden Bergh, 2006; Shaffer, Quasney, & Grimm, 2000). Therefore, non-market forces can affect economic and political as well as social performance (Baron, 1995). Connecting with this, there has been an increasing trend in government's influence on firm's activities and outcomes (Lenway & Rehbein, 1991).

Besides, firms are also capable to influence actors in the public (Oliver & Holzinger, 2008) while making public policies. Some specific terms related to non-market are emerged from these theories such as lobbying, campaign financing, advocacy advertising, constituency building and coalition formation (e.g., Bonardi et al., 2005, Hillmann & Hitt, 1999, Hillmann et al., 2004). In addition, Porter (1990) also acknowledged the role of government, especially in stimulating development of firms to help them become nationally and then globally competitive.

3.2 Non-Market Factors:



Non-market factors come into existence right from the inception of any firm. These factors—Government, Regulators, Interest Groups, Society, Media, and NGOs—function outside of markets but some of them often work together. According to traditional literatures, non-market factors set basis for interactions among firms and their public. There is nothing new in these literatures. In fact, Charles Lindblom mentioned these arrangements in *Politics and Markets* (1977) over a century ago.

In today's world, when firms compete against each other in highly competitive global market, they are widely impacted by treaties, regulations, legislation, litigation, the media and a varied and speedily increasing population of non-governmental organizations (NGOs). This makes very clear that the scope of non-market factors has increased in recent years. Supporting this, many researchers have concluded that non-market factors create major impact on firm's performance. Hence, some factors need high level attention same as market factors.

Government / Regulators: Firms typically operate in a country specific system where economic exchange takes place. This system is majorly controlled by government, public institutions and regulators. Nowadays, firms interact with these factors frequently and create opportunities to benefit each other (Baron, 2006).

Interest groups: These groups are formed for various causes and one of them is business. That's why professional and trade associations are formed to promote and create advantages to business and firms. Some interest groups work for both business and government that help in policy making.

Non-governmental Organizations (NGOs): NGOs engage in various activities for societal benefit as per their sense of national and international priorities. They have different kind of relationships with businesses. Some NGOs are very close and others are with mixed attitudes. Successful firms are required to participate with critical NGOs and support them through grants, partnership, and other means.

Media: Globalization has changed the way business operates. Media creates opportunities for business to reach out the community and their stakeholders. With this, firms not only communicate their goods and services but also their responsibility towards the people.

Firms use broader dimensions towards **citizens** and **activists** by following ethical principles and concepts of sustainability.

3.3 Non-market approach and CSR:

There is a fine line between non-market approach and CSR. In general, CSR is a widely accepted term among business world to promote role of business in society (Kotler and Lee 2005), whereas non-market approach proposes same vision but in economic context and more specific to economic welfare, economic reforms, and sustainable development. In CSR, firms are expected to give inputs towards societal development so that there could be improvement in people development, ethical standards, environment etc. While in non-market approach, firms need to support the economic model in which they operate. Underlining this importance, firms should collaborate with government and non-government organization to identify key economic issues and participate at micro level to create a better world to live in.

3.4 Global Perspective of Non-Market:

In one of the studies done by McKinsey, researchers have found that only 13% of large corporations engage non-market specialist to manage socio political issues even though 30% believe doing so would be very effective. Furthermore, it is quite challenging to work with non-governmental organizations (NGOs), public bodies, and even formal competitors on non-market issues, but the benefits are often considerable. With the growing importance of non-market in international arena, firms need to consider factors of national, regional and global environment. Various associations are formed in this context to increase trade, international relations, and other multilateral agreements. Few examples are Asia-Pacific Economic Cooperation (APEC), United Nations (UN), Association of Southeast Asian Nations (ASEAN), European Union (EU), and etc. In case of EU formation, many firms were forced to merge within Europe to develop a true single market that changed to look at non-market approach and enabled firms to develop a lobbying apparatus for policymaking applicable across Europe. Similarly in the Asia Pacific, APEC and ASEAN have influenced many firms.

