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IMPORTANT NOTE:

***THERE IS A CASE ASSIGNED IN PREPARATION FOR THE FIRST CLASS SESSION.
PLEASE READ AND BE PREPARED TO DISCUSS THE CASE. DISCUSSION QUESTIONS ARE
INCLUDED BELOW TO GUIDE YOUR PREPARATION.***

POLECON 239 – STRATEGY BEYOND MARKETS (MSX EDITION)

This course provides a set of tools for analyzing strategic interactions that emerge when firms venture beyond established markets, focusing not just on the US but with heightened emphasis on international contexts. Most core courses at the Stanford GSB focus on mutually beneficial interactions between firms and customers, suppliers, and alliance partners, transacted in markets. However, often the greatest opportunities for firms arise in environments where markets are weak or in the presence of market failure. Innovative ideas, for example, can only lead to profits if they allow firms to pursue opportunities others cannot—in other words, if they create local monopoly power. While operating in such environments *beyond markets* is a key characteristic of many growing and successful firms in both rich and poor countries, the challenges and opportunities from developing an effective beyond-market strategy are often accentuated in developing countries and international environments.

While the opportunities beyond markets are great, such opportunities also draw the attention of a range of important constituents, organizations, and institutions. Issues considered in this course include those involving activist and interest groups, the media, political agents and legislatures, regulatory and antitrust agencies, and international organizations like the WTO. Cases and readings emphasize strategies to improve the performance of companies in light of these multiple constituencies.

In many of the class sessions, we will draw on the newest theoretical and empirical research in political economy, a field that is particularly relevant for understanding relationships between firms and governments, because (unlike most of economics) political economy focuses on interactions that are neither voluntary nor transacted via money.

The aim is that by the end of the class you will be able to develop and apply integrated strategies that address market and beyond-market considerations. In each session we will examine a component of the environment and focus on developing the optimal *tactics* at each stage. At several points throughout the quarter we will aggregate this tactical knowledge, piece it together, and develop an integrated *strategy* for a particular firm.

COURSE MATERIALS

Readings are available on the Canvas site (in the “Materials” subfolder) and from the class textbook *Business and its Environment (BIE)*, (7th edition, Prentice-Hall, 2012) by David P. Baron. This book was written specifically for the Strategy Beyond Markets class at Stanford and has been adopted by several other leading business schools. I recommend purchasing the book (or an earlier edition) if you wish to read further on the topic.

COURSE REQUIREMENTS AND GRADING

The course requirements are mastery of the content of the readings, constructive contributions to class discussions, a group project, and the final examination. Grades will be assigned as a weighted average of three components as follows:

- 1) class participation 33% (including active high quality in-class participation, volunteering to present and participation in surveys and short assignments).
- 2) group project and presentation 33%
- 3) final examination 33%. The exam will be accessible through Canvas. You will have three hours to complete the exam once accessed. The window of availability begins at **12pm on Thursday, December 7, and closes 11:59pm Tuesday December 12.**

CLASS SESSIONS

The course will be conducted using a combination of lecture and case discussion. Sessions will begin on time and will last for **80** minutes. I use randomized cold calls and also reserve the right to cold call anyone who arrives late for class. You are expected to attend and be well prepared for every class session. If you must miss a class, please send me a note beforehand. Absences are otherwise regarded as unexcused and will be reflected negatively in your class participation grade. You may not make up for absences by attending a different section of the class.

Use of laptops, iPads, cellphones etc. during the class to surf the web or engage in other non-class related activities can be highly distracting and severely impacts your ability to contribute to the learning of your classmates. Students have advocated banning such devices during class time, a policy we will also adopt. To facilitate the taking of notes, I will provide hard copies of slides at the beginning of every class.

STUDY GROUPS

It is advantageous to meet as a group and discuss cases prior to class. Unless you are asked to prepare a presentation, reaching a consensus is a subordinate purpose of meeting. The main purposes of group preparation are to review and clarify readings, and to share and challenge individual analyses of the case.

You will be assigned to groups. You will work in these groups on the group project as well as other class exercises and activities. The study groups will be formally involved in an integrated strategy assignment (**October 9**), a final project (due **November 30**) and a presentation (**either November 30 or December 4**).

