

International Affairs

Academic year 2008 - 2009

Course title

E576 - Spring – International Business- 6 ECTS
Fridays 14:15-18:00 (CV204)

Course Description

The principal goal of this course is improve your ability to identify, analyze, and execute strategies in the global business environment. You will be exposed to material from a number of important and recurring international business challenges including (1) business-government relations in the industrialized economies and in emerging markets; (2) a special focus on largest emerging markets--the so-called BRICs--and the implications for companies of these countries' changing government strategies for promoting national development, (3) corporate strategies in a world of multiple regulators, (4) the pros and cons of national firms getting their respective governments to fight battles on their behalf.

Even though this course draws on a number of different academic disciplines including economics, political science, and international relations, the goal is always to draw out the implications for firms. This firm-based perspective is what differentiates this course from traditional academic courses on the globalisation.

The class will cover seven important topics. Each topic's material will require 2-3 hours of class time to cover. We will work methodically through the material discussing frameworks, case studies, and applications to real world problems.

For each topic, two types of reading are listed in this outline. The "essential" readings should be studied during the course, ideally before we meet to discuss the relevant topic. The case studies should be regarded as essential readings too. I appreciate that you have plenty of work to do each week and so have numbered the essential readings in order of priority. You should, therefore, first read the document listed first under "essential readings," then work down the list.

The "additional" readings are optional readings that will further deepen your understanding of the topic.

> PROFESSOR

Simon J. Evenett
simon.evenett@unisg.ch

Office: Swiss Institute for International Economics and Applied Economic Research, University of St. Gallen, Bodanstrasse 8, 9000 St. Gallen, Switzerland.

URL: www.evenett.com

Telephone: +41 71 224 2315
(secretary +41 71 224 2340)

Fax: +41 71 224 2298

Office hours: I will gladly meet during the weeks that I am in Geneva.

Syllabus

Topic 1:

Creating Value in Global Business Operations: A Toolkit for Corporate Strategists.

What are the sources of profit from corporate expansion abroad? Can the corporate strategy frameworks that you have learnt which, by and large, weren't designed to take account of global commercial operations, be sensibly applied to analyze developments in the world economy? If not, what are the key aspects of competing abroad that need to be taken into account? Fortunately, in the last year Pankaj Ghemawat has shown not only how Porter's classic Five Forces framework can be adapted to analyze global market dynamics but also what the sources of value creation (profits) are in foreign commercial operations. We will discuss Ghemawat's approach and then go further.

Why go further? Because in many countries there are numerous challenges and opportunities that managers face which are created by governments and other important actors, such as unions, the media, courts, and non-governmental organizations (NGOs.) Baron's approach extends Porter's Five Forces framework to analyze what he calls the "non-market environment," which includes these non-firm players. Baron argues that firms should identify and implement coherent ("integrated") strategies that take account of developments in both the market and non-market arenas. He provides plenty of examples to back up his approach. What is neat about Baron's approach is that he shows how managers can assess effectively the often-unfamiliar non-market environment without having a Ph.D. in political science and without being a political junkie!

The two essential readings discuss Ghemawat's and Baron's significant extensions of Porter's Five Forces framework. The two case studies are a treat. They are short and, even better, include four highly-opinionated sets of recommendations at the end. You should decide which of those recommendations, if any, make sense. We will discuss these recommendations and your ideas during the first residency. I have also included in the additional readings the best material I have found that (i) helps MAs apply these strategy tools and (ii) applies those tools to interesting dilemmas facing globally-oriented business, such as climate change. I do not expect you to read all of these additional readings during this course. Instead, I hope the additional readings provide you with a library of the best papers that you can draw upon during your MA and afterwards.

Essential Reading.

1. Panjak Ghemawat, "*Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*," Harvard Business School Press, Chapter 3, September 2007. This chapter identifies the six sources of value that can be created by the international operations of companies. The framework described here builds on Porter's Five Forces approach to strategic analysis and systematically develops the international dimension to value creation.
2. David P. Barron, "*Integrated Strategy: Market and Non-Market Components*," California Management Review, 1995, Volume 37(2). Baron provides a neat way for business people to devise strategies in situations when firms, activists, courts, the media, and governments can take steps that affect a firm's profitability. Baron shows how the market-based competition that Porter originally analysed with the Five Forces can be augmented to devise "integrated strategies" for the market and the "non-market" environment.

