PART I: STRATEGY AND THE NONMARKET ENVIRONMENT 1

CHAPTER 1 Market and Nonmarket Environments 1
Introduction 1
The Environment of Business 2
The Role of Management 3
Market and Nonmarket Environments 4
Analysis of the Nonmarket Environment: The Four I's 5
The Nonmarket Environment of the Automobile Industry 5
Issues 5 • Interests 8 • Institutions 9 • Information 10
Change in the Nonmarket Environment 11
Anticipating Change in the Nonmarket Environment 13
The Nonmarket Issue Life Cycle 13
EXAMPLE: GRADUATION CARDS 14
Summary 16
Cases 17
The Nonmarket Environment of the Pharmaceutical Industry 17
The Nonmarket Environment of McDonald's 20
The Nonmarket Environment of Google 25

CHAPTER 2 Integrated Strategy 33
Introduction 33
Strategy in the Nonmarket Environment 33
The Importance of Nonmarket Strategy 33 • Competition and Change in the Nonmarket Environment 35
• Strategy and the Nonmarket Issue Life Cycle 36 • Strategies and Borders 36
Integrated Strategy 37
Google and the Spectrum Auction 38
EXAMPLE: DIRECT-TO-CONSUMER ADVERTISING AND INTEGRATED STRATEGY IN THE PHARMACEUTICAL INDUSTRY 40
Approaches to Integrating Market and Nonmarket Strategies 41
Nonmarket Positioning 42
Nonmarket Positioning and Market Strategies 43
EXAMPLE: EBAY'S POSITIONING IN LEGAL SPACE 44
Positioning Spaces 46 • The Perils of Positioning 47
Nonmarket Capabilities and Reputation 48
A Framework for the Analysis of Nonmarket Issues 49
EXAMPLE: CITIBANK AND CREDIT CARDS FOR UNDERGRADUATES 51
Organization of the Nonmarket Strategy Function 52
Summary 53
Cases 54
Exclusive Resorts: Entrepreneurial Positioning and Nonmarket Defense 54
Envirotect Systems Corporation (A) 57
Molecular Insight Pharmaceuticals: Integrated Strategy for a Development Stage Molecular Medicine Company 61
CHAPTER 3  The News Media and Nonmarket Issues  66
Introduction 66
The Role of the News Media in Nonmarket Issues 66
Messages and Their Interpretation 68
A Theory of News Media Coverage and Treatment 69
Intrinsic Audience Interest 69 • Societal Significance 70 • Combining the Perspectives 70
Extending the Theory 72
Newsworthiness 72 • The Cost of Coverage 73 • Balance and Fairness 73
The Nature of the News Media 74
News Organizations as Businesses 74 • The Profession 74 • Does the News Media Treat Issues Selectively? 75
• Bias, Accuracy, and Fairness 76 • The Internet and Citizen Journalism 77
Business Interactions with the News Media 78
The Need for Information 78 • Media Strategies 78 • Responses and Media Vacuums 79
• Media Interviews 79 • Anticipating Issues 80 • Unanticipated Events 81
Recourse in Disputes with the Media 81
Private Recourse 81
EXAMPLE: PROCTER & GAMBLE AND NEIGHBOR TO NEIGHBOR 82
Recourse to the Law: Defamation and Libel 83 • Political Recourse 84
Summary 85
Cases 86
General Motors: Like a Rock? (A) 86
Illinois Power Company (A) 88

CHAPTER 4  Private Politics  90
Introduction 90
Campaigns 91
EXAMPLE: PIZZA HUT AND HEALTH INSURANCE REFORM 93
Private or Public Politics? 95
Activist Strategies 96
Advocacy Science 98 • Target Selection 98
EXAMPLE: FISH FARM ACTIVISM 99
A Generic Strategy of Activists 100
Activist Organizations 101
Activists and Their Organizations 101 • Greenpeace 102
Interacting with Activist Organizations 103
Assessment 103 • Strategy and Negotiations 104
EXAMPLE: NEGOTIATING WITH ACTIVISTS: ONBANK 106
Challenging the Activists 106
Summary 107
Cases 109
Shell, Greenpeace, and Brent Spar 109
Nike in Southeast Asia 112
Anatomy of a Corporate Campaign: Rainforest Action Network and Citigroup (A) 115
Anatomy of a Corporate Campaign: Rainforest Action Network and Citigroup (B) 118