THE GROUP PROJECT

The group project is a required assignment that promotes several objectives. It allows you to acquire a deeper understanding of a specific firm and industry of your choice. It lets you see up-close the impact of the business environment on organizational performance. It gives you an opportunity to practice various forms of analysis developed in the course in a setting of particular interest to you. The project also encourages you not only to reason within, but also to extend beyond the frameworks used in the course.

The project should focus on the social, political, or legal environment of a company, nonprofit organization, or (somewhat less desirably) industry. You may select a company for which a member of your study group has worked. It is strongly encouraged that you make contacts in the organization. Broad topics of interest can usually be recast at the company or organizational level. For instance, “trade barriers” is much too broad a topic, but a study of how a specific Japanese semiconductor company should address Mexican trade barriers is a good topic.

The project involves three phases:

1. Phase I consists of topic selection and culminates in a 1-2 page prospectus due by email at 5 p.m. on **October 19**. The prospectus should provide a concise overview of the topic, list the main frameworks you plan to use in your analysis, and present strategic alternatives.
2. Phase II of the project is the final report, due at 11:59 p.m. on **November 28**. The report should be sent to me by email. In the report, you should apply frameworks that help understand the environment in which the issue or problem is located, specify a strategic alternative, describe its implementation, and explain why it is likely to be more effective than other possible strategies. A reasonable guideline length might be 17-20 pages, double spaced, without exhibits. However, please consider that a guideline, not a limit.
3. Phase III of the project is the presentation on **either November 30 or December 4**. Each presentation will take the form of a short presentation to the company’s board, summarizing the market and beyond market issues at stake, and specifying concrete recommendations for strategic action.

You should assume that your audience is generally familiar with the background facts of the situation and is interested primarily in your analysis of the business environment. Every member of a group should anticipate receiving the same grade on the group project. As in most business settings, the possible free riding problems that may emerge should be resolved within-group.

THE HONOR CODE

Stanford has a tradition of respect for students’ integrity in academic work. The Honor Code outlines mutual obligations for students and faculty in making this system work.

In this class, students are encouraged to work in groups to prepare for class sessions. Constructive collaboration, in the sense of sharing your ideas and synthesis with others after doing the basic work, is an important component of the learning experience, and you are strongly

encouraged to collaborate. However, it is a violation of the Honor Code to secure and use another person's notes, papers, or handouts from an earlier section or year to prepare for class.

Although not explicitly covered by the Honor Code, the advent of modern information services makes it easy to find information on cases, e.g., from accounts in the news media. In this class, students are encouraged to use such public sources when preparing for class.

You should also keep in mind the fact that the Honor Code prohibits plagiarism. This class is part of a master's degree program at Stanford, so you must follow the norms of academic writing, which differ from those in the business world. According to the Stanford Board on Judicial Affairs, "For purposes of the Stanford University Honor Code, plagiarism is defined as the use, without giving reasonable and appropriate credit to or acknowledging the author or source, of another person's original work, whether such work is made up of code, formulas, ideas, language, research, strategies, writing or other form(s)." *In practice, this means that when you submit a written assignment for this class you should use quotation marks to indicate text written by others and you should use footnotes and references to cite others' ideas or data.* The goal of these rules is not to create onerous or legalistic requirements. Rather, the requirement is simply that you must make clear the source of material you hand in. If you do this, everything will be fine.

For additional information on the honor code, you are strongly encouraged to peruse the Judicial Affairs website at <http://honorcode.stanford.edu>. Also, if you are uncertain about what the Honor Code entails for this class, feel free to consult me

COURSE OUTLINE

PART 1: BUSINESS IN THE POLITICAL ENVIRONMENT

SESSION 1 – Tuesday, SEPT 26TH: INTRODUCTION

This session introduces the concept of a beyond market strategy and its integration with a market strategy. It also introduces the 4I's, a tool for classifying key features of a firm's nonmarket environment. We apply these concepts to assess strategic options for De Beers as it decided how to deal with concerns over conflict diamonds in the early 2000s.

