STR 466
Strategic Challenges in Emerging Markets

Preliminary Syllabus
Fall 2019

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Course Overview

Globalization presents central opportunities and challenges for business growth. Whether a firm seeks new markets for its products, lower-cost production opportunities, or high-yield investment vehicles, many of the most attractive opportunities internationally lie in “emerging markets” in Asia, Latin America, Africa, and elsewhere. At the same time, these business environments present special risks and challenges.

Indeed, beyond traditional factors such as cost and market size, achieving competitive advantage through globalization is increasingly determined by the firm’s ability to manage critical “non-market” factors. These factors include the risks posed by weak legal systems that limit the enforceability of contracts and property rights (including intellectual property rights) while amplifying the challenges of corruption. Furthermore, financial crises provoke massive downward shocks to economies, and managers increasingly must manage businesses with careful attention to these macroeconomic events. Contentious international policy issues such as labor rights, free trade, and access to advanced technologies 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 toolkits and frameworks to successfully confront these challenges. The course will integrate numerous business examples with insights from the latest economics, business strategy, and political science research to provide the international business manager with a cutting-edge, integrated perspective on globalization and a set of strategic solutions to manage the most prevalent business risks in emerging markets.

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 Institutions and Business Strategy     Sessions 1-10

Here we consider specific challenges that managers are likely to confront within many national business environments. While these issues can appear all over the world, they are often especially acute in emerging markets. We consider the challenges around contract enforcement, information access, property rights (including intellectual property rights), corruption, and the over-arching challenges of aligning with government interests. For each issue, we will begin by characterizing risks it poses and then analyze where and when it is likely to be important. We then consider important strategic responses that managers can take to successfully mitigate risks and realize opportunities.
Part II: International Institutions and Business Strategy Sessions 11-20

The second part of the course encompasses major cross-border opportunities and challenges, including core features of international trade, financial crises, and international development. For each area we will analyze key issues that arise and the strategies firms can undertake to manage these issues successfully. We will identify key strategies to both limiting risks and seizing opportunities in cross-border activities, working to navigate the often unstable macroeconomic and policy environments of emerging market countries. We will further consider major international institutions – the WTO, IMF, and the World Bank group -- that influence global and national policies around trade, financial crisis, and cross-border investment, and further consider how businesses can interface with and potentially leverage these institutions.

As with many strategy courses, the material in this course can be complicated, and multi-dimensional examples can be challenging to analyze at first. For this reason, the course takes a modular approach to isolate specific challenges and strategies and often uses “caselets” – short, streamlined examples to elucidate specific concepts. As the course progresses, we will begin integrating these building blocks to provide holistic analysis of more complicated situations, with longer-form case discussions that integrate strategic tools appearing increasingly toward the end of the quarter.

Class Preparation

Readings:

For each topic, there is a set of assigned readings. These readings 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 online via Canvas. The Modules tab indicates the required reading for each meeting, as does the detailed Course Outline below.

Homework assignments:

Homework assignments for each session will guide your reading and develop analytic concepts. These assignments are available on Canvas. The homework assignments will not be graded, but (1) students will be expected to discuss the questions in class (cold-calling will be used in every session), and (2) 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 “extra reading” list therefore points to resources where you may find more extensive analysis, including some of the formal research and empirical evidence that help frame our discussions in class. 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 (except in instances of books, which can be accessed via the library).
Assessment and Grading

The grade is made up of four components: a midterm exam, a final exam, a group deliverable, and class participation.

Class Participation 20%
Midterm Exam 30%
Final Exam 30%
Group Deliverable 20%

The design and expectations for each component are as follows.

1. Exams (60%)

**Midterm Exam (30%)**: The midterm will be a closed book/closed notes in-class exam, given in regular class time in Session 10 (Week 5). The exam 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.

**Final Exam (30%)**: The final will be given in the final exam period but will be of similar length (1.5 hours) and format as the midterm. Like the midterm, the final will place extra emphasis on the ideas drawn out in the homework assignments. However, the final exam will only cover material from the second half of the course (Sessions 11-20).

2. Group Deliverable: Team-Based Debate (20%)

The course will feature in-class Lincoln-Douglas style debates in Week 7. These debates will engage two of the most contentious and difficult issues in international business. Each team will be assigned to prepare for one of these debates (not both).

**Debate #1 (Session 13)**
Multinational clothing companies, such as H&M, Zara, and Benetton, substantially source from Bangladesh. However, many observers condemn their practices in light of limited worker rights and dangerous working conditions, with the Rana Plaza disaster being a prominent example. In this debate, groups will debate either for or against the following resolution.

