EVALUATING NONMARKET RISKS

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Abstract

Analyzing thoroughly the environment in which a business operates is undoubtedly one of the most important keys to success. Obviously, a company is not run in a vacuum – there are a great many factors which need to be taken into consideration by the company executives before making any business decision. A lot of companies have come to recognize the growing importance of the non-market environment, and the inevitable need to manage it. Over the last few decades, a significant number of businesses experienced utter fiasco, due to their inability to manage the non-market issues properly. Numerous techniques have been developed in order to aid CEOs in eliminating the companies’ exposure to the non-market risks, some of which have been proven to represent a major threat to the company’s market performance. This paper discusses the nonmarket components of the business, the necessity to integrate the market and non-market environment into a business strategy, and the possible ways of tackling non-market issues.

MAIN PART

The non-market environment of the business is just as complicated as the market one. It consists of various components, including society-, politics-, and legislature-related issues. To make it easier to understand and analyze the non-market environment, it has been broken down into four I’s: Issues, Interests, Institutions and Information. The Issues are basically the matters of dispute which arise in the non-market environment, and can include intellectual property rights questions, environmental protection concerns, disputes over health and safety regulations, etc. The Interests are individuals who have a direct interest in the emerged issues. Interests may include groups of activists (e.g. environmentalists), nation-states or consumers, whose interests are being revived by certain issues. As regards Institutions, those apply to governmental bodies, media, and other entities, that have an impact on resolving the non-market issues that arise. The 4th I – Information – is the extent to which the Interests are informed about the on-going Issues. To examine the 4 I’s more closely, we can take an example of the non-market environment of McDonald’s and the problems the company encountered during the early 2000s. In the late 20th century the number of people suffering from obesity in the United States had dramatically increased. A lot of activists blamed McDonalds for the shocking statistics. Lawyers saw this issue as an opportunity to make profits by initiating numerous litigations against the company; the filmmakers – as a possible movie story. The public demanded that McDonalds provide the nutrition information on its menus, specifying the number of calories contained in each meal. Let us break the abovementioned case down to the 4 I’s. The issue of the case is the growing obesity and its aftermath. The public activists, who were challenging McDonalds to alter their meal plans and introduce nutrition informative menus, constituted the Interests, which also included lawyers, filmmakers and regular consumers. The Institutions, which consisted of various organizations such as FDA, CSPI, PETA, ALF as well as media and judges who returned a verdict on obesity-related lawsuits, had a significant impact on the situation. With regard to the Information, the statistics presented by the BMI (body mass index), the impact of McDonald’s advertisement, the results of the researches conducted on the chemical acrylamide in various foods would be the examples.
Non-market risks are becoming increasingly threatening to the companies’ performance. This has been proven by numerous non-market issues that Google Company had to deal with over the last couple of years. For example, the company had been criticized for violating people’s privacy – there were complaints about Google’s Street View and how it intervened in the people’s personal lives. Privacy issues also referred to Google’s data retention practices – the company intended to store all the data for an indefinite period of time. The issue had raised serious public concerns. Moreover, Google had been given the lowest privacy rating by London-based International Privacy, which obviously had a negative impact on the company’s reputation and was unlikely to contribute to creating strong customer loyalty. Some other non-market issues that challenged the company included copyright law violations, a major conflict with Chinese government over the censorship imposed by it, protests against Microsoft’s Vista operational system. The non-market challenges that the company encountered had obviously shaken its performance. Thereby, the Google cases demonstrate the necessity for the companies to take pro-active approach to the non-market challenges, rather than reactive; meaning implementing a strategy to eliminate the risks associated with the non-market environment.

