



**INTL 466**  
**International Business Strategy in**  
**Non-Market Environments**

**Section 61**  
**Winter 2010 Syllabus**

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**Office Hours**  
Mondays 1:30-3pm  
Or by Appointment

## Course Overview

Globalization presents unique opportunities and challenges for business growth and development. Whether a firm seeks new markets for its products, new suppliers in its production process, or simply high-yield investment vehicles, managers need to think in an increasingly global manner in making strategic decisions. But many of the most attractive opportunities internationally -- high-growth markets and/or low-cost production opportunities – present special non-market risks and challenges.

Indeed, beyond traditional factors such as cost and market size, the ability to achieve competitive advantage through globalization is increasingly determined by the firm's ability to assess non-market factors such as the stability of political regimes, the impact of corruption and the risks posed by weak legal systems that limit the enforceability of contracts. Financial crises can provoke massive downward shocks to economies, and managers increasingly must heed the warning signs of these macroeconomic events. Contentious international policy issues such as labor rights, free trade and the protection of intellectual property together with international organizations such as the WTO, the IMF, and the World Bank further influence risks and opportunities in a given national environment.

This course provides tools and frameworks to incorporate non-market factors into international business strategy. The course provides a broad survey of major issues that managers are likely to face in international business, with a strong emphasis on issues germane to emerging markets. Our goal in this course is not to become experts about any one particular country or region; rather, we seek broad principles that can be applied across many countries, markets, and firms. The course will explicitly integrate cases with insights from the latest economics and political science research to provide the international business manager with a sophisticated and strategic perspective on globalization. We will consider many strategic solutions to specific problems posed by weak and/or uncertain institutional systems, where the “rules of the game” may be vague, opaque, or under constant threat of change.

In articulating the risks and considering strategies to mitigate them, we will also touch on deep issues in international development, and we will see that firms can have significant impacts – both positive and negative – in the places they operate. The opportunity to impact the local environment raises the possibility of ancillary social benefits on the one hand and possible ethical concerns on the other. This course further considers strategic choices in light of social ethics.

## Course Structure

The course is divided into two major parts.

### **Part I: National Non-Market Issues and Business Strategy**

Here we consider specific non-market issues that managers are likely to confront within many national environments. While these issues can appear all over the world, they are often acute in emerging markets.

- Poor access to information
- Weak contract enforcement

- Weak investor protections
- Weak intellectual property protections
- Corruption
- Political instability

For each issue, we will begin by characterizing the risks it poses and then analyze where and when it is likely to be important. We then consider, for each type of issue, important strategic responses that managers can take to successfully mitigate risks and realize opportunities.

## **Part II: International Institutions and Business Strategy**

In the second part of the course we will examine the non-market roles of major international institutions. We will primarily consider:

- The WTO
- The IMF
- The World Bank Group

as they relate to

- Free trade
- Intellectual property rights
- Financial crisis
- Development and business assistance

Large international institutions have significant effects on entire economies as well as on the performance of individual sectors within nations. With each institution, we will start by analyzing its operational mechanisms and the problems it intends to solve. We will then consider specific risks and opportunities these institutions bring to business development and discuss strategies to ensure that your firm ends up on the “right side” of the policies and activities these institutions undertake.

As with many strategy courses, the material in this course can be complicated and real-world examples can be challenging to analyze at first. For this reason, Part I of the course will rely less on case teaching and more on simple examples to elucidate a series of specific concepts. As the course progresses, we will begin integrating these building blocks to provide rigorous analysis of more complicated real-world situations. The final project will allow students to further integrate and apply the concepts learned in the course.

## **Class Preparation**

### **Readings:**

For each topic, there will be a set of assigned readings. These readings will help develop the underlying concepts and/or provide examples. It is essential that you read these materials prior to class.

The required readings are available in two different places:

1. A course packet. The course packet includes numerous required readings, including cases.

2. Online readings. These readings are available on the course webpage (see below for the web address – and note that INTL-466 does not use Blackboard). These readings are typically shorter articles. They are also required.

The Course Outline below indicates the source for each article.

### **Homework assignments:**

I will hand out short homework assignments both to help guide your reading and to practice analytic concepts. These assignments will be provided in class. The homework assignments will not be graded, but students will be expected to discuss the questions in class and similar questions will reappear on the exams.

### **Extra Readings:**

This course provides a broad survey of many issues, and at times you may want to read further about issues of personal interest. The reading list will therefore also point to resources where you may find more extensive analysis. These extra readings are entirely optional, and are meant simply to provide a reference for you now or in the future. These readings are available through the course webpage.

