

**Northwestern University**

**Kellogg School of Management**

**International Business Strategy and Global Competition  
MGMT 460**

**SYLLABUS and ASSIGNMENTS**

**SECTIONS 61 and 76**

**Winter 2017**

Preliminary – subject to revision

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# **International Business Strategy**

## **General course description**

Modern corporations such as Boeing or Caterpillar sell and source around the world. These global operations can be a major opportunity for growth, an important avenue for cost reductions, or a serious source of risk as multinationals face different competitors, different political systems, and different customer cultures.

The course considers the objectives and strategies of international business. It equips international business managers with a framework to formulate strategies that will help them compete in the global marketplace. The course emphasizes economic analysis of the forces driving international business. International business leaders need to comprehend how global competition is quickly changing the world around them. The course examines the extent of global integration to date, how different international markets may be accessed, whether the concept of economic nationality remains relevant, the implications of global competition, the fragmentation of production, and the import content of exports. We also spend a decent amount of time on politics and policy surrounding international trade and investment, since these define the climate in which international businesses operate. Cases and mini-cases are used throughout to illustrate the basic principles of multinational business management and strategy.

The course begins with Spulber's (2011) "Strategy Star" – a framework for understanding international business and achieving competitive advantage as a company enters into international competition. Strategic features of international business are grouped into: (i) home country features, (ii) supplier country features, (iii) partner country features, (iv) customer country features, and (v) competitor country features.

Among the course's many themes, we examine how increased choice that is available to consumers in an integrated market can lead firms to seek increased scale. We discuss the concept of comparative advantage, how global competition can result in increased specialization for firms and workers, and the emergence of international production networks. We study trade costs as a source of competitive advantage. We analyze the challenges of price leadership, and examine strategies based around product and process innovations. We review the drivers of Foreign Direct Investment (FDI) and discuss how this particular entry mode may be perceived by the different stakeholders in host economies. We debate the "effects of globalization." At the end of the course, groups of students present "mini-cases" that include polling the views of all class members on a particular decision that an international business manager needs to make.

## **Microeconomics content**

While "MECN-430 Microeconomic Analysis" is not a prerequisite for this course, we build on certain microeconomics concepts that are essential to understanding developments and designing strategy in international business. For example, how does the international business manager's pricing strategy reflect diverse consumer tastes in the different countries of operation? Why might the forces of globalization lead to tougher competition and industry "shakeouts," greater scale for every company

surviving this shakeout process, and more variety and lower prices for consumers? What can the manager learn from the theory of comparative advantage to understand the trade of tasks, goods, and services between regions and countries, and to design the global supply chain? To cite another example, how does the potential for cross-border arbitrage affect market strategies and outcomes? To be clear, we do not “shy away” from using some of the microeconomist’s toolkit.

For the benefit of students who have not completed Microeconomic Analysis, we review the key microeconomics “stepping stones” in Week 1. I will thus go through the microeconomics that is necessary to follow the course. That said, if you feel that you would like to strengthen your understanding of microeconomics in its application to strategy, please come to see me. One excellent reference is:

(OPTIONAL) Primer: Economic Concepts for Strategy, in David Besanko, David Dranove, Scott Schaefer and Mark Shanley, *Economics of Strategy*, 6<sup>th</sup> Edition, 2012, New York: Wiley

It is worth emphasizing from the outset that microeconomics is critical to understanding strategy. The Kellogg MBA program is founded on this critical link. According to Kellogg’s Department of Management and Strategy, “Strategy, as defined at Kellogg, is the use of economics to help organizations meet their objectives.” The faculty at the Department of Management and Strategy at Kellogg are mostly microeconomists by training. As Besanko et. al. write in the *Economics of Strategy*, “one can approach the study of strategy in many ways... Economic theory is distinctive, we think.”

### **Group work – Final “mini-case” project**

Students should join into groups of around 6 or 7 students. By the end of the second week of the course, each completed or partially completed group should email me with the list of members and the name the group wishes to go by, if you’re feeling creative or are into marketing (e.g., *Global Warriors*). If you have difficulty finding a group, please let me know and I will assist.

