SEEK-441 Strategic Management in Non-market Environments

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Time:
Section 61: MR 10:30-12
Section 71: W 18-21

Please notice: The syllabus may still be subject to change. Today’s date: 11/3/06.

Course Overview
All economies are defined by formal and informal norms and regulations that structure market competition. These “rules of the game” vary significantly across countries. Many barriers to imitation and entry, for example, originate from specific legal rules or government policies that favor some capabilities over others. These rules, and in many cases their enforcement, are not fixed, well-defined constraints, but are determined, implemented, and interpreted by legislatures, government administrative agencies, judicial institutions, public sentiment, and ethical consensus. The resolution of ambiguity and direction of change is neither exogenous nor divorced from strategic considerations. Rather, the process involves interest groups interacting within a system of institutions that includes but is not limited to the various branches of government, the media, and nongovernmental organizations. Both competitive advantage and industry profitability are affected by this interaction. Therefore, business strategies often must include actions to influence the outcome of the process. The analysis and development of successful strategies to shape the rules of the game to an organization’s advantage constitute the domain of non-market strategy.

Successful non-market strategies can establish, sustain, or erode a company’s competitive advantage. For example, the rules governing protection of intellectual property impact the advantages to “innovating” firms versus firms that are “fast followers,” whereas trade restrictions, antitrust regulations or rules governing mergers and acquisitions may prevent the execution of a well thought-out growth strategy. Non-market issues are also important in determining the profitability of an entire industry. Regulatory costs or public subsidies, for example, may also hurt or help all players, creating common non-market
interests among market rivals. Navigating between competing and common interests frequently creates challenging strategic problems for managers and consultants that cannot be successfully analyzed with the traditional concepts of competitive strategy. This is particularly relevant when a firm implements an innovative strategy, operates in a rapidly evolving industry, or targets new markets in the global economy. Such is the case in deregulating industries (telecommunications or energy) where one set of rules is effectively being substituted for another, in e-commerce where important rules (e.g., on the protection of intellectual property and on domestic and international rules with respect to privacy or sales practices) appear open to change, or within the biotech and pharmaceutical industry where rapid innovation may clash with ethical concerns, questions about patients’ well-being, or about a certain technology or its distribution.

This class focuses on non-market strategy from the point of view of managers and consultants. Its primary objectives are to examine typical non-market issues, to develop a set of conceptual frameworks for analyzing non-market threats and opportunities, and to practice forming effective strategies for managing in non-market environments. The concepts, skills, and analytical tools that students will learn in the course rest upon a foundation of economic principles, political analysis, and, to a lesser extent, social psychology and law. They identify patterns of behavior and outcomes, ways of thinking about those patterns and outcomes, methods of analysis that facilitate understanding and prediction, and, ultimately, the shaping of strategies to improve business performance.

The class is structured around three broad topics:

- Business and Society
- Business and Politics
- Integrated Strategy

**Business and Society.** As businesses become the dominant source of social and cultural change, they are in turn increasingly being held accountable by social and political constituencies. Many of these “stakeholders” are not part of a contractual relationship with the company and base their decisions on values other than the maximization of shareholder value. The presence of these constituencies presents both challenges and opportunities for business leaders. This segment of the course will take a strategic approach to help students anticipate and analyze these challenges and incorporate their insights into successful business strategies.

**Business and Politics.** Legal constraints and government regulations significantly shape the rules of market competition. Much of non-market interaction thus consists of interests competing in public institutions such as legislatures, regulatory bodies, or courts. This segment of the course will introduce students to the politics of business. You will learn to appreciate the importance of formulating political strategies, analyze non-market competition in public arenas, and develop successful political strategies of your own.

**Integrated Strategy.** In this segment you will learn how market and non-market strategies interact and to develop strategies that integrate both components. We will
anticipate some key concepts of competitive analysis, such as industry analysis, competitive advantage, market entry, price and non-price competition, and the identification of their non-market dimension. Our main goal will be to practice designing integrated strategies in both domestic and international business environments.

Readings
The course materials include a course reader and the book *Business and its Environment*, Fifth Edition, Prentice-Hall, 2005, by David P. Baron (please do not use earlier editions). The book was written specifically for a similar course and has been used at a variety of business schools. It is broad in its outlook and in the range of topics covered, and it is structured around a flexible but consistent framework. The emphasis is on conceptual frameworks, analysis, and strategy formation. The book also contains cases and a number of detailed examples of non-market issues and managerial approaches for addressing them. To supplement the course materials, the course reader contains additional reading materials, and some material is handed out in class. Finally, notice that Malcolm Gladwell’s *The Tipping Point* is reading for session 6.

