



GRADUATE SCHOOL OF BUSINESS STANFORD UNIVERSITY

MARCH 2003

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Section 5: 1:20-3:00 p.m.

Section 6: 3:20-5:00 p.m.

Class web page: http://faculty-gsb.stanford.edu/wolfers_class/POLECON_230_S03/

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P230

STRATEGY AND THE BUSINESS ENVIRONMENT

This course addresses managerial issues in the social, political, and legal environments of business. The cases and readings emphasize strategies to improve the performance of companies in light of their multiple constituencies. Cases are set both internationally and within the United States and illustrate how managers are called upon to interact with the public and governments in local, national, and international settings. Topics include integrated strategy, activists and the media, legislation affecting business, regulation and antitrust, intellectual property, and international trade policy.

Most core courses focus on firms' interactions with customers, suppliers, and alliance partners in the form of mutually beneficial exchanges transacted in markets. This course considers the strategic interactions of firms with their various constituents outside of markets. Just as managers have the responsibility for formulating strategies for their company's activities in markets, they are also responsible for strategies in the broader public environment in which they operate. Markets and the business environment are interrelated, since issues such as boycotts, legislation, regulation, judicial decisions, and trade policy directly affect firms' market performance. Conversely, the market activities of firms often give rise to issues that involve governments and the public. For example, the market strategies of firms have spawned public and government actions on issues ranging from intellectual property to privacy and to responsibilities to constituencies.

The course is structured in three parts:

1. **Business and the Public:** focusing on the strategy of firm's vis-à-vis the public, activists, and the news media.
2. **Strategy in the Political Economy:** focusing on the strategy of firms in governmental arenas
3. **Strategy and the Regulatory and the Legal Environment:** focusing on strategy in regulatory arenas and in the courts

COURSE MATERIALS

1. *Business and its Environment (BIE)*, (4th edition, Prentice-Hall, 2003) by David P. Baron. This book was written specifically for P230 at Stanford and has been adopted by a number of other leading business schools.
2. The course packet, which contains newly developed cases and additional readings on topics not covered in BIE.
3. To supplement these, additional reading materials are on reserve in Jackson Library.
4. Timely updates on issues addressed in class will be posted to the class web page: http://faculty-gsb.stanford.edu/wolfers_class/POLECON_230_S03/

COURSE REQUIREMENTS AND GRADING

The course requirements are mastery of the content of the readings, constructive contributions to class discussions, and the final examination. Grades will be assigned as a weighted average of two components—class participation (40%) and the final examination (60%). The final examination will be open book and notes. Further information on the final exam will be given near the end of the course.

CLASS SESSIONS

The course will be conducted on a case discussion basis. A typical class session may start with a short introductory lecture that either addresses a conceptual approach or develops an issue, providing the setting for the topic being addressed. The main body of a class session will involve the discussion of a case that serves as an application of the reading materials.

RESPONSIBILITIES

Students and faculty share a joint responsibility for learning. In P230 students have a responsibility to contribute to the education of their classmates. These contributions can take a number of forms, the most common of which is class participation. Each student has a dual responsibility to contribute to and learn from class discussions. Class sessions should be viewed as business school analogs of professional business meetings. As such, you are expected to attend and be well prepared for every class session. And it is inappropriate to arrive late or to leave early. If you must miss a class due to an emergency, please send me a note of explanation as a courtesy. 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 another professor's section (you may however attend another professor's section with his *prior* consent if you wish to be exposed to the material).

CHARACTERISTICS OF EFFECTIVE CLASSROOM PARTICIPATION

The key to effective classroom participation is *engagement*. I expect you to engage the material, your classmates, the faculty and your abilities, with *vigor*.

The quality of participation in class discussions is more important than the quantity. Some key characteristics of valuable participation include the following.

- Comments are clearly related to the case and to the comments of others and apply the *frameworks* presented in the readings.
- Comments apply a *critical faculty* to the case, the framework, and the comments of the faculty and those of your classmates.
- Comments *clarify* and highlight the important aspects of earlier comments.
- Comments *sharpen attention* to key points and *synthesize*.
- Comments *support the collective learning* process of the class.
- Comments go beyond the commonplace and provide *fresh analytic perspectives*.

STUDY GROUPS

In the Spring Quarter study groups are not assigned by the GSB administration. Since it is usually advantageous to meet as a group and discuss cases prior to class, *I strongly urge you to form your own study groups*. The main purposes of group preparation are to review and clarify readings and to share and challenge individual analyses of the case. Reaching a consensus is a subordinate purpose of meeting.

