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Why your company may need a chief external officer:

Upgrading external affairs can help align strategy and improve competitive advantage



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CHANGING COMPETITIVE PRESSURES AND THE NEED FOR NONMARKET STRATEGIES

Companies increasingly face concurrent and sometimes coordinated pressures from governmental and civil society stakeholders within the “nonmarket” (political and social) environments in which they operate. In just the past few years, major social and political events such as the Deepwater Horizon oil spill and the implementation of the Affordable Care Act have had profound and lasting impacts on business. In some instances, even the largest and most sophisticated multinational corporations appear to lack a well-designed strategy or structure for addressing these nonmarket pressures. Several recent examples underscore this reality.

In the spring of 2013, the global apparel and textiles industry – and the big box retailers that sell their products – were shaken by tragic fires and accidents at factories in India and Bangladesh. These tragedies resulted in a series of dramatic global actions and reactions from governments, leading apparel producers and retailers, and civil society actors. Companies like Wal-Mart Stores, The Gap, H&M and others were caught flat-footed in their inability to provide coherent responses to criticisms emanating from a range of governmental and civil society stakeholders. Further, the industry itself was split, with primarily European-based firms calling for aggressive, legally binding commitments, while North American firms urged a voluntary approach. In July of 2013, GlaxoSmithKline appeared ill prepared for responding to allegations that its Chinese-based sales and research staff had routinely engaged in widespread bribe paying and other

corrupt activity. That same month, General Motors relieved one its most tenured executives and nearly a dozen Indian-based staff when Indian government authorities questioned emissions data for its Chevrolet Tavera sport utility vehicle, forcing the company to recall more than 100,000 vehicles and dealing the company a substantial blow to reputation and brand.

Traditionally, most firms have established a legislative/regulatory affairs function to interact with the various branches of government at national and local levels, and a separate office to deal with community relations, philanthropic donations, and increasingly, issues of social responsibility and sustainability, including interactions with nonprofit nongovernmental organizations (NGOs). Emerging issues such as climate change, financial regulation and disclosure, cybercrime and terrorism, and the labor and human rights of workers in developing countries, however, all require proactive nonmarket strategies directed toward both political and social actors. Yet, most companies maintain distinct and separate offices for these functions, potentially leading to uncoordinated and at times conflicting objectives and outcomes.

We believe companies would be well served to recognize the interdependencies between the political and social environments and the actors engaged within them and to integrate – or at least align – these managerial functions. Using case study research, we recommend the elevation of the external affairs function within the corporate hierarchy, perhaps even the creation of a new executive, C-Suite level role – *the chief external officer*. In arguing for this enhanced attention to the nonmarket environment, we show how chief

executive officers (CEOs) and their top management teams can make the most of this new functional competence. Our study shows that by increasing the stature and influence of the external affairs function, firms can achieve more effective and strategic actions and policies, ultimately serving to advance their competitive advantage.

PAST RESEARCH ON NONMARKET ROLES AND THE NEED FOR ALIGNMENT

Since David Baron's seminal article on market and nonmarket strategy, there has been considerable academic research on the importance of managing political and social actors and issues. Bach and Allen emphasize that nonmarket context recognizes that businesses are social and political entities, not just economic agents. These nonmarket roles must consider how managers anticipate, preempt, and respond to actors, influences, and actions emanating from the political and social arenas. A basic premise is that these nonmarket actors affect the strategic direction and market objectives of businesses. Moreover, the rapidly changing political and social environment exerts significant – and in many instances increasing – influence over the economic and business environment. However, research shows that many companies are ill prepared to manage a resurgent state and civil society.

While academic research to date acknowledges that organizations should be viewed not as separate from – but embedded within – the social and political environment in which they operate, it has rarely offered concrete ideas about how firms should change their business strategies and operational structures to account for this reality. Indeed, most scholars and practitioners agree that political and social strategies must be aligned with overall corporate strategy in order to be effective; however, the process of achieving this integration is rarely explored.