Case De Beers at the Millennium, by Pankaj Ghemawat and Sonia Marciano, HBS Case 9-706-518

Reading BIE 1-16

Discussion Questions:

1. Take the position sequentially of first Global Witness and then De Beers and BHP\Billiton, each deciding a media strategy on the issue of Conflict Diamonds.
 - a. As Global Witness, what do you include in your ad?
 - b. As i) De Beers and ii) Billiton, should you respond, and if so how?
2. How, if it all, should De Beers adjust its century-old strategy of monopolizing the supply of diamonds on the market to the beyond market threat of activism on the issue of conflict diamonds?

SESSION 2 – Thursday, SEPT 28TH: INCENTIVES IN PRIVATE AND PUBLIC POLITICS

To understand and influence policy making, one must first understand politicians. Due to the complexity of electoral rules and government institutions, politicians' incentives vary widely across countries, across issues, and over time. Yet, it is possible to develop systematic tools to examine politicians' incentives that are applicable across a range of settings, and allows us to assess the sensitivity of our predictions to both the qualitative judgement calls and often questionable quantitative data. We will apply this tool to understand how a small activist NGO transformed Delhi's fuel standards for public transportation, despite widespread political opposition. This class will also be our segue into analyzing formal government institutions.

Case	Stanford GSB Case P-79A: Overcoming Political Opposition: CNG Mandates in Delhi, by Saumitra Jha Scrubbers and Environmental Politics
Reading	Interest Group Analysis for Managers, by Keith Krehbiel

Discussion Questions: Please be prepared to answer the questions at the end of the CNG and the Scrubbers Cases

SESSION 3 – Tuesday OCT 3RD: LEGISLATIVE STRATEGY

Elected officials are not all created equal: some have more power than others, either because they hold leadership positions, or because of the fact that, due to their policy preferences, they are crucial, *pivotal*, members whose support is required for passage of a bill. Identifying who is politically powerful is a crucial task for any firm or NGO that is planning to lobby government officials. We focus on the case of health care politics in the US to illustrate tools from political economy that can be used to identify pivotal decision makers. We then discuss how these tools may apply in non-US settings.

Case	Stanford GSB Case P-74: Health Care in the United States 2009-2010, by Alex Hirsch & Ken Shotts
Reading	Pivotal Politics: A Foundation for Nonmarket Strategy, by Keith Krehbiel Optional Background: BIE Chapter 6, Appendix B, pp. 152-156.

Discussion Questions

1. Why did the Obama administration want to move fast in 2009?
2. As a legislative opponent of the bill, what is your preferred strategy?
3. Looking back, what should the administration have done differently, if anything?

OPTIONAL: Wednesday, OCT 4TH: INFORMAL SESSION ON US POLITICS: ITS INSTITUTIONS AND RECENT TRENDS, 9am-10am, Room M105

In this optional, informal session, we will survey the US political system and its institutions as well as reviewing legislative strategy and discussing recent trends, such as polarization in Congress, the 2017 election and patterns going forward.

SESSION 4 – Thursday, OCT 5TH: INTERNATIONAL LEGISLATIVE STRATEGY

It's not too far off to say that "all prices are political". This is due to the salience of politics in one particular mechanism: restrictions on international trade and immigration. National and international institutions such as the EU and the WTO play crucial roles. This session reverses the orientation of many GSB courses, looking at the beyond market strategies that firms that operate in developing countries can use to break into new, developed country, markets. We will build upon the previous classes, examining how world conditions affect the possibility of legislative change, using as examples Brazilian ethanol producers trying to sell to the United States and Mexican truckers choosing trade sanctions against the US for reneging on its NAFTA commitments.

Case: Kellogg Case KEL 523: "Should the Ethanol Blender's Credit be Eliminated?"
by David Besanko and Melissa Ulan.

Reading: BIE Chapter 19, pp. 519-540.

Discussion Questions:

Take the perspective of Cosan, a Brazilian ethanol producer, seeking a repeal of the Ethanol Tariff and Blender's Credit at the time of the case.

- 1) Which US politicians would support or oppose the repeal of the credit? Whom might you want to lobby? What would be the most effective types of information to provide?
- 2) What macro factors and what US or international prices for fuel, corn, sugarcane and ethanol might make it more or less likely to succeed in building a coalition in favor of a repeal?