CHAPTER 5  Crisis Management  120
Introduction 120
The Nature and Causes of Crises 120
The Pattern of Crisis Development 121
EXAMPLE: PEPSICO AND THE SYRINGE EPISODE 124
Components of a Crisis Management Program 125
Avoidance 126 • Crisis Preparedness 127 • Root Cause Analysis 128 • Response 129 • Resolution 132
Summary 133
PART I  Integrative Case: Wal-Mart: Nonmarket Pressure and Reputation Risk (A) 144

PART II: PUBLIC POLITICS AND NONMARKET STRATEGY 153

CHAPTER 6 Nonmarket Analysis for Business 153
Introduction 153
A Framework for the Analysis of Nonmarket Action in Public Politics 154
Interests and Interest Groups 154
The Amount of Nonmarket Action 155
The Demand for Nonmarket Action 155
The Costs and Effectiveness of Nonmarket Action 156
The Distributive Politics Spreadsheet 158
The Nature of Political Competition 159
EXAMPLE: INTERNET WINE SALES 161
Institutions and Institutional Officeholders 162
Moral Determinants of Collective Action 162
Boeing in a Pickle 162
Analysis of Boeing in a Pickle 164
The Nonmarket Issue 164
Distributive Consequences 165
Boeing's Nonmarket Agenda and Objectives 166
The Nature of the Politics 167
Interests and the Demand for Nonmarket Action 167
The Supply Side 167
The Distributive Politics Spreadsheet 168
Institutions and Institutional Officeholders 168
Nonmarket Strategy Formulation 170
The Outcome 171
Summary 171
Appendix A: Nonmarket Action and the Free-Rider Problem 173
Appendix B: The Organization of Congress 175
Cases 181
Tobacco Politics 181
Scrubbers and Environmental Politics 183
Repeal of the Luxury Tax 184

CHAPTER 7 Nonmarket Strategies for Government Arenas 185
Introduction 185
Responsible Nonmarket Action 186
Criticisms of Business Nonmarket Action 186
Nonmarket Strategy Formulation 189
Managers and Nonmarket Strategies 189
Implementation 194
Understanding Outcomes 195
Generic Nonmarket Strategies 196
Representation Strategies 196
EXAMPLE: TOSHIBA AND TRADE SANCTIONS 197
Majority-Building Strategies 199
Informational Strategies 202
Public Officeholders as Targets of Nonmarket Strategies 203
EXAMPLE: CHINA AND MOST FAVORED NATION STATUS 204
Institutions, Interests, and Strategy Choice 205
Institutions and Responsiveness 205
Interests: Client and Interest Group Politics 205
Summary 206
Appendix: The Politics of the Extension of Daylight Saving Time 208
Cases 212
Federal Express and Labor Organization 212
Carried Interest Taxation 213
Wal-Mart and Its Urban Expansion Strategy 217
CHAPTER 8 Implementing Nonmarket Strategies in Government Arenas 220

Introduction 220

Lobbying 220

EXAMPLE: PACIFICARE’S NONMARKET PORTFOLIO 221


Electoral Support 227

Myths and Realities of Campaign Financing 228 - Election Financing Laws 228 - The Pattern of Campaign Contributions 229 - Purposes of Campaign Contributions 230

Grassroots and Constituency Campaigns 231

Mobilization 231 - Business Grassroots Campaigns 232 - The Effectiveness of Grassroots Programs 232