PEER EVALUATION

The GSB has introduced a system of peer evaluation for classroom participation, and P230 will utilize this system. At approximately the one-third and two-thirds marks in the quarter, each student will evaluate ten classmates in a simple Web-administered questionnaire. The evaluations of a student will subsequently be made available to him or her, but the evaluators' identities will be concealed. That is, each student will be able to access the evaluations by peers of himself or herself, but no student will know who his or her evaluators were. To encourage candid and serious feedback and, if necessary, to provide corrective feedback, I reserve the right to monitor this process. I will not use the feedback you receive to assess your performance, but I will take the thoughtfulness of the feedback you give into account in the class participation component of your grade.

G300 FIRST-YEAR PROJECT

On an experimental basis the GSB is offering a 2-unit first-year project course G300. If you are interested in a project that is related to P230, I would be happy to discuss it with you. The deadline for having an agreement for a project is **Friday, April 11, 2003**. Please form a group of four to six members (which may cut across sections). The project will result in a written paper and a formal presentation of research results.

A project associated with P230 is intended to provide a deeper understanding of a specific organization, industry, or issue of your choice. The project should focus on the social, political, legal, or ethical environment of a company, nonprofit organization, or industry and on its strategy for addressing the issue or problem. You are encouraged to work with a company or organization, and since the quarter is short, you should make contact with the company or organization as soon as possible to confirm its participation. The entire group may take G300 on either a pass/fail basis or for a letter grade.

Further guidance about G300 projects will be issued shortly.

ADMINISTRATIVE DETAILS

Class sessions will begin on time and run for approximately 100 minutes. Section 5 will meet from 1:20 to 3:00 p.m. Section 6 will meet from 3:20 to 5:00 p.m. Office hours are by appointment, but you should always feel free to just drop by my office – my door is always open. **Also, I am always available by email, and will respond to your questions in a timely fashion.**

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. Students are encouraged to work in groups in preparing for class, but it is a violation of the Honor Code to secure and use another person's notes or papers or handouts from an earlier section to prepare for class. Sorting out the issues for yourself is an important value-adding learning experience. Constructive collaboration in the sense of sharing your ideas and synthesis with others after doing the basic work is also an important component of the learning experience, and you are strongly encouraged to collaborate.

Although not explicitly covered by the Honor Code, the advent of modern information services makes it easy to find information on the cases to be discussed in class. Students are encouraged to seek additional information on the case and on the conceptual materials assigned for a session. During the class discussion, however, you are to use only information that was available at the time at which the case is set.

BOOKS ON RESERVE IN JACKSON LIBRARY OR IN THE REFERENCE SECTION

- Bagley, Constance E. 1999. *Managers and the Legal Environment: Strategies for the 21st Century*, 3rd ed., West Publishing, St. Paul, Minnesota.
- Baron, David P. 2003. *Businesses and Its Environment*, 4th ed., Prentice-Hall: Upper Saddle River, NJ.
- Barone, Michael and Grant Ujifusa. 2002. *Almanac of American Politics 2002*, National Journal, Washington, D.C.
- Besanko, David, David Dranove, and Mark Shanley. 2000. *The Economics of Strategy*, 2nd ed., New York: Wiley.
- Bhagwati, Jagdish. 1988. *Protectionism*, MIT Press, Cambridge, Massachusetts.
- Breyer, Stephen. 1982. *Regulations and Its Reform*, Harvard University Press, Cambridge, Massachusetts.
- Carp, Robert A. and Ronald Stidham. 2001. *The Federal Courts*, 4th ed., Congressional Quarterly, Washington, D.C.
- Cooter, Robert and Thomas Ulen. 1997. *Law and Economics*. Addison-Wesley: Reading, MA.
- Fiorina, Morris P. 1989. *Congress: Keystone of the Washington Establishment*, 2nd ed., Yale University Press, New Haven, CT.
- Kerwin, Cornelius M. 1999. *Rulemaking: How Government Agencies Write Law and Make Policy*, 2nd ed., CQ Press: Washington, DC.
- Lardy, Nicholas R. 1998. *China's Unfinished Economic Revolution*. Brookings Institution: Washington, DC.
- Lynn, Leonard H. and Timothy J. McKeown. 1987. *Organizing Business: Trade Associations in America and Japan*, American Enterprise Institute, Washington, D.C.
- Mayhew, David R. 1974. *Congress: The Electoral Connection*, Yale University Press, New Haven, CT.
- Nugent, Neill. 1999. *The Government and Politics of the European Union*, 4th ed., Duke University Press, Durham, NC.
- Okimoto, Daniel I. and Thomas P. Rohlen, eds. 1988. *Inside the Japanese System: Readings on Contemporary Society and Political Economy*, Stanford University Press, Stanford, CA.
- Oster, Sharon M. 1999. *Modern Competitive Analysis*, 3rd ed., Oxford University Press, Oxford, UK.
- Porter, Michael E. 1980. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, The Free Press, New York.
- Polinsky, A. Mitchell. 1989. *An Introduction to Law and Economics*, 2nd ed., Little, Brown & Company.
- Prakash, Aseem. 2000. *Greening the Firm*. Cambridge University Press: Cambridge, UK.
- Rugman, Alan, John Kirton, and Julie Soloway. 1999. *Environmental Regulations and Corporate Strategy: A NAFTA Perspective*. Oxford University Press: Oxford, UK.
- Saloner, Garth, Andrea Shepard, and Joel M. Podolny. 2001. *Strategic Management*. New York: Wiley.

