

B8748: Doing Business in Emerging Markets (MBA) Fall 2016 [PRELIMINARY DRAFT]

Contact Information

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COURSE DESCRIPTION

The global economy is no longer driven solely by the United States. Technological innovations have dramatically lowered the cost of doing business globally. Economic policies have steadily liberalized economies over the past two decades enabling firms to expand beyond their home market to seek global market opportunities, to achieve economies of scale and to leverage cost advantages. The Earth's economic center of gravity is shifting away from the West.

Yet despite the opportunities from globalization, most companies do not expand internationally. Of the small set of companies that do, most conduct business in markets that are very similar to their domestic market. Doubling the distance of a foreign market from the home market reduces trade by half. Even today, U.S. exports to Colombia are twice that of Indonesia, a fast growing country with a population five times that of Colombia. In short, many companies are ill-positioned to take advantage of global opportunities.

To succeed in developing countries--whether seeking new markets for its own products, new suppliers in its production process or high-yield local investment opportunities--a firm must be able to assess factors such as the risks posed by weak legal systems that limit the enforceability of contracts, corruption and political instability.

Our goal in this course is not to become experts on particular countries or regions. Today's fast growing markets may not be tomorrow's. Instead, our goal is to use frameworks and principles that can be applied across many countries, markets and sectors. The framework derives primarily from the field of economics, but the significant departure from Managerial Economics or Global Economic Environment is the assumption of efficient markets. Developing countries' economies are characterized in part by significant market, information and contracting failures, the analysis of which will play a large role in our analysis. In doing so we will integrate specific examples with the latest research in economics and other relevant fields.

Some of the topics we will cover include:

1. Why are emerging markets so volatile?
2. How can firms use quantitative analysis to identify the next frontier markets?
3. Why do very successful firms consistently underestimate the costs of entering emerging markets? What strategies should firms take to reduce these costs?
4. Why are companies in emerging markets organized differently from those in developed markets?
5. How can firms protect intellectual property in markets with weak enforcement? What strategies do firms have if your JV partner has stolen your IP?
6. What are the deep determinants of corruption across countries, and how should firms manage corruption risk?
7. How should companies approach differences in labor and environmental standards across countries?

REQUIRED COURSE MATERIAL

The course will also draw from lecture notes, case studies, academic articles and newspaper reports. Readings will be made available on Canvas. For this course, I recommend scanning daily the [FT's Beyond BRICs](#) blog, and the [WSJ's Frontier Markets](#) blog.

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

The decisions required for doing business across borders utilizes, builds and extends concepts from many of your core courses. For example, to understand which markets to enter, you will need a firm grasp of regression analysis from Managerial Statistics. Once you decide to enter a country, you face a tradeoff on the mode of entry: exports, joint ventures or greenfield FDI. Evaluating these tradeoffs builds on the analysis of tradeoffs, diversification and scope discussed in Strategy Formulation. If the country has weak intellectual property enforcement, you will need to consider the hold-up problem discussed in Managerial Economics. (You might also pause to question why intellectual property is so weak to begin with and in doing so, will recognize connections to economic growth concepts from GEE I). Finally, you have to manage this tricky exchange rate that you were introduced to in GEE I.

Core Course	Connection with Core
Strategy Formulation	<ol style="list-style-type: none"> 1. Trade-offs, value-added, efficiencies 2. Diversification and scope
Managerial Economics	<ol style="list-style-type: none"> 1. Strategic interaction among firms and Nash equilibrium 2. Hold-up 3. Market competition 4. Pricing strategies 5. Adverse selection
Managerial Statistics	<ol style="list-style-type: none"> 1. Linear regression 2. Casual analysis
Global Economic Environment I	<ol style="list-style-type: none"> 1. Exchange rates 2. Economic development

Students will be expected to have mastered these concepts and be able to apply them in the course.

METHOD OF EVALUATION

Your performance will be evaluated by participation, assignments and a final project. Final grades will be assigned according to these dimensions:

1. Class participation (40%)
2. Assignments (20%)
3. Final Project/Presentation (40%)

For the final project, you will analyze a company's initial entry into a foreign market. You are strongly encouraged to talk directly with the company in order to understand the full set of factors that were considered prior to the entry (analyzing failed international expansion efforts are equally and potentially more illuminating). This is a group project with a maximum of **three** (or **four**, if we have a larger class. The aim is to have about 15 groups) members per group. More details will be provided in class.

CLASSROOM NORMS AND EXPECTATIONS

Attendance is mandatory. If you are unable to attend a class, you must send me an email 24 hours in advance with the reason. I will assign a short set of questions for each case/reading. It is expected that you will have done the reading and given thought to the questions. I will also "cold-call" students in order to facilitate class discussion, so this requires that you will have done the mandatory reading and given thought to the assigned questions. Laptops, smart phones and tables are **NOT** permitted in class. This will be strictly enforced.

Honor Code

This course will strictly adhere to the academic conduct guidelines discussed in detail at <http://www0.gsb.columbia.edu/honor/resources.html>.

Columbia Business School's Honor Code:

As a lifelong member of the Columbia Business School community, I adhere to the principles of truth, integrity, and respect. I will not lie, cheat, steal, or tolerate those who do.

Tentative Schedule

Class 1: Why are Emerging Markets still “Emerging” (A Macro Perspective)?