The cases in the course are of two types. One type is a relatively short case intended to focus the discussion on a specific set of issues related to the subject of a reading in the text. These cases include market (e.g., sales and financial) data on the firm only if they are important to the issues in the case. They are integrated with the text and serve as vehicles for applying the chapter materials and opportunities to go beyond the specifics of the materials. The second type of case is broader and more open-ended; it is intended to bring together a number of the topics and approaches in each module of the course. The cases are generally written from the perspective of a firm or consultant that must determine how to address a particular issue or problem. Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find the complexity and ambiguity frustrating. But it is out of the discussion that is generated by this complexity and ambiguity that the concepts and principles introduced in the lectures will come alive and demonstrate their usefulness.

Non-market issues are frequently encountered in the context of a crisis where time is short and information is limited. To prepare you for this environment, the class will have some crisis simulations of varying length and intensity that will test your understanding of the basic concepts developed in class.

Teaching Approach
Classes will be conducted on a lecture/case-discussion basis. A typical session will be based on the discussion of a case that exemplifies a particular aspect of nonmarket management. A typical class session may also include a lecture that addresses either a conceptual approach or develops an issue, provides a setting for the topic being addressed, or integrates the class discussion and the subject matter. Part of the class discussion will be based on group work. These groups are an integral component of class preparation and discussion. You are encouraged, but not required, to prepare the cases
and the readings in groups. At a regular basis, there will be group assignments where I will ask each group to prepare a presentation that will form the basis for class discussion.

For a case discussion to be a valuable learning experience, it is essential that you come prepared to discuss the cases and readings assigned for that class. During our case discussions, I ask that you deal with the cases as you find them: do not seek outside or post-case data on the firm or industry. If you have post-case or inside information, I will give you the opportunity to share it with the class at the end of our discussion. Let me know about such information in advance, and I will make a point to call on you at the appropriate time.

**Course Requirements and Grading**

Students are expected to master the content of the readings, to make constructive contributions to class discussions, to make occasional presentations, and to perform adequately or better on examinations and class projects. Grades in the course will be based on three components: (1) a midterm in-class examination which will count for 40 percent in the determination of your grade; (2) group presentations which will count for 20 percent; (3) a final group case analysis which will count for 20 percent; and (4) class attendance and participation will count for the remaining 20 percent. All group-related grades will be based on group performance and peer evaluation at the end of class.

**MIDTERM EXAM:** The midterm will be an individual, in-class, “open book” exam consisting of short questions that will cover the assigned readings, cases, and lecture material for the sessions taught up to then.

**GROUP WORK:** Group assignments are an integral part of class discussion. I will ask you to prepare group presentations for five of our sessions. This requires each group to analyze the case and develop an integrated strategy for the respective business, usually from the point of view of a manager or consultant. Each group is to hand in a one-page executive summary of its analysis and strategy (1.5 spaced; 12 size, standard margins, no title page), and email it to me 5 hours before class (giving me some time to read). Do not hand in copies of transparencies or power point presentations. I will strictly enforce the one-page limit. Grading will be based on the executive summary. One of the groups will be randomly chosen to present and defend their analysis. You may then use power point slides or other media. The chosen group is responsible for all aspects of the presentation such as keeping time, handling questions, etc. All other students are expected to take the role of clients, directors, or partners (depending on the governance structure of the firm and the detail of the assignment). Group assignments are in-class simulations of real world tasks. It is thus important that you take the role-playing aspect seriously. In addition to the five group assignments, we will have some in-class exercises that counts as additional components of your group work.

**FINAL GROUP PROJECT:** For the final project your study group is to assume the role of a consultant who is hired to develop an integrated strategy for a client. You will receive more specific instructions during the first half of class. You need to reserve sufficient time to work on this assignment.
PARTICIPATION and ATTENDANCE: Attendance, preparation, and participation are essential for this class to be value-adding. If you have to miss class, please let me know in advance. Throughout the classes, laptops must be closed to sharpen concentration, except when your group is presenting. Much of the learning in this course comes from class discussion of cases or homework assignments. Learning opportunities are maximized when a student is actively engaged in the class discussion. Active engagement means that you are listening carefully to the comments of other students and seeking opportunities to make relevant comments that move the class discussion forward.