SESSION 5 – Tuesday, OCT 10TH: INTEGRATED STRATEGY

In this session, further bring together the lessons from the first part of the course. We devote our time to analyzing the economics of the airline industry and how it is shaped by a particular piece of legislation. The assignment calls for the development of an integrated strategy, requiring the development of standard financial analysis subject to a political constraint.

Case: Lobbying For Love? Southwest Airlines and the Wright Amendment by Felix Oberholzer-Gee, Dennis Yao, Libby Cantrill and Patricia Wu, HBS Case 9-707-470
(Excel file – Canvas).

Assignment: (Due Monday October 9th at 5pm by email)

Using the tools and frameworks developed in Sessions 1-4, combined with standard financial analysis, develop an integrated strategy for Southwest Airlines. Be sure to use the provided data

(excel file) to fully support your position. You may submit your analysis as a document with exhibits or a deck of powerpoint slides, where the 'notes' area contains a full exposition of the analysis (in sentences). I will select one group at random to present their analysis to the class (see below), or you can volunteer.

Along with the data in the case, the Spreadsheet posted on Canvas provides statistical data on air routes and prices under different scenarios (note that Southwest's airline code is WN). I'd like you to include answers to the three questions below in your analysis:

- 1) Should Southwest Airlines seek to overturn the Wright Amendment?
- 2) What is the effect of Wright Amendment restrictions on Southwest Airlines' prices?
- 3) If Gary Kelly decided to try to overturn the Wright Amendment, which Senator on the Commerce, Science and Transportation Committee should he choose as the main sponsor?

PART 2: BUSINESS IN THE REGULATORY ENVIRONMENT

SESSION 6 – Thursday, OCT 12: BUSINESS INNOVATION AND BEYOND MARKET CONSTRAINTS

A frequent attitude in Silicon Valley – and the entrepreneurial community generally – is that the quality of the idea will take care of itself and that the government is irrelevant (not to mention stuffy and bureaucratic). Time and time again this attitude has been proven wrong. Yet the attitude persists. Indeed, the rules of the game for a market are often set before the market even exists. Understanding the rules that are in place and designing a business plan that takes them into account is an important part of business innovation. We'll explore these lessons through the salutary experience of Prosper Marketplace, an innovator in the peer-to-peer lending business.

Case: Peer to Peer Lending by Steve Callander

Recommended Background: *The Master Switch: The Rise and Fall of Information Empires.*
Tim Wu. Chapters 9 & 10, p. 125-135 & 136-156.

SESSION 7: Tuesday, OCT 17: BUSINESS INNOVATION II: TESLA AND MOBILEYE

In this class, we will build upon the frameworks developed in the previous classes to examine two key players in the emerging industry for driverless cars, Tesla and Mobileye.

Case: Mobileye: The Future of Driverless Cars by Dennis Yoffee, HBS case

Table of Comparisons: Major Automobile Manufacturers (on Canvas).

Explore: <https://www.tesla.com>

Discussion Questions:

- 1) What are the advantages and risks to Mobileye of becoming a Tier 1 vs Tier 2 provider?
- 2) Should Mobileye partner with Google? Why or why not? If not, whom should it partner with instead (eg using the table of major auto manufacturers)?
- 3) Should Mobileye drop its prices? Should it raise them? Explain your reasoning from both a market and non-market perspective.
- 4) Develop an integrated market and regulatory strategy for Mobileye.

5) How does Tesla's sales strategy differ from most other auto manufacturers? Why?

ASSIGNMENT: Group Project Prospectus Due, Thursday October 19th, 5pm by email.

PLEASE NOTE: NO FORMAL CLASS ON Thursday, October 19, but please use class time to work on Group Project Prospectus.

SESSION 8: Tuesday, OCT 24: ANTI-TRUST

Although laws and constitutions provide the foundation for antitrust policy, courts and regulatory agencies play a major role in deciding how laws will be implemented. The session will include a discussion of the implications of the economics of winner-take-most markets and the antitrust hazards in those markets. We will also have an in-class debate over antitrust, focusing on the landmark example of Microsoft in the US and EU, before discussing current trends.