Coalition Building 233

Peak Associations 233 - Trade Associations 234 - Ad Hoc Coalitions 235 - Coalitions and Consensus 235

EXAMPLE: PHARMACEUTICAL POLITICS 236

Testimony 236

Public Advocacy 237

Judicial Actions 238

Organizing for Nonmarket Effectiveness 239

Developing Nonmarket Capabilities 239

Summary 240

Cases 242

Responsible Lobbying? 242

Internet Taxation 247

Pharmaceutical Switching 252

PART II Integrative Case: Fuel/Economy Standards 2007 259

PART III: GOVERNMENT AND MARKETS 265

CHAPTER 9 Antitrust: Economics, Law, and Politics 265

Introduction 265

Antitrust Law 267

The Antitrust Statutes 267

EXAMPLE: MONOPOLY 269

Exemptions 269

Enforcement of the Antitrust Laws 270

Government Enforcement 270 - Private Enforcement 272 - Per Se Violations and the Rule of Reason 273

Antitrust Thought 274

The Structural Approach 275 - The Chicago School 277 - The New IO Approach 278

Examples of the Differences in Antitrust Thought 280

Vertical Arrangements 280 - Predatory Pricing and Entry Deterrence 282 - Collusion and Price-Fixing 283 - Mergers and Merger Guidelines 284