The group assignment will consist of developing a “mini-case” to be presented to class in the final week. Along with the presentation, the group should also submit a five-page write-up (1.5 line-spacing, this can exclude exhibits, list of references, etc; submissions by email please). The mini-case will consist of three parts: (i) the background to a decision that an international business manager needs to make, among different possible courses of action; (ii) one multiple-choice question or motion to be posed to the class outlining the possible courses of action and (iii) the group’s own analysis of the situation and their proposed strategy.

I will be providing more guidance on the mini-case project shortly after the midterm exam. The exercise is deliberately open-ended, with the objective of stimulating the group’s creativity (including the choice of organization and setting) and critical thinking. The idea is to build on the frameworks covered over the quarter and the group’s business interests and background. The exercise should hopefully provide further opportunity for interaction with students from different backgrounds. With a view to possibly providing some guidance, a one-paragraph proposal is due in week 8. This should outline what is informative about your choice of setting, and a preliminary

version of the multiple-choice question or motion that will be posed to the class.

At the conclusion of the course, I will ask for private assessments of whether there were group members who did notably more or notably less than others. Your private evaluation of your group colleagues may then impact their course participation grade.

A central motivation for the group assignment is to enhance the learning experience of the individual student, given the diversity of backgrounds and perspectives of class members. My recommendation to students who self-select into groups is to join forces with colleagues with whom they have had minimal interaction to date.

Unfortunately, given limited time available for presentations in class relative to enrollment in MGMT 460 classes, groups need to have a minimum size of 6 students. In some cases, groups may have to accommodate a slightly larger number of students.

### **Participating in class**

Class attendance and (thoughtful) participation is stressed. Effective interaction will enhance the learning experience of all class members. One of the great benefits of coming to Kellogg is the opportunity to learn from each other, not only when preparing group assignments but also in class. A well-prepared, participatory class will be more fun and more rewarding for all of us. I will also be taking attendance as a means of both measuring participation and of learning everyone's names. Please send me an e-mail in advance when you know you are going to be absent. I do recognize that everyone has things that come up; thus each student will be allowed an *excused absence quota* to be used at the student's discretion. For Evanston students, this covers two sessions. For Chicago students, a single session (the equivalent).

Carefully doing the required readings in preparation for class, as listed in the week-by-week program below, will not only enhance your learning but also make your participation more effective. That is, there is a strong "positive externality" to investing time ahead of class. Each week some brief questions will be provided to guide your reading as online assignments. These are not graded for quality, but may affect the participation grade. They are meant to help you engage with the material.

Since we should all come to class prepared, having read the texts and the cases, our principal focus during class discussion will be on analysis. We will minimize the summary of the text and regurgitation of facts from the text. After all, the concise presentation of convincing arguments and opinions is an important managerial skill.

Class members should expect to be cold-called. Please do not take this personally. This will provide you with an opportunity to think on your feet and an added incentive to come prepared to class. This may also help me encourage quieter students, who often have valuable contributions to make. And, of course, it ensures that your classmates have to do the readings, just like you always do.

To emphasize, the considerable reading load—around two texts per week—implies that you should not begin to prepare for class the night before. Rather, you should begin reading for the next

class as each class is completed. When possible, I will make clear (for Evanston students) which readings will be covered on which days. But in the absence of such clarification, please have everything ready for the first class.

Preparing, attending, and effectively participating in class form an important component of the final grade, as outlined above. Further, exams may cover comments that I or colleagues make in class that are not recorded in slides.

Course participation will be graded on a scale of 0-10 and will account for 10% of the course grade. I will normalize participation scores such that the mean is 5. This will allow for meaningful recognition of excellent contributions. Student participation will be assessed on the quality of in-class contributions, more than the quantity. There will also be a particular opportunity for participation through volunteering for leading roles in the week 9 debate on globalization.