Case Studies

(Don't forget to read the expert advice at the end of each case study)

1. Julia Kirby, "*Mad About Plaid*," Harvard Business Review, November 2007. A case study at first glance appears to be about whether a firm should continue to outsource production--but are there more fundamental factors that the firm is overlooking? (Can you identify the British company this case study is based on?)
2. Ben Gerson, "*Taking The Cake*," Harvard Business Review, March 2004. A case study that highlights (to me) just how inter-related the market and non-market challenges facing a firm often are. What do you think of the advice offered by the four experts at the end of the case study?

Additional Readings

(Some of the best writings on strategy formation in the market and non-market arenas)

Market-based competition

1. Michael Porter, "*How competitive forces shape strategy*," Harvard Business Review, 1979, Volume 57, number 2, pages 137-145. The classic statement of the Five Forces framework. Still worth a read (and re-read).
2. Michael Porter, "*What is strategy?*," Harvard Business Review, November-December 1996, pages 61-78. A defence of the Five Forces framework at a time when the "benchmarking" and "core competences" were all the rage.
3. Michael Porter, "*The Five Competitive Forces That Shape Strategy*," Harvard Business Review, January 2008. The very latest statement of the relevance of the Five Forces approach to corporate strategy making.
4. Michael Porter, "*Know Your Place: How to assess the attractiveness of your industry and your companies' place in it*," Inc, 1991. This remains for me the best succinct account of how a manager can effectively use Porter's Five Forces approach.
5. Adam Brandenburger and Harbourne W. Stuart Jr., "*Value-Based Business Strategy*," Journal of Economics and Management, 1996. Shows how firm-specific sources of value can be incorporated into the Five Forces framework.
6. Pankaj Ghemawat, *Sustaining Superior Performance*, Chapter 5 (in:) Pankaj Ghemawat, "*Strategy and the Business Landscape*", 2006. Second Edition. Addresses the critical question of the steps firms can take to sustain first rate performance over time.
7. Jeffrey Pfeffer and Robert I. Sutton, *Strategy is Destiny? and Change or Die?* Chapters 6 and 7 of their book "*Hard Facts, Dangerous Half-Truths & Total Nonsense: Profiting From Evidence-Based Management*," Harvard Business School Press. Provides a useful corrective against corporate strategy zealots who obsess over ideas and change and overlook implementation and the value-generated by existing corporate structures.

Strategy-making in the non-market environment.

1. David P. Baron, "*Integrated Strategy, Trade Policy, and Global Competition*," California Management Review, Winter 1997. Shows how the Integrated Strategies approach can be applied to analyse how firms persuade governments to implement trade policies that favour them over their rivals.
2. David P. Baron, "*Going Head to Head: When companies and activists square off, sometimes no one wins*," Stanford Social Innovation Review, Spring 2003. Shows how the Integrated Strategies approach can help firms formulate responses to activists and non-governmental organisations.
3. Aidan Vining, Daniel Shapiro, and Bernhard Borges, "*Building the firm's political (lobbying) strategy*," Journal of Public Affairs, 2005, Volume 5. Presents an alternative to Baron's Integrated

Strategies that emphasises government regulation and policies as a sixth force that affects business and is influenced by business. Includes useful advice on firm lobbying strategies, at least as seen by from a North American perspective.

4. David Coen, *"Business-Regulatory Relations: Learning to Play Regulatory Games in European Utility Markets,"* Governance: An International Journal of Policy, Administration, and Institutions, Volume 18, number 3, July 2005. Analyses how distinct regulatory structures in the UK and Germany for the utility sectors have created incentives for firms to engage in markedly different non-market strategies.

Firm strategies during a time of pronounced changes in the physical environment: market and non-market considerations.

1. Michael Porter and Forest L. Reinhardt, *"A Strategic Approach to Climate,"* Harvard Business Review, October 2007. A recent and provocative analysis using the Five Forces framework of the possible implications for corporate strategy of potential measures to slow climate change.
2. Elizabeth Economy and Kenneth Lieberthal, *"Scorched Earth: Will Environmental Risks in China Overwhelm Its Opportunities?"*, Harvard Business Review, June 2007. A really interesting recent analysis of how the deteriorating physical environment in China is posing market and non-market challenges to Western firms operating in that country.