Compliance 286

The Politics of Antitrust 287

Summary 288

Cases 289

Price Fixing in the Airways 289

The Staples–Office Depot Merger? 290

The Microsoft Antitrust Case 294

CHAPTER 10 Regulation: Law, Economics, and Politics 302

Introduction 302

Periods of Regulatory Change 303
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>The Political Economy of the European Union</td>
<td>481</td>
</tr>
<tr>
<td>16</td>
<td>China: History, Culture, and Political Economy</td>
<td>517</td>
</tr>
<tr>
<td>11</td>
<td>Institutions</td>
<td>455</td>
</tr>
<tr>
<td>12</td>
<td>The Judicial System and the Antimonopoly Law</td>
<td>462</td>
</tr>
<tr>
<td>13</td>
<td>Cultural Foundations</td>
<td>462</td>
</tr>
<tr>
<td>14</td>
<td>Tying the Components Together: A Framework of Political Exchange</td>
<td>464</td>
</tr>
<tr>
<td>15</td>
<td>Characteristics of Business</td>
<td>466</td>
</tr>
<tr>
<td>16</td>
<td>Summary</td>
<td>472</td>
</tr>
<tr>
<td>17</td>
<td>Cases</td>
<td>474</td>
</tr>
<tr>
<td>18</td>
<td>The Breakup of Nippon Telephone and Telegraph?</td>
<td>474</td>
</tr>
<tr>
<td>19</td>
<td>The Privatization of Japan Post</td>
<td>476</td>
</tr>
<tr>
<td>20</td>
<td>Uniqlo: Success Breeds Nonmarket Challenges</td>
<td>479</td>
</tr>
<tr>
<td>21</td>
<td>CHAPTER 15 The Political Economy of the European Union</td>
<td>481</td>
</tr>
<tr>
<td>22</td>
<td>Introduction</td>
<td>481</td>
</tr>
<tr>
<td>23</td>
<td>The European Union</td>
<td>481</td>
</tr>
<tr>
<td>24</td>
<td>The Single European Act</td>
<td>482</td>
</tr>
<tr>
<td>25</td>
<td>The Maastricht Treaty</td>
<td>483</td>
</tr>
<tr>
<td>26</td>
<td>The Institutions of the European Union</td>
<td>484</td>
</tr>
<tr>
<td>27</td>
<td>The European Commission</td>
<td>484</td>
</tr>
<tr>
<td>28</td>
<td>The Council of Ministers</td>
<td>485</td>
</tr>
<tr>
<td>29</td>
<td>The European Parliament</td>
<td>486</td>
</tr>
<tr>
<td>30</td>
<td>The Court of Justice</td>
<td>487</td>
</tr>
<tr>
<td>31</td>
<td>The European Economic and Social Committee</td>
<td>487</td>
</tr>
<tr>
<td>32</td>
<td>The EU Legislative Process</td>
<td>488</td>
</tr>
<tr>
<td>33</td>
<td>Economic and Monetary Union</td>
<td>488</td>
</tr>
<tr>
<td>34</td>
<td>The EU Constitutional Treaty</td>
<td>490</td>
</tr>
<tr>
<td>35</td>
<td>Competition Policy</td>
<td>490</td>
</tr>
<tr>
<td>36</td>
<td>EXAMPLE: MICROSOFT AND EU COMPETITION POLICY</td>
<td>493</td>
</tr>
<tr>
<td>37</td>
<td>State Aids and the Common Agricultural Policy</td>
<td>494</td>
</tr>
<tr>
<td>38</td>
<td>The Social Charter, Social Democracy, and Labor Markets</td>
<td>494</td>
</tr>
<tr>
<td>39</td>
<td>Nonmarket Issues</td>
<td>496</td>
</tr>
<tr>
<td>40</td>
<td>Interests and Their Organization</td>
<td>498</td>
</tr>
<tr>
<td>41</td>
<td>Nonmarket Strategies in the European Union</td>
<td>499</td>
</tr>
<tr>
<td>42</td>
<td>EXAMPLE: PRONUPTIA AND FRANCHISING</td>
<td>504</td>
</tr>
<tr>
<td>43</td>
<td>Summary</td>
<td>505</td>
</tr>
<tr>
<td>44</td>
<td>Cases</td>
<td>506</td>
</tr>
<tr>
<td>45</td>
<td>The European Union Carbon Tax</td>
<td>506</td>
</tr>
<tr>
<td>46</td>
<td>The European Union Data Protection Directive</td>
<td>509</td>
</tr>
<tr>
<td>47</td>
<td>Aldeasa and the EU Duty Free Abolition (A)</td>
<td>511</td>
</tr>
<tr>
<td>48</td>
<td>CHAPTER 16 China: History, Culture, and Political Economy</td>
<td>517</td>
</tr>
<tr>
<td>49</td>
<td>Introduction</td>
<td>517</td>
</tr>
<tr>
<td>50</td>
<td>Historical Background</td>
<td>518</td>
</tr>
<tr>
<td>51</td>
<td>Pre-Republican</td>
<td>518</td>
</tr>
<tr>
<td>52</td>
<td>The Communist Era</td>
<td>520</td>
</tr>
<tr>
<td>53</td>
<td>The Reform Era</td>
<td>521</td>
</tr>
<tr>
<td>54</td>
<td>Confucianism and Social Explanations</td>
<td>523</td>
</tr>
<tr>
<td>55</td>
<td>Applications in Society, Politics, and Business</td>
<td>525</td>
</tr>
<tr>
<td>56</td>
<td>The Nonmarket Environment and the Four I's</td>
<td>527</td>
</tr>
<tr>
<td>57</td>
<td>Institutions and Government</td>
<td>528</td>
</tr>
<tr>
<td>58</td>
<td>State Institutions</td>
<td>530</td>
</tr>
<tr>
<td>59</td>
<td>Provincial and Local Governments</td>
<td>531</td>
</tr>
<tr>
<td>60</td>
<td>Business: State-Owned Enterprises, Foreign Direct Investment, and International Trade</td>
<td>532</td>
</tr>
<tr>
<td>61</td>
<td>State-Owned Enterprises</td>
<td>532</td>
</tr>
<tr>
<td>62</td>
<td>Foreign Direct Investment</td>
<td>533</td>
</tr>
<tr>
<td>63</td>
<td>International Trade Policy and WTO Membership</td>
<td>534</td>
</tr>
<tr>
<td>64</td>
<td>Regulation</td>
<td>535</td>
</tr>
<tr>
<td>65</td>
<td>Continuing Issues</td>
<td>535</td>
</tr>
<tr>
<td>66</td>
<td>Human Rights</td>
<td>535</td>
</tr>
<tr>
<td>67</td>
<td>EXAMPLE: AN INTELLECTUAL PROPERTY CHALLENGE</td>
<td>537</td>
</tr>
<tr>
<td>68</td>
<td>Energy and the Environment</td>
<td>539</td>
</tr>
</tbody>
</table>
Summary 540
Cases 541
Wugang and the Reform of State-Owned Enterprises 541
Direct Selling in China 543
Google in China 545

