
BUSINESS, GOVERNMENT & SOCIETY: MANAGEMENT BEYOND MARKETS

AREA: STRATEGIC
MANAGEMENT

INTERNATIONAL M.B.A.

SESSIONS: 20

PROFESSOR: **DAVID BACH**

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The point where business and politics meet is the main focus of David Bach's teaching and research activities. "Politics has always been important for business," he says, "but owing to globalisation and new demands on companies, executives must more than ever engage in skilful political management."

With considerable professional experience consulting for companies such as McKinsey, Prof Bach watches with interest the way that globalisation and new technologies transform the business environment. The opening up of domestic industries and foreign markets has given companies tremendous new opportunities. However, new public scrutiny facilitated by the Internet and 24h news media combined with the need to simultaneously manage different social and political environments is posing fresh challenges. "As a result, the so-called 'non-market environment' of business is becoming increasingly important for the formulation and implementation of strategy," he adds.

His ability to join the dots between these interacting forces is also what comes through in his teaching, in courses such as Business, Government and Society, as well as in his work in leading academic journals, which have published his studies on industry self-regulation, the politics of Internet telephony, the transformation of the music industry, and China's growing influence in the field of information technology. "There's only a handful of people with a background in political science that make the transition to management education," he says. "I'm fortunate to work at the intersection of two incredibly interesting fields."

Academic Background

PhD in Political Science, University of California, Berkeley, USA

MA in Political Science, University of California, Berkeley, USA

BA in Political Science and International Studies, Magna Cum Laude, Yale University, USA

Academic Experience

Professor of Strategy and Economic Environment, Instituto de Empresa, 2004 to present
Academic Director of the International MBA Programme, Instituto de Empresa, 2004 to present
Research Associate, Berkeley Roundtable on the International Economy, Berkeley, USA, 1999 to 2004

Teaching Assistant, University of California, Berkeley, USA, 1999 to 2003

Corporate Experience

Consultancy work with McKinsey, the Global Business Network and Political Intelligence, an international lobbying consulting firm

“The biggest single change in management during my career has been the increase in time managers spend dealing with government.”

Edmund T. Pratt, Jr., *Chairman and CEO of Pfizer Inc.*

COURSE BASIS

This course focuses on the non-market forces that managers encounter. The emphasis is on the political, regulatory, social, and natural environment in which business operates.

OBJECTIVES

Business operates in both a market and a nonmarket environment. Successful corporate strategy aligns the firm’s capabilities with the demands of both its market and nonmarket environment. This course systematically examines the political, regulatory, societal, and natural factors that shape business’ nonmarket environment. Students learn how to analyze and proactively manage the nonmarket environment through integrated market- and nonmarket strategies.

This course is divided into seven parts:

In part **one**, we examine the role of markets, governments, and society in a market economy. We will examine markets, market failures, the role of government in correcting market failures, and government failures.

The **second** part begins the systematic analysis of politics as it relates to business. Students learn to analyze the motives for government intervention to better judge when and how political developments may affect business. Tools for nonmarket analysis and nonmarket strategy formulation are introduced. We then turn to business-government relations in specific regulatory domains, as we analyze how to align market and nonmarket strategy in challenging political environments.

Part **three** extends the analysis to the international level. We examine the political risk inherent in many international investment decisions, the dynamics of trade policymaking and protectionism, and the challenges – and opportunity – of “thin” regulation at the global level.

The **fourth** part turns attention to the role of business in society and in nature. Business is often blamed for social ills. But social or environmental challenges also provide opportunities for business. Proper corporate communication – including, where necessary, crisis communication – is often crucial for success.

Part **five** turns attention specifically to the debate over corporate social responsibility and considers business ethics. We will explore each on its own and probe how they find into the nonmarket approach to management.

The **sixth** part, finally, explores systematically the rise of “private politics” which are increasingly complementing conventional “public politics”. Business increasingly has to deal directly with activists, civil society networks, and NGOs. A profound challenge, this new plurality also opens exciting new nonmarket strategic opportunities for business, providing it with new potential allies.

The course is conclude by part **seven**, which features student presentations on companies and their management of nonmarket challenges and opportunities.