Case The Microsoft Antitrust Case, BIE 257-263

Reading BIE Chapter 9: Anti-Trust 230-238, EU Competition Policy 425-429

Debate Preparation: Your group will be pre-assigned the role of either: a) the Department of Justice and Microsoft's competitors and b) Microsoft, with one group volunteering (or randomly assigned) to lead in each case. The DoJ/ Competitors will move first, presenting the most compelling case against Microsoft (10 minutes). Then Microsoft will respond (10 minutes). We will then have a broader debate.

SESSION 9- Thursday, OCT 26: INTELLECTUAL PROPERTY

In information and creative industries, intellectual property is the principal asset of many companies. For these companies, protecting their information assets is crucial to creating and sustaining a competitive advantage and capturing value. The protection of digital intellectual property is a particular challenge in developing countries but may have mixed effects on innovation. In this class we will examine the strategy of Qualcomm, a firm that evolved from a small engineering startup to a large firm holding and defending much intellectual property in global telecoms.

Case: Stanford GSB Case SM-111: Qualcomm 2003 by Cara McVie and Bill Barnett
(Optional) Background: Stanford GSB Case SM-177: Cellular Telecommunications:
An Industry Driven by Intellectual Property and Technical Standards" by Robert Burgelman, Margaret LaBreque, David Hoyt and Amanda Silverman

Discussion Questions:

- 1) What the reasons why Qualcomm develops a strong position in CDMA IP? How is this disruptive to the industry?
- 2) What are the major threats to Qualcomm's IP? What strategies does Qualcomm use to defend itself? Which are more effective? What would you have done differently?
- 3) Which institutional venues are better for Qualcomm vs competitors and downstream hardware manufacturers such as Nokia and Ericsson? What does this imply for Qualcomm's strategy?
- 4) How does Qualcomm's legal and broader beyond market strategy alter its internal organization (eg Spinnco), its stance on M&A and its market strategy?

SESSION 10:- Tuesday OCT 31: CORRUPTION

Dealing with corruption in the regulatory environment is a serious challenge faced by many managers, particularly in emerging markets, but also in many developed countries too. In this class we will discuss what is legal and illegal in light of the US Foreign Corrupt Practices Act, as well as discussing strategies for doing business in environments where corruption is common.

- Readings**
- 1) Resource Guide to the US Foreign Corrupt Practices Act, Chapters 1-2, pg 1-37.
 - 2) Optional: Vito Tanzi (1997) "Corruption: Arm's Length Relationships and Markets" chapter 7 in *The Economics of Organized Crime*, Gianluca Fiorentini and Sam Peltzman eds., Cambridge University Press

Discussion Questions:

- 1) What is the difference between a *bribe* and a *facilitating payment* under the US FCPA?
- 2) Please come to class prepared to discuss examples of corrupt practices that you have encountered, if any, and strategies that were used or could have been used for addressing them.

PART 3. POLITICAL RISK MANAGEMENT

SESSION 11 – Thursday NOV 2: MACRO POLITICAL RISK AND VIOLENCE:

In this session, we will think seriously about the fundamental way that bargaining and bargaining failures affect the legal environment for innovative firms in rich countries and beyond market strategies in developing societies. We will complete our discussion of the legal environment with a bargaining exercise illustrating the role of property rights in determining outcomes.

Then we will turn to the question of more radical political changes, deriving from bargaining failures and the failure to make to **credible commitments**. We will first discuss how and why political transitions can be hard to predict, including the role of preference falsification and media echo chambers. We then examine why bargaining failures affect the regulatory environment of innovative firms, such as Prosper in the US, as well as being a major cause for violent conflict and the failure of socially-beneficial initiatives in developing countries. We finally discuss strategies for overcoming such bargaining failures.

- Case Reading**
- MTN Group Limited: BIE:pp. 498-501.
BIE pp. 324-327 (Coase Theorem)
James Fearon "Ethnic War as a Commitment Problem", pg 1-4 (introduction only, linked on Canvas)
Saumitra Jha "Trading for Peace" (introduction only, linked on Canvas)

Discussion Questions:

- 1) Why is CSR important to MTN? Why might MTN want to employ locals and provide local shareholding in the countries in which it operates? What factors should it trade-off in deciding how much local equity to issue?