### **Assessment and Grading**

The grade is made up of four components:

1. **Midterm Exam (25%):** The midterm will be a closed book/closed notes in-class exam, given in regular class time on Thursday, February 4th. It will consist of multiple choice and short answer questions, and will cover all lectures, cases, and readings from the first five weeks of the course. The midterm will place extra emphasis on the ideas drawn out in the homework assignments.
2. **Final Exam (25%):** The final will be given in the final exam week but will be of similar length (1.5 hours) and format as the midterm. It will only cover material from the second half of the course. The final exam is scheduled for Friday, March 19<sup>th</sup> at 12pm. Alternatively, the early exam option may be available through Student Affairs, allowing one to take the exam on the weekend prior (e.g. Saturday March 13<sup>th</sup>). Please check with Student Affairs regarding the availability of this option.
3. **Group Project (40%):** The major component of the grade will be a group project. Groups should be either 4 or 5 members in size. The project will give you and your group a chance to explore an area of special interest. Your group's product will be a written report that analyzes a specific strategic question from the point of view of a particular firm or possibly some other type of organization such as an NGO or government agency. You are free to choose any firm or other entity of particular interest to your group, but of course the thrust of your analysis must integrate significant elements of non-market issues and strategies that we have discussed in the course.

A successful project will include relevant background information about the firm, the project/investment of interest, and the country or countries in which the action would take place.

Analysis of the firm's possible actions should follow, based on the strategic concepts we have developed in the course. The "theory" should be supplemented by descriptive evidence from the news media and hard data. The report should be approximately 12 pages in length (1.5 spaced, 12 point font size, ordinary margins) not including appendices, which may include up to 8 tables, graphs, and exhibits. The project will be due on the final day of class, Thursday March 11<sup>th</sup>.

Note: To help ensure fairness, I will ask you on the final exam to assess the relative contributions of your group members.

### **Key Project Dates**

Session 5 Provide list of group members

Session 13 One-page Description (10% of project grade)

The description should do four things. First, it should define the firm or other organization whose perspective you are taking. Second, the report should define a particular question of interest. Third, it should define a set of likely strategic issues that will come up and that you will analyze. Finally, it should provide a preliminary list of sources - for facts, issues, data, etc -- that will allow your group to produce a careful and textured analysis.

Session 20 Final Report (90% of project grade)

**4. Class Participation (10%):** Attendance, preparation, and participation are essential. Obviously, you cannot participate if you are not present, so absences without legitimate excuses will lead to a reduced participation grade. Learning opportunities are maximized when all students are actively engaged in class discussion. The subject matter of this class should naturally stimulate a lot of discussion, and I am eager to have an active dialogue. Particularly valuable types of participation will be those that move the discussion forward, often by adding useful facts to the discussion or by providing a new insight on the issue at hand. Requests to clarify concepts being presented are also encouraged of course. If you are confused by something, then other people are probably confused as well, and participation that seeks to clarify an idea will likely be valuable for the whole class.

Participation will also be essential as we discuss the questions in the homework assignments, which will largely consist of specific questions about the readings. If a question is in the homework assignment, then I will expect that everyone has something to say about it, and I may call on people at random on occasion.

There will be ample opportunity for each of you to participate. Do not be discouraged if, after the first few classes, you have yet to participate much. If you feel that you are preparing well but not being called on enough, please let me know so that I can address the problem. And please realize that as long as you have invested quality time in the readings and worked through the questions, you will almost certainly have valuable contributions to make during the discussion.

Note: To minimize distractions, laptop computers should remain off throughout each session.

### **Course Webpage**

You can link to the course web-page through my faculty page. The web address is:

<http://www.kellogg.northwestern.edu/faculty/jones-ben/ftp/MainCoursePage.htm>

Online required readings are available here. Electronic copies of course materials, including lecture slides and homework assignments will be placed on the web-page after class. Further information about the group projects, including sample projects are also provided. Links to the optional “extra readings” can also be found there, and I will post additional articles of interest there as the course progresses.

## Course Outline

*Location of Readings Key*  
[CP] indicates course packet  
[WEB] indicates course webpage

### **Introduction**

#### **Session 1: Welcome and Overview**

Monday, January 4, 2010

##### **Reading:**

1. [WEB] Market Indicators, *The Economist*, December 10, 2009

#### **Session 2: Why are Emerging Markets Still Emerging?**

Thursday, January 7, 2010

##### **Readings:**

1. [CP] Pritchett, "Divergence, Big Time" in Meier & Rauch, *Leading Issues in Economic Development*
2. [WEB] "First Get the Basics Right," *The Economist*, January 17, 2004
3. [WEB] "The African Exception," *The Economist*, March 30, 2002