3.5 Indian Perspective of Non-Market Strategy:

After launching Swachh Bharat Abhiyan by Government of India, companies like TCS, Bharti, Vedanta and L&T announced to construct toilets across the country to strengthen government's campaign. The companies could have done these initiatives even before also as a part of CSR. But, indirect reason depict that they want to aid the government's campaign to harmonize the relations for long term mutual benefits. A similar drive was done by Dettol India to promote hand washing in rural areas as a support for government's campaign; Dettol will surely get indirect benefit through positive brand building and increased sales figure of hand wash.

India is a price sensitive market for cars. Hence, major automobile manufacturers such as Maruti Suzuki, Hyundai, Tata, Volkswagen and Ford have changed their way of operating; they produce sub-4 meter cars like Maruti Swift Dzire, Honda Amaze etc. The main reason is not to reduce the size of the vehicle but to get the tax benefits from the government so that cars can be more affordable. The same logic applies for downgrading the engine capacity from 1.6-litre engine to 1.5-litre engine, once again to get cost benefit.

4. Research Gap

Non-market approach and its factors are widely discussed in above preliminary literature review. Following gaps are observed for further research:

- Some factors of non-market are overlooked in most of the firms such as government-business partnership in economic development and collaboration with interest groups and NGOs.
- Benefits generated from non-market factors can be competitive advantage for firms which could also improve financial performance and competition among other firms.
- Problems of non-market factors to be addresses at national, regional and global levels.
- There is an increase in influence of stakeholders (related to non-market) over firms because of recent trends of globalization.
- Most of the theories of non-market are based on stable systems of business and government particularly followed in developed countries.

With mentioned gaps, this research surely clarifies the role of non-market approach in the economic context.

5. Objectives of the Study:

1. To find out the non-market factors those influence the firms.
2. To know the views of decision makers ('C' level executives) and influencers about non-market strategy.
3. To study the impact of non-market factors on Indian based and international firms.

6. Research Methodology:

Sr. No.	Particulars	Details
1	Type of Data	Primary Data.
2	Population	Industries in Automotive, Consulting, Education, Event Management Firms, Engineering Services, Finance, Intellectual Property Agency, IT/Software, Manufacturing, PR & Media, Service/Hospitality and Transportation
3	Sampling Area	India, Thailand, France, Germany, US
4	Nature of Source of Data	Quantitative
5	Sampling Methodology	Convenience Sampling
6	Sample Size	30 (Decision Makers and Influencers of the company)
7	Nature of Data Collection Instrument	Non – disguised structured Questionnaire
8	Types of Questions	Closed ended
9	Structure of Questionnaire	Questionnaire is divided into two parts
10	Section I of Questionnaire (includes)	Respondents' designation and industries that they are working with
11	Section II of Questionnaire (includes)	Questions regarding non-market factors that influencing the organization and other relevant questions
12	Data Collection Methodology	Questionnaire and Personal Interview and discussions with decision makers and 'C' level employees in the organization about non-market strategy

7. Limitations of the Study:

1. The sample size was limited and restricted to 30 only because it was difficult to get the data from senior level employees of companies.
2. The geographical area of the survey is mostly India but some senior executives from Thailand, France, Germany and US have also responded.
3. The study is conducted across industries - Automotive, Consulting, Education, Event Management Firms, Engineering Services, Finance, Intellectual Property Agency, IT/Software, Manufacturing, PR & Media, Service/Hospitality and Transportation in India.