We argue that a realistic stance for most companies is a balanced approach to corporate strategy, political activity and social responsibility that emphasizes *alignment* between and among these priorities and the functions that are responsible for them. In some instances alignment may mean close partnerships with governments or other stakeholders as part of core business strategy. In other situations, alignment may take the form of looser collaborations with outside organizations and individuals, involving some coordination with commercial activities that includes ongoing and meaningful communication. In either instance, the relationship between the nonmarket and market strategies should not be ad-hoc, but rather conscious, deliberate and well-coordinated.

We use the term *alignment* to convey the need for managers to place their market and nonmarket strategies in parallel such that they are equally informed and guided by corporate vision, values, and objectives. Put another way, market positioning and industry competition should be synchronized with social engagement and political or regulatory activism. Aligned strategies seek to reconcile the sometimes conflicting external demands that a company encounters and modulate those demands in a way that is appropriate for the firm's geographic and market positions. The goal is to leverage the overall nonmarket strategy such that it is a part of the foundation of competitive advantage.

To understand alignment and the role of the external affairs function, we pursued a multi-track approach and research design.

OUR APPROACH TO ALIGNING NONMARKET AND COMPETITIVE STRATEGY

Building on the work of Baron, Bach and Allen and others, we explored how companies managed their social and political environments. We began with a review of nonmarket research to understand the broad institutional factors that determined how nonmarket strategies helped organizations maintain their competitive strategy, and where they failed to improve overall performance. We then interviewed executives from a range of companies to understand how firms manage this function, and we found that most companies approach political and social issues and pressures from two distinct offices and functions – a legal/regulatory function and a community relations/public affairs function. We observed that these two functions were often entirely separate and poorly coordinated.

In this article, we highlight two of the cases in our sample to illustrate the evolution of two companies' nonmarket strategies and the structures that were established to advance them. In both instances, the subject firms were faced with changing political and social pressures. These pressures underscored the need to better align the political and social dimensions of their nonmarket strategies and to better integrate those strategies into overall competitive positioning. Finally, each case underscores how the magnitude of social and political issues may require managerial attention at the highest levels.

Lufthansa and the Changing Political Landscape in the EU

In the mid-1990s, Thomas Kropp managed Lufthansa's government and regulatory affairs office in Brussels, with a total team of nine people. The airline's "corporate embassy" to the European Union (EU) was one of the first of its kind among European airlines and the most substantial in terms of resource commitment. Its mandate was to monitor and interface with the EU policy-making process as it affected air transport and specifically, Lufthansa Group.

Like other major airlines at the time, Lufthansa was under growing pressure to increase fuel efficiency, reduce emissions, and adopt an overall social responsibility and sustainability strategy. Much of this pressure was being exerted at a European level, as policy authority for air transport shifted from national capitals to EU institutions in Brussels. As a result, airlines' external affairs emphasis also shifted away from bilateral international traffic rights, airport slot allocations and engaging with national legislators toward a more integrated, pan-European approach that transcended narrow, short-term political and social objectives. Lufthansa recognized this necessity well in advance of its industry peers. Further, as the demands placed on the company increasingly emanated from multiple jurisdictions, ranging from the EU to consumer pressure groups, the company shifted its attention to broader issues of customer rights, infrastructure and competition. Structure followed strategy

as new teams were created under the overall external affairs function around political affairs, social responsibility, environment sustainability and international relations.

Recognizing the increasingly transnational nature of the social and political pressures facing the group, Lufthansa invested further in external affairs offices in Brussels and Washington, D.C., engaging with legislators and administrators, international organizations, NGOs and trade associations. Lufthansa's chief executive routinely served as chairman of the influential Association of European Airlines. The air carrier gained first mover advantage by building a corporate strategy that closely aligned its business objectives and market positions with its political obligations and social responsibilities. Kropp and his team further recognized that the narrow process of lobbying for influence was being superseded by the more transparent interest representation approach to policy shaping. At an EU level, a preference had emerged for a broader and more inclusive approach to policy consultation. When forging new policy and regulations, it was common for EU politicians and civil servants to create representative committees, drawing on all relevant stakeholder groups, including environmental NGOs, consumer groups, and others. When the issues related to air transportation, one company became the default industry representative: Lufthansa, represented either by its chief executive officer or by its senior government affairs executives.