Since case discussion constitutes most of class time, there is ample opportunity for you to participate. Do not be discouraged if, after the first few classes, you have yet to participate. To increase opportunities for effective participation, I may cold call students to open the class discussion, or to contribute during the course of a discussion. If you feel that you are preparing well but that I am not calling on you sufficiently often, please let me know so that I can address the problem.
Course Outline

Part I. Introduction to Business and Society

Session 1: Introduction to the Non-market Environment
The reading for this session illustrates the types of issues to be considered in the course and presents approaches for organizing your analysis of the non-market environment. These concepts will be discussed in the context of the Consumer Financial case. Future sessions will examine these components in more detail with an increasing emphasis on the development of analytic concepts and the formulation of non-market strategies.
Reading: BIE 1-17, 31-37, 44-52, 66-88
Case: Consumer Financial [in course reader]
Assignment: Prepare individually:
It is December 10, 2002. You are the engagement team of the consulting company Non-Market Strategy, Inc., the leader in non-market strategy consulting. Your client is Consumer Financial Services, the nation's largest independent mortgage lender. You need to familiarize yourself thoroughly with the document provided by the client. During class you will have your first meeting as team. Your senior partner is expecting a report on how to address Consumer Financial’s challenges as she needs to meet with client later that day. Your task is to develop a 5-10 minute presentation that your partner can then present to the client. I will select one group randomly to present their analysis. The rest of the class will assume the role of senior partner.

Session 2: Introduction Continued
We will continue our discussion of the Consumer Financial case. We will also discuss organizational issues and logistics.

Session 3: Incentives, Costs, and the Organization of Interests
This session introduces conceptual frameworks for political analysis based on economic analysis. The frameworks provide the foundations for the analysis of non-market issues and the formulation of non-market strategies in situations in which interests are affected by non-market alternatives considered in the context of government institutions. The Luxury Tax case will be used to illustrate the conceptual frameworks.
Reading: BIE 135-143
Baron “The Non-market Strategy System” [in course reader]
Case: Repeal of the Luxury Tax, BIE 166-167

Session 4: Coalition Strategies
This session focuses on the analysis of strategic situations in which interests are affected by legislative alternatives. We will discuss tools necessary for a careful analysis.
Reading: BIE 170-191
**Group Assignment 1:**
- Assume your group is consulting Ford. Prepare a non-market analysis and non-market strategy for the company’s CEO, assuming it is confidential information and for internal use only.
- I will randomly select one group to present and defend their analysis and strategy (ca 10 minutes). Write a one-page executive summary and email it to me 5h before class (harstad@kellogg.northwestern.edu).

**Session 5: Integrative Case I: Complex Non-Market Environments**
This session continues the analysis of strategic situations in which interests are affected by legislative alternatives. We will discuss the distributive politics spreadsheet and other frameworks for the analysis and prediction of the amount and effectiveness of political action in a given political situation.

**Reading:** BIE 170-191 (again)
**Cases:** Walmart’s Business Environment [in course reader]
Wal-Mart: Non-Market Pressure and Reputation Risk (A) [in course reader]

**Session 6: Integrative Case I, Continued: Stakeholder Marketing**
We will continue our discussion of the Walmart using an additional exercise.
**Readings:** Gladwell, *The Tipping Point*
**Cases:** [To be distributed]
**Assignment:** To be distributed in previous class.

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**Part II. Business and Politics**

**Session 7: Legislative Strategy**
This session introduces conceptual foundations for analysis and strategy formulation in institutional contexts with an emphasis on legislatures. The focus is on concepts and methods of analysis pertaining to agenda setting, pivotal voters, building majorities, and predicting outcomes in majority rule institutions. These concepts will be applied in the context of the Federal Express case.

**Reading:** BIE 198-222
**Cases:** Federal Express, BIE 223-224

**Group Assignment 2:**
- Your group is setting up Federal Express’ legislative strategy. You may focus on the following questions: What are the goals? Who should you lobby? How much? How many legislators should you target? What should be the message you bring forward? How would your strategy change if your opponent (say, the AFL-CIO) were working to offset your lobbying effort?
• I will randomly select one group to present and defend their analysis and strategy (ca 10 minutes). Write a one-page executive summary and email it to me 5h before class (harstad@kellogg.northwestern.edu).