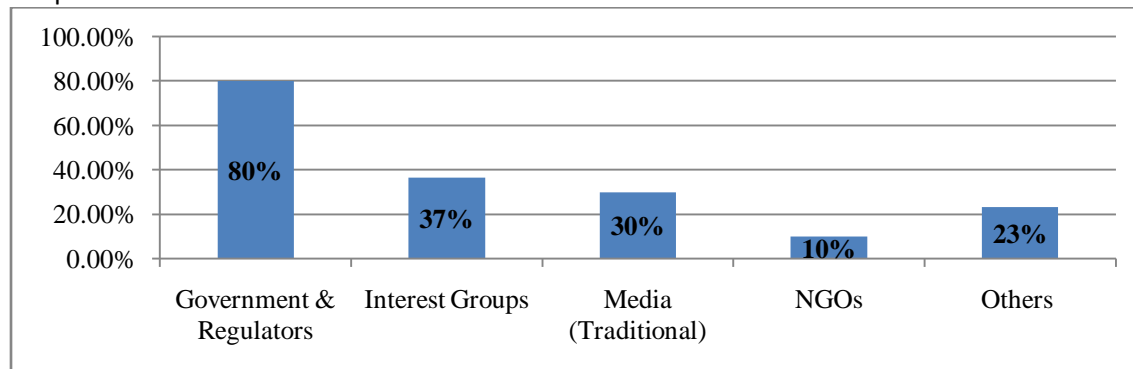
8. Data Analysis and Interpretation:**8.1) Non-market factors influencing the organization:**

Table No: 1

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Government & Regulators	24	80.00 %
Interest Groups	11	36.67 %
Media (Traditional)	09	30.00 %
NGOs	03	10.00 %
Others	07	23.33 %

Graph No. 1

**Interpretation:**

Graph No.1 revealed that 80% of the respondents agreed on Government & Regulators followed by Interest Groups influencing the organization.

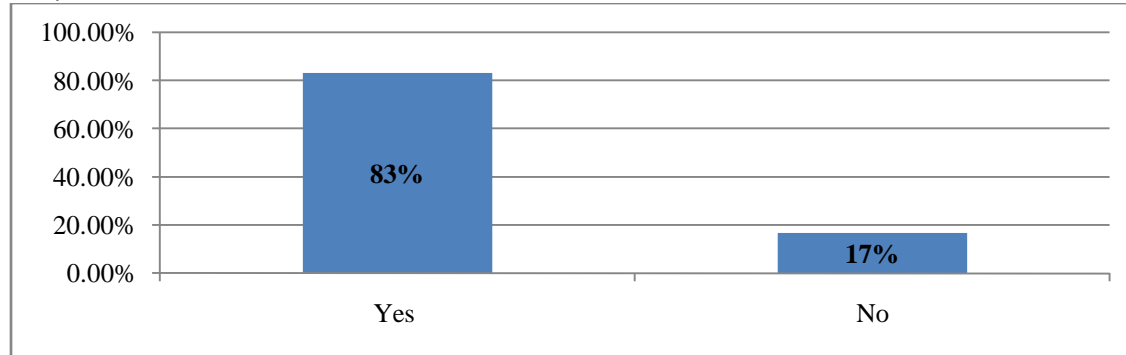
8.2) Factors of non-market are capable in influencing the overall market:

Table No: 2

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Yes	25	83.33 %
No	05	16.67 %

Graph No. 2

**Interpretation:**

Graph No. 2 shows that Factors of non-market are capable in influencing the overall market where as 16.67% of the respondents are disagree.

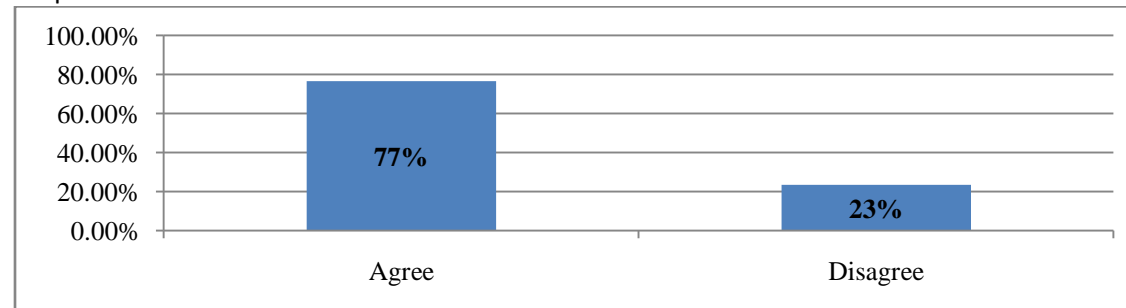
8.3) Political issues can be minimized if there is a harmony between business and non-market factors:

Table No: 3

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Agree	23	76.67 %
Disagree	07	23.33 %

Graph No. 3

**Interpretation:**

Graph No.3 revealed that 76.67 % of the respondents are agreed on Political issues can be minimized if there is a harmony between business and non-market factors.

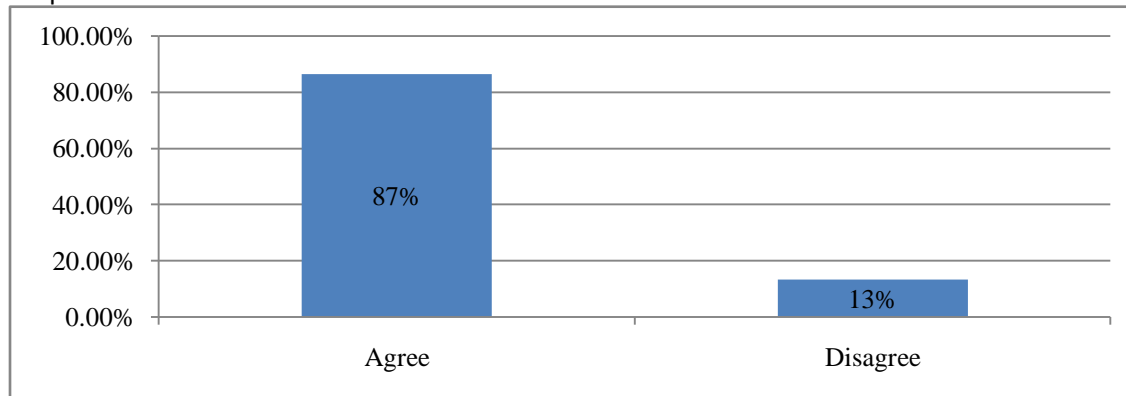
8.4) Relationship with government and interests groups can favour businesses through policy making:

Table No: 4

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Agree	26	86.67 %
Disagree	04	13.33 %

Graph No. 4

**Interpretation:**

Graph No. 4 highlights that 86.67 % of the respondents are agreed on Relationship with government and interests groups can favour businesses through policy making where as 13 % of the respondents disagree with the same.

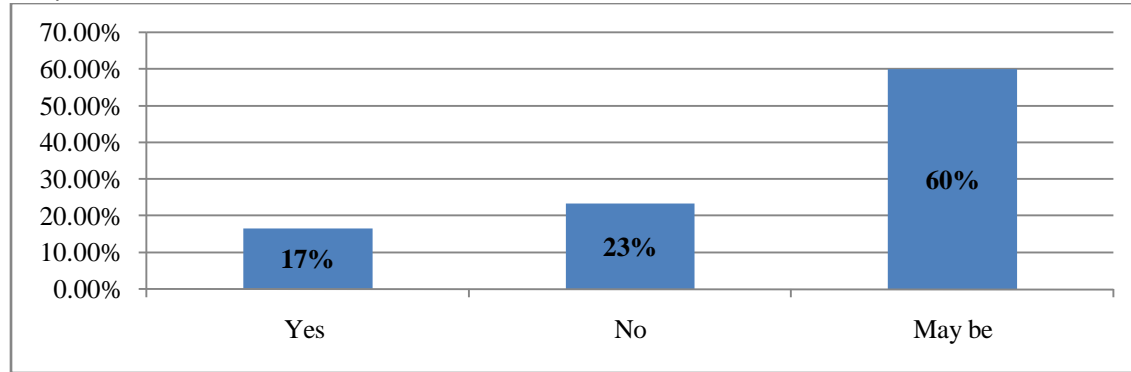
8.5) If an organization focus on non-market factors, will it improve its financial performance?