### **Grading**

Your final course grade will have four components:

1. Individual take-home Midterm exam (30%)
2. Individual take-home Final exam (30%)
3. Group's Final "Mini-case" Project – Presentation and report (30%)
4. Participation – Individual contribution in class and to group work (10%)

### **Contact outside of class**

I am glad to meet with you to discuss course material, interesting global developments, or other concerns. I split my time between Kellogg and The Chicago Council on Global Affairs, where I am Senior Fellow on the Global Economy. This means that planned meetings will probably work better than drop-ins (particularly as Kellogg transitions to its new Global Hub). Also, in general, e-mail will get a quicker and more reliable response than phone messages. *Please put the course and section number in the subject line (460-61 or 460-76).*

### **Copyrighted materials**

All course materials are privileged work product. They have been copyrighted by the authors who reserve all rights to their use including print and electronic media. It is understood that students taking this course will not provide course materials or their course notes to companies, websites, or individuals outside the course, including those who are seeking access to course materials for commercial use. Students will not disseminate course materials or their course notes beyond other immediate members of the course. This understanding is protected by the Kellogg Honor Code.

## **Kellogg Honor Code**

All Kellogg Honor Code restrictions apply to course assignments, exams and class participation. That said, there are some points that I would like to emphasize:

1. You must be entirely familiar with all work presented orally and in writing by your group;
2. You must cite sources for your final project, including placing in quotation marks any statement, or identifying as such any graph or table, that is taken directly from a source;
3. You may not review material from previous offerings of MGMT 460 in preparing for exams or in preparing your group assignment other than what I make available;
4. Both exams are individual assignments and should be taken during the time allotted and without any collaboration from others;
5. You should only turn in your brief answers on questions to weekly readings if you attend class on the day; you should not hand in answers on behalf of a colleague.

## **Kellogg Code of Classroom Etiquette**

There is a Kellogg Code of Classroom Etiquette that we must all abide by in our interactions. Please feel free to disagree—and provide a supporting argument—with statements made by myself or by fellow students.

I kindly request that you bring your nameplate to class and display it so I can see it clearly. I wish I had the kind of memory to memorize everyone's name on the first day. I don't.

This course adopts a No Laptop / No Smartphone policy. If making notes on a tablet or another electronic device is important to you, please let me know. I will ask you to ensure that all wireless communication is turned off throughout. Violations of this policy will not result in classroom incidents, but may be reflected in participation grades.

You should strive to arrive to class no later than 5 minutes *before* the class begins. Please make every effort to avoid walking in and out of the classroom while a class is in session (e.g., to buy a cup of coffee or to talk on the phone), as this can be very distracting to fellow students.

All Saturday classes will break around the middle.

## **Exams**

There will be two exams during the quarter. Both exams are to be taken individually and are subject to the Kellogg Honor code. The Midterm Exam will be taken at home and is due in Week 6. The Final Exam will also be taken at home during the specified examination period.

Both exams will be structured similarly. You will have two hours to complete each exam. Exams will be based on the material covered in class lectures, in readings (including cases) listed below, and during discussions. Exams will not include *optional* readings that I will be bringing to class and are not listed in this syllabus. Each exam will be composed of two parts: The first part will be objective with short (including multiple-choice and quantitative) questions; The second part will be essay-based. Each exam will be taken on a closed-book, closed-notes basis, with one important exception. You are allowed to consult a "cheat sheet," prepared by you prior to the exam, consisting of a single sheet of paper with both sides containing information that is handwritten (or typed) by yourself. The objective is that you learn in the process of preparing the "cheat" sheet; thus, photocopying handouts or copying a colleague's

“cheat” sheet is strictly forbidden, as it defeats the purpose of the exercise.

## Overview of Class Topics

<b>Week 1</b>	Introduction, Introduction to International Business, Spulber's "Star Analysis" framework, review of microeconomics
<b>Week 2</b>	Supplier and partner country features and the vertical supply chain
<b>Week 3</b>	Customer and competitor country features and guest speaker
<b>Week 4</b>	Global competition and the scale-variety tension
<b>Week 5</b>	Home country features and economic nationalism
Take-home midterm posted	
<b>Week 6</b>	Global competition, comparative advantage, and specialization
Take-home midterm due	
<b>Week 7</b>	Understanding trade costs as a source of competitive advantage
<b>Week 8</b>	Policies, institutions and strategies in international competition
<b>Week 9</b>	Foreign direct investment (FDI) and the globalization debate
<b>Week 10</b>	Conclusion and course overview
Mini-case project is due	

**Note:** Readings are yet to be determined for guest speakers and other modifications may be required to accommodate their schedules. There may be additional updates for timeliness. Any changes will be implemented with a minimum of one week's advance notice.

