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**SEEK 441-61 Strategic Management in Non-market Environments**  
Winter 2011. Monday and Thursday, 8:30-10:00 (Evanston Campus)

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**Course Overview**

All economies are defined by formal and informal norms and regulations that structure market competition. These “rules of the game” vary significantly across countries. Many barriers to imitation and entry, for example, originate from specific legal rules or government policies that favor some capabilities over others. These rules, and in many cases their enforcement, are not fixed, well-defined constraints, but are determined, implemented, and interpreted by legislatures, government administrative agencies, judicial institutions, public sentiment, and ethical consensus. The resolution of ambiguity and direction of change is neither exogenous nor divorced from strategic considerations. Rather, the process involves interest groups interacting within a system of institutions that includes but is not limited to the various branches of government, the media, and nongovernmental organizations. Both competitive advantage and industry profitability are affected by this interaction. Therefore, business strategies often must include actions to influence the outcome of the process. The analysis and development of successful strategies to shape the rules of the game to an organization’s advantage constitute the domain of non-market strategy.

Successful non-market strategies can establish, sustain, or erode a company’s competitive advantage. For example, the rules governing protection of intellectual property impact the advantages to “innovating” firms versus firms that are “fast followers,” whereas trade restrictions, antitrust regulations or rules governing mergers and acquisitions may prevent the execution of a well thought-out growth strategy. Non-market issues are also important in determining the profitability of an entire industry. Regulatory costs or public subsidies, for example, may also hurt or help all players, creating common non-market interests among market rivals. Navigating between competing and common interests frequently creates challenging strategic problems for managers and consultants that cannot be successfully analyzed with the traditional concepts of competitive strategy. This is particularly relevant when a firm implements an innovative strategy, operates in a rapidly evolving industry, or targets new markets in the global economy. Such is the case in

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deregulating industries (telecommunications or energy) where one set of rules is effectively being substituted for another, in e-commerce where important rules (e.g., on the protection of intellectual property and on domestic and international rules with respect to privacy or sales practices) appear open to change, or within the biotech and pharmaceutical industry where rapid innovation may clash with ethical concerns, questions about patients' well-being, or about a certain technology or its distribution.

This class focuses on non-market strategy from the point of view of managers, consultants, and investors. Its primary objectives are to examine typical non-market issues, to develop a set of conceptual frameworks for analyzing non-market threats and opportunities, and to practice forming effective strategies for managing in non-market environments. The concepts, skills, and analytical tools that students will learn in the course rest upon a foundation of economic principles, political analysis, and, to a lesser extent, social psychology and law. They identify patterns of behavior and outcomes, ways of thinking about those patterns and outcomes, methods of analysis that facilitate understanding and prediction, and, ultimately, the shaping of strategies to improve business performance.

The class is structured around three broad topics:

- Business and Society
- Business and Politics
- Integrated Strategy

**Business and Society.** As businesses become the dominant source of social and cultural change, they are in turn increasingly being held accountable by social and political constituencies. Many of these “stakeholders” are not part of a contractual relationship with the company and base their decisions on values other than the maximization of shareholder value. The presence of these constituencies presents both challenges and opportunities for business leaders. This segment of the course will take a strategic approach to help students anticipate and analyze these challenges and incorporate their insights into successful business strategies.

**Business and Politics.** Legal constraints and government regulations significantly shape the rules of market competition. Much of non-market interaction thus consists of interests competing in public institutions such as legislatures, regulatory bodies, or courts. This segment of the course will introduce students to the politics of business. You will learn to appreciate the importance of formulating political strategies, analyze non-market competition in public arenas, and develop successful political strategies of your own.

**Integrated Strategy.** In this segment you will learn how market and non-market strategies interact and to develop strategies that integrate both components. We will anticipate some key concepts of competitive analysis, such as industry analysis, competitive advantage, market entry, price and non-price competition, and the

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identification of their non-market dimension. Our main goal will be to practice designing integrated strategies in both domestic and international business environments.

### **Readings**

The course materials include a course reader and the book *Business and its Environment*, Sixth Edition, Prentice-Hall, 2010, by David P. Baron. (Please do not use earlier editions.) The book was written specifically for a similar course and has been used at a variety of business schools. It is broad in its outlook and in the range of topics covered, and it is structured around a flexible but consistent framework. The emphasis is on conceptual frameworks, analysis, and strategy formation. The book also contains cases and a number of detailed examples of non-market issues and managerial approaches for addressing them. For two of our sessions I would like you to (re-)read Malcolm Gladwell's *The Tipping Point* and Thomas L. Friedman's *The World is Flat*. To supplement the course materials, the course reader contains some additional reading materials. In addition, we will use hyperlinked cases. They will be accessible through my personal website.