Table No: 5

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Yes	05	16.67 %
No	07	23.33 %
May be	18	60.00 %

Graph No. 5

**Interpretation:**

Graph No. 5 depicts that only 16.67% of the respondents are agreed that if an organization focus on non-market factors, it will improve its financial performance where as 60 % of the respondents are not sure about this strategy.

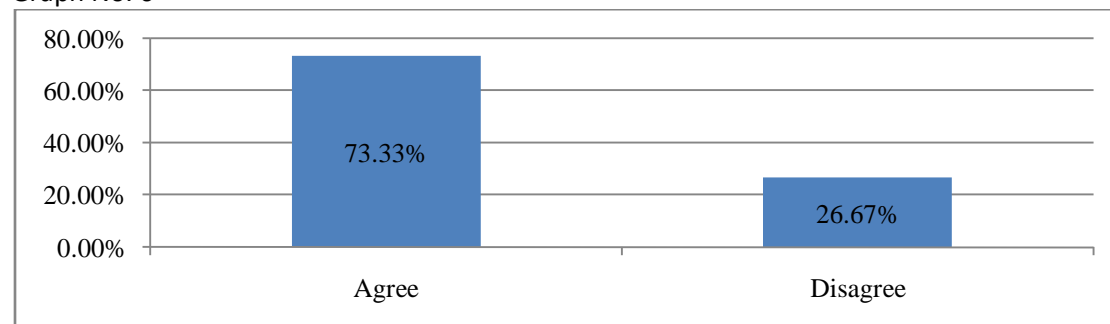
8.6) Non-market strategy creates a competitive advantage for any organization:

Table No: 6

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Agree	22	73.33 %
Disagree	08	26.67 %

Graph No. 6

**Interpretation-**

Graph No.6 has revealed that 73 % of the respondents are agreed with the Non-market strategy creates a competitive advantage for any organization.

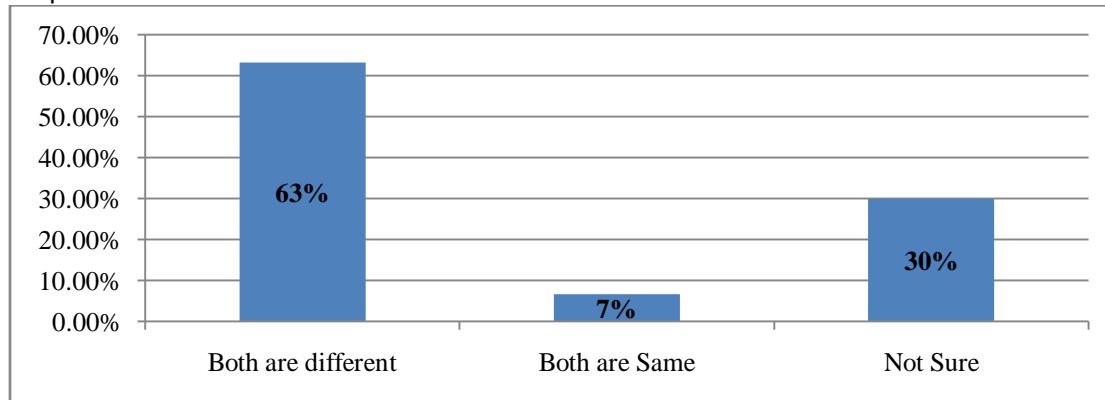
8.7) Difference between non-market strategy and corporate social responsibility:

Table No: 7

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Both are different	19	63.33 %
Both are Same	02	06.67 %
Not Sure	09	30.00 %

Graph No. 7

**Interpretation:**

Graph No.7 shows that only 6.67 % of the respondents are agreed on non-market strategy and corporate social responsibility are same where as 30 % of the respondents are not sure.