- Shapiro, Carl and Hal R. Varian. 1999. *Information Rules*. Harvard Business School Press: Boston.
- Weidenbaum, Murray L. 1990. *Business, Government, and the Public*, Fourth Edition, Prentice Hall, Englewood Cliffs, NJ.
- Wilson, James Q. 1981. *The Politics of Regulation*, Basic Books, New York.
- Wilson, James Q. 1989. *Bureaucracy*, Basic Books, New York.
- Wilson, James Q. 1995. *Political Organization*. Princeton University Press: Princeton, NJ.

I. BUSINESS AND THE PUBLIC

SESSION 1: TUESDAY, APRIL 1: STRATEGY AND THE BUSINESS ENVIRONMENT

This session introduces the concept of a nonmarket strategy and its integration with a market strategy. The case concerns an issue in U.S. pharmaceutical regulation in which a health care insurance company has challenged a long-standing prerogative of pharmaceutical companies. The purpose of the case is to analyze the relevant environment of this issue and to consider the development of effective integrated strategies for addressing the issue.

Case: Pharmaceutical Switching, BIE 261-268

Reading: BIE 1-18 (skim 5-8), 29-33

SESSION 2: THURSDAY, APRIL 3: BUSINESS AND THE MEDIA

Companies frequently face issues brought to the attention of the public by the news media. In some cases the news media plays an active role in the events and story. This case involves an auto company and a media organization in an important episode. The case raises issues about whether General Motors should take any actions about the *Dateline* segment, and if so what it should do. The role of the news media in the development of public issues will also be considered in Session 3.

Case: General Motors Like a Rock (A)?, BIE 85-88

Reading: BIE 61-83

SESSION 3: MONDAY, APRIL 7: ACTIVISTS AND THE BUSINESS ENVIRONMENT

This session considers a case in which activists, collective action, and media pressures arose to challenge a company's strategy. Just as companies choose strategies, activists also choose strategies to further their interests and objectives. Issues thus can involve strategic "competition" between companies and activists.

The case is written from the perspective of the management of Shell, but it is often useful to consider the position of a company's potential competitors in the nonmarket environment; i.e., to conduct a competitor analysis. From the perspective of Greenpeace: 1) How do you view the issue in the case? 2) What are your objectives? 3) What are your capabilities? 4) What strategy would be most effective in stopping the deep-sea disposal of Brent Spar? 5) How would you implement that strategy?

Evaluate Shell UK's decision process in choosing a BPEO. Compare this process with the process in Figure 2-4, BIE, pp. 45.

Case: Shell, Greenpeace, and Brent Spar, BIE 109-113

Reading: BIE 90-108, 45-49

II. STRATEGY IN THE POLITICAL ECONOMY

WEDNESDAY, APRIL 9: OPTIONAL SESSION ON U.S. GOVERNMENT, NOON-1:00 PM

Professor David Brady will conduct the session. The relevant reading is Fiorina and Peterson, "The Congress and Its Work," which is assigned below for the Monday, April 14 class session.