Readings:

- [*It's a Flat World After All](#) (NYT 2005.04.03)
- [*Market Failures](#) (Harvard Business Review, 700127)
- [*Spotting Institutional Voids in Emerging Markets](#) (HBS 9-106-014)
- [*Divergence, Big Time](#) (*Journal of Economic Perspectives*, 11(3), 1997)
- [*Africa Unleashed](#) (*Foreign Affairs*, Nov/Dec 2011)
- [*Democracy, Diversification and Growth Reversals](#) (VoxEU 2009.08.15)
- Jones & Olken, “The Anatomy of Start Stop Growth,” *Review of Economics and Statistics*, 2008

Discussion Questions

1. What are the main forces of globalization?
2. Do you agree/disagree with Tom Friedman’s characterization that the world is flat?
 - a. If you agree, why and can you provide further evidence in support of your arguments?
 - b. If you disagree, why and can you provide further evidence in support of your arguments? Do you have an alternative metaphor?
3. Think of your favorite “emerging” market: What are the three biggest challenges that country faces?

Class 2: Why are Emerging Markets still “Emerging” (A Micro Perspective)?

Readings

- [*Management Practices and Productivity: Why they Matter](#) (McKinsey 2007)
 - [*Why Focused Strategies May be Wrong for Emerging Markets](#) (HBR 97404)
 - Bloom, Genakos, van Reenen and Sadun, “Management practices across firms and countries”, *Academy of Management Perspectives*, 2012
 - “Where’s the Boss? Trapped in a Meeting”, *Wall Street Journal*, February 14, 2012
1. Why are firms in emerging markets so poorly run relative to firms in developed countries?
 2. Why are firms in emerging markets more hierarchical than firms in the U.S.?
 3. Why do we often observe business conglomerates forming in these countries?

Class 3: Market Selection and Entry I

Readings

- [*Hitting the Wall: Nike and International Labor Practices](#) (HBS 700047)
- [*Haier’s U.S. Refrigerator Strategy](#) (HBS 711-473)
- [In China, Human Costs Are Built Into an Ipad](#) (NYTimes, 2012.01.25)
- [Mr. Daisey and the Apple Factory](#) (This American Life, 2012.01.06)

Discussion Questions:

1. Should Nike be held accountable for poor labor conditions in the factories it subcontracts from?
2. Evaluate Nike’s response to Jeff Ballinger’s claims.

Haier Discussion Questions:

1. Whirlpool’s 1987 annual report stated: “*Consumers in major industrialized countries are living increasingly similar lifestyles and have increasingly similar expectations of what consumer products must do for them.*”

Based on discussion of the refrigerator market in the case, do you agree or disagree with this statement? That is, do preferences across borders for refrigerator products vary substantially? If so, what are the main differences a company like Haier must consider?

2. How does Haier adapt from selling within its home market to selling in the US market? What alternative strategies could it have tried? Evaluate the company's strategy.

Class 4: Market Selection and Entry II

Readings

- [*India, A New Facebook Testing Ground](#) (WSJ 2012.10.20)
- [*Metro Cash and Carry](#) (HBS 707505)
- Retail Doesn't Cross Borders: Here's Why and What to do about it (HBR R1204G)
- [*Haier's U.S. Refrigerator Strategy](#) (HBS 711-473)
- "Give Sam Walton the Nobel Prize", *Foreign Policy*, May/June 2013
- [*Jack, Stoker and Suri, "Documenting the birth of a financial economy"](#), *Proceedings of the National Academy of Sciences*, 109(26), 2012
- [*M-Pesa Case](#)

Metro Cash and Carry Discussion Questions:

1. What have been MCC's key competitive advantages as it has moved into emerging markets?
2. What role did institutional context play in challenging MCC's efforts to prove the value proposition of its unique wholesaling format and establish itself as an accepted corporate citizen in Russia, China and India?
3. How would you re-think MCC's approach to strategic expansion and public relations in India going forward?

Class 5: Managing Intellectual Property In Emerging Markets

Readings:

- [*A Local Firm's Baffling Trip Through China's Arbitration System](#) (LATimes, 2003.12.26)
- [*Hollywood in India: Protecting Intellectual Property](#) (HBS 711017)
- [*Danone V Wahaha \(A\): Who is Having the Last Laugh?](#) (HKU-766)
- [*"Low-Cost Drugs in Poor Nations Get a Lift in Indian Court"](#), New York Times, April 1 2013]
- [Volkswagen Probes Chinese Partner](#) (WSJ 2012.07.27)
- Djankov, La Porta, Lopez-de-Silanes, and Shleifer, "Courts", *Quarterly Journal of Economics*, February 2002

Hollywood Discussion Questions:

1. How can we identify plagiarism in a movie? How about in software, images and books?
2. How can a movie studio prevent plagiarism?
3. What strategies should Fox Star adopt to compact potential piracy of My Name is Khan?

Danone-Wahaha Discussion Questions:

1. Identify the factors that contributed to Danone's decision to form JVs with Wahaha
2. How are control rights divided between Danone and Wahaha in their JVs in China? How are revenues shared between the two parties? How many these have led to their dispute?
3. What has gone wrong in terms of contractual enforcement between Danone and Wahaha? How could Wahaha's alleged breach of its JB contract with Danone have been avoided?
4. Is formal legal procedure the best option for Danone? How about Wahaha? What alternatives do the two companies have?

Class 6: Corruption

- *Corruption at Siemens (HBS 108033)
- *The Road to Hell is Unpaved (Economist 2002.12.19)
- Olken and Pande, "Corruption in Developing Countries", forthcoming in *Annual Review of Economics*, section 2 (pp. 13 – 21). (<http://economics.mit.edu/files/7589>)

Discussion Questions:

1. What is corruption? What is the root cause(s) of corruption around the globe? Can anything be done to change a country's level of corruption?
2. How did Siemens find itself in this situation?
3. What problems does the corruption investigation pose for Siemens? What actions need to be taken to address these problems?