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Introduction

> In the early days of Microsoft, I prided myself on how little time we spent talking to people in the federal government. I would tell people: isn't it great that we can be successful and not even have an office in DC? As I learned the hard way ... this was not a wise position to take. Staying on the sidelines wasn't just a mistake for our company – it was a mistake for the industry.... Microsoft and other tech companies needed to engage more with leaders in the United States, Europe, and elsewhere. My days of bragging about not having an office in DC were over.
>
> Bill Gates.[1]

This chapter explains what Strategy beyond Markets is, and why it is important to business practitioners.

1.1 WHAT IS STRATEGY BEYOND MARKETS?

Because Strategy beyond Markets is not a standard part of business education, it is helpful to provide a definition. Here is mine.

Definition 1 (Strategy beyond Markets, or SBM) *Strategy beyond Markets (SBM) is the discipline that studies how a business pursues long-term value creation and capture by advocating for business-related policy agendas.*

This book seeks to guide business leaders as they engage in the practices covered by Definition 1. Next, I comment on the definition. A *policy* is a set of rules under which society, including particularly the business

[1] Foreword to Smith and Browne (2021).

https://doi.org/10.1017/9781009393744.002 Published online by Cambridge University Press

sector, operates. SBM focuses on those rules that are set by legislatures and by regulatory bodies such as government agencies or ministries. The *agenda* is the specific set of rules that a business or industry would like to be enacted at a given moment.

The *advocacy* mentioned in Definition 1 is the interaction between a business or industry and the institutions that make policy, that is, with legislatures and regulatory bodies. A formal definition follows.

Definition 2 (Business Advocacy) *Business advocacy is the creation of coalitions of interests as described in Chapters 4 and 5, and the communication of persuasive information as described in Chapters 6 and 7, in the pursuit of business-related policy agendas.*

Business advocacy is the way that business interests operate in the political arena, and is described in detail in Chapters 4 and 7. Business advocacy is *strategic* because its consequences are difficult to undo: Once the rules of the game are set by elected officials or regulators, they tend to stay in place for a long time. This is why the word "strategy" appears in this book's title.

Definitions 1 and 2 restrict attention to *business-related* policy agendas. By this I mean a desired change (or lack thereof) in the laws and regulations that control value creation and capture, that is, in the taxes, subsidies, compliance rules, production and marketability standards, licensing requirements, and many others besides, that are *closely related to the firm's own business goals*. This is in contrast with the notion of corporate activism proposed in Section 11.3, which has broader social goals beyond the firm's own business goals. This book will not focus on the pursuit of broader social goals. Nevertheless, some of the prescriptions in this book can also be applied in the pursuit of these goals.

This book takes a positive perspective, not a normative one. Primarily, this is not a book about what firms *should* do vis-à-vis society: It is a book about how the firm can interact effectively with legislators and regulators in order to *maximize long-term value*. The only partial exception is Chapter 11, where I discuss the role of SBM in society.

I will use the term "policy entrepreneur" to indicate a person, or organization, that advocates for a policy agenda.

Definition 3 (Policy Entrepreneur) *A policy entrepreneur is a person or organization that advocates for a policy agenda.*

https://doi.org/10.1017/9781009393744.002 Published online by Cambridge University Press

Policy entrepreneurs are agents who are "willing to invest their resources in return for future policies they favor."[2] These agents can be businesses, lobbyists, trade associations, NGOs, and so on. Agents who engage in business advocacy are, by definition, policy entrepreneurs.

Besides Definition 1, another way of defining SBM is by contrast with Competitive Strategy. The two disciplines share the same goal: to maximize value creation and value capture. But whereas Competitive Strategy takes market and competitive structures as exogenous, SBM views these structures as endogenous, that is, as the result of intentional actions taken beyond the market. SBM recognizes that laws and regulations are the "deep fundamentals" that give rise to a given market and competitive structure and, at the same time, views these deep fundamentals as objects of strategic management. I will return to this point in Chapter 12.