ASSIGNED MATERIALS

The course is designed around intensive use of the case method and cases contained in a reader therefore constitute the backbone of course materials. The reader also contains supplementary readings and some theoretical articles.

There is also a textbook for the course: David P. Baron, *Business and its Environment*, Prentice Hall, 5th Ed. The textbook provides background and theoretical material for most of the sessions, as indicated in the program below. While the course and the textbook cover more or less the same material, we will follow a slightly different sequence than foreseen in the textbook.

Students are expected to have prepared assigned cases before coming to class and to be familiar with the assigned background and theoretical readings.

PROGRAM

Part I: Foundations: Markets, Government, and Politics

SESSION 1

What is a market?

To explore “management beyond markets” and the “nonmarket environment” we need a good sense of what markets actually are. Are they spontaneously occurring phenomena or political creations? Leading thinkers disagree, but the answer to this question matters profoundly for perspectives on the proper role of government in the economy and the character of business-government relations.

- Adam Smith, *The Wealth of Nations*, ch. 2.
- Milton Friedman, *Capitalism and Freedom*, ch.2.
- Robert Heilbroner and William Milberg, *The Making of Economic Society*, ch. 3 (especially sections entitled “Appearance of the Economic Aspects of Life” and “The Invention of Economics”).
- Baron, ch. 1.

SESSIONS 2 & 3

Markets and their Limits

Strategies that are rational on an individual level can produce irrational outcomes, meaning they leave everybody worse off, society included. When do such phenomena occur and why are coordination and collective action to avert them so difficult? Rather than just reading about these paradoxical dynamics, we will experience them ourselves through a computer simulation involving common resources for production. Apart from pollution and the deterioration of a common resource, what other situations have similar dynamics?

M.D.: Computer Simulation: Uncommon Value (DG1/462-I-M); materials will be provided in class.

Part II: The Nonmarket Environment and Corporate Strategy

SESSION 4

Nonmarket Analysis

Government and politics play important roles in the world of business. Government is a critical actor in the nonmarket environment and politics often shape competitive dynamics within markets. What comprises the nonmarket environment and how can we get traction on political dynamics that affect business?

- Baron, ch. 2.
- P.C.: "Wal-Mart: Nonmarket Pressure and Reputation Risk (A)" (Stanford GSB P-52B).

Background (not required though highly recommended):

- Charles Fishman, "The Wal-Mart Effect and a Decent Society: Who Knew Shopping Was So Important?," *Academy of Management Perspectives*, Vol. 20, No. 3, pp. 6-25 (2006).

SESSION 5

Nonmarket Strategy

The nonmarket environment is full of challenges and opportunities. In many sectors, the nonmarket environment is increasingly the place where competitive advantage can be built or lost. How do firms formulate nonmarket strategies? What is the relation of market- and nonmarket strategy? What resources and capabilities do you need to excel in the nonmarket environment and how do they differ from resources and capabilities that create the basis for competitive advantage on the market side? Information is the currency of the nonmarket environment and the media plays a critical role as transmitter of information. But how objective is the media? How can it be influenced? And what are the implications for corporate communication?

- Baron, ch. 3.
- P.C.: "Wal-Mart: Nonmarket Pressure and Reputation Risk (B) – A New Nonmarket Strategy" (Stanford GSB P-52B).
- VIDEO: Frontline: The Persuaders (in class).

SESSION 6

Competition Policy and Corporate Strategy

One of the most important roles for government in the market system is to ensure competition. But this is often easier said than done. What are the criteria to judge if a merger, for example, might stifle competition? Are these predominantly technical administrative decisions or are they "political"? How can executives influence the investigations by competition regulators? In Europe, authority regarding the formulation and implementation of competition policy is increasingly shifting to Brussels. What special challenges does dealing with European officials as opposed to national officials pose?

- P.C.: Case: Volvo-Scania: Mergers and Competition Policy (INSEAD 203-006-1).
- T.N.: The Economics of Mergers and Competition Law (INSEAD 203-006-5).
Doc.: Oceans Apart," *The Economist*, May 3, 2008, pp. 77-78.

Background:

- Baron, ch. 9.
- Baron, ch. 15 (pp. 511-526).