The cases in the course are of two types. One type is a relatively short case intended to focus the discussion on a specific set of issues related to the subject of a reading in the text. These cases include market (e.g., sales and financial) data on the firm only if they are important to the issues in the case. They are integrated with the text and serve as vehicles for applying the chapter materials and opportunities to go beyond the specifics of the materials. The second type of case is broader and more open-ended; it is intended to bring together a number of the topics and approaches in each module of the course. The cases are generally written from the perspective of a firm or consultant that must determine how to address a particular issue or problem. Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find the complexity and ambiguity frustrating. But it is out of the discussion that is generated by this complexity and ambiguity that the concepts and principles introduced in the lectures will come alive and demonstrate their usefulness.

### **Teaching Approach**

Classes will be conducted on a lecture/case-discussion basis. A typical session will be based on the discussion of a case that exemplifies a particular aspect of non-market management. A typical class session may also include a lecture that addresses a conceptual approach or develops an issue, provides a setting for the topic being addressed, or integrates the class discussion and the subject matter. Part of the class discussion will be based on group work. You will receive a list of **randomly selected** study group members during the first class session. Study groups will have 5-6 members. Working with fellow students from different educational and cultural backgrounds is an important part of the Kellogg experience. (I will therefore not be able to accommodate

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specific group requests.). You are encouraged, but not required, to prepare the cases and the readings in groups. However, in regular intervals I will ask each group to prepare a presentation that will form the basis for class discussion.

For a case discussion to be a valuable learning experience, it is essential that you come prepared to discuss the cases and readings assigned for that class. During our case discussions, I ask that you deal with the cases as you find them; do not seek outside or post-case data on the firm or industry. If you have post-case or inside information, I will give you the opportunity to share it with the class at the end of our discussion. Let me know about such information in advance, and I will make a point to call on you at the appropriate time.

### **Course Requirements and Grading**

Students are expected to master the content of the readings, to make constructive contributions to class discussions, to make occasional presentations, and to perform adequately or better on examinations and class projects. Grades in the course will be based on three components: (1) a midterm take-home examination which will count for 40% in the determination of your grade; (2) a final group case analysis which will count for 30%, (3) group presentations which will count for 20%; and (4) class attendance and participation, which will count for 10%. All group-related grades will be based on group performance and **peer evaluation** at the end of class.

**MIDTERM EXAM:** The midterm will be an **individual, take-home, “open book”** exam consisting of short questions that will cover the assigned readings, cases, and lecture material for all classes prior to the midterm. In addition, you will have to answer some short essay questions. I will give you further instructions in class.

**FINAL GROUP PROJECT:** For the final project your study group is to assume the role of a consultant who is hired to develop an integrated strategy for a client. You will receive the relevant materials and specific instructions during the first half of the class. This will be a challenging exercise intended to simulate a real-world challenge. You need to reserve sufficient time to work on this assignment

**GROUP WORK:** Group assignments are an integral part of class discussion. I encourage you to meet with your study group on a regular basis, but you are not required to do so. However, I will ask you to prepare group presentations for some of our sessions. This requires **each** group to analyze the case and develop an integrated strategy for the respective business, usually from the point of view of a manager or consultant. The chosen group is responsible for all aspects of the presentation such as keeping time, handling questions, etc. All other students are expected to take the role of clients, directors, or partners (depending on the governance structure of the firm and the detail of the assignment). Group assignments are in-class simulations of real world tasks. It is thus

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important that you take the role-playing aspect seriously. I will randomly choose a group to present and defend their analysis. You may use transparencies or other media. Before each class, each group is to hand in a **one-page** executive summary of its analysis and strategy (**1.5 spaced; standard margins; no title page**). The summaries must be submitted as a **Word or PDF document by email** to **s-maroulis@kellogg.northwestern.edu**. I will strictly enforce the one-page limit. Grading will be based on the executive summary. Do not hand in copies of transparencies or power point presentations. When submitting your documents please make sure that you follow the **following naming convention: [section number]-[assignment name]-[group name]**. For example, if you are in section 61, you are doing the assignment for the Drexel case, and your group name is “King”, then your submissions should be named: 61-drexel-king.doc

**PARTICIPATION and ATTENDANCE:** Attendance, preparation, and participation are essential for this class to be of value to you. If you have to miss class, please let me know in advance. Much of the learning in this course comes from class discussion of cases or homework assignments. Learning opportunities are maximized when a student is actively engaged in the class discussion. Active engagement means that you are listening carefully to the comments of other students and seeking opportunities to make relevant comments that move the class discussion forward.