SESSION 12 – Tuesday NOV 7: GLOBAL INSTITUTIONS AND THE BUSINESS ENVIRONMENT

We are happy to welcome Professor Condoleezza Rice to be a guest lecturer for these two sessions on Global Institutions.

Readings: to be posted on Canvas

SESSION 13 – Thursday NOV 9: GLOBAL INSTITUTIONS AND THE BUSINESS ENVIRONMENT

Professor Condoleezza Rice

Readings: to be posted on Canvas

SESSION 14 – Tuesday NOV 14: ACTIVISTS, PROTESTS AND THE MEDIA

Activists sometimes try to promote their objectives by influencing governmental policies. But they also work outside of government arenas, by convincing individual consumers or employees to take actions that are *political* (i.e., aimed at influencing a company's actions) yet *private* (i.e., not relying on public laws or governmental authority). Such activism, ranging from protests to boycotts, is prevalent on issues such as labor standards, the environment, and social justice. This session focuses on a case in which activists attacked Citigroup for project finance lending in developing countries. We consider the strategic interaction between Rainforest Action Network and Citigroup in a struggle that lasted for several years.

We will also simulate the interactions of strategies from three different perspectives: that of RAN, that of a major news media organization, and that of Citigroup. Study groups advocating RAN's viewpoint will play first. Groups assigned to formulate media coverage will move next. Finally, it will be Citigroup's turn to address RAN's challenge. A general debate will follow.

Case: Anatomy of a Corporate Campaign: RAN and Citigroup (A and B):
BIE pp. 97-101

Reading: BIE pp.52-57 (Media), Chapter 4 (Activist Strategies) (pp. 84-91)

SESSION 15 – Thursday, NOVEMBER 16: LOCAL POLITICAL RISK

In many environments, particularly in the developing world, the challenges and opportunities that stem from firms' exposure to local political risks and transitions can be particularly important. Choosing a new site to open a business or a plant often involves investments that are hard to reverse, raising the possibility that local political actors may later try to "hold up" production or renege on agreements. A second question is how to weather political transitions. In this session, we examine the lessons to be learned from Tata Motors' decisions to locating the plant for its "people's car", the Nano, and from the relative success and failure of Mexico's large-scale poverty alleviation projects, *Pronasol* and *Progresas/ Oportunidades*.

Case Stanford GSB Case P-78A: Managing Local Political Risk: Parking the Tata Nano (A), by Saumitra Jha and Debra Schiffrin

Discussion Questions Please answer the discussion questions at the end of the case.

PART 4. SYNTHESIS AND APPLICATIONS

SESSION 16 –Tuesday NOVEMBER 28: Flipped Classroom

Please come to class and use class time to work on your group projects and presentations. I will touch base with each group in-class.

Assignment: Group Projects due Tuesday November 28: 11:59pm by email.

SESSIONS 17-18 Thursday NOVEMBER 30; Tuesday DECEMBER 5: GROUP PRESENTATIONS.

Groups will present their projects (see description above).

SESSION 19 – Thursday, DECEMBER 7: CONCLUSION

In this section we will jointly generate an integrated strategy for Glaxo, using lessons from the course. The case provides an opportunity to apply the course frameworks to a salient issue facing the pharmaceutical industry, in a global context. Glaxo faced an enormous challenge. How could it address the continuing concerns raised by activists, the media and world governments, while simultaneously serving the interests of Glaxo stakeholders? What is the correct, socially responsible, course of action? How should social responsibility be balanced against generating profits? How should Glaxo price its next AIDS drug currently in the pipeline? And how could Glaxo better manage beyond market considerations?

Case: GlaxoSmithKline and AIDS Drugs Policy, BIE pp. 778-783

Reading: Optional Background: “Note on AIDS and the Pharmaceutical Industry” (on Canvas)

EXAM: Available: DECEMBER 7, noon:

Exam on all assigned material. Open book, open notes and open canvas. Use of outside sources of information, including the Internet, is discouraged. You will have three hours to complete the exam, once opened.