SESSION 7

Business in a Regulated Industry: De-Regulation, Self-Regulation, Re-Regulation

Utilities industries are characterized by tremendous start-up costs and pervasive network effects. In this setting, market coordination alone frequently leads to inefficient over- or under-investment in critical infrastructure, which, in turn, provides a common justification for government intervention and regulation. Yet regulatory paradigms are changing. The transition of an industry from one regulatory paradigm to another usually poses tremendous management challenges. Not just the content of regulation but also the institutional mechanisms through which market rules are defined, implemented and enforced have important implications for companies and their strategies. Self-regulation, which often seems an attractive option, poses its own special challenges. What are some of the advantages and disadvantages of self-regulation compared to other regulatory strategies? Why might companies demand formal regulation? Does true de-regulation exist or is market liberalization usually associated with complex re-regulation?

- P.C.: RWE and the proposal for a German electricity regulator (HBS 9-702-053).
- Stephen K. Vogel, *Freer Markets, More Rules*, pp. 1-5.

Background:

- Baron, ch. 10.

SESSION 8

Building and Defending Competitive Advantage Beyond the Market

Leading companies stretch the competitive playing field beyond the market, seamlessly moving back and forth between market- and nonmarket environments and effectively integrating market- and nonmarket strategies. This is particularly important for new product introduction in a dense regulatory environment. Nonmarket moves can help firms erect effective entry barriers. But sometimes, erecting entry barriers to sustain market dominance can backfire, raising new challenges. How can nonmarket strategy help in shaping the terms of market competition for new products? When might erecting such barriers not be desirable? And how should a company deal with an excluded competitor who might try to destroy a market's value from the outside?

- P.C.: Brighter Smiles for the Masses – Colgate vs. P&G (HBS 9-706-435)

Part III: The International Context

SESSION 9 [in-class quiz #1]

Assessing and Managing Political Risk

Political risk exists “whenever policy decisions or political events can affect the profitability of foreign investments.” Multinationals routinely assess political- or country risk before committing resources and investing in fixed assets in risky or unstable environments. But forecasting political risk is notoriously difficult, especially as the company's conduct on the ground can increase or mitigate political risk. More and more firms are therefore employing nonmarket strategy and political strategy to proactively manage political risk. Still, political risk remains a potent concern in international investment, as the case of water privatization in Argentina highlights. What are sources of political risk? How can we distinguish overarching country risk from specific project risk? What steps can multinationals take to manage political risk? What are new sources of political risk and how useful are conventional tools for political risk assessment?

- P.C.: Aguas del Aconquija, SA: Privatization in Troubled Waters (INSEAD 305-174-1).
- T.N.: Note on Political Risk Analysis (HBS 9-798-022).

Background:

- Louis T. Wells, “God and fair competition: does the foreign direct investor face still other risks in emerging markets?” in Theodore H. Moran (ed.), *Managing International Political Risk* (Oxford : Blackwell Publishers, 1998).

SESSION 10

International Business and Trade Policy

Free trade requires a stable international trade regime. Yet business interests in unfettered market access are only one factor in the equation. Rules regulating international trade such as those promulgated by the World Trade Organization (WTO) balance shared interests in the promotion of international trade with national sovereignty and governments' desire to preserve policy autonomy. In this setting, conflict is the norm, not the exception. What is decried as protectionism or illegal dumping from one vantage point, for example, may be seen as legitimate industrial policy on the other end. What is the character of the international trade regime? How does it affect international business and what recourse do companies have when foreign firms or governments do not meet their obligations? What risks are involved in "going political"?

- P.C.: Chiquita Brands International (A) (HBS 9-797-015).
- P.C.: Chiquita Brands International (B) (HBS 9-701-106).

Background:
Baron, ch. 17.

SESSION 11

Lobbying in the Global Economy

Globalization of markets creates demand for a corresponding globalization of rules and regulations. This is particularly apparent in the case of intellectual property. Many industries – including pharmaceuticals, media and entertainment, software, and high technology – rely on strong protection of patents, copyright, and trademarks. Weak foreign intellectual property protection thus provides a considerable challenge for multinational firms in these industries. Confronting this challenge, CEOs from leading Western firms embarked on an ambitious transnational lobby campaign to globalize Western intellectual property rules. How did they go about achieving their objectives? How did they design and implement their lobby campaign? What was the key to their success? How has the new regulatory environment benefited Western firms?