Thomas Kropp has since moved from Brussels back to Lufthansa's headquarters in Frankfurt. He is senior vice president and head of group international relations and government affairs. In this position he is a key member of Lufthansa's corporate strategy leadership team. In essence, Kropp is Lufthansa's chief external officer, having overseen the corporation's emergence as Europe's most politically astute, socially aware and environmentally responsive air transport group. It is no coincidence that during his tenure, Lufthansa also emerged from near collapse in 1991 to being one of the largest and most successful air transport groups in Europe and globally. As public opinion and the regulatory landscape shifted, Kropp, as Lufthansa's head of external affairs, was adept at moving proactively and seizing opportunities to propel Lufthansa into the pilot's seat of European public policy's new journey. In contrast, other national flag carriers including Alitalia and Iberia failed to recognize or respond rapidly to changing external contexts and new environmental realities. Their lobbying and communications efforts remained nationally focused, and their external affairs structures remained fragmented and under-resourced, and their approaches were tactical rather than strategic. Today, these external relations laggards have been subsumed by stronger rivals or are heavily indebted and on the brink of bankruptcy. In contrast, Lufthansa's market success, supported by its ability to anticipate political and social trends and respond preemptively to external constituencies, provides a compelling case for companies to have a single, unified role for external affairs that can manage across countries and issues.

Tata Consultancy and the Importance of Social Engagement

Between 2001 and 2013, Malcolm Lane managed the European External Affairs office of Tata Consultancy Services

(hereafter TCS) in London. His role included managing Tata's external affairs and promoting TCS' green agenda while exchanging vital position papers with political actors, including those within national and EU ministries and legislative bodies.

Malcolm Lane explained that TCS created this role as a deliberate part of its strategy to respond to social and environmental pressures and to get out in front and be proactive as these interests grew (TCS is part of the Tata Group, India's largest conglomerate, with a total of 96 companies within seven different industry sectors. Tata Group is present today in 85 countries, employs around 350,000 people around the world and represents a turnover of \$62.5 billion, or more than 5 percent of Indian GDP). TCS delivers IT (information technology) services as well as business and outsourcing solutions, and therefore the nonmarket risks can come from various sources. Among the benefits of this role is that it allows for monitoring of those nonmarket pressures and the rapid and efficient transmission of information to the CEO and top management team.

During his tenure, Lane helped TCS to secure the highly commended Coffey International Award/Business in the Community (BITC) Award for Excellence 2011 for its work in addressing the UN Millennium Development Goals that seek to dramatically reduce global poverty. This innovative function also helped develop an adult literacy program. His team and others helped to create a multimedia e-learning system to help 150,000 illiterate adults achieve functional literacy in just 40 hours. While both of these programs provide impressive social services, they are also directly or indirectly related to TCS' business goals and future customers.

More broadly, Tata's corporate culture was influenced by the Zoroastrian tradition of the founder Jamsetji Nusserwanji Tata. Therefore, TCS, and the Tata Group more broadly are deeply anchored in certain beliefs and values attached to this religious tradition. The Zoroastrian religion preaches values such as supporting societal development, helping the poor and being a good citizen. The founder had a profound will to see India emerge from poverty and rise in the world as a powerful economic nation, and this is embedded in his corporation's ethos and approach. Acknowledging this unique culture, a key strategic objective for TCS is to create wealth that not only makes profits for Tata but also contributes to society and empowers people. Lane's role, tasks and team developed an aligned approach to social and political issues. Importantly, these priorities also help reinforce particular strengths of TCS' corporate culture, which helps to recruit and retain top talent. Functional roles such as those of Malcolm Lane's were developed to help align those objectives, so that the organization would not drift away from the original vision and values.

THE EXTERNAL OFFICER: TASKS, STRUCTURE AND ROLE

In most large companies, the development of nonmarket practices is not left to an individual or function, but instead occurs under the aegis of a broader legal, external affairs or even public relations function. In the Lufthansa and Tata cases, this role was elevated to an appropriate level so that the importance of political and social issues commanded

sufficient managerial attention. Further, the role had a proactive element, namely, creating and maintaining relationships with a set of external stakeholders in both the governmental and social spheres. Although TCS' external affairs function was more circumscribed than Lufthansa's, that focus reflected the unique corporate culture, legacy, and strategic priorities of the firm itself.

