B8748: Doing Business in Emerging Markets (MBA)
Fall 2016 (Fall 2017 Update Pending)

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COURSE DESCRIPTION

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

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

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

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

Some of the topics we will cover include:
   1. Why are emerging markets so volatile?
   2. How can firms use quantitative analysis to identify the next frontier markets?

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3. Why do very successful firms consistently underestimate the costs of entering emerging markets? What strategies should firms take to reduce these costs?
4. Why are companies in emerging markets organized differently from those in developed markets?
5. How can firms protect intellectual property in markets with weak enforcement? What strategies do firms have if your JV partner has stolen your IP?
6. What are the deep determinants of corruption across countries, and how should firms manage corruption risk?

REQUIRED COURSE MATERIAL

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

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

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

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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<tbody>
<tr>
<td>Strategy Formulation</td>
<td>1. Trade-offs, value-added, efficiencies</td>
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<td>2. Diversification and scope</td>
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<td>Managerial Economics</td>
<td>1. Strategic interaction among firms and Nash equilibrium</td>
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<td>2. Hold-up</td>
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<td>3. Market competition</td>
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<td>4. Pricing strategies</td>
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<td>5. Adverse selection</td>
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<td>6. Game Theory</td>
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<td>Managerial Statistics</td>
<td>1. Linear regression</td>
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<td></td>
<td>2. Casual analysis</td>
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<tr>
<td>Global Economic Environment I</td>
<td>1. Exchange rates</td>
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<td>2. Economic development</td>
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Students will be expected to have mastered these concepts and be able to apply them in the course.

METHOD OF EVALUATION

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

1. Class participation (30%)
2. Assignments (20%)
3. Final Project (50%)

Assignments
1. Your team must select one assignment question to discuss in class. The purpose is to allow you to dive deeper into one question that interests you. The questions for that day will try to relate to the topics covered that class. If there is a specific question that you would like to answer that is not on the syllabus, please propose it to me. You do not need to present with slides, but you may wish to pass around a graph or two if that helps facilitate conversation. You should aim to answer the question in about 5 minutes, and write it up in (max) 2-page piece due on the day that you are asked to discuss.
   a. Only one member of the group needs to lead the discussion.
   b. Email the TA by Monday 11/7 with the question & class number.

Final Project
The final project is a group project with a maximum of five students. There are several options for the final project. You are asked to submit a 15 (max) page “think” piece that takes a deeper dive into any of the topics that we covered in class (or missed in class). It is a good idea to mention your proposed question/idea to me ahead of time (either by email, before/after class, or during office hours). There are many potential directions. **The final paper is due Friday 12/16 at 11:59pm EST. Any paper late will lose 10% of the grade for each hour it is late.** Examples include:

1. Analyze a company’s initial entry into a foreign market. You are encouraged to talk directly with the company in order to understand the full set of factors that were considered prior to the entry (analyzing failed international expansion efforts are equally and potentially more illuminating). What mode of entry did they try? What should they have done differently?

2. Provide an analysis of how your company or organization has dealt with the vagaries of bribe demands or contracting difficulties.

3. What – if anything – could a country like Myanmar, Laos, Ethiopia, Botswana do to attract foreign investors today?

4. What are the considerations that a “double bottom-line” social enterprise should take into account in a situation in which its profit and social goals are not aligned?

5. Assess the challenges of protecting intellectual property from the perspective of one company of your choice? What steps have they taken to protect IP? Are they sufficient? What risks do they face? What options do they have should infringement occur?

**CLASSROOM NORMS AND EXPECTATIONS**

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

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Honor Code

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

Columbia Business School’s Honor Code:

As a lifelong member of the Columbia Business School community, I adhere to the principles of truth, integrity, and respect. I will not lie, cheat, steal, or tolerate those who do.
Tentative Schedule
(* denotes required readings)

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

Readings:
- *Africa Unleashed (Foreign Affairs, Nov/Dec 2011)
- *Democracy, Diversification and Growth Reversals (VoxEU 2009.08.15)
- It’s a Flat World After All (NYT 2005.04.03)

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

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

Readings
- **“Parallel players”, The Economist, June 23, 2012
- *“The Masala Mittelstand”, The Economist, August 11, 2012
- Why Focused Strategies May be Wrong for Emerging Markets (HBR 97404)
- Bloom, Genakos, van Reenen and Sadun, “Management practices across firms and countries”, Academy of Management Perspectives, 2012

Discussion Questions:
1. Why are firms in emerging markets so poorly run relative to firms in developing countries?
2. Why are firms in emerging markets more hierarchical than firms in the U.S.?
3. Why do we often observe business conglomerates forming in these countries?