SESSION 4: THURSDAY, APRIL 10: INTERESTS AND THEIR ORGANIZATION

This session focuses on the analysis of strategic situations in which interests are affected by legislative alternatives. From the perspective of pluralism, interests typically have an important impact on government decisions. Subsequent sessions focus on the features of government institutions and the objectives of their officeholders, and this session focuses on interests, whether they will organize to participate in the politics of the issue, and what their likely impact is. The reading introduces a framework for the analysis of actions by interests and the subsequent nature of the politics of their actions. The case concerns a major increase in automobile fuel economy standards and focuses on formulating a strategy for addressing the issue based on the analysis of interests and their organization.

Case: CAFE Standards 2002 (in case packet)

Reading: Krehbiel, "Pluralism, types of politics, and interest group analysis."
BIE 190-210

MONDAY, APRIL 14: SPECIAL SESSION IN BISHOP AUDITORIUM, NOON-1:00 PM

The speaker will be David Barlow, Stanford MBA, former President-Pharmaceuticals of Sepracor, Inc. and currently President, Black Diamond Capital, a private investment firm, and Chairman of the Boards of Pan Pacific Pharmaceuticals and Biostream Inc. He will speak on his experiences in formulating and implementing strategies in Congress and federal regulatory agencies. Jeff Kimball, a Washington representative, will join him.

SESSION 5: MONDAY, APRIL 14: ANALYSIS AND STRATEGY IN LEGISLATIVE INSTITUTIONS

The objective of the session is to bring together the analysis of interests and their likely impact with features of the institution and the preferences of their officeholders. The session is intended to begin the process of unlocking the "black box" of government by taking into account the workings of a legislature. The analysis of issues, their impact on interests, and the nature and features of institutions provide the foundations for formulating effective strategies for dealing with issues in government arenas. The readings provide a basic overview of Congress and of the principal political activities intended to influence congressional action. The Internet taxation issue has received renewed attention this year as a result of state budget deficits.

Case: Internet Taxation, BIE 462-469

Readings: BIE 220-234

Fiorina and Peterson, "The Congress and Its Work," 350-372 (in case packet)
(This material should be familiar to most of the class.)

SESSION 6: THURSDAY, APRIL 17: STRATEGY AND THE EUROPEAN UNION

This session provides an opportunity to apply the course frameworks to develop an integrated strategy in the context of the European Union. The case centers on a Spanish duty-free operator, Aldeasa, that must deal with plans by the European Commission to abolish duty-free zones for intra-EU air travel. The session highlights the nature of the EU institutions and the generality of the course frameworks.

Case: Aldeasa and EU Duty Free Abolition (A), BIE 547-554

Reading: BIE 511-521, 527-534

SESSION 7: MONDAY, APRIL 21: STRATEGY AND INTERNATIONAL TRADE POLICY

International trade policy structures the market environment in many industries, providing opportunities for some companies and challenges for others. The specific policy instrument in this case is antidumping, which is used frequently by both developed and developing countries. The case addresses the strategy of a Mexican company facing an antidumping petition. The session focuses on Cemex's strategy for dealing with the petition, including its strategies before and after the decision in the antidumping case. The case will be brought up to the present during class. Antidumping policy is controversial and is on the agenda of the Doha Round of WTO negotiations.

Case: Cemex and Antidumping, BIE 614-620

Readings: BIE 587-588, 592-608 (589-592 was covered in S290)

Krugman and Obstfeld, "Dumping," 141-145 (in case packet)

"A Cement Titan in Mexico Thrives by Selling to Poor," *The Wall Street Journal*, April 22, 2002 (in case packet)

SESSION 8: THURSDAY, APRIL 24: SOCIAL, ECONOMIC, AND POLITICAL CHANGE IN CHINA

China represents tremendous opportunities for companies, yet its particular political context gives rise to a host of strategy issues. The opportunities for direct marketers have been quite attractive with an ample supply of labor, rising incomes, and an evolving social and political situation. Yet, government regulations pose a set of challenges for firms operating in China, and the direct marketing industry is no exception. This case presents an issue arising in part from social and political change in China and the abrupt action by the government in response to the problems associated with that change.

Case: Direct Marketing in China, BIE 583-584

Readings: BIE 555-579

“Is the wakening giant a monster?” *The Economist*, February 13, 2003.
“Political forces,” *The Economist*, January 23, 2003.