CHAPTER 17  Emerging Markets 549
Introduction 549
Country Assessment 549
Individual Freedoms 550  ■ Economic Freedom 550  ■ Corruption 550  ■ Political Risk 551
■ Competitiveness 551  ■ Culture 551
Opportunities 551
EXAMPLE: INDIA 552
Opportunity at the Bottom of the Pyramid? 553  ■ River Blindness 553  ■ Fair Trade 554
■ Microfinance 556  ■ Underdeveloped Markets and Business Groups 557
Risk Assessment 558
Causes and Types of Risks 559
Management in the Nonmarket Environment 562
Summary 563
Cases 564
Tesco PLC in India? 564
Social Entrepreneurship: Banco Compartamos 567
Social Entrepreneurship: Kiva 568
MTN Group Limited 570

CHAPTER 18  The Political Economy of International Trade Policy 574
Introduction 574
The Economics of International Trade 575
Competitive Theory 575  ■ Strategic Trade Theory 578
The Political Economy of International Trade Policy 579
The Dual Nature of the Politics of International Trade 579  ■ Asymmetries in the Politics 580
International Trade Agreements 581
The World Trade Organization 581  ■ General Agreement on Trade in Services (GATS) 582  ■ Trade-
Related Aspects of Intellectual Property Rights (TRIPS) 582  ■ Agriculture 583  ■ Government
Procurement 584  ■ Antidumping, Countervailing Duties, and Safeguards 584  ■ Dispute Settlement 584
■ The Doha Round of WTO Negotiations 587  ■ Other Trade Agreements 588
U.S. Trade Policy 588
The Structure of U.S. Trade Policy 588  ■ U.S. Trade Law and Its Administration 589
The Political Economy of Protectionism 590
Formal Policies 590  ■ Channels of Protection 591
EXAMPLE: STEEL IMPORTS AND THE NONMARKET CAMPAIGN 592
The Political Economy of Market Opening 594
The North American Free Trade Agreement 594  ■ Market Opening Under the Threat of Retaliation 595
Summary 596
Cases 597
Cemex and Antidumping 597
Compulsory Licensing, Thailand, and Abbott Laboratories 602
Sophis Networks and Encryption Export Controls (A) 607

PART IV  Integrative Case: Toys 'R' Us and Globalization 614

PART V:  ETHICS AND CORPORATE SOCIAL RESPONSIBILITY 619
CHAPTER 19  Corporate Social Responsibility 619
Introduction 619
The Trust Gap 620
CHAPTER 20 Ethics Systems: Utilitarianism 653

Introduction 653
The Managerial Role of Ethics 653
What Ethics Is and Is Not 654
Personal and Business Ethics 655
Ethics and Private Interests 655
Ethics, Politics, and Change 655
Casuistry 656

EXAMPLE: SAVING THE DIVISION 657

The Methodology of Ethics 657
The Relationships Among Moral Philosophy, Ethics, and Political Philosophy 659

Utilitarianism: A Consequentialist System 660
Utilitarianism and Self-Interest 661
Aligning Self-Interest with Societal Well-Being 661
Utilitarianism, Distribution, and Altruism 662
Summary of the Components of Utilitarianism 662