Student-Led Discussion Topics:
1. Why has Ethiopia grown so rapidly in the past 10 years?
2. If you are an apparel company, which frontier markets look attractive as potential sourcing options?
3. If you are a U.S. multinational considering an investment project in Vietnam, what provisions of the Trans Pacific Partnership appeal to you?
4. You are an advisor to the Ghana National Competitiveness council. What specific sectors would you advise them to focus on as they develop their development growth strategy?
5. Explain Mohammed bin Salman’s strategy to diversify the Saudi Arabian economy.
Class 3: Market Selection and Entry I

Readings
- *Hermitage’s Russian Quandry (A,B) (HBS 9-711-054)
- *Metro Cash and Carry (HBS 707505)
- *Spotting Institutional Voids in Emerging Markets (HBS 9-106-014)
- Distance Still Matters (HBR R0108K)
- Retail Doesn’t Cross Borders: Here’s Why and What to do about it (HBR R1204G)

Hermitage Questions:
1. What was the Hermitage strategy, and how well was it working?
2. What should Browder do now?

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

Student-Led Discussion Topics:
1. Why did Uber fail in China?
2. Will Amazon succeed in India?
3. Which sectors could see large increases in FDI if sanctions on Iran are lifted fully? Is there any one company in particular that would particularly benefit from the removal of sanctions?
4. Indonesia is Twitter’s 5th largest user base. Why has it been so successful in that market?

Class 4: Market Selection and Entry II

Gravity Assignment Due
Readings
- *Nghe An Tate & Lyle Sugar Company (Vietnam) (HBS 9-202-054)
- *Haier’s U.S. Refrigerator Strategy (HBS 711-473)

Nghe An Tate & Lyle Sugar Company (Vietnam) Discussion Questions:
1. What is potentially attractive about this investment for Tate & Lyle?
2. What are the major risks for Tate & Lyle in this project?
3. Carefully identify the key parties to the success of the NATL project
   a. What does each party want?
   b. What roles must each party play for the project to succeed?
   c. If you were a farmer, would you adopt sugar cane? Why or why not?
   d. What about the other parties—will they do what NATL needs them to do?
4. How important are tariffs to this business strategy, and how would you assess whether the current tariff environment is stable?
5. Why is NATL willing to pay wages well above the local average?
6. Should IFC participate?

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Haier Discussion Questions:
1. How did Haier achieve its success?
2. How does Haier adapt from selling within its home market to selling in the US market? What alternative strategies could it have tried? Evaluate the company’s strategy.
3. What can we learn from Haier’s strategy about future competition from companies from emerging markets?

Student-Led Discussion Topics:
1. What is one innovation occurring in China’s technology scene that could disrupt the U.S. market?
2. Assess one private-sector education company’s strategy in a country of your choice.
3. Mobile banking revolutionized payment structures in Kenya. How might blockchain technology do the same in that country? What risks would it impose?

Class 5: Managing Intellectual Property In Emerging Markets

Readings:
- *Danone V Wahaha (A): Who is Having the Last Laugh?* (HKU-766)
- “Low-Cost Drugs in Poor Nations Get a Lift in Indian Court”, New York Times, April 1 2013]
- *Volkswagen Probes Chinese Partner* (WSJ 2012.07.27)

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

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

Student-Led Discussion Topics:
1. Pick a major drug that is currently under patent. Should a country like Brazil be allowed to produce a generic version of that specific drug?
2. Pick a company of your choice that has entered an emerging market. Presumably it used a law-firm to help establish its local operations. Did it use a foreign law firm or a domestic law firm, and assess their decision?
3. Pick a sector and country of your choice. In the past 5 years, what are the trends in foreign direct investment in terms of joint-ventures vs wholly-owned subsidiaries?

Class 6: Corruption & Wrap

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Readings

- *Corruption at Siemens (HBS 108033)
- *The Road to Hell is Unpaved (Economist 2002.12.19)

Discussion Questions:

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

*Student-Led Discussion Topics*

1. Give an example of one country’s strategy to raise income tax collection?
2. Why is Walmart under an FCPA investigation?
3. How effective has an anti-corruption bureau been in a country of your choice?