Since case discussion constitutes most of class time, there is ample opportunity for you to participate. Do not be discouraged if, after the first few classes, you have yet to participate. To increase opportunities for effective participation, I may cold call a student or a study group to open the class discussion. I may also occasionally cold call students during the course of a discussion. If you feel that you are preparing well but that I am not calling on you sufficiently often, please let me know so that I can address the problem.

### **Technology**

In the Class Outline you will find references to **web-based cases and materials**. Slides and class materials will also be posted regularly on Blackboard.

Note that all materials on the course page are **copyright protected**. They are only for your personal use and may not be distributed without my prior permission.

## **COURSE OUTLINE**

### **I. Business and Society**

#### **Session 1: Introduction to the Non-market Environment (Monday, January 3)**

The reading for this session illustrates the types of issues to be considered in the course and presents approaches for organizing your analysis of the non-market environment. Future sessions will examine these components in more detail with an increasing emphasis on the development of analytic concepts and the formulation of non-market strategies. These concepts will be discussed in the context of the Consumer Financial case.

Reading: BIE 1-53, 90-109, 120-133 (all review from SEEK 440)  
Case: CR-1 Consumer Financial

#### **Assignment #1: Due Thursday, January 6 (at the beginning of class)**

It is December 10, 2002. You are the engagement team of the consulting company Non-Market Strategy, Inc., the leader in non-market strategy consulting. Your client is Consumer Financial Services, the nation's largest independent mortgage lender. You need to familiarize yourself thoroughly with the document provided by the client. During class you will have your first meeting as team. Your senior partner is expecting a report on how to address Consumer Financial's challenges as she needs to meet with client later that day. Your task is to develop a 5-10 minute presentation that your group can then present to the client. I will select one group randomly to present their analysis. The rest of the class will assume the role of senior partner.

#### **Session 2: Introduction to the Non-market Environment (Thursday, January 6)**

We will continue our discussion of the Consumer Financial case. We will also discuss organizational issues and logistics.

Reading: N/A  
Case: N/A  
Assignment: #1, due at the beginning of class

**Session 3: Incentives, Costs, and the Organization of Interests (Monday, January 10)**

This session introduces conceptual frameworks for political analysis based on economic analysis. The frameworks provide the foundations for the analysis of non-market issues and the formulation of non-market strategies in situations in which interests are affected by non-market alternatives considered in the context of government institutions. The Luxury Tax case will be used to illustrate the conceptual frameworks. (Reference material on the U.S. government is provided in BIE, 175-180.)

Reading: BIE 153-168  
CR-2 Baron “The Non-market Strategy System”  
Case: Repeal of the Luxury Tax, BIE 184

**Session 4: Coalition Strategies (Thursday, January 13)**

This session focuses on the analysis of strategic situations in which interests are affected by legislative alternatives. The reading introduces the distributive politics spreadsheet and other frameworks for the analysis and prediction of the amount and effectiveness of political action in a given political situation.

Reading: BIE 168-180  
Case: Disney and the Copyright on Mickey Mouse [accessible through Blackboard]

**NO CLASS ON MARTIN LUTHER KING DAY, JANUARY 17**  
**CLASS WILL BE RESCHEDULED ON WED, JANUARY 19, TIME TBA**

**Session 5: Integrative Case I: Complex Non-Market Environments (Wednesday, January 19)**

This session focuses on the analysis of strategic situations in which interests are affected by legislative alternatives. The reading introduces the distributive politics spreadsheet and other frameworks for the analysis and prediction of the amount and effectiveness of political action in a given political situation.

Readings: Gladwell, *The Tipping Point*  
Cases: CR-3 Wal-Mart’s Business Environment  
CR-4 Wal-Mart: Non-Market Pressure and Reputation Risk (A)

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## II. Business and Politics

### **Session 6: Legislative Strategy (Thursday, January 20)**

This session introduces conceptual foundations for analysis and strategy formulation in institutional contexts with an emphasis on legislatures. The focus is on concepts and methods of analysis pertaining to agenda setting, pivotal voters, building majorities, and predicting outcomes in majority rule institutions. These concepts will be applied in the context of the Recyclers case. When preparing for the case, focus on developing a legislative strategy.