Topic 2:

Firms' Interests and Public Policy: Conceptual Foundations and Empirical Application.

We know that firm performance can be influenced by government policies. But in what ways do policies influence the business environment and by how much? We will examine the effects of a number of common government interventions on markets. Unlike economists, who are primarily interested in the effects of these interventions on the prices and total welfare, we will be interested in the impact on a number of measures of firm performance (sales, prices, and profits.)

The essential reading contains lots of examples and mini-case studies that will help you understand the economic arguments. For those students that have not taken an intermediate microeconomics course before, please make sure you read all of the additional reading as well as the essential reading.

Please note that the following two readings are not available electronically. The book concerned is a widely-used textbook and should be available in the HEI library.

Essential Reading

1. Robert Pindyck and Daniel Rubinfeld. *Microeconomics*. Chapter 9. Fifth edition.

Additional Reading

Robert Pindyck and Daniel Rubinfeld. *Microeconomics*. Chapters 1, 2, 10-11. Fifth edition.

Topic 3:

Does Nationality Influence Firm Performance? Firm Strategies in the Industrialised Economies.

One of the most fascinating features of the global economy is that governments have such different ideas about what makes for a dynamic business climate, and so do other elements of society. Of course, these ideas and the government policies that go with them condition the threats, opportunities, and hurdles faced by firms at home and abroad. In recent years a number of analyses have shed light on how these factors condition firm strategy and the essential reading and case study develop these points. The underlying frameworks for these analyses can be found in the additional readings by Hall and Soskice and Porter. We will spend some time discussing what these perspectives mean for firm strategies in a number of European industries that are undergoing restructuring and for Japan.

Essential Reading

1. Michael Porter, *"New Global Strategies for Competitive Advantage,"* Planning Review, May/June 1990. This short article provides a neat overview of the different elements of national business environments as seen by Porter, of what governments can do to improve their country's competitiveness, and what the implications are for firms.

Case Study

1. Tony Edwards, *"Corporate governance, industrial relations and trends in company-level restructuring in Europe: convergence towards the Anglo-American model?"*, Industrial Relations Journal, 2004, 35:6. Demonstrates how national laws towards employees and corporate financing policies markedly affect how different European firms restructure their operations.

Additional Readings

2. Peter Hall and David Soskice, *"Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,"* Oxford University Press, 2001. Chapter 1. (The chapters in part III of this book are also of direct relevance to firm strategy-making in industrialised economies.) Provides a very different perspective from Porter. Argues that there are different types of capitalism and that managers and governments will make serious errors if they fail to appreciate the ways in which capitalisms differ and the implications for how incentives supplied to managers, other employees, and suppliers.
3. Steven Casper and Richard Whitley, *"Managing Competences in Entrepreneurial Technology Firms: A Comparative Institutional Analysis of Germany, Sweden and the UK,"* Research Policy, 2004. Shows how firms' innovation strategies are importantly affected by national labour regulations, the protection of intellectual property rights, and corporate financing decisions. A convincing demonstration that "nationality matters" (for firm strategy formation.)
4. Guillermo de la Dehesa, *"Europe at the Crossroads: Will the EU Ever Be Able to Compete with the United States as an Economic Power?"*, McGraw Hill, 2006. The author, the Vice Chairman of Goldman Sachs Europe, describes in Chapter 6 the steps that European governments must take to increase productivity and efficiency and in Chapter 8 -- if Europe can preserve its social model.
5. Christel Lane and Jocelyn Probert, *"Between the Global and the Local: a Comparison of the German and UK Clothing Industry,"* Competition & Change 2004, Volume 8, number 3. Compares restructuring strategies in the German and British clothing sector.

6. The Economist, "*Going Hybrid. A special report on business in Japan*" 1 December 2007. Argues that Japanese firms are adopting some elements of the Anglo-Saxon business model, but that there is a long way to go.
7. The Economist, "*Sayonara, salaryman. Employment in Japan,*" 5 January 2008. Interesting recent analysis of what Japanese corporate restructuring is doing to the way incentives are supplied to managers and how some younger managers are shying away from the lifetime employment opportunities traditionally offered by Japan's largest firms.

Topic 4:

The Changing Business Climate in Emerging Markets.