### Week 1. INTRODUCTION

Sessions A and B: Introduction to International Business, Spulber's "Star Analysis" framework, review of microeconomics

Readings in preparation for class

1. Jeffrey Frankel, Globalization of the Economy, pp. 45-71 in J. S. Nye and J. D. Donahue, *Governance in a Globalizing World*, 2000, Washington, D. C.: Brookings Institution. **In course pack.**
2. {optional} Hufbauer, Gary, and Tyler Moran, "2016 – A Good Year to Ace the Trade



Agenda,” GE Reports, online (single page): <http://www.gereports.com/gary-hufbauer-tyler-moran-2016-a-good-year-to-ace-the-trade-agenda/>

3. Daniel F. Spulber, *Chapter 2: Global Strategic Analysis, Global Competitive Strategy*, 2011, Cambridge: Cambridge University Press. **Access in E-book format via the Northwestern University library online catalog:**  
<http://northwestern.ebib.com/patron/FullRecord.aspx?p=321350>

Questions to be prepared for texts 1 and 2 only (to be turned in)

Your answers should be brief and can be handwritten. Bullet points are perfectly acceptable. You should personally turn your answers in at the start of class, identifying yourself on the sheet of paper. Do not hand in answers on behalf of a colleague. If you miss class on the day, you should not turn your answers in.

1. Global integration in historical perspective: Can you identify three different phases of global integration or fragmentation over the course of the 20th century?
2. Global integration in recent years: How are the concerns of multinational enterprises – as reflected in the trade negotiating agenda – different now than in decades past?

## **Week 2. SUPPLIER AND PARTNER COUNTRY FEATURES**

### Sessions A and B: Supplier and partner country features and the vertical supply chain

Readings in preparation for class

1. (PAGES 1-7 ONLY) WTO and OECD, Trade in value added: Concepts, methodologies and challenges, 2012. Access via the course website on Canvas.
2. Sergio Lazzarini and L. J. Bourgeois, III, Embraer in China, 2008, Case UVA-S-0151, Ibmec São Paulo and Darden Business School, University of Virginia. In course pack.

Questions to be prepared for text 1 only

1. Is the iPhone “made in China”? If not, where is it made?
2. Why does assigning the full value of US imports of iPhones to the US’s bilateral trade deficit with China (or, similarly, assigning US imports of ERJs to the US’s bilateral trade account with Brazil) provide a distorted picture of the economic geography of international trade?

Questions to guide analysis of text 2

1. What critical strategic choices does Embraer generally make with regard to its supply chain and “risk-sharing partnerships” (e.g., GE, Kawasaki), and why?
2. “Embraer is a Brazilian business.” Discuss. Who captures value in the Embraer ERJ ecosystem? How does this compare to the Apple iPhone?
3. What is the strategic case for Embraer’s joint venture with AVIC II to assemble ERJ 145s? Is there a prisoner’s dilemma? What are the risks?

### **Week 3. CUSTOMER AND COMPETITOR COUNTRY FEATURES**

#### Sessions A and B. Customer and competitor country features and guest speaker

##### Readings in preparation for class

1. Yoffie, David, and Rachna Tahilyani, "Coffee Wars in India: Starbucks 2012," HBS Case 9-715-452, March 31, 2015.
2. Yoffie, David, and Rachna Tahilyani, "Coffee Wars in India: Starbucks 2015," HBS Case 9-715-453, March 4, 2015.
3. TBD – reading from guest speaker.

##### Questions to be prepared for text 1 only

1. What were the advantages and disadvantages of India as a market for Starbucks? How did it differ from other markets Starbucks was in?
2. Did Starbucks price to market?