Session 8: Lobbying
This session continues our discussion of legislative strategies. We will go further, however, and study legislative strategies in more complex environments, and we will focus on the strategic use of information in the context of non-market strategies decided by government institutions.
Reading: BIE 230-255
Case: Recyclers versus Superfund (A) [in course reader]
Case: Drexel Burnham Lambert and Junk Bond Politics, BIE 256-8

Session 9: Integrative Case II
Following the disastrous 2000 Presidential Election, Diebold Corporation saw an opportunity to enter the burgeoning market for electronic voting machines. In case A, Diebold faces a variety of daunting reputational, political, regulatory and legal challenges.
Reading: NA
Case: Diebold Case (Disaster Strikes DESI) A [in course reader]

Group Assignment 3:
• You have been appointed by William O’Dell to serve on a non-market management team. Mr. O’Dell would like an initial assessment of the threats and opportunities confronting Diebold in the short and long term. You need to produce a single page memo to Mr. O’Dell outlining the threats and opportunities along with a strategy and implementation steps Diebold should take to deal with this crisis. Note, the case contains several lengthy appendices and it is crucial that you have someone in your group who is responsible for understanding the material prior to class. You man not use ANY outside materials for this case?
• Write a one-page executive summary and email it to me 5h before class (harstad@kellogg.northwestern.edu).

Session 10: Continuation of Integrative Case II

Session 11: Midterm exam.
In this session we will have an in-class open book, open note exam covering all the topics in sessions 1-10.
Part III. Regulatory Challenges

Session 12: Regulation and Competitive Advantage
Antitrust policy and its implementation are powerful non-market constraints on market strategies and tactics in the United States and other industrialized countries. This session addresses these dimensions in the context of a case involving a potential change in antitrust policy that may erode a market leader’s competitive advantage. Focus on key concepts rather than on the legal details. Using non-market strategies to defend or establish competitive advantage is important for both small and large companies.
Reading: BIE 280-307
Case: The Microsoft Antitrust Case BIE 313-322

Session 13: Regulation: Motivation and Industry Response
Regulation is not only determined by agencies but involves other actors such as legislators and courts. In class we will discuss general market failures (motivation for regulation) and the epic battle between the tobacco industry and anti-smoking advocates on the regulation of the future structure of the industry.
Reading: BIE 323-342
   Kessler chapters 22, 27, 33 [in course reader]
Case: Tobacco Politics (A) [in course reader]

Session 14: Strategies in Regulatory Arenas
This session focuses on the formulation and implementation of non-market strategies in the context of regulatory institutions where other interests are present. We will apply the developed frameworks in the context of a marketing and drug approval case in the healthcare industry.
Reading: BIE, 401-436
Case: Reintroducing Thalidomide? (A) [in course reader]
   Reintroducing Thalidomide? (B) [to be distributed in class]

Session 15: Integrated Case IV: Non-Market Strategy Assessment
The last session of this section addresses a recent case on the consequences of environmental regulation. From the previous class, we continue our discussion on market failures and socially efficient responses.
Reading: BIE, 362-392
Case: Westinghouse [in course reader]

Group Assignment 4:
- Assume the role of an analyst at leading investment bank covering Westinghouse. Your task is to give a complete assessment of the consent agreement. Has the consent degree improved or worsened the outlook for the Westinghouse stock? What are the main roadblocks that Westinghouse faces in trying to implement the consent decree? Recommend a strategy for Westinghouse to deal with the roadblocks you identified.
- I will randomly select one group to present and defend their analysis and strategy (ca 10 minutes). Write a one-page executive summary and email it to me 5h before class (harstad@kellogg.northwestern.edu).
Part IV. Integrated Strategy in a Global Environment

Session 16: Comparative Non-Market Analysis: Going Global
This session addresses the significance of cross-national differences in management in the non-market environment with an emphasis on institutions and the organization of interests. This session also gives an overview of aspects of the parliamentary democracies using Germany and Japan as its main examples.
Reading: 489-513
Case: VIAG in 1998 [in course reader]

Session 17: International Organizations
International bodies, such as the European Union, may be challenging to target. This session analyses the European Union’s consideration of a carbon tax to address the global warming issue. The readings provide information on European Union institutions and non-market strategies.
Reading: BIE 524-550
Case: The European Union Carbon Tax, BIE 551-554

Group Assignment 5:
- Imagine you are a European chemical company. What strategy should you take with regard to this issue? What implementation steps do you recommend? For example, whom would you lobby and what message would you use?
- I will randomly select one group to present and defend their analysis and strategy (ca 10 minutes). Write a one-page executive summary and email it to me 5h before class (harstad@kellogg.northwestern.edu).

Session 18: Globalization and Integrated Strategy
Going international makes it necessary to relate to international trade agreements, as well as other countries’ nonmarket environments. The session focuses on Toys 'R' Us' strategy for entering new national markets and the dependence of that strategy on cultural and institutional factors.
Reading: BIE 597-622
Case: Toys 'R' Us and Globalization, BIE 647-652
Case: The Kodak-Fujifilm Trade Dispute, BIE 629-638.

Part V. Final Projects

Session 19: Final Presentations
Session 20: Final Presentations and wrap-up