III. STRATEGY AND THE REGULATORY AND THE LEGAL ENVIRONMENTS

SESSION 9: MONDAY, APRIL 28: ANTITRUST

In the past several years’ antitrust enforcement authorities in the United States, the European Union, and other countries have become more active. In addition, they have begun to address issues in information industries. This session considers an important case affecting the computer, software, Internet, and related industries. In addition to its implications for those industries, the case provides some important lessons for dealing with government. The session will include a discussion of the implications of the economics of winner-take-most markets and the antitrust hazards in those markets. You are to contrast Cisco’s and Microsoft’s approaches to their antitrust environment.

Case: The Microsoft Antitrust Case, BIE 303-312

Readings: BIE 269-290, 521-523, 432-437 (skim as a refresher from S290)
“Microsoft’s Behavior is Helping Cisco Learn How to Avoid Trouble,” *The Wall Street Journal*, June 1, 2000. (in case packet)

SESSION 10: THURSDAY, MAY 1: REGULATION

The telecommunications industry has been going through major structural and regulatory changes as a result of the Telecommunications Act of 1996. The changes have pitted the interests of one set of telecom firms against another set of firms. The changes have also affected the development of the broadband market, which is crucial to the future not only of the telecom companies but also the suppliers to the industry. High tech firms have called on the Federal Communications Commission (FCC) and Congress to jump-start the broadband market. As a result of a Court of Appeals remand order; the FCC must make crucial decisions in the late winter 2003 regarding the rules of competition in the telecom and broadband markets. You are to assess the forces influencing the FCC and formulate a strategy for Cisco Systems to participate in the political economy of the FCC decision. What specific FCC decision regarding broadband and telecom competition should Cisco seek and how should it build support for that decision?

Case: Broadband Regulation (to be distributed in class)

Readings: BIE 313-333
Krehbiel, “An Introduction to Rule-Making” (in case packet)

SESSION 11: MONDAY, MAY 5: THE COMMON LAW AND TORTS

Companies receive guidance on issues such as safety, health, and the environment from a number of public sources. One is regulation that imposes standards on performance and design. The setting of such standards is complex and difficult particularly when technology is changing. An alternative guide for companies comes from the common law, which is a system of law that relies on decisions by judges guided by precedents from earlier cases. This session considers the nature of the common law as applied in the case of a products safety issue—in this case, unvented kerosene space heaters. The reading on products liability characterizes this body of law with the objective of identifying the underlying principles. You are to focus more on the key concepts than on the legal details.

Case: California Space Heaters, BIE 419-421

Reading: BIE 400-416

SESSION 12: THURSDAY, MAY 8: INTELLECTUAL PROPERTY AND ITS PROTECTION

In information 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 as many companies have learned. This case concerns an e-commerce company that faces a database protection challenge and must formulate a strategy to deal it. The case is set in the United States, but intellectual property issues are pervasive, and the protection provided varies across countries.

Case: eBay and Database Protection, BIE 425-431

Readings: BIE 388-393, 33-37
Bagley, “Intellectual Property,” pp. 367-392 (in case packet)

SESSION 13: MONDAY, MAY 12: INTERNET PRIVACY AND PUBLIC AND PRIVATE POLICY

The Internet is based on the free exchange of information, yet the access to and transferability of information can impose costs on things we value. The growth and ultimate potential of the Internet and e-commerce depend on the confidence people have in how information they provide is and could be used. This session deals with an episode and an ongoing debate about Internet privacy rights and their enforcement. The purpose of the session is to consider the privacy issue, how it affects the strategy of a company, and how companies address the pressure from government and the public. The broader issue is whether self-regulation is workable and sufficient to ensure the degree of privacy the public demands. These public demands vary among countries, and part of the session will focus on whether the United States and the European Union can agree to what constitutes “adequate protection.”

Cases: DoubleClick and Internet Privacy, BIE 448-454
The European Union Data Privacy Directive, BIE 545-547

Reading: BIE 437-442

IV. WRAP-UP

SESSION 14: THURSDAY, MAY 15: RESPONSIBILITY AND THE PUBLIC

This concluding session addresses issues of responsibility in dealing with the public and the government. This case concerns Citigroup's acquisition of The Associates in the midst of public criticism and government actions against the acquired's most profitable line of business—subprime lending. Citigroup faces criticism by activist groups, media coverage, lawsuits, actions by state attorneys general, and possible legislation. Citigroup must also determine how to conduct its business in a responsible manner and what the extent of its responsibility is. The conceptual frameworks for this session include those from P230 and from the pre-term P235 Ethics.

Case: Citigroup and Subprime Lending, BIE 829-832

Reading: BIE 642-654 (skim as a refresher from P235)