Utilitarian Duty and the Calabresi and Melamed Principles 662

Act and Rule Utilitarianism 664
Jointly Determined Consequences 665
Decision Making in the Face of a Moral Transgression 666

Utilitarianism and Rights 666

Criticisms of Utilitarianism 667
Philosophical Criticisms 667
Interpersonal Comparisons of Utility 668
Identifying Costs and Benefits 668
The Measurement Problem 668
The Information Problem 669

Utilitarianism in Application 670
Categories of Situations 670
Methodology 670
EXAMPLE: LIVING BENEFITS 671
EXAMPLE: INTEGRITY TESTS 672
EXAMPLE: LIFE INSURANCE SCREENING FOR PREEXISTING CONDITIONS 673
EXAMPLE: REDLINING 673

Summary 674
Cases 675

Pricing the Norplant System 675
Tax Shelters 677
Pfizer and Celebrex 679
CHAPTER 21 Ethics Systems: Rights and Justice 681

Introduction 681
Classification of Ethics Systems 681
Classes of Rights 682
Kantian Maxims or Moral Rules 683
EXAMPLE: LIVING BENEFITS 684
The Relationship between Maxims and Rights 684
Intrinsic and Instrumental Rights 685
Criticisms of Kantian Rights 687
EXAMPLE: PRIVACY 688
Applied Rights Analysis 689
Claimed and Granted Rights 689
EXAMPLE: LIFE INSURANCE SCREENING FOR PREEXISTING CONDITIONS 691
A Methodology for Rights Analysis 691
Conflicts Among Rights 691
Rights and Interests 692
Prioritization 692
EXAMPLE: INTEGRITY TESTS 693
Equal Employment Opportunity 694
Disabilities and Rights 696
Neoclassical Liberalism 697
Categories of Justice Theories 698
Distributive Justice 698
Compensatory Justice 699
Injustice 700
Rawls's Theory of Justice 700
The Framework for Justice as Fairness 700
The Principles of Justice 702
The Role of Incentives 703
EXAMPLE: LIVING BENEFITS 704
Duty in Rawls's Theory 704
EXAMPLE: CLINICAL TRIAL OBLIGATIONS 705
Criticisms of Rawls's Theory 705
Applying the Principles of Justice 706
EXAMPLE: AFFIRMATIVE ACTION 707
EXAMPLE: INTEGRITY TESTS 709
EXAMPLE: REDLINING 709
EXAMPLE: LIFE INSURANCE SCREENING FOR PREEXISTING CONDITIONS 710
Higher Order Standards for Evaluating Ethics Systems 710
Summary 710
Cases 712
Genetic Testing in the Workplace 712
Citigroup and Subprime Lending 714
Consumer Awareness or Disease Mongering? GlaxoSmithKline and the Restless Legs Syndrome 716

CHAPTER 22 Implementing Ethics Systems 720

Introduction 720
EXAMPLE: LEVI STRAUSS & COMPANY AND GLOBAL SOURCING 721
Moral Determinants of Nonmarket Action 722
EXAMPLE: CIRCLE K'S HEALTH CARE POLICY 723
The Challenge of Corporate Social Responsibility 724
Corporate Social Responsibility and Ethics in Practice 726
EXAMPLE: UNOCAL CORPORATION AND THE DIRTY CAR BOUNTY 726
EXAMPLE: SOUTH SHORE BANK AND COMMUNITY DEVELOPMENT 727
EXAMPLE: BP AND SOCIAL RESPONSIBILITY 727
EXAMPLE: WAL-MART: REPUTATION AND STAKEHOLDER MANAGEMENT 728
EXAMPLE: CITIGROUP: RESPONSIBILITY UNDER FIRE? 730
EXAMPLE: JOHNSON & JOHNSON'S "OUR CREDO" 731
Core Principles and Their Evolution 731
The Body Shop and the Social Audit 732
Codes of Conduct 733
Competitive and Proprietary Information 734
Principles and Reasoning 734