

Strategic Management of Emerging Markets

by Paul C. Nutt, Fisher College of Business, The Ohio State University

The class I teach at Ohio State University addresses an urgent need in business education—the need for a better understanding of the emerging global economy and its implications for managers and management. The unique aspect of the content is the application of traditional strategic management tools to the management of emerging markets. The learning process has two components. Students learn from first-hand exposure to the phenomena. To see how companies strategically manage emerging markets, students visit firms doing business internationally to see how sustainable competitive advantage was created in an emerging market. The class visits firms to see how their research is born out by what they see and hear in their visits with senior executives. Students also visit Ohio's office of development located in Mexico to see how our state is involved in and influenced by NAFTA and the aspects of international trade.

ences such as pre-Columbian and colonial sites, local traditions (e.g., Folklorico Ballet), and museums. Having regularly traveled to Mexico for 30 years, I have considerable knowledge of side trips of interest to students and act as a tour director.

Content and Organization

The class offers an in-depth learning experience that concentrates on the competitive advantage found in emerging markets. The class uses strategic management tools to investigate the firms visited during our week-long stay in Mexico. Lectures, readings, and videos are split between providing strategic management tools for industry and company analysis, and with the NAFTA and other trade agreements and assessments of them by both critics and supporters.

The class stresses first-hand experience. Presentations by local CEOs are made by Mexican nationals who share their perspective on doing business in their country. Videos such as "Doing Business in Mexico" and guest speakers offer the Mexican point of view. The students are split into four teams, and each team is given one of the four firms visited each year. Each team researches their company and reports on their findings at three points during the quarter. This gives each class member exposure to a variety of firms doing business in Mexico and their approach to strategically managing an emerging market. Students learn as much from presentations and visits as they do from academic offerings of the class. In addition, students address the ethical as well as the economic issues that they encounter and how they would deal with them as a manager.

The visits arranged to date included the following: Daimler-Chrysler PT Cruiser plant in Puebla; Victoria Secrets and Intimark (A VS joint venture partner); Exel logistics/HP and DC. Mexico City; Limited

Paul C. Nutt

is a professor of management sciences and public policy and management in the Fisher College of Business at The Ohio State University. He received his PhD degree (1974) from the University of Wisconsin – Madison, and a BS and MS from the University of Michigan, all in industrial engineering. His research interests include organizational decision making and radical change. Current research interests in decision making include averting decision debacles, the Enneagram and decision style, decision-making tactics, ethics, and learning. Change research interests include organizational transformation and de-development, vision, strategic management, and leadership. He has written over 100 articles and seven books on these topics that have received numerous awards for his research and teaching from the Decision Sciences Institute, Academy of Management, Institute for Operation Research, INFORMS, Center for Creative Leadership, AAMC, FACHE, and others. He is a Fellow in the Decision Sciences Institute. His recent books include Why Decisions Fail (Berrett-Koehler) and The Strategic Management of Public, Third Sector Organization (Jossey-Bass), and Making Tough Decisions (Jossey-Bass). His work has appeared in the Wall Street Journal, Fast Company Magazine, and NPR/PRI's Marketplace. He serves on several editorial review boards, including the Strategic Management Journal, and regularly consults for public, private, and non-profit organizations.

nutt.1@osu.edu

and wool and cotton fabric producers; Cimexlana (a joint venture with South Korea) and Espintex (a joint venture with the Fox government), Puebla; VW assembly plant, Jetta and Super Beetle, Puebla; Cutler-Hammer, Division of Eaton, job shop, Mexico City; Proctor and Gamble, soap batch processing, Mexico City; Mexico Trade Office, Ohio Department of Development