Reading: BIE 185-208

Case: CR-5 Recyclers versus Superfund (A)

### **Assignment #2: Due Monday, January 24 (at beginning of class)**

Each group is to prepare a detailed and specific non-market strategy summarized to address the legislative issues Drexel Burnham Lambert faces (imagine yourself as consultants hired by DBL). By "specific" I mean that if you plan to implement a lobbying strategy you are to identify 1) whom you will lobby (not necessarily by name but rather by characteristics) and 2) what information you will provide; i.e., which messages you will use. Although your strategy will be based on considerable analysis, your presentation is to focus on the specific actions you plan to take. You should be prepared to defend your strategy with your analysis. I will randomly select one group to present their strategy. Following the presentations, the class will critique the strategy. Each group needs to prepare a **one page executive summary** and send it before the beginning of class. The summaries must be submitted as a **Word or PDF document by email** to [s-maroulis@kellogg.northwestern.edu](mailto:s-maroulis@kellogg.northwestern.edu).

### **Session 7: Lobbying (Monday, January 24)**

This session focuses on the strategic use of information in the context of non-market strategies decided by government institutions. The case describes a complex set of threats to Drexel, Burnham Lambert's principal competitive advantage and line of business. To help set the context, it is useful to note the following. The AFL-CIO opposed hostile takeovers (because they often resulted in streamlining and the loss of jobs). In 1985 Drexel had no Washington office or presence. Finally, the case is set at a time before the illegal activities of Michael Milken were understood and recognized.

Reading: BIE 220-241

Case: CR-6 Drexel Burnham Lambert and Junk Bond Politics

Assignment: #2, due at beginning of class

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**Session 8: Non-Market Analysis in International Markets (Thursday, January 27)**

This lecture session addresses the significance of cross-national differences in management in the non-market environment with an emphasis on institutions and the organization of interests. Although countries differ on these dimensions as well as in culture, the approach taken to management in the non-market environment in other countries is not fundamentally different than that for the United States. This session gives an overview of aspects of the parliamentary democracies using Germany and Japan as its main examples.

Reading: BIE 481-505, 451-473

Case: VIAG in 1998 [accessible through Blackboard]

**Session 9: Strategies in Regulatory Arenas (Monday, January 31)**

This session focuses on the formulation and implementation of non-market strategies in the context of regulatory institutions. In class we will discuss telecom regulation and the FCC as our leading example. We will then apply the developed frameworks in the context of a marketing and drug approval case in the healthcare industry.

Reading: BIE 302-310

Cases: CR-7 Reintroducing Thalidomide? (A)

Reintroducing Thalidomide? (B) [to be distributed in class]

**Assignment #3: Due Thursday, February 3 (at the beginning of class)**

Assume the role of an analyst at leading investment bank covering Westinghouse. Your task is to give a complete assessment of the consent agreement. Be specific on whether and how the consent degree has improved or worsened the outlook for the Westinghouse stock. Each group is to prepare a presentation of their assessment of no more than 10 minutes. One group will be randomly selected to explain and defend its analysis and strategy during the class session. Each group needs to prepare a **one page executive summary** and send it before the beginning of class. The summaries must be submitted as a **Word or PDF document by email** to [s-maroulis@kellogg.northwestern.edu](mailto:s-maroulis@kellogg.northwestern.edu).

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**Session 10: Integrated Case II: Non-Market Strategy Assessment (Thursday, February 3)**

This session addresses a recent case on the consequences of environmental regulation. The readings in BIE 306-325 and 374-403 provide a review on market failures and socially efficient responses. You may skip these readings if you are familiar with the economics of regulation or if you read them for Session 10.

Reading: BIE, 337-365; BIE 306-325 and 374-403 (optional)  
Case: CR-9 Westinghouse  
Assignment: #3, due at beginning of class

**Session 11: Business and Politics Summary (Monday, February 7)**

In this session we will summarize our discussion of how legal constraints and government regulations significantly shape the rules of market competition.

Reading: TBA  
Case: TBA

### III. Integrated Strategy

**Session 12: Competitive Advantage (Thursday, February 10)**

Competitors can use market or non-market strategies to undermine a company's competitive position. Here we will focus on Microsoft and its antitrust lawsuit. Antitrust policy and its implementation are powerful non-market constraints on market strategies and tactics in the United States and other industrialized countries. This session will also provide a brief introduction in the use of legal strategies as part of a non-market strategy. Focus on key concepts rather than on the legal details.