### **Week 4. GLOBAL COMPETITION AND THE SCALE-VARIETY TENSION**

#### Sessions A and B. Globalization and the scale-variety tension

##### Readings in preparation for class

1. Kannan Ramaswamy, Renault-Nissan: The Challenge of Sustaining Strategic Change, 2009, Case TB0047, Thunderbird School of Global Management. **In course pack.**

##### Questions to be prepared for text 1

1. What are the *strategic* reasons for the Renault-Nissan alliance? What does Renault gain? What does Nissan gain?

##### Additional questions to guide analysis of text 1

2. Can you tie the strategic motivation for the alliance back to the economic framework seen in the lecture – of globalization enhancing variety and scale? Explain the economic mechanism behind "the emerging shakeout in the global marketplace" (p.1, in the very first paragraph).
3. What challenges lie ahead for Renault-Nissan? Evaluate the value of an alliance with a third global carmaker (e.g., GM or Daimler).
4. (From outside the case) Based on this week's lecture and case, do you think Fiat Group's CEO Sergio Marchionne was "out of his mind" on tying his company's future to that of Chrysler?

## Week 5. HOME COUNTRY FEATURES AND ECONOMIC NATIONALISM

Sessions A and B: Home country features and Economic Nationalism

**The take-home midterm exam will be posted at the end of class. It will include material from this week.**

Readings in preparation for class

1. Mihir A. Desai, *The Decentering of the Global Firm*, *World Economy*, 32, 2009, pp. 1271-1290. **Access via the course website on Canvas.**
2. Daniel F. Spulber, *Chapter 7: Lenovo: Entering Global Competition*, *Global Competitive Strategy*, 2011, Cambridge: Cambridge University Press. **Access in E-book format via the Northwestern University library online catalog:**  
<http://northwestern.ebib.com/patron/FullRecord.aspx?p=321350>

Questions to be prepared for text 1 only.

1. *“Now, it appears that the center cannot hold. The archetypal multinational firm with a particular national identity and a corporate headquarters fixed in one country is becoming obsolete as firms continue to maximize the opportunities created by global markets. National identities can mutate with remarkable ease and firms are unbundling critical headquarters functions and reallocating them worldwide.”* (p. 1271) Do you find the argument convincing? Along which dimensions do you think the author’s argument is stronger?

Questions to guide analysis of text 2

1. How has Lenovo’s home country affected its initial development and strategy? What advantages has Lenovo enjoyed, and what disadvantages has it faced, from “being Chinese”?
2. What strategic reasons drove Lenovo to expand internationally? Why did the company choose the acquisition of IBM’s PC unit over alternatives to expand?
3. Can you speculate why the Lenovo-IBM deal went through, whereas CNOOC-Unocal and DP World-P&O faced stiff political resistance?
4. Is Lenovo a good example of the “decentering global firm”?

## Week 6. GLOBAL COMPETITION, COMPARATIVE ADVANTAGE AND SPECIALIZATION

**The take-home midterm exam is due at the start of class.**

Sessions A and B. Globalization, comparative advantage and specialization

### Readings in preparation for class

1. **(PAGES 7-11 ONLY)** WTO, Economic Globalisation Indicators, 2010.  
Access via the course website on Canvas.
2. F. Warren McFarlan, Michael Shih-Ta Chen, and Keith Chi-Ho Wong, Li & Fung 2012, 2012, Case 9-312-102, Harvard Business School. **In course pack.**

### Questions to guide analysis of text 1

1. What are the sources of comparative advantage in the regions in which Li & Fung does business, both “upstream” with manufacturers and “downstream” with retailers? How is this changing?
2. Where does the Li & Fung network add value, both for suppliers and for customers?
3. How would you recommend that Wal-Mart work with Li & Fung, if at all?

## Week 7. UNDERSTANDING TRADE COSTS AS A SOURCE OF COMPETITIVE ADVANTAGE

Sessions A and B. Costs of trade

### Readings in preparation for class

1. **(INTRODUCTION ONLY)** James E. Anderson and Eric van Wincoop, Trade Costs, *Journal of Economic Literature*, 42, 2004, pp. 691-751. **Access via the course website on Canvas.**
2. Alberto Salvo and Daniel F. Spulber, Cemex: International Market Maker in Cement, *Journal of Strategic Management Education*, 3, 2006, pp. 1-24. **Access via the course website on Canvas.** Alternatively, the same case is available in Daniel F. Spulber, Chapter 8: Cemex: Making Global Markets, *Global Competitive Strategy*, 2011, Cambridge: Cambridge University Press, **E-book format via the Northwestern University library online catalog:**  
<http://northwestern.ebib.com/patron/FullRecord.aspx?p=321350>

### Questions to be prepared for text 1 only

1. Is “distance dead”? Do you think it will *ever* die?
2. Can you briefly describe one incident from your professional or personal experience which reminded you that distance, location and/or nationality, still matter hugely in the global economy and in human society?