The business environment in developing countries is changing as a result of a shift in thinking about which government policies enhance deliver growth, stability, and reductions in poverty. From 1985 until the end of the 1990s a set of policies known as the "Washington Consensus" dominated discussions about reforms in developing countries. This "Consensus" lost its appeal after the East Asian financial crisis and since then policymakers have been looking for a new formula for growth but they have not settled on one yet. This has led to a period of experimentation. Interestingly, "industrial policies" are receiving a lot of attention and we shall discuss what this might mean for companies. The Williamson speech describes the Washington Consensus and its drawbacks. The case study discusses how industrial policy was implemented in the South African automobile industry, apparently with success. Do you agree with the conclusions of this case study and what are the implications of this study for foreign firms competing in the South African automobile market?

Essential Reading (Please read one of the following two long-term projections for the emerging markets and the global economy).

1. Goldman Sachs, *"The BRICs and Global Markets: Crude, Cars, and Capital,"* Global Economics Paper number 118, 2004.
2. World Bank, *"Global Economic Prospects. 2007,"* Chapter 2 titled "The Coming Globalisation."

Case Study.

1. Justin Barnes, Raphael Kaplinsky, and Mike Morris, *"Industrial Policy in Developing Economies: Developing Dynamic Comparative Advantage in the South African Automobile Sector,"* Competition & Change (2004). Volume 8. Number 2.

Additional Reading.

1. John Williamson, *"Did the Washington Consensus Fail?"*, Speech to Center for Strategic & International Studies, 6 November 2002. The man who coined the phrase "Washington Consensus" discusses the backlash against free-market reforms in emerging markets.
2. Tarun Khanna, *"China+India: The Power of Two,"* Harvard Business Review. December 2007. A provocative account of how cooperation between a rising China and India could reshape the global economic landscape.
3. Shahid Yusuf, Kaoru Nabeshima, and Dwight H. Perkins, *China and India Reshape Global Industrial Geography*, Chapter 2 (in:) "Dancing With Giants: China, India, and the Global Economy", World Bank 2007. For those who like hard facts and figures on the rise of China's and India's industries.
4. Eswar Prasad, *"Downgrading India and China: Tigers or kittens?"*, International Herald Tribune, 9 January 2008. Last year the World Bank recalculated the prices it uses to compare the national incomes of the world's economies. Surprisingly this led to a large downward revision in the size of the Chinese and Indian economies. The author asks whether any of this matters--what do you think?
5. Barry Naughton, *"The Chinese Economy: Transitions and Growth"* MIT Press, 2007. Accessible and up-to-date introduction to the evolution of the Chinese Economy.
6. Richard H. K. Vietor, *China: The Pragmatic State*, Chapter 4 of his book *"How Countries Compete: Strategy, Structure, and Government in the Global Economy,"* Harvard Business School

Press, 2007. Account of the factors driving Chinese government policy towards business, very much from a HBS perspective.

7. William McEwen and co-authors, "*Inside the Mind of the Chinese Consumer*," Harvard Business Review, March 2006. What assumptions has your firm made about what Chinese consumers want? Read this article and see if a reality check is called for.
8. Richard H. K. Vietor, *India on the Move*, Chapter 5 of his book "*How Countries Compete: Strategy, Structure, and Government in the Global Economy*," Harvard Business School Press, 2007. Interesting account of changing Indian policies towards business since reforms began in 1991.
9. John Kay, "*Why India cannot take economic growth for granted*," Financial Times, 9 January 2008. India's growth has surged in the past few years--can this momentum be maintained? Apparently not according to this author.
10. Edward Luce, "*In Spite of the Gods: The Strange Rise of Modern India*," 2007, Random House. A hard-hitting account of the challenges facing business people and people in general in India, written by the Financial Times' former editor in New Delhi and who is very sympathetic to India!
11. The Financial Times, "*Brazil surprises with surge in foreign cash*," 18 January 2008. A good overview of the state of the Brazilian business environment.
12. Anders Aslund, "*Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed*," October 2007. A compelling analysis of Russian capitalism by the Western world's leading expert on this subject.
13. Bradfield R., Wright G., Burt G., Cairns G. and van der Heijden K., "*The origins and evolution of scenario techniques in long range business planning*", *Futures*, October 2005, Vol. 37 (8), pages 795-812. Some business strategists develop scenarios when undertaking long term business planning. This paper describes how managers can use this approach.