Reading: BIE 265-288  
Case: The Microsoft Antitrust Case BIE 294-301

**\*\*\*WILL RECEIVE MIDTERM EXAM VIA EMAIL THIS WEEK  
DETAILS TBA\*\*\***

**Session 13: Industry-wide Strategies (Monday, February 14)**

Regulation is not only determined by agencies but involves other actors such as legislators and courts. In class we will discuss the epic battle between the tobacco industry and anti-smoking advocates on the regulation of the future structure of the industry.

Reading: BIE 374-403  
CR-9 Kessler chapters 22, 27, 33  
Case: CR-10 Tobacco Politics (A)

**Assignment #4: Due Thursday, February 17 (at the beginning of class)**

To be posted on Blackboard.

**Session 14: Integrative Case III: Strategy Design (Thursday, February 17)**

This session considers a case in the car industry at the intersection of trade and regulation. The session will include a simulated Congressional hearing on the topic of a significant increase in CAFE standards. Note: The case is set at a time when SUVs had not yet occupied a major market share in passenger vehicles.

Reading: n/a  
Case: CR-11 CAFE Standards 2002  
Assignment: #4, due at beginning of class

**IMPORTANT NOTICE:** The textbook contains a related case (“Fuel Economy Standards 2007, BIE 259-264”). We will discuss similar content in class. Please **DO NOT** read this case in preparation for class.

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**Assignment #5: Due Monday, February 21 (at beginning of class)**

Assume the role of consultants hired by BASF (company background at [www.basf.com](http://www.basf.com)) to develop an integrated strategy to respond to the proposed carbon tax. Each group is to prepare a presentation of no more than 10 minutes. One group will be randomly selected to explain and defend its analysis and strategy during the class session. Each group needs to prepare a **one page executive summary** and send it before the beginning of class. The summaries must be submitted as a **Word or PDF document by email** to [s-maroulis@kellogg.northwestern.edu](mailto:s-maroulis@kellogg.northwestern.edu).

**Session 15: International Organizations (Monday, February 21)**

Issues involving the natural environment are often difficult to address because they have both social efficiency consequences and distributive consequences that generate non-market activity. This session considers these two dimensions in the context of the European Union's consideration of a carbon tax to address the global warming issue. The readings also provide information on European Union institutions and non-market strategies.

Reading: BIE 481-505  
Case: The European Union Carbon Tax, BIE 506-508  
Assignment: #5, due at beginning of class

**Session 16: Global Non-Market Strategy (Thursday, February 24)**

This class focuses on the market and non-market competition between two global rivals—the Eastman Kodak Company and Fuji Photo Film Company—and the role of a trade dispute in their global competition. The focus of the session is on the nature of the problem Kodak faces and on its market and non-market strategies for obtaining greater access to the Japanese consumer photographic film market. The focus on Kodak does not imply that Kodak is right or Fujifilm is wrong in the trade dispute. Instead, it reflects the fact that Kodak initiated this non-market issue as part of its integrated strategy. (This case was the first case before the World Trade Organization directly involving global rivals).

Reading: BIE 574-596  
Cases: CR-12 The Kodak-Fujifilm Trade Dispute

**Session 17: Global Non-Market Strategy Con't (Monday, February 28)**

This session focuses on Toys 'R' Us' strategy for entering new national markets and the dependence of that strategy on cultural and institutional factors. The class will focus on how the company should confront the corresponding non-market challenges in several countries as part of a global strategy.

Reading: n/a

Case: Toys 'R' Us and Globalization, BIE 614-618

**Session 18: Non-Market Strategy in a “Flat World” (Thursday, March 3)**

The Ten Forces of a “Flatter World” have not only changed the competitive environment of global companies, they have also created new non-market challenges. This session will discuss these changes and discuss a set of cases of leading companies have addressed those challenges.

Reading: Friedman, *The World is Flat* 3-222.

Cases: CR-13 Starbucks (Ivey)

CR-14 Starbucks and Conservation International (Harvard)

CR-15 Strategic Activism

CR-16 Anatomy of a Corporate Campaign

**Session 19: Final Project (Monday, March 7)**

Our last two classes are dedicated to the final project. All details will be discussed in class.

**Session 20: Final Project (Thursday, March 10)**

Our last class is dedicated to the final project. All details will be discussed in class.