MGT 893
Nonmarket Strategy:
Management Beyond the Market

Fall 2017

Mondays and Wednesdays, 1:00pm to 2:20pm
Evans Hall - Room 4430

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“Over the years, we have thought that we could sit in Bentonville, take care of customers, take care
of associates and the world would leave us alone. It just doesn't work that way anymore.”

H. Lee Scott, CEO of Wal-Mart

COURSE OVERVIEW

Business operates in both a market and a nonmarket environment, the latter being the space where
the formal and informal rules governing market competition are set and enforced. 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, cultural, and
natural factors that shape business’ nonmarket environment. Participants learn how to analyze and
proactively manage the nonmarket environment through integrated market- and nonmarket
strategies. Not only is effective nonmarket management conducive of business success (“doing
well”), it also provides a solid foundation for deliberately enhancing the firm’s social and
environmental contribution (“doing good”).

The course is deliberately global in focus. There are significant differences across countries when it
comes to the nonmarket environment, both in terms of the formal rules and laws governing
competition and when it comes to expectations regarding the role and business in society.
Successful managers must develop sensitivity for these differences. Successful leaders go even further and understand how to turn an understanding of social and political dynamics across countries into a source of competitive advantage. Our cases cover a number of jurisdictions and several sessions will deliberately examine cross-national dynamics.

The course is divided into three parts:

In part one, we start by examining the role of markets, the government, and society in a market system, including common reasons for government intervention. Having established the notion of the “embeddedness of markets”, we begin the systematic analysis of politics as it relates to business. Tools for nonmarket analysis and nonmarket strategy formulation are introduced.

The second part tracks nonmarket challenges emanating primarily from government activism and illuminates ways firms engage with their nonmarket environment. We pay special attention to the politics of foreign investment and the challenges of managing across different political environments.

Part three turns attention to the multifaceted role of business in society, and the effects of government on the business-society interface. Business inevitably impacts societies and communities, at times inadvertently and at times deliberately. Not surprisingly, business is often called on to correct social ills. But social challenges also provide opportunities for business. Building on prior insights, we consider directly the debate over corporate social responsibility and its link to corporate strategy, competitive advantage, and firm performance. In this context we also explore 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 impetus for creating competitive advantage and doing well by doing good.

ASSIGNED MATERIALS

The course is designed around intensive use of the case method and cases therefore constitute the backbone of course materials. There are also several supplementary readings and some theoretical articles and technical notes. Participants are expected to have prepared assigned cases before class and to be familiar with the assigned background and theoretical readings.

SCHEDULE, TOPICS, AND REQUIRED READINGS

Part I: Foundations: Markets, Politics, and Business

SESSION 1
August 30

The nonmarket environment of business

- What is the nonmarket environment of business?
- Why is the nonmarket environment becoming more important for business success?
- What nonmarket challenges is Wal-Mart facing?

Case

- "Wal-Mart: Nonmarket Pressure and Reputation Risk (A)" (Stanford GSB P-52B)

Readings
• Ha-Joon Chang, 23 Things They Don't Tell You About Capitalism (London: Penguin UK, 2010), Thing 1
• Responding to Market Failures (HBS 9-396-344)
• Analyzing the Nonmarket Environment of Business: The (ia)3-Framework (IE Business School DE2-114-I)

Recommended background reading

SESSION 2
September 1
**Market-, nonmarket-, and integrated strategy**
• How are Wal-Mart's nonmarket challenges related to its competitive strategy and positioning?
• How is Wal-Mart responding to its nonmarket challenges?

**Case**
• "Wal-Mart: Nonmarket Pressure and Reputation Risk (B) – A New Nonmarket Strategy" (Stanford GSB P-52B)

**Readings**

SESSION 3
Sept 6
**The politics of disruptive innovation**
• What has enabled Uber's success?
• How should Uber adapt its strategy going forward?
• When is the right time for startups to engage in politics, regulation, and stakeholder management?