### Questions to guide analysis of text 2

1. Recalling the company’s early trajectory operating only in Mexico, Cemex’s CEO stated: “We had to become an international company to survive.” Why?

2. Why was international trading important to Cemex? What does the CEO mean by “standard portfolio theory”?
3. In contrast to Li & Fung, why has Cemex adopted an asset-heavy strategy in building its global network?
4. “Cemex’s story illustrates the gains from correctly anticipating shifts in trade costs, and the dangers from failing to do so.” Discuss in view of the case as well as recent facts provided in class.

## **Week 8. POLICIES, INSTITUTIONS, AND STRATEGIES IN INTERNATIONAL COMPETITION**

### Sessions A and B. An overview of policies and institutions in international competition

#### Readings in preparation for class

1. Case: Fishy Issues: The U.S. Shrimp Anti-Dumping Case, UVA-G-600 **In course pack.**
2. “The Effects of Tariffs and Quotas”, UV2703, July 2009 **In course pack.**
3. Chiquita Brands International (A and B). HBS Case 9-797-015 **In course pack.**

#### Assignment to be prepared on text 1

1. What has happened to the real price of shrimp? Is this important?
2. Suppose the world price remains constant, who would gain or lose in the United States from tariffs?
3. How would the imposition of the tariff affect the world price? Would this improve or worsen the welfare situation for consumers, producers, the government, and foreign exporters?
4. Would dumping tariffs guarantee higher prices for the domestic industry? Why or why not?
5. Why would shrimp producers request dumping tariffs rather than a straight subsidy? Which of these two – tariffs or subsidies – would have been better for U.S. domestic consumers?

#### Questions to guide analysis of text 2 (not to be turned in)

1. What role has politics played in the history of Chiquita Brands, and its predecessor, the United Fruit Company?
2. What role has protectionism played in the global banana market? Is this role defensible?
3. What should Lindner do about the EU’s banana policy? How should Bob Dole respond to Lindner’s request?
4. In what ways was WTO dispute settlement more potent than its GATT predecessor?
5. Was the WTO successful in solving the problem? Why or why not?

**A one-paragraph (i.e., short, preliminary) proposal on your group’s “Mini-case” Project, including a single question/motion on international strategy to be put to the class, is due at the start of class.**

## **Week 9. FOREIGN DIRECT INVESTMENT & THE GLOBALIZATION DEBATE**

### Sessions A and B. Foreign Direct Investment & the Global Competition debate

#### Readings in preparation for class

1. Keefe, Patrick Radden, "Reversal of Fortune," *The New Yorker*, January 9, 2012. **In course pack.**

Several short articles on both sides of the trade and offshoring debate. **Access via the course website on Canvas.**

#### Questions to guide analysis of text 1 (to be turned in)

1. Should Texaco have invested in Ecuador? Or was it too risky? Would you invest in Ecuador now?
2. What should Texaco or Chevron have done differently, if anything? Was it sufficient to follow local environmental laws? Should Texaco have settled?
3. What should Ecuador have done differently, if anything?
4. Where should the case have been tried?
5. How would you have ruled in the case?

Questions to be prepared (to be turned in; no need to turn in if you have joined one of the two student groups introducing the debate!) Your answers should be brief and can be handwritten. Bullet points are perfectly acceptable. You should personally turn your answers in at the start of class, identifying yourself on the sheet of paper. Do not hand in answers on behalf of a colleague. If you miss class on the day, you should not turn your answers in.

1. Can you summarize some of the views in favor of globalization that are voiced by "trade enthusiasts"?
2. Can you summarize some of the views against globalization that are voiced by "trade skeptics"?

## **Week 10. CONCLUSION AND COURSE OVERVIEW**

### Sessions A and B. "The Big Picture": Overview and Review; Group "Mini-case" presentations

**5-page report on Group "Mini-case" Project is due at the start of class.**

#### Readings in preparation for class

None! Use the time to prepare your group's mini-case as well as begin preparing yourself for the final exam.