It is obvious that an effective business strategy contributes to the prosperity of the business and determines its financial success. Meanwhile, the question whether the non-market components should be integrated into a general business strategy or not is still open. In the article “Integrated strategy: market and non-market components”, David P. Baron argues that businesses have to consider the non-market issues when mapping out their strategy. Baron stresses that market and non-market environments are closely interrelated and that non-market components have a considerable impact on the company’s performance in its market environment. According to the author, the market environment of a company can be challenged by the non-market issues in various ways. Baron gives an example of Calgene – an agricultural biotechnology company that used its non-market strategy to shape the marketing environment. Calgene was the first company to offer genetically modified products, and was the first to encounter the issue of governmental approval of GMF. The techniques used by Calgene to tackle the non-market issues that arose included lobbying the government, cooperating with research and testing centers, providing products-related information through media and biotechnology forums. The company’s actions addressed, among others, various groups of activists who expressed their discredit with regard to GMF. The activists presented a threat to the company, since they were able to shape public opinion about Calgene’s product and thus negatively influence the sales volume. Calgene also filed for FDA approval of its genetically altered products, in order to make it more difficult for the rivals to introduce theirs. Delaying the market entry of its rivals the company gained a competitive advantage. Therefore, the techniques that Calgene used to deal with the non-market issues, directly affected the market environment of the company; which solidifies Baron’s point that the market and non-market strategies should be combined. The integrated strategy can not only help the company reduce its exposure to non-market risks, but also indicate the opportunities offered by the non-market environment. This can be demonstrated by the example of Novartis Company, which became known as the “corporate citizenship”. The company had been fighting for its patent right with the Indian government. However, Novartis came up with a creative solution to the problem: it started providing the life-saving drugs to poor Indians at a substantially reduced cost; some drugs were given away for free. David Bach and David Bruce Allen evaluate this situation as follows: “…Novartis defends strong patent protection essential to its business model, and undermines its critics by demonstrating its commitment to India’s well-being. Its non-market strategy is carefully aligned to support its market strategy of competing via patent-protected, blockbuster drugs.” Therefore, analyzing the non-market environment thoroughly does not only prevent the businesses from failure, but also helps to pursue their market objectives.

Taking into account the importance of careful examination of the non-market
environment, the CEOs of the companies constantly face a sharp question: how to analyze the non-market risks? What steps need to be undertaken in order to protect the business from undesirable changes. In my opinion, the CEO of the company should consider taking the following steps. First of all, it is necessary to identify the possible non-market issues that can arise, as it has been proven: pro-active approach to managing business environment is more effective than a reactive one. It is better to expect the worst-case scenario and get ready to handle it. Looking at the 4 I’s of the environment can help the CEOs to identify the Interests and Institutions and establish beneficial relations with both groups. It should also be noted, that some Interests and Institutions would require more attention in comparison to the others. The flow of Information that reaches the Interests should also be managed properly. The article “What every CEO needs to know about non-market strategy” by David Back and David P. Allen summarizes the steps of effective management of the non-market environment in the following sentence: “By drawing up a strategic map — identifying who cares about an issue, what the various actors want and in what arena they meet — a company can plot what information and assets it may need to shape the issue’s evolution in a way that favors its business interests.” Moreover, if a company was facing a non-market challenge, establishing a coalition with other companies in the industry could be a reasonable solution. David P. Baron provides an example of successful collaboration of Calgene and the Industrial Biotechnology Association, which supported agricultural biotechnology.

All in all, any enterprise should formulate a political strategy, since it has been established that government is a competitive tool, which can greatly aid the business grow and prosper or, if managed improperly, lead it to a fiasco. Through legal norms, taxation, a variety of established standards and etc., the government shapes market structure and creates the interdependency between itself and the business sector. Besides, meeting public expectations and satisfying the society’s interests is an important part of managing the non-market environment. Maintaining good social reputation through properly established public relations is an inevitable part of it. Take the famous Nike case as an example. In the 1990s, the allegations of “sweatshop” practices in the third world countries created a major problem for the global brand. The company’s reputation was severely shaken and Nike appeared to be totally unprepared for the attack. It had to work hard to get back the reputation of a socially responsible company. Through the establishment of Code of Conduct and a Labor Practices Department to ensure the compliance with all the rules and regulations, Nike began to regain its image as a responsible company. It launched a variety of projects, including P.L.A.Y. (Participate in the Lives of America’s Youth) and Leave no Trace; supported various athletic programs and environmental initiatives. In addition, the businesses might also want to collaborate with other players in the arena to achieve common goals. This can be done through lobbying and collective bargaining with the government.

The issues of the non-market environment are becoming increasingly important to the businesses. The practices of numerous companies have shown that integrating market and non-market strategies aids businesses in pursuing their objectives, as well as protects them from failure. It is reasonable for the CEOs to rely on the previous non-market challenges faced by the companies to develop a business strategy that would fit their company and address all the issues it may encounter.

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