1.2 WHY SBM IS IMPORTANT TO CEOS – AND WHY YOU SHOULD READ THIS BOOK

This book's content is important to managers, investors, and startup owners.

Useful for CEOs and General Managers Every year, the consulting company PricewaterhouseCoopers surveys the CEOs of large companies and ask about "potential economic, policy, social, environmental and business threats to your organisation's growth prospects." Table 1.1 reports the top-most threat in the years since 2015. In most years, the top-most concern has been overregulation. Table 1.1 indicates that SBM is a top priority for many CEOs.

Furthermore, SBM can be a useful tool for managers who head up a product or business line, even if they are not (yet) CEOs, if the product or business line they are responsible for has regulatory implications (see, e.g., the cryptocurrency minicase at page 33) or is threatened with disruptive regulation (see, e.g., the e-cigarette case in Section 2.5).

Useful for Investors Investors can benefit from predicting whether market actors will be able to successfully operate in the beyond-market arena. For example, the entire recycling industry was exposed to prolonged existential risk in the Recyclers case presented in Section 2.2. At the time of

[2] Kingdon (1984), p. 214.

https://doi.org/10.1017/9781009393744.002 Published online by Cambridge University Press

TABLE 1.1 *Top threat to "your organization's growth prospects," by year.*

Year	Top threat to growth
2015	Overregulation
2016	Overregulation
2017	Uncertain economic growth
2018	Overregulation
2019	Overregulation
2020	Overregulation
2021	Pandemic

Source: 2015–21 PwC's Annual Global CEO Surveys.

this case, an investor might have been interested in forecasting whether the recycling industry would survive the crisis. In the end, the industry's SBM succeeded and the recycling industry survived. In contrast, the outgoing-telemarketing industry fell victim to a regulatory crisis and did not recover, as discussed at page 118. Investors should use SBM to forecast whether an industry will be able to pull through a legislative or regulatory crisis.

Useful for Startup Owners/Founders Many startups operate in a regulatory gray area because their products and services are new and, therefore, unregulated. This ambiguity creates risk and opportunities. In Section 2.5, JUUL, an innovative startup, failed to recognize that its SBM should focus on industry-level self-regulation and, as a result, was punishingly regulated by the government. By contrast, the pharmaceutical startup Sprout executed an SBM that, although Machiavellian, made the owners very rich: See Section 2.7.

1.3 SBM: THE MOST IMPORTANT SUBJECT YOU'VE NEVER HEARD OF

Given its practical importance, it is perhaps surprising that SBM is not more central to business education and, more generally, to business discourse. I believe this is partly because business executives, and even professional lobbyists, are reluctant to publicly discuss their advocacy efforts and even their major SBM achievements. I attribute this reluctance to the fear of being perceived as Machiavellian by the general public. As a result, SBM often seems to take place behind a veil of secrecy.

https://doi.org/10.1017/9781009393744.002 Published online by Cambridge University Press

As a political economist, my view of business advocacy is more positive than most people's. I see some societal benefits in business advocacy, as well as some drawbacks. In the United States, on the whole, the societal benefits seem to me to exceed the drawbacks: I will make this case in Chapter 11. From my perspective, then, business advocacy is a social net-positive.

In any case, regardless of whether SBM is viewed as a net-positive or a net-negative, it is a lawful practice and it cannot be stopped. Therefore, it is better that SBM be discussed openly than that it be practiced in the proverbial smoke-filled rooms. Else, how can best practices in business advocacy ever be established? Besides, smoke-filled rooms are increasingly rare nowadays, so businesses must be prepared to publicly defend their SBM in a way that withstands scrutiny. By providing a conceptual framework for SBM, a technical language, and case studies, this book seeks to lift the veil of secrecy that shrouds SBM.

https://doi.org/10.1017/9781009393744.002 Published online by Cambridge University Press