Topic 5:

The Rise of Multinationals from the Emerging Markets.

The past 18 months have seen substantial advances in our understanding of the strategies pursued by emerging market firms that are now expanding their operations abroad. In 2006, for example, China had as many multinational companies as the United States, although the latter's multinationals were operating on a much larger scale. The goal of this topic is understand what strategies these emerging market multinationals are pursuing, what is the nature of the competitive threat to Western rivals, and how those Western firms might respond.

Essential Readings.

1. Tarun Khanna and Krishna G. Palepu, *"Emerging Giants: Building World-Class Competitors in Developing Countries,"* Harvard Business Review, October 2006.

These authors tracked the overseas expansion of over 100 companies from the emerging markets and usefully identified three common strategies pursued by these firms as they seek to create value abroad. You should think through what are the implications of this analysis for where the Emerging Giants are likely to compete and not just how they compete. Spend some time also thinking through the extent to which the factors driving these Giants strategies really pose a threat to their Western competitors.

2. The Economist, *"Emerging-market multinationals: The Challengers"*, 12 January 2008. Usefully summarizes the BCG study (listed in the additional readings), in particular the five different strategies that emerging market multinationals are pursuing. In one or two sectors that you are familiar with, you should think through the nature and extent of the threat of emerging market multinationals to leading Western firms. If you are really interested in this material, think through whether the BCG study's findings confirm, contradict, or augment the conclusions of the Khanna and Palepu study.

No Case Studies (there are plenty in the Essential Readings).

Additional Readings.

1. Antonie van Agtmael, *"The Emerging Market Century: How a New Breed of World-Class Companies Is Overtaking the World,"* Free Press, 2007. Having identified the top 25 multinationals from emerging markets the author examines the different factors responsible for their competitive success. A chapter is also devoted to potential developing creative responses by industrialised countries to this new competition.
2. Boston Consulting Group, *"The 2008 BCG 100 New Global Challengers: How Top Companies From Rapidly Developing Economies Are Changing The World,"* January 2008.
3. Nirmalya Kumar, *"Strategies To Fight Low Cost Rivals,"* Harvard Business Review, December 2006.
4. Rosabeth Moss Kanter, *"Transforming Giants,"* Harvard Business Review, January 2008. A classic restatement of the factors that enable multinationals to stay agile.
5. Susan Berger, *"How We Compete: What Companies Around The World Are Doing To Make It In Today's Global Economy,"* Doubleday, 2005. A factually-rich and interview-based account of how (mainly) U.S. firms are responding to global competitive pressures.

Topic 6:

Financial Crises in Emerging Markets: Causes and Firm Responses

The readings for this session concern how multinational firms responded to the region-wide financial crisis in East Asia during 1997-1999. You should think through what implications, if any, these firm responses might have devising a response to a future financial crisis in Latin America. Before you do that, however, take a look at chapter one of Haggard's book. In my view Haggard provides one of the most accessible and best summaries of the different explanations for the East Asian financial crisis.

Essential Reading

1. Stephan Haggard. *The Political Economy of the Asian Financial Crisis*. 2000. Introduction and Chapter 1.

Case Study

Please note that each of these readings is 1-3 pages long.

- a) On multinational responses to the East Asian crisis

"Keep your eye on the ball," *Business Asia*, December 1, 1997

"Japan Inc hangs on in Asia," *Business Asia*, April 6, 1998

"The collapse of consumerism," *Business Asia*, April 6, 1998

"Skin of our teeth," *Business Asia*, June 1, 1998

"Making the most of the worst," *Business Asia*, June 1, 1998

"The tough get going," *Business Asia*, September 7, 1998

- b) Articles on corporate responses and challenges during the financial crisis of 2001. in Latin America

"Conquistadores no more," *Business Latin America*, January 14, 2002

"Managing Argentina's instability," *Business Latin America*, March 18, 2002

"Mission impossible," *Business Latin America*, March 25, 2002

"Argentina's fire sale," *Business Latin America*, April 8, 2002

Additional Reading

Raghuram Rajan and Luigi Zingales. *Saving Capitalism from the Capitalists: Unleashing the Power of Financial Markets to Create Wealth and Spread Opportunity*. Crown Business, 2003. A related website appears to be <http://www.savingcapitalism.com/>

Topic 7:

Firm Strategies in a World of Multiple Regulators: The GE-Honeywell Debacle.