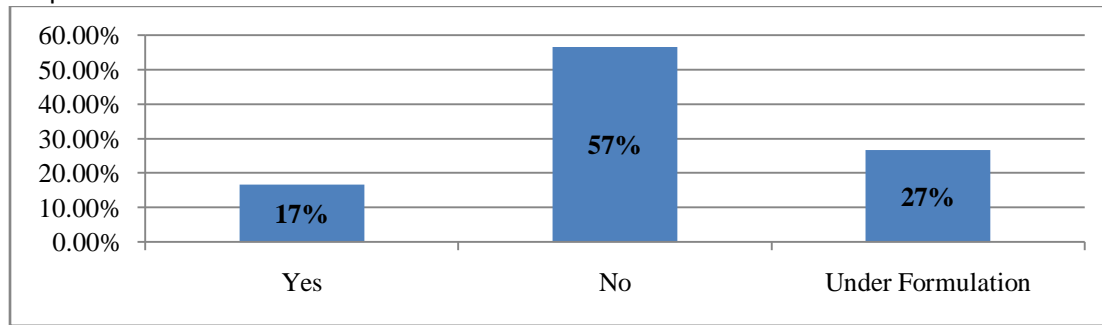
8.8) Organization has a non-market strategy:

Table No: 8

Total Responses: 30

Answer Choices	No. of Responses	Percentage
Yes	05	16.66 %
No	17	56.67 %
Under Formulation	08	26.67 %

Graph No. 8

**Interpretation:**

As per Graph No. 8, only 16.66 % of the respondents clearly mentioned that their Organization has a non-market strategy and 26.67 % of the respondents said that their organization is working on the same presently.

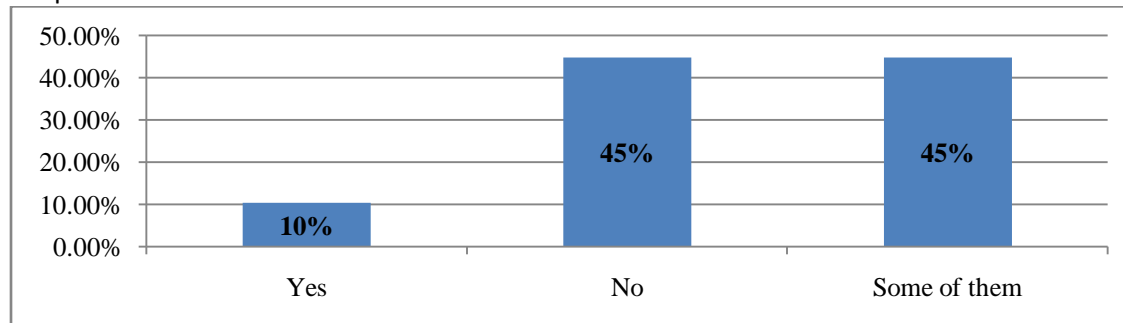
8.9) C-Level Executives or Decision Makers in the organization trained in leading non-market strategy:

Table No: 9

Total Responses: 29

Answer Choices	No. of Responses	Percentage
Yes	03	10.34 %
No	13	44.83 %
Some of them	13	44.83 %

Graph No. 9

**Interpretation:**

Graph No. 9 depicts that only 10 % of the organizations are providing training to their C-Level Executives or Decision Makers in the organization for formulation and implementation of non-market strategy