The external affairs role should therefore be linked to the overall strategy of the firm. But if structure follows strategy, how should this external affairs function be organized for maximum effectiveness? We believe that the nature of the issues faced by the firm, and its overall posture in relation to these issues, is one important determinant in how the external affairs function should be structured and deployed.

Drawing on our two cases from the airline and IT consulting industries, we have identified two noticeable characteristics – tasks and centralization – to forge a better understanding of how firms better manage their threats and opportunities from the nonmarket environment.

Task Specialization

As seen from the case examples, the tasks undertaken by the external officer are to develop and implement more coherent nonmarket strategies. Previous research on managerial tasks has examined how task specialization can help maximize efficiency and achieve better coordination through the design of work. By analyzing various task characteristics and processes such as complexity, workflow integration, and task interdependence, firms can achieve greater productivity and impact. However, these studies, heavily reliant on design theory, were developed in an era in which manufacturing and production work was the dominant form. We believe *task specialization* is an important variable in various line and services activities, including how a firm's external affairs function is structured and organized.

Tasks performed by external affairs executives have several phases or stages: first, they gather information about the

various issues, actors, challenges and opportunities in the external environment; second, review, analyze and synthesize that information, and third, propose to senior management a course of action and oversee the implementation of those actions. We believe that the external affairs function can also maximize efficiency based on task specialization in influencing the political and social spheres.

Most external affairs executives will have invisible and visible tasks, the measurement of which can allow progress toward the task's completion to be monitored directly by the chief executive officer. More important, nonmarket tasks to influence political and social actors can generally be examined, rationalized, and decomposed into sub-elements that can be integrated through the use of two specializations – communications and policy. Our Table 1 shows the different variances and focus in the roles in most of the organizations we have investigated.

In Table 1, we show that specialization within the external affairs function is done through either communications and/or policy tasks, which are sometimes concurrent and/or integrated. We know that specialization can lead to increased efficiency and effectiveness. Therefore, we believe that external affairs executives must ensure that the right tools are in the right place at the right time for the work to be performed, and they must continue to improve their communications tasks (media activities via radio, TV, and other outlets) and policy tasks (white-paper writing and information-exchanging activities) to share their interests.

With this rationalization of task design, we begin to see the challenges that specialization can raise in the external affairs department. According to management theory, formalization of structure around a particular function can reduce assertiveness. We argue that handling both of these tasks in the external affairs function can increase nonmarket performance by making it proactive and focused in the nonmarket, by solving problems, monitoring threats, and searching for opportunities. But relying more on one type

Table 1 FIVE STRUCTURES FOR MANAGING THE EXTERNAL ENVIRONMENT.

Focus	Purpose	Decision Making	Key Benefits
1. CEO/TMT driven	Key external relations decisions taken by the CEO/TMT	Top-down decision making	Rapid and decisive action
2. Political and Legal Affairs (PLA) driven	Political and Legal Affairs executive has primary responsibility	Political and regulatory issues are to the fore when taking corporate decisions	Long term political and policy network benefits can accrue, leading to inclusivity in legislative consultation process
3. CSR/sustainability driven	CSR executive has primary responsibility	CSR issues of higher importance than PLA issues when taking decisions	Long term NGO and civil society networks can accrue, resulting in joint branding and the enhancement of corporate reputation
4. CSR/PLA split (equal importance)	CSR and PLA executives both have responsibility	CSR and PLA issues come up in the executive agenda	Development of technical ability and competencies in both CSR and PLA issues
5. Senior External Officer	Senior External Officer is responsible for both CSR and PLA issues	Senior External Officer has a key role in the corporate executive suite	Elevation of CSR and PLA issues to the C-Suite and alignment of business units with central CSR/PLA purpose and direction

of task over the other may cause a company to miss potential threats in political or social circles.