Multinational firms, by definition, operate in many markets and so face many national and even supra-national regulators, often with the same government function. New products, for example, may have to be approved by health and safety agencies in many jurisdictions. Few appreciate the pitfalls and opportunities of operating in a multi-jurisdictional world. Arguably Jack Welch didn't when he proposed the merger between GE and Honeywell—but his American rivals did. This session will highlight the relevant factors with an in-depth analysis of this proposed merger. You might ask yourself how, if at all, GE could have gotten its merger approved by the European Commission? Or were the decks stacked up against it right from the start?

Please note that most of the additional readings are 2-4 pages long.

Essential Reading

1. Eleanor J. Morgan and Steven McGuire. "Transatlantic divergence: GE-Honeywell and the EU's merger policy." *Journal of European Public Policy*. 2004. Volume 11(1), pages 39-56.

Additional Reading

The Economist "Engine Failure."

Knowledge Wharton "Lessons from the GE Honeywell Non-Merger."

Time "How the GE-Honeywell Merger was killed."

Time "The Anatomy of the GE-Honeywell Disaster."

Global "Why the GE-Honeywell Merger Will Fly." (Oops!)

NERA "Competition Policy in Europe: A Trans-atlantic Perspective."

EC Competition Policy Newsletter "General Electric/Honeywell—An Insight into the Commission's Investigation and Decision."

European Commission Decision on GE-Honeywell case (Skim for details in which GE and Honeywell operate, in particular pages 4-12 and 56-59. Avoid the legalese. Stick to the information/insights about structure of the markets being investigated.)

Simon Bishop and Mike Walker. *The Economics of EC Competition Law*. Chapter 1 (pages 1-6 only) and chapter 6 (all).

Topic 8:

Getting the Government to Fight Your Battles For You: How Firms Use The WTO And Its Rules To Their Advantage.

Many multinational companies line up their governments to fight on their behalf or to fight with them against foreign rivals. Some sectors, such as selling commercial and military aircraft, powerplants, and telecoms infrastructure, are dominated by state lobbying on behalf of national firms. What are the opportunities and pitfalls for national firms in engaging their governments on their behalf? In this session we will discuss the different ways in which firms get their governments to advance their interests in the World Trade Organization (WTO), drawing on many examples (some of which may surprise you) from the last ten years.

Essential Reading

Gregory Shaffer. "Behind the Curtains of International Trade Disputes". 2007. Read from page 5 onward.

Case Study

Susan Rosegrant. "Banana Wars: Challenges to the European Union's Banana Regime." Case Program C14-99-1534.0. Kennedy School of Government.

Additional Reading

Robert Carburgh and John Olienyk. "Boeing-Airbus Subsidy Dispute: A Sequel." *Global Economic Journal*. 2004.

James P. Durling. *Anatomy of a Trade Dispute: A Documentary History of the Kodak - Fuji Film Dispute*. Cameron May Publishers. 2001.

Andrea E. Goldstein and Steven M. McGuire. "The Political Economy of Strategic Trade Policy and the Brazil-Canada Export Subsidies Saga." *World Economy*, 2004. (This study refers to an important international dispute in the aircraft industry that precedes the recent Boeing-Airbus litigation.)

Keith Hayward. "Trade disputes in the commercial aircraft industry: a background note." *Aeronautical Journal*. 2005.

Bernard M. Hoekman and Michel Kostecky. *The Political Economy of World Trading System: From GATT to WTO*. New York, Oxford University Press. Second edition. Chapters 1, 2, and 15 and Annex 2.

Paul Krugman. "Is Free Trade Passé". *Journal of Economic Perspectives*. 1987, especially pages 134-137 (on Boeing and Airbus).

Douglas Irwin. *Three Simple Principles of Trade Policy*. American Enterprise Institute. 1996.

Wayne Sandholtz and William Love. "Dogfight over Asia: Airbus versus Boeing." *Business and Politics*. Volume 3, Issue 2. 2001.

The First Individual Analytical Assignment: Due Date to be Agreed at the First Class.