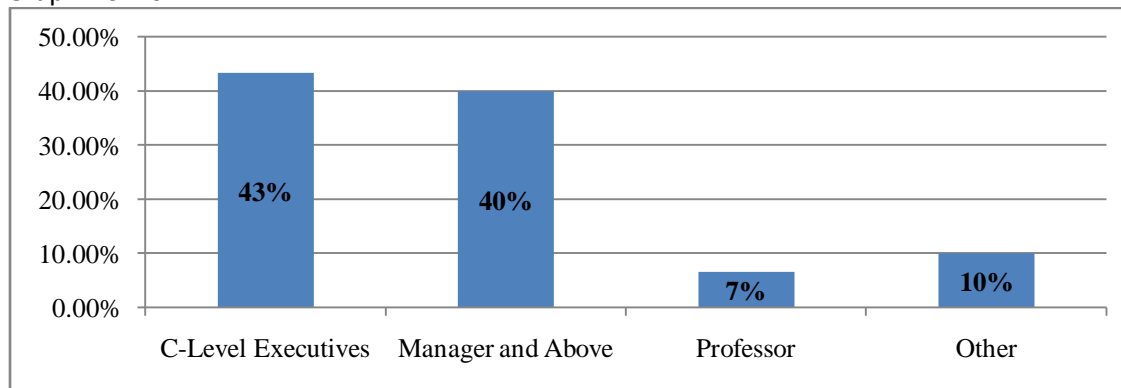
8.10) Seniority Level of the Respondents:

Table No: 10

Total Responses: 30

Answer Choices	No. of Responses	Percentage
C-Level Executives	13	43.33 %
Manager and Above	12	40.00 %
Professor	02	06.67 %
Other	03	10.00 %

Graph No. 10

**Interpretation:**

The data from table no.10 has revealed the Seniority Level of the Respondents.13 C-Level Executives followed by 12 Managers and above level employees responded to the questionnaire of research survey on non-market strategy.

9. Findings:

- 80% of the respondents agreed on Government & Regulators followed by 37 % Interest Groups influencing the organization.
- 83% of the respondents are agreed on factors of non-market are capable in influencing the overall market where as 17% of the respondents are disagreed.
- Only 23% of the respondents are not agreed that political issues can be minimized if there is a harmony between business and non-market factors.
- 87 % of the respondents are agreed on relationship with government and interests groups can favour businesses through policy making.
- Response on improvement of financial performance is still ambiguous. Only 17 % of respondents are agreed while 60% re not even sure.
- 27% of the respondents are not agreed that the non-market strategy creates a competitive advantage for any organization.
- 63% of the respondents are agreed on difference between non-market strategy and corporate social responsibility where as 30% of the respondents are not sure.
- 57% of the respondents clearly mentioned that their organization doesn't have non-market strategy. About 27% still believes about the existence of the strategy.

9. Only 10% of the organizations are providing training to their C-Level executives or decision makers for formulation and implementation of non-market strategy.
10. 43% of the respondents are C-level executives followed by 40% Managers and remaining others.
11. From the examples, we can correlate that many Indian companies like TCS, Bharti, Vedanta, Dettol, Tata and L&T are following non-market strategy but as CSR. The efforts are also seen in some international automobile manufacturers.

10. Conclusions:

After the study of Global and Indian Perspective of Non-Market Strategy it can be conclude that–

1. Non-market factors that influence firms are mainly Government & Regulators, Interest Groups and Media.
2. Most of the decision makers (C-level executives) and influencers of various organizations are aware about the importance of non-market strategy and some of them have already started working on it.
3. Many Indian companies are conscious about non-market strategy and have started working in collaboration with Government, Regulators and Interest Groups in line with multinational companies.

11. Suggestions:

1. Structured and sorted non-market strategy for firms in fast changing multi-environment should be in place formally.
2. For effective and efficient implementation of non-market strategy, firms should enhance the capacity of managers, strategists, trade advisors and policy-makers.
3. Non-market approach benefits to the government in economic, social and environmental terms. Therefore, government should consider the efforts of the firms and offer them necessary support wherever possible.
4. As non-market strategy helps to overcome the challenges of international management, firms should link the same to business and government policies.
5. Considering the significance of non-market approach, firms should develop a sustainable model of non-market strategy in rapidly changing business environment according to their nature and type of business to stand confidently in the market.

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