**Case**
• "Uber and Stakeholders: Managing a New Way of Riding," (HBS 9-315-139)

**Reading**
• Heather Kelly, "Uber and Lyft’s Austin battle over fingerprinting goes to the voters," CNN Money, May 7, 2016
• Debora L. Spar, Ruling the Waves: Cycles of Discovery, Chaos, and Wealth from Compass to the Internet (New York: Harcourt, 2001), prologue
• Michael Hiltzik, “With Travis Kalanick out, we'll see the real value of Uber — and it won't be pretty,” L.A. Times, June 21, 2017
• Adam Chandler, "Lyft and Uber’s Public-Relations Battle Over the Immigration Ban," The Atlantic, January 29, 2017
• David Bach, “America's CEOs are stuck between Trump and a hard place,” The Hill, February 14, 2017

*Part II: The Nonmarket Environment and Corporate Strategy*

SESSION 4
Sept 11
Geopolitics and nationalism in international business

- Who opposes DP World’s acquisition and operation of P&O’s U.S. assets, and why?
- How do DP World’s opponents manage to stifle the company’s plans?
- Do firms have a national identity? Does this identity matter?
- What strategies are available when a firm’s “nationality” becomes a liability?

Case
- The Dubai Ports World Debacle and Its Aftermath (HBS 9-707-014).

Reading
- Ha-Joon Chang, 23 Things They Don’t Tell You About Capitalism (London: Penguin UK, 2010), Thing 8
- David Bach, “Frame or Get Framed,” Yale Insights, 31 May 2016

Recommended additional reading

SESSION 5
Sept 13
Policy risk, lobbying, and the power of framing

- How was the mining industry able to reshape public opinion regarding Australia’s mining tax reform?
- Was Xstrata’s lobbying strategy responsible and ethical?
- What factors shape lobbying success?

Case
- Xstrata and Australian Mining Tax Reform (A) (IE Business School DE1-202-A-I)

Reading
- Lobbying (IE Business School DG01-380-I)

Recommended background reading
- Towards Responsible Lobbying (AccountAbility and the UN Global Compact, 2005)

Part III: Business and Society

SESSION 6
Sept 18
Integrity and leadership

- Why factors led to Volkswagen cheating US emissions standards?
- How did the company manage the fallout from the emissions scandal?
- What role did divergent nonmarket environments play?
- What’s next for VW and other automakers who had placed big bets on diesel technology?

Readings
- Clifford Atiyeh, “Everything You Need to Know about the VW Diesel-Emissions Scandal,” Car and Driver, October 7, 2016
• Quirin Schiermeier, “The science behind the Volkswagen emissions scandal,” *Nature*, September 24, 2015
• David Bach, “Seven reasons Volkswagen is worse than Enron,” *Financial Times*, 27 September 2015
• Charles M. Elson, Craig K. Ferrere, and Nicholas J. Goossen, “The bug at Volkswagen: Lessons in co-determination, ownership, and board structure,” *Journal of Applied Corporate Finance* Vol. 27, No. 4, pp. 36-43, fall 2015
• Jill Petzinger, “Germany’s diesel scandal shines a light on how cozy the government is with carmakers,” *Quartz*, August 8, 2017

**Recommended background reading**
• Jack Ewing, *Faster, Higher, Farther: The Volkswagen Scandal* (W.W. Norton & Co)

**Optional scientific background reading**

**SESSION 7**
**Sept 20**
**Global business, global scrutiny**
• What role do transnational activists play in scrutinizing global business operations?
• Why do certain issues “stick” and others do not?
• What responsibility do firms have for what goes on in their supply chains?
• How should GAR manage the relations with very diverse market- and nonmarket stakeholders?
• What are the risks to Nestle or Unilever to reengage with GAR? What are the risks to Greenpeace and to The Forrest Trust?

**Case**
• Golden Agri Resources and Sustainability (Global Network Case 101-13)
  [http://nexus.som.yale.edu/goldenagri/](http://nexus.som.yale.edu/goldenagri/)
  **Note:** You will need the following log in information to access this raw case:
  **Username:** SOMcase  
  **Password:** Caseview@SOM10

**Reading**

**SESSION 8**
**Sept 25**
**Shared value**
• Why have major producers of processed food been criticized? How has PepsiCo’s CEO chosen to respond?
Is PepsiCo responsible for the effects of its products on the public health and the environment? Do companies such as PepsiCo lead or follow consumer "tastes"?

Can PepsiCo's health initiatives be a source of competitive advantage?

**Case**
- PepsiCo’s Turning Point: Establishing a Role in a Sustainable Society (Ivey W11097)

**Reading**
- "The nanny state’s biggest test," *The Economist*, 15 December 2012

**Recommended background reading**

**SESSION 9**
**Sept 27**

**Shared value II**
- How should Nooyi and PepsiCo respond to public policy efforts to combat the obesity epidemic?
- How fast can a company such as PepsiCo be transformed?
- Is shared value creation by the private sector enough to confront major societal challenges?