At the same time, does the globalization of Western rules in general and of Western intellectual property rules in particular raise concerns of cultural imperialism or abusive rent-seeking? Who loses under the TRIPS agreement? Is lobbying of this kind unethical?

- P.C.: Pfizer: Global Protection of Intellectual Property (HBS 9-392-073).
- "T.N.: Lobbying (DG01/380-I)
- P.C.: GlaxoSmithKline and AIDS Drugs Policy (in Baron, pp. 841-847).

Part IV: Business in Society and Nature

SESSION 12

Blaming Business

Business is frequently blamed for society's ills. Nowhere is this more common than in the media and entertainment industry and, especially, in the case of television. What is the extent of business' responsibility vis-à-vis society? Why does business get blamed even though there are multiple alternative – and frequently more plausible – culprits for a particular social problem? Knowing whether, when, and how to respond to the "blame game" is a critical asset for non-market management.

- P.C.: This Case Sucks: Beavis, Butt-head, and TV Content (A) (HBS 9-395-053).

SESSION 13 [in-class quiz #2]

Crisis Management

Non-market management is challenging no matter what the circumstances. In crisis situations, however, the pressure on senior executives can reach extraordinary levels. Intensive public scrutiny and the mobilization of multiple interest groups can put significant constraints on a company's ability to move. While there are global crises that make headlines worldwide, local crises can be similarly daunting. How should a company respond when a seemingly logical business decision runs into formidable local opposition? What are the critical stakeholders that a company is responsible to? And what is the role of leadership in the management of a full-blown crisis?

- P.C.: Galletas Fontaneda and United Biscuit: Leadership in the Midst of a Crisis
- (RH1-120-I)
- Peter V. Stanton, "Ten Communications Mistakes you can avoid when Managing a Crisis," *Public Relations Quarterly*, Summer 2002, pp. 19-22.
- VIDEO: Fontaneda (in class).

SESSION 14

Sustainable Development as Integrated Strategy

Global warming is one of the principal political and economic challenges of this new century. Different governments are pursuing different some strategies – some have signed the Kyoto protocol, others have not – and the same is true for companies. Particular pressure has been mounting on large multinationals, especially oil companies. What should large multinationals do about global warming? Is it a threat or an opportunity? What is the role of regulation? And how can leadership in this domain be translated into competitive advantage?

- P.C.: Global Climate Change and BP Amoco (HBS 9-700-106)
- "Going Green, Profitably," Harvard Business Review Article Collection (HBR OnPoint Collection #2280) [read at least two of the three articles]

Part V: Corporate Social Responsibility and Business Ethics

SESSION 15

What is Corporate Social Responsibility?

Pressure has been growing on business to act in a socially responsible manner and to not focus exclusively on the bottom line. What is "Corporate Social Responsibility" and how is it similar or different from conducting business ethically? Why has demand for CSR grown in recent years, particularly in the context of international business? Is CSR pure altruism or can it make business sense? Is it part of the market or nonmarket strategy, or both? The Telefonica case describes one of the most successful CSR projects of a leading multinational and thus provides an ideal setting to explore these questions

- M.D.: Telefonica (DE1-130-I-M)
- "Just good business: a special report on corporate social responsibility," *The Economist*, 28 January 2008.
- Beth Kytte and John G. Ruggie, "Corporate Social Responsibility as Risk Management: A Model for Multinationals," Corporate Social Responsibility Initiative, Kennedy School of Government, Working Paper # 4 – March 2005.

Background:

- Baron, ch. 18.

SESSION 16

International Business, Corruption, and Business Ethics

Corruption remains a big problem in many countries, and not just in the developing world. Managers are frequently confronted with demands – or temptations – to bribe public officials or potential business partners. Some argue that paying bribes is part of the way of doing business in certain countries and that efforts to ban it amount to cultural imperialism. Others point to the market distorting effects of corruption, its detrimental effect on development, and label it unethical and under all circumstances. Is paying bribes always, sometimes, or never wrong? Does it matter what a bribe is for? How can corruption be fought and what is the role of business?