Resolved: Zara should continue its operations in Bangladesh, outsourcing to suppliers that pay workers the prevailing local wages and apply prevailing local health and safety standards.

**Debate #2 (Session 14)**
Pharmaceutical and biotechnology companies are having increasing success in developing highly effective cancer medications. Cancer immunotherapy drugs such as Merck’s Keytruda are priced at approximately $150,000 for a full course of treatment in the United States. In this debate, groups will debate either for or against the following resolution.

Resolved: In India, Merck should price its breakthrough cancer medication, Keytruda, for at least 1/3rd the U.S. price (i.e. at least $50,000 for a full course of treatment).
For a given debate, the relevant teams will be divided at random, with half the teams assigned to the “affirmative position” (agreeing with the resolution) and the other half assigned to the “alternative position” (disagreeing with the resolution).

The debates will follow a modified “Lincoln-Douglas” debate format that is described in detail on the Canvas site (see modules for Sessions 13 and 14). In addition to building knowledge on the issues, these debates will develop skills and confidence in making persuasive arguments without PowerPoint slides.

On the day of each debate, the affirmative and alternative teams will be drawn from a hat to debate in front of the class. One team will be chosen randomly from the pool of affirmative teams and the other from the pool of alternative teams. Teams assigned to the debate but not drawn from the hat will still participate in the debate through a question and answer period. The judges of the debate will be the class members who were assigned to the other debate topic. At the close of the debate, the judges will vote on the winning team.

All teams assigned to the given debate will be asked to turn in a memorandum—not to exceed 1,500 words of text. This word count does not include footnotes and references. It also does not include up to four figures, graphs, and tables that may go in an attached appendix. Teams will be graded based on the quality of the arguments and debate points in their memorandum.

The memorandum should (a) summarize the team’s opening argument, the specific points it intends to make, and the logic, reasoning, and evidence used to support these points; and (b) rebut the points that a team arguing the opposing position would be likely to make. Each memorandum must be submitted (on Canvas) prior to the beginning of class and should indicate the word count of the main text. There is no restriction on the sources that you can access for the debate. However, please be sure to footnote the sources that you draw from, being especially careful to note the URL and date of access of any sources you find on the web.

**Group logistics and peer evaluation:** Groups will be 5 members in size and randomly assigned (some groups may be slightly smaller or larger depending on the number of students in the section). Group designations will be determined after the second week of the quarter, once any course add-drop changes are fully resolved. The final exam will ask for peer-evaluations of your team members regarding the group deliverable.

### 3. Class Participation (20%)

Learning opportunities are maximized when all students are actively engaged in class discussion, and active engagement requires preparation. 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 will cold call class participants at every meeting.

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. 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.
There will be ample opportunity for each of you to participate. 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.

**Attendance Policy:** This course is designed as an integrated whole. Later material builds on earlier material, and the whole picture will not be properly understood if you miss the parts. As a result, you should make every effort not to miss class. In practice, missing class will also result in a lower course grade and, in extreme cases, removal from the course. The policy is as follows.

- You may miss up to two meetings with no penalty.
- Each additional missed class will result in a two percentage point drop in your overall course grade. Thus, missing classes beyond the first two can fairly quickly result in a lower letter grade for the course.
- If you miss more than six meetings, you will be automatically removed from the course.

Arriving late to class is also strongly discouraged, for the same reasons as with attendance and also to avoid distractions for the broader group. The policy for late arrivals is as follows:

- You may be late up to two times with no penalty.
- Each additional late arrival will result in a one percentage point drop in your overall course grade.

Exceptions to the attendance and late arrival policy can be made for three reasons: a personal health matter, a religious observance that conflicts with the meeting, or a family emergency. In these cases, please email Caity Willox (c-willox@kellogg.northwestern.edu), the Strategy Department course support specialist.

Attendance is recorded at each meeting using the Kellogg smartphone app and the QR code system, as will be demonstrated in the first meeting. The QR code is available next to the meeting handouts when entering the room. Scanning the QR code is time-stamped, and late arrivals will automatically be counted in this manner.

**Laptops, tablets, and cell phones:** To minimize distractions, laptop computers, tablets, and cell phones should remain off throughout each session.