Centralization/Decentralization: Balancing Global Assimilation and Local Awareness

Firms – especially those operating across national boundaries – should examine their internal coordination mechanisms to deal with rising nonmarket issues. In a centralized structure, a dedicated unit creates and leads the nonmarket strategy, while affiliates and subsidiaries take direction from this centralized unit. In a decentralized structure, the responsibility for nonmarket issues is combined with various functional or subsidiary roles, or may even be outsourced to a third party legal or consulting firm. We find that organizations require a structure that balances the level of “subsidiarity” (decentralization) with centralization to allow for rapid response within the context in which nonmarket issues emerge, but always consistent with – and supportive of – the firm’s overall strategy. Centralizing nonmarket strategy through the external affairs function encourages rationality by placing most of the onus on the director of external affairs and his or her team. We argue that being able to involve other senior executive members democratically in a centralized structure may lead to enhanced performance. Moreover, centralizing external affairs is a key to creating influence. We speculate that this influence may have the added effect of bolstering organizational reputation because high level decision-making around external issues becomes more focused and better coordinated.

At the same time, assigning responsibility for nonmarket intelligence gathering in functional and geographic units should be part of the overall nonmarket structure. In their seminal book, Bartlett and Ghoshal highlighted the natural tension between centralization and subsidiarity, emphasizing the need to simultaneously pursue globally integrated but also locally responsive approaches to strategy. This emphasis was in response to the realities of globalization – which have pushed markets toward greater similarity and uniformity – but with persistent differences and variations across geographies, cultures, and institutional systems. Hence, a further application of our alignment concept is to ensure that the firm can simultaneously respond to/manage stakeholders, issues, and NM networks, at both global and local levels. Failing to do so has the potential for strategic misalignment and dysfunctional lags in response time and effectiveness.

Two examples of where nonmarket strategies may have emphasized too much centralization are the BP Gulf of Mexico oil disaster and Coca-Cola’s response to criticism of its product purity and broader water use and policies in India. In the case of BP and the Gulf spill, BP appeared removed, remote and cut off from the realities on the ground. This apparent failure to grasp the on-the-ground realities was captured in the comments of BP’s then CEO, Tony Hayward, who remarked: “*I think the environmental impact of this disaster is likely to have been very, very modest.*” Several years ago, Coca-Cola faced a crisis in its Indian operation when soft drinks were found to contain trace amounts of pesticides and the company was concurrently accused of depleting water tables for bottling its beverages. Although Coke’s initial response was not particularly effective, the company used insights from its local subsidiary, and the

global experience of its headquarters operation, to launch a broad-based partnership – a global freshwater conservation initiative that has helped redefine Coke’s image and brand. Not coincidentally, the campaign was launched in China. We believe a strong, high-level external affairs function benefits from active representation and input from local subsidiaries and vice versa.

THE NEED FOR A HIGH LEVEL EXTERNAL AFFAIRS FUNCTION

We believe most companies under appreciate the challenges emanating from the nonmarket arena and therefore relegate their external affairs function to a lower status than it should be accorded. At the same time, however, we expect some variation in how organizations design external affairs into their structure. In other words, the degree to which companies should emphasize political concerns versus social issues – or both – is contingent upon their particular industry, strategies, and product mix. In Fig. 1, we advance four potential options for how external affairs can be structured within a company, depending on the nonmarket emphasis and significance.

As seen from Fig. 1, *political orientation* relates to companies whose nonmarket challenges emanate primarily from the political and regulatory arenas and that respond by designating a senior executive to explore or exploit legislative and regulatory affairs. This is common, for instance, in the airline sector (where at British Airways the manager of political affairs coordinates lobbying activities to remove or reduce carbon emission taxes) and in the pharmaceuticals sector (where, for instance, the director of public affairs at Teva Pharmaceuticals campaigned in support of the U.S. Patent Reform Act of 2011).