- P.C.: Soft-Solutions (A) (DE1-142-A-I).
- **HANDOUT: Soft-Solutions (B) (DE1-142-B-I) (in class).**
- **HANDOUT: Soft-Solutions (C) (DE1-142-C-I) (in class).**
- Baron, ch. 22 (pp. 810-821).

Background:

- Baron, ch. 19 & 20.

Part VI: Private Politics

SESSION 17

Activists, Boycotts, and Private Politics

Globalization is making the world smaller. Business can easily source from around the world. However, globalization has not forced a convergence of labor and environmental standards. In fact, many developing countries draw an implicit competitive advantage from lax regulation. But globalization has not just given business global reach. Activists and NGOs are forming transnational networks and are often using modern information and communications technologies even more effectively than the most innovative multinationals. Through the Internet and 24h news media, corporate misbehavior anywhere in the world can quickly give rise to a major global scandal. But how much control do Western executives have over foreign labor or environmental standards? Is it their role to tell foreign governments how to run their countries? And how far “upstream” does companies’ responsibility extend? The controversy over sweatshop labor powerfully illustrates these challenging dynamics.

- P.C.: Hitting the Wall: Nike and International Labor Practices (HBS 9-700-047)
- Michael Yaziji, “Turning Gadflies into Allies,” *Harvard Business Review*, February 2004.
- Richard Donkin, “The boycott threat,” *World Business*, 27 April 2006.

Background:

- Baron, ch. 4

SESSION 18

Business, Government & Society Head-To-Head

Business constantly interacts with government and civil society groups. But there are few instances where business, government, and groups claiming to represent society’s interests have clashed as dramatically and as visibly as in the case of Brent Spar. What motivation drove the principal actors – Shell, Greenpeace, the British government, and other European governments? What was the critical issue at stake? And what interests, institutions, and information shaped the arena in which the conflict was fought? Who ultimately wielded most authority in the conflict and why? What have been the larger strategic implications of this direct confrontation with Greenpeace for Shell in terms of its relationships with governments and society?

- P.C.: Sunk Costs: The Plan to Dump the Brent Spar (A) (HBS 9-903-010)
- P.C.: Sunk Costs: The Plan to Dump the Brent Spar (B) (HBS 9-903-011)
- P.C.: Sunk Costs: The Plan to Dump the Brent Spar (D) (HBS 9-903-013)

Part VII: Student Group Presentations

SESSION 19 & 20

Presentations

In this final double section, student groups present a short analysis of a case they have researched themselves. Using the various tools learned in the course, students analyze significant aspects of the non-market environment of a firm and sketch how it has, should, or will influence the formulation of an integrated corporate strategy. More information will be provided during the course.

CLASS REQUIREMENTS AND EVALUATION

There are four class requirements that comprise the final term grade in the following way:

Two In-Class Quizzes:	15 percent each
Group Case Write-Up:	15 percent
Group Final Project and Presentation:	30 percent
Class Participation:	25 percent

In-Class Quiz (15 percent each, 30 percent total)

There will be two short in-class quizzes at the start of sessions 9 and 13 respectively. The quizzes will consist of IDs and a short essay in which students will be asked to apply concepts developed in the course.

Group Case Write-Up (15 percent)

Each group, in coordination with the instructor, selects a case and prepares a short (max. 1000 words) analysis of the critical issues raised by the case. The write-up is due the day the case in question is discussed in class. Since cases get more difficult over the course of the term and time starts getting scarce at the end, it is a good idea to do this assignment early.

Group Final Project and Presentation (30 percent)

In coordination with the instructor, each group selects a company and assesses either its overall nonmarket environment or a particular set of nonmarket challenges (and/or opportunities) the company confronted at a given moment, and analyzes its impact on corporate strategy. Each group will prepare a 7-page report and give a 10 minute presentation, followed by 5 minutes of Q&A.

Class Participation (25 percent)

Case analysis requires active participation, before class in groups as well as in class itself. Through class contributions, students provide valuable insights, different perspectives, and help move the class along. It is therefore only sensible that class participation should comprise a significant part of the grade. What matters though is quality, not quantity. The point of class participation is contributing a new fact or a new perspective to the discussion and thus moving the class forward, not restating previous information.