##### **Extra Readings:**

1. DeLong, "Review of Diamond, Guns, Germs, and Steel", 1999, [http://www.j-bradford-delong.net/Econ\\_Articles/Reviews/diamond\\_guns.html](http://www.j-bradford-delong.net/Econ_Articles/Reviews/diamond_guns.html)
2. Acemoglu, Johnson, and Robinson, "Institutions as a Fundamental Cause of Long-Run Growth" *Handbook of Economic Growth (Chapter 6)*, 2005

### **Part I: National Non-Market Issues and Business Strategy**

#### **Session 3: Institutions, Market Failures, and Firm Strategy: An Introduction**

Monday, January 11, 2010

##### **Readings:**

1. [CP] Anand, Khanna, and Rivkin, "Market Failures", Harvard Business School: Note, April 2000 [read pp. 1-7 only]
2. [CP] Sargent, "Getting to Know the Neighbors: Grupos in Mexico", *Business Horizons*, 2001.

##### **Extra Readings:**

1. North, *Institutions, Institutional Change, and Economic Performance*, 1990
2. Perkins, Susan. "Does Prior Experience Really Pay?", Kellogg School of Management, 2006.

#### **Session 4: Contractual Problems**

Thursday, January 14, 2010

##### **Readings:**

1. [CP] Besanko, Dranove, Shanley, and Schaefer, *Economics of Strategy*, 3<sup>rd</sup> Edition, 2004, p. 127-136
2. [WEB] “A Local Firm’s Baffling Trip Through China’s Arbitration System”, *Los Angeles Times*, December 26, 2003
3. [WEB] “Thais make a mess of their muddling,” *Financial Times*, June 22, 1993

##### **Extra Readings:**

1. Djankov, La Porta, Lopez-de-Silanes, and Shleifer, “Courts”, *Quarterly Journal of Economics*, February 2002

#### **Session 5: Property Rights I: Weak Investor Protections**

Wednesday, January 20, 2010

##### **Readings:**

1. [CP] **Case:** “Gazprom and Hermitage Capital: Shareholder Activism in Russia”

##### **Extra Reading:**

1. Bertrand, Mehta, and Mullainathan, “Ferretting Out Tunneling: An Application to Indian Business Groups”, *Quarterly Journal of Economics*, February 2002
2. “Dancing with the Bear,” *The Economist*, February 2007

**Due:** List of group members for group project.

#### **Session 6: Property Rights II: Intellectual Property Issues**

Thursday, January 21, 2010

##### **Readings:**

1. [WEB] “India Stands Firm Against Coca-Cola,” *The New York Times*, September 5, 1977
2. [WEB] “Rich Vein of Talent Makes China Potential R&D Hothouse,” *Financial Times*, April 19, 2002
3. [WEB] “In China, Knockoff Cellphones Are a Hit,” *The New York Times*, April 28, 2009

##### **Extra Reading:**

1. Zhao, “Doing R&D in Countries with Weak IPR Protection: Can Corporate Management Substitute for Legal Institutions?”, NYU, unpublished manuscript, July 2004
2. “Fakes!” *Business Week*, February 7, 2005

#### **Session 7: Corruption I: An Introduction**

Monday, January 25, 2010

##### **Readings:**

1. [CP] Easterly, “Corruption and Growth” in *The Elusive Quest for Growth*, Cambridge, MA: MIT Press, 2001, Ch. 12
2. [WEB] “The Road to Hell is Unpaved,” *The Economist*, December 19, 2002
3. [WEB] “India’s Corruption Blues,” *The Economist*, March 24, 2001

##### **Extra Readings:**

1. Shleifer and Vishny, “Corruption,” *Quarterly Journal of Economics*, August 1993
2. Fisman and Miguel, “Corruption, Norms and Legal Enforcement: Evidence from Diplomatic Parking Tickets,” *Journal of Political Economy*, 2008
3. “Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform*, 1999, Chapters 2-5

### **Session 8: Corruption II: Firm-level Issues**

Thursday, January 28, 2010

#### **Readings:**

1. [CP] “Corruption in International Business (B)”
2. [CP] **Case:** “Manulife in Indonesia (A)”
3. [CP] **Case:** “Manulife in Indonesia (B)”

#### **Extra Readings:**

1. “U.S., Other Nations Step Up Bribery Battle,” *Wall Street Journal*, September 2008
2. “Ikea Tries to Build Public Case against Russian Corruption,” *The New York Times*, 12 September 2009
3. Excerpt of Texaco corporate charter re: Bribery and Foreign Corrupt Practices Act

### **Session 9: Political Power & Business Strategy**

Monday, February 1, 2010

#### **Readings:**

1. [WEB] “Ex-Leader Stole \$100 Million From Liberia,” *The New York Times*, September 18, 2003
2. [WEB] “A High-Tech Fix for One Corner of India,” *The New York Times*, December 27, 2002
3. [WEB] “Monopoly Money”, *The Economist*, November 18, 2006