Social responsiveness relates to companies that explicitly tackle corporate social responsibility (CSR)-related issues and have placed executives at relatively senior positions to oversee CSR, sustainability, and community relations. This is particularly pertinent to companies in the extractive and construction industries. For instance, the global building materials supplier CEMEX has sustainability directors in its country subsidiaries – and a corporate director of

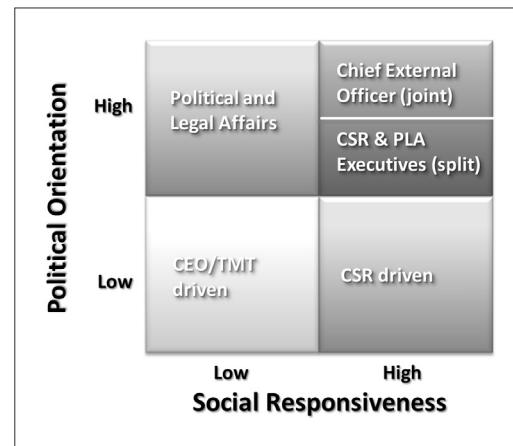


Figure 1 MANAGING THE EXTERNAL ENVIRONMENT MATRIX

sustainability at its headquarters in Mexico – to advance a longstanding strategic commitment to sustainability, biodiversity, and the reduction of CO₂ emissions. Odebrecht, the large Brazilian-based engineering, construction, and petrochemical company also features a corporate sustainability director and counterparts for the individual business units. The firm invests strategically in social projects and activities in countries such as Angola and Mexico, where it has large projects in development and preserving positive social legitimacy is essential.

Political orientation and social responsiveness help managers and scholars to classify the fundamental methods that businesses use to deal with such issues through developing related nonmarket tasks. Beyond mapping these important issues, our framework serves as an evaluative tool that can enable executives to gauge their current status and form pathways for future changes in executive suite composition and responsibilities.

We next consider each quadrant of *Fig. 1* to understand external affairs design options and choices. The framework does not predict outcomes, but it does advance insights on potential consequences.

High Political Orientation/High Social Responsiveness

In the scenario depicted in the top right-hand quadrant of *Fig. 1*, firms are acutely attuned – and responsive to – both political and social pressures. Indeed, as we have pointed out above, a given issue often has both a political and social dimension, and so firms in this quadrant must address them both, including the interactions between them. The examples of BP, Coca-Cola, and others underscore the dynamic and reflexive nature of political and social issues and the need for many firms to address them in a coordinated and integrated fashion.

Low Political Orientation/High Social Responsiveness

In this quadrant, firms are more social responsibility-focused and less politically oriented or active. Firms in this space embody a belief that CSR is a market differentiator and can further lead to sustainable operations that have a positive impact on society. In this regard, the company's CSR function and executive role is strategically vital but its political focus is often moderate or low. Moreover, as with any process based on social responsiveness, there is no one approach. In different countries, there are various points of attention and values that will influence how organizations behave. For instance, the Tata Power Company (TPC) has undertaken CSR activities for decades, reflecting the parent group's aforementioned ethos and the company's promise to deliver sustainable energy without compromising the natural and human environment. These actions are assumed by the employees of TPC to be voluntary schemes and not firm-level CSR strategies. However, with large-scale market expansion, the top management team perceived a need to have CSR as a separate function. Therefore, the dilemma for the top management team was whether to go for a separate CSR department or persist with the existing setup. Tata Power

eventually decided to focus on developing its CSR function as a separate and distinct department, but the company did not create a separate, politically oriented government affairs department, as management argued that the company could achieve those goals via the CEO or through outsourcing to a third-party consultant if needed.

Low Political Orientation/Low Social Responsiveness

In this situation, neither political nor social activism is given strategic priority. This is neither a common nor typically advantageous posture, and the effectiveness of this approach is contingent on the market position a firm occupies. In particular, firms that pursue a purely price driven model may view investments in political and social issues as unnecessary or even frivolous. Indeed, the salience of political and social issues is generally more pertinent for firms that compete on the basis of differentiated products or services predicated on service quality, product innovation, reputation, and brand. This is especially true for firms in market segments where customers are highly influenced by corporate reputation and brand image. In contrast, low cost competitors such as the UK food retailer Iceland or European budget airline leader Ryanair have less need for such initiatives. Their customers and shareholders are concerned, respectively, about cheap deals and return on investment, and place little value on social and political awareness and activism. As such, cost leadership competitors are unlikely to see political advocacy or CSR as a strategic function and are more likely to view it as a strategic hindrance, serving only to add cost and complexity. Therefore, the function and structure here will be driven mainly by the CEO or top management team instead of a department. The example of Wal-Mart in recent years, however, offers a counter-illustration, suggesting even low price/low cost competitors may need to pay attention to political and social issues.