**Reading**
- Jennifer Reingold, “PepsiCo’s CEO was right. Now what?.” * Fortune*, June 5, 2015

**SESSION 10**
**Oct 2**

**Financial returns on stakeholder management and sustainability**
- Is it appropriate to make stakeholder- and community engagement decisions based on expected financial returns?
- Is it possible?
- What are the organizational and strategic prerequisites for such an approach?

**Case**
- Calculating the Net Present Value of Sustainability Initiatives at Newmont’s Ahafo Mine in Ghana (A) (Wharton)

**Reading**
- “When Engaging with Your Stakeholders Is Worth Its Weight in Gold,” Knowledge@Wharton, July 20, 2011

**Recommended background reading**

Optional scientific background reading

Optional but recommended movie screening the night before class: *Hugh Hefner: Playboy, Activist and Rebel*, a documentary by Brigitte Berman (Phase 4 Films, 2010), location and exact time TBD

SESSION 11
Oct 4
**Global strategy, local values**
- Why did Playboy run into trouble in Indonesia?
- What does Playboy sell?
- Do the global pursuit of profits and a clear social agenda steeped in particular set of values mix well?

Case
- Burkas and Bikinis: Playboy in Indonesia (IE Business School DE1-173-I)

SESSION 12
Oct 9
**The power and peril of business-led industry transformation I**
- What was BP’s competitive positioning in the late 1990s?
- Why does John Browne decide to tackle global warming head-on?
- Did BP’s strategy work?

Case

Recommended background reading:

SESSION 13
Oct 11
**The power and peril of business-led industry transformation II**
**Conclusion: Corporate Responsibility, Nonmarket Strategy, and Competitive Advantage**
- How did BP’s strategy lead up to the Gulf oil spill?
- Who is responsible for the spill?
- What are the implications for BP, and for the oil and gas industry more generally moving forward?
- How is CSR similar or different from business ethics or nonmarket strategy?
- Is it possible to do well by doing good?

Case
- The Gulf Oil Spill - Explosion at Deepwater Horizon (Yale SOM Case 11-024)
CLASS REQUIREMENTS AND EVALUATION

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

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<tr>
<th>Requirement</th>
<th>Percentage</th>
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<tr>
<td>Class Participation</td>
<td>25 percent</td>
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<tr>
<td>Team Think Pieces</td>
<td>25 percent</td>
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<tr>
<td>Team Homework Assignment</td>
<td>15 percent</td>
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<tr>
<td>Take Home Final</td>
<td>35 percent</td>
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Class Participation (25 percent)
Since the course is built around the analysis of cases, class participation is crucial. I will rely on you, your insights, and your experience to drive our inquiry and see my role largely as one of catalyst and facilitator. In order to participate effectively in class, you must carefully prepare each case and required readings. Come ready to engage with the material and your peers.

Team Think Pieces (25 percent)
We will assign you to a three-person team. Working with your assigned teammates, you should select two of the cases and prepare a short essay (max. 1000 words) on each about an interesting or pertinent issue raised by the case. This is not a "conventional" case analysis but rather an opportunity for you to dive deep into a particular angle of the case or the subject matter. Specific instructions will be provided via Canvas. Please submit your Think Piece before the start of the class in which we will discuss the case via Canvas.

Team Homework Assignment (15 percent)
For session 10, in your assigned teams, please complete two short assignments: (1) a delineation of the data you would need to perform a Net Present Value (NPV) analysis of the various sustainability initiatives that Newmont is considering for the Ahafo Mine in Ghana and briefly assess the results; and, separately, (2) a write up of sensitivity analyses around the base case performed with a tool jointly developed by the IFC and Deloitte, as well as a reflection on the usefulness of the tool and the approach. More information will be provided in class.

Take Home Final (35 percent)
Shortly after the final session, there will be a take-home final exam. The final exam will consist of one or several short essay questions that will evaluate students’ ability to apply analytic tools and approaches encountered in the course. The exam will not check your command of random facts, though specific examples always strengthen an argument. Rather the task is to critically analyze management beyond the market and to persuasively argue a position. We will coordinate the exact date and time toward the end of the course.