#### **Extra Readings:**

1. Jones and Olken, “Do Leaders Matter? National Leadership and Growth since World War II,” *Quarterly Journal of Economics*, August 2005
2. Jones and Olken, “Hit or Miss? The Effect of Assassinations on Institutions and War”, *American Economic Journal: Macroeconomics*, 2009
3. Fisman, “Estimating the Value of Political Connections,” *American Economic Review*, September 2001

### **Session 10: MIDTERM EXAM**

Thursday, February 4, 2010

## **Part II: International Institutions and Business Strategy**

### **Session 11: Trade, Comparative Advantage, and the Non-Market Perspective**

Monday, February 8, 2010

#### **Readings:**

1. [CP] P. Krugman & M. Obstfeld, “Labor Productivity and Comparative Advantage,” in *International Economics*, 6<sup>th</sup> Edition, 2003, Ch. 2, pp. 10-26.
2. [WEB] “The Allure of Low Technology,” *The Economist*, December 20, 2003
3. [WEB] “H-P Outsourcing: Beyond China” *The Wall Street Journal*, February 28, 2004.

#### **Extra Readings:**

1. “Grinding the Poor,” *The Economist*, September 27, 2001

### **Session 12: Low Wages & Labor Issues**

Thursday, February 11, 2010

#### **Readings:**

1. [CP] **Case:** “Hitting the Wall: Nike and International Labor Practices”
2. [WEB] “Chinese Girls’ Toil Brings Pain, Not Riches,” *The New York Times*, October 2, 2003

#### **Extra Readings:**

1. Brown, Deardorff, and Stern, “The Effects of Multinational Production on Wages and Working Conditions in Developing Countries,” NBER Working Paper #9669, 2003
2. Irwin, *Free Trade Under Fire*, 2002, Chapter 6

### **Session 13: The WTO & the AIDS Epidemic**

Monday, February 15, 2010

#### **Readings:**

1. [CP] D. Barron, “International Trade Agreements,” in *Business and Its Environment*, 4<sup>th</sup> Edition, pp. 595-602
2. [CP] **Case:** “Cipla”

#### **Extra Readings:**

1. Maskus, “Ensuring Access to Essential Medicines: Some Economic Considerations”, UC Boulder, mimeo, 2002

**Due:** One-page overview of your group project (see above for expected content).

### **Session 14: Trade Protections (I) and Trade Volatility (II)**

Thursday, February 18, 2010

#### **Readings:**

1. [WEB] “Builders Seek End to Tariffs on Cement,” *Los Angeles Times*, August 12, 2004
2. [WEB] “The Paradox of Plenty,” *The Economist*, December 24, 2005

#### **Extra Readings:**

1. Mehlum, Moene, and Torvik. “Institutions and the Resource Curse”, *Economic Journal*, 2006

### **Session 15: Financial Crisis I: Anatomy of Financial Crises & The IMF**

Monday, February 22, 2010

#### **Readings:**

1. [CP] “International Institutions” [Read section about IMF only]
2. [WEB] “On the Rocks,” *The Economist*, March 7, 1998

#### **Extra Readings:**

1. Eichengreen, “The Globalization Wars: An Economist Reports from the Front Lines”(review of Stiglitz’s *Globalization and Its Discontents*), *Foreign Affairs*, July-August 2002
2. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*, 2005 (5<sup>th</sup> Edition).

**Session 16: Financial Crisis II: Example(s)**

Thursday, February 25, 2010

**Readings:**

1. To be provided during quarter.

**Session 17: The World Bank Group I: An Introduction**

Monday, March 1, 2010

**Readings:**

1. [CP] Easterly, "To Help the Poor," in *The Elusive Quest for Growth*, 2001, Ch. 1.
2. [CP] "International Institutions" [Finish article]

**Extra Readings:**

1. Easterly, *The Elusive Quest for Growth*, 2001
2. Einhorn, "The World Bank's Mission Creep," *Foreign Affairs*, September-October 2001

**Session 18: The World Bank Group II: Business Strategy**

Thursday, March 4, 2010

**Readings:**

1. [CP] Maddy, "Dream Deferred: The Story of a High-Tech Entrepreneur in a Low-Tech World," *Harvard Business Review*, May-June 2000
2. [CP] **Case:** "Financing the Mozal Project"

**Session 19: Integrative Case**

Monday, March 8, 2010

**Readings:**

1. [CP] **Case:** "Nghe An Tate & Lyle Sugar Company"

**Session 20: Summary and Review**

Thursday, March 11, 2010

**Readings:** Review course materials.

**Due (in Session 20): Group project**

**Final Exam:**

Friday, March 19, 2010 at 12pm

OR

Early Exam Option through Student Affairs