High Political Orientation/Low Social Responsiveness

The final quadrant of *Fig. 1* reflects firms that are politically engaged but that do not connect much, if at all, with social initiatives. These are often state-owned or influenced enterprises, in which government activities and political events are integral to the strategic management options and decisions of the enterprise. Actions can only occur through negotiation and bargaining with external political actors. In most contexts, dealmakers compete with each other for political access and influence. This type of external configuration is commonly found in many emerging and transitional economies. With this in mind, what does this mean for leaders?

THE CHALLENGE OF ALIGNMENT IN THE NONMARKET AREA

As already discussed, many large organizations face challenges in managing their nonmarket environments. Transnational corporations are increasingly facing pressures from

Table 2 FOUR-STAGES IN CREATING A CHIEF EXTERNAL OFFICER SUPPORT TEAM.

STAGE	PURPOSE	MANAGERS INVOLVED	OUTCOME
1. Initiate	Create the conditions and urgency for the integration	Top Management Team (TMT) and CSR/PLA teams	A time-plan and route-map to create a single office
2. Resource	Provide the necessary resources (human and financial primarily)	TMT	A budget and resource plan for the new office
3. Establish	Create the new office and link to other departments	TMT and internal communications team	A series of communications about the new office and its purpose
4. Implement	Agree and disseminate strategic priorities of the new office	The new integrated office and Chief External officer	A set of key initiatives and objectives for the new office that are clearly communicated

governmental and civil society stakeholders in domestic and foreign markets. Therefore, the traditional separation between legislative/regulatory affairs functions and those corporate activities focused on a broader set of stakeholders that include NGOs, community groups, and other nongovernmental actors may no longer be viable. We argue that most companies would be well served to recognize the interdependencies between the political and social environment and the actors engaged within them and to unify these functions. Such integration can assist top management teams when dealing with the major social and political issues of today.

So how can large firms initiate and implement this new structure to respond better to these nonmarket pressures? Using **Table 2**, we provide a four stage process that these organizations can use to create a unified office to sustain and strengthen their competitive advantage.

In the initial stage, *initiate*, the top management team must create the conditions and urgency for elevation and integration of the external affairs function. A timeframe and route-map for creation of a single office should be developed. In the second phase, resources must be identified and deployed, with specific budgets and staff lines. In the third phase, the new office is established and communications about its role and functions are distributed. In the fourth and final phase, the strategy is developed and relationship to other departments established, including communications to the entire organization about its role and functions.

Once firms have acknowledged this strategic pathway and invested appropriate resources to align their market and nonmarket operations, they are in a position to receive important nonmarket signals and act upon them. In some instances, actions taken to respond to nonmarket pressures can result in unforeseen business opportunities and even the development of new products. After being tagged as one of the chief corporate contributors to both Chlorofluorocarbons (CFCs) and emitter of greenhouse gases, DuPont turned its environmental conservation and sustainability practices into market opportunities by developing products that conserve

resources, save money, and protect against environmental threats.

CONCLUSION

In this article, we reviewed the growing importance of the nonmarket environment to firms, and the increasingly integrated and reflexive nature of the political and social issues they face. We proposed that in such an environment, firms may want to consider being much more strategic about their response to the nonmarket environment, and in some instances, establishing a senior position that oversees these political and social issues – the chief external officer. We illustrated through the experiences of Lufthansa and Tata why and how companies have developed distinctive and high level executive roles that engage both political and social contexts in an integrated approach. We showed how these executives are empowered to make strategic decisions on various social and political issues, working closely with the chief executive and top management team to strengthen long-term competitive advantage. We offered a process for identifying those who can take on the new role of the chief external officer and how to make the most of this new executive. Finally, we demonstrated how executives can plan to introduce these roles using four distinct stages from initiation to implementation.

In the end, the nonmarket environment should not be viewed as separate from – but integrated with – the other arenas in which firms compete. Only then can companies successfully respond to and proactively influence the relevant actors and organizations that facilitate (or impede) their competitive success.



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