**Course Webpage**

The course uses Canvas. All required readings and homework assignments are available there. Links to the optional “Extra Readings” (save for the books, which are available from the library), and further information about the in-class debates and group deliverable can also be found on Canvas. Electronic copies of the lecture slides will be placed there, as will be additional articles of interest as the course progresses.
Course Outline

Location of Readings Key
All readings are available on Canvas.
Specific locations are as follows:
[M] indicates Modules
[CR] indicates Course Reserves
[SN] indicates Study.Net

Part I: National Institutions and Business Strategy

Foundations

Session 1: Welcome and Overview
Monday, September 23, 2019
Reading:
2. [M] “Note on Growth and Income,” Kellogg, July 2019
Extra Readings:

Session 2: Why Are Emerging Markets Still Emerging?
Thursday, September 26, 2019
Readings:
Extra Readings:
1. Acemoglu, Johnson, and Robinson, “Institutions as a Fundamental Cause of Long-Run Growth” Handbook of Economic Growth (Chapter 6), 2005.

Session 3: Institutions, Market Failures, and Firm Strategy: An Introduction
Monday, September 30, 2019
Readings:
Extra Readings:
Contracts and Property Rights

Session 4: Contractual Challenges
Thursday, October 3, 2019
Readings:

Extra Readings:

Session 5: Property Rights Challenges
Monday, October 7, 2019
Readings:
1. [SN] Case: “Gazprom and Hermitage Capital: Shareholder Activism in Russia”

Extra Reading:

Session 6: Intellectual Property Rights Challenges
Thursday, October 10, 2019
Readings:
2. [SN] Note: “The Legal Protection of Intellectual Property”

Extra Reading:

Corruption and Political Strategies

Session 7: Corruption I: An Introduction
Monday, October 14, 2019
Readings:
1. [M] “Corruption in Practice – From Beer Trucks to Operation Car Wash” Kellogg, July 2019
2. [M] “The Road to Hell is Unpaved,” The Economist, December 19, 2002

Extra Readings:

**Session 8: Corruption II: Management Challenges**  
Thursday, October 17, 2019

**Readings:**

**Extra Readings:**

**Session 9: Government and Business Strategy**  
Monday, October 21, 2019

**Readings:**
1. [SN] Case: “Manulife in Indonesia (A)”
2. [SN] Case: “Manulife in Indonesia (B)”

**Extra Readings:**

**Session 10: MIDTERM EXAM**  
Thursday, October 24, 2019

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

**International Trade**

**Session 11: Trade, Comparative Advantage, and the Non-Market Perspective**  
Monday, October 28, 2019

**Readings:**

**Extra Readings:**
Session 12: Trade Rules (I) and Trade Volatility (II)
Thursday, October 31, 2019

Readings:

Extra Readings:

--- DEBATE WEEK ---
(Sessions 13 and 14)

DUE: Group Deliverable: See brief description above. See detailed description in Canvas under Modules. Debate memorandum is due prior to session to which your team has been assigned. Submit file as PDF on Canvas.

Session 13: Labor Challenges
Monday, November 4, 2019

Resolved: “Zara should continue its operations in Bangladesh, outsourcing to suppliers that pay workers the prevailing local wages and apply the prevailing local health and safety standards.”

Suggested Readings: See [M] module for Session 13

Session 14: Intellectual Property Challenges
Thursday, November 7, 2019

Resolved: “In India, Merck should price its breakthrough cancer medication, Keytruda, for at least 1/3rd the U.S. price (i.e. at least $50,000 for a full course of treatment).”

Suggested Readings: See [M] module for Session 14

Financial Crises

Session 15: Financial Crisis I: Currency Crises
Monday, November 11, 2019

Readings:
3. [M] “International Institutions,” Kellogg, July 2019 [Read section about IMF only]

Extra Readings:
1. Reinhart and Rogoff, *This Time is Different: Eight Centuries of Financial Folly*, 2009
2. Bluestein, *And the Money Kept Rolling In (And Out)*, 2005

**Session 16: Financial Crisis II: Business Strategy**
Thursday, November 14, 2019

**Readings:**

**International Development**

**Session 17: International Development and International Development Agencies**
Monday, November 25, 2019

**Readings:**

**Extra Readings:**

**Session 18: Strategic Advantages of International Development Agencies**
Thursday, November 28, 2019

**Readings:**
1. [SN] Case: “Nghe An Tate & Lyle Sugar Company”

**Course Integration**

**Session 19: Entrepreneurship in Emerging Markets**
Monday, December 2, 2019

**Readings:**

**Extra Readings:**

**Session 20: Summary and Review**
Thursday, December 5, 2019

**Readings:** Review course materials.

**Final Exam Period:** December 7-11.