Please complete a 1000-2000 word-long analytical paper that addresses the following question:

In what ways, if at all, will the potential reform of Europe's "social models" affect the strategies of firms located in Western Europe and their domestic and international competitiveness? Use corporate examples from selected industries and countries to support your argument.

In addition to the papers listed in Topics 1 and 2 above, particular attention should be given to the following paper by Professor André Sapir:

"Globalisation and the Reform of European Social Models." Bruegel working paper.

(Professor Sapir used to be the chief economic adviser to the last President of the European Commission. To say that he is "in the loop" is a serious understatement.) This short paper was presented by him to a meeting of European Council of Finance Ministers on 9 September 2005.

Four other short articles in the *Financial Times* are relevant too:

1. Financial Times, "Europe's urgent need for reform," 2 January 2008.
2. Tito Boeri, "Europe is caught mid-river in labour reforms," Financial Times, 16 January 2008.
3. Financial Times, "Selective bargaining: German companies are driving a hidden revolution in labour flexibility," 6 January 2006, Page 9.
4. Financial Times, "America's dilemma: as business retreats from its welfare role, who will take up the burden?," 13 January 2006, Page 11.

The following short policy brief from the Organisation for Economic Co-operation and Development (OECD) gives an overview of employment policies and their consequences:

OECD, "Employment Protection: The Costs and Benefits of Greater Employment Security," September 2004.

As far as substance goes, I recommend that you do the following:

1. Start by reading the Sapir paper. This will give you important background information on the different "social models" in Europe. Make sure you know what the social model is and how it differs across Europe. Read the short OECD piece to reinforce your understanding of employment policies.
2. Read the Ghemawat and Barron articles on the "essential readings" for topic 1 and think through the ways in which (i) reforms to the social model affect the opportunities, threats, and circumstances that are faced by European firms and (ii) the ways in which European firms can use non-market strategies to shape the reform process to their advantage. Be sure to precisely state which government policies, and related corporate practices, would change if reforms to the European Social Models are implemented.
3. Please give considerable thought to precisely how the strategies of European firms might change and what the likely consequences are for their performance and for the rivals to these European firms. It may be easier for you to think through these matters in the context of one or two sectors, then that is fine with me.
4. Try to think of, or find, one of two corporate examples that reinforce your arguments.

In general, I have the following suggestions for how you write up this paper:

- Ask yourself have you really answered the question that I have set. Every time I teach this course there is always someone who answers a different question!

- You do not have to write this paper as if it were a memo to a senior corporate officer. So long as you answer the question directly then there is no need to assume there is an artificial audience for the paper.
- Use the paper as an opportunity to show that you understand the concepts discussed in this class and in the readings. Having said that, you are free to draw on any other frameworks or tools that you have learnt during your MIA. I suspect that your Business/Managerial Economics class and any Corporate Strategy classes have covered ideas that could be form part of an intelligent answer to the above question. I like it when MIAs show they are making connections across their classes.
- Sometimes the arguments you want to make have caveats or disadvantages, or are relevant to certain industries or circumstances. It is OK to acknowledge this. In fact, such acknowledgements show you are not trying to over-generalise your arguments or push them too far. Sophistication in arguments is nothing to be afraid of.
- Before you begin writing (or typing), write out a paragraph-by-paragraph plan. Think of each paragraph as a big idea that you will develop. (A paper that is 1000-2000 words long contains probably 8-10 big ideas, plus an introduction and a conclusion. The introduction and conclusion typically account for 250 words, leaving up to 1750 words for you analysis. I tend to think of each big idea requiring a paragraph of 100-150 words of length of explanation. Seen this way a 2000 word paper is not so daunting. It really is only 8-10 big ideas. Your task, therefore, is to identify and understand the 8 to 10 most relevant ideas that shed light on the question posed.)
- Make sure that each big idea (paragraph) follows from the one before it. Think of ways of legitimately linking the ideas, so the reader gets to see that you really understand what you are writing about.
- Make sure your paper does not look like a list of bullet points, or like a powerpoint presentation that has been copied into Microsoft Word. Following Michael Porter's approach to devising corporate strategy, one of my goals is to get you to develop a multi-step argument. Powerpoint presentations are, when used well, only a summary of a good multi-step argument.
- Do not cut and paste out of documents on the web or elsewhere. Use proper citations (I don't care which style of citations you use.)
- Do not take my emphasis here on writing clearly to mean that I am looking for a perfectly formatted document. **I will read your document for its content only, for not how well formatted the document is.**
- Once you have drafted your paper, print it out. Then read it out loud, ideally in front of a loved one or someone you are not too embarrassed to read in front of! Almost everyone I know who is serious about writing analyses does this. Why? Because logical flaws are somehow easier to spot when spoken, and grammatical errors become clearer too. Correct the paper and re-read it before submitting it.

With respect to writing up your analytical paper, let me be crystal clear what I am looking for. My opinions on this subject have come about after years of experience reading short analyses by EMBA's, MBAs, consultants, government officials, etc. I see these short analytical papers as the best way to test if you have understood the material and can put together relevant arguments in a sequence that makes sense. I firmly believe that good writing follows from clear sequential thinking. If the text is not clear or the arguments do not follow on from one another, then I am likely to believe that you haven't thought something through well enough. In addition to a substantive answer to the question posed which demonstrates superior powers of analysis of companies' options and strategies and a sophisticated awareness of the business environment in which they operate, as far as the exposition is concerned, this is what I am looking for:

- A clear, informative introduction that guides the reader. The introduction should state what the main issue being discussed is, what your main finding is, and how the rest of the paper is organised.
- A conclusion that reminds the reader what the main issue is, why it is important, and summarises the key elements of your argument. The reader should be left in no doubt of your main points.
- A clear logical flow between paragraphs—demonstrating sequential organisation of the material.
- Precise exposition within each paragraph, showing mastery of terms, appreciation of the facts, and a critical perspective.
- Explanation of those terms necessary to understand the argument. Avoidance of irrelevant or superfluous ideas and concepts.
- Comprehensiveness of argument, given word limits.

It is important for me to say that I am not looking for any single answer to this question. Moreover, in principle the answer to this question could differ across industries and countries. Since I know that, I want you to tell me why. I am looking for a coherent answer to this question, and not an answer that I necessarily agree with.

I should tell you that many of the MIAs that I have taught have found this assignment to be challenging but manageable. Many saw substantial improvements in the ability to express complicated and interesting ideas over the course. So, in addition to learning a lot about making strategy in global business settings, I hope you take away this extra skill too.

This assignment is worth 50 percent of your final grade.

The Second Individual Analytical Assignment: Due Date to be Agreed at the First Class.

During your studies it is my expectation that you become first-rate analysts of new corporate strategy ideas. One idea that has received a lot of attention in the last four years is C.K. Prahalad's notion that international business has a lot to gain from selling to the poorest segments of emerging markets, rather than just targeting the wealthiest in those economies. In this assignment I want you to critically evaluate Professor Prahalad's approach, drawing on the readings below and the approaches discussed in class.

Formal statement of the assignment.

Making reference to any one emerging market of your choice, please prepare a 1000-2000 word evaluation of merits of targeting customers at the "bottom of the pyramid." In what sectors and in which ways, if any, do the considerations raised by this approach alter the strategies of multinational corporations selling into emerging markets?

Readings:

A. Hammond and C.K. Prahalad. "Selling to the Poor." *Foreign Policy*. May/June 2004.

A. Karnari. "Mirage at the Bottom of the Pyramid: How the Private Sector can Alleviate Poverty." William Davidson Institute Working Paper Number 835, August 2006.

T. London and S.L. Hart. "Reinventing strategies for emerging markets: beyond the transnational model." *Journal of International Business Studies*. 2004.

C.K. Prahalad and A. Hammond. "Serving the World's Poor, Profitably." *Harvard Business Review*. September 2002.

C.K. Prahalad and S.L. Hart. "The Fortune at the Bottom of the Pyramid." *Strategy and Competition*. Issue 26. 2002.

All of these readings can be found on the ESnet.

Data on various socio-economic indicators for the emerging markets can be found in the World Bank's World Development Indicators database.

The following website may be of interest as it contains a number of case studies conducted by MBAs trying to identify the "Fortune At The Bottom Of The Pyramid":
<http://www.bus.umich.edu/BottomOfThePyramid/xMAP2003.htm>

Additional reading:

C.K. Prahalad. *The Fortune At The Bottom Of The Pyramid: Eradicating Poverty Through Profits*. (Wharton School Publishing, 2004).

This second assignment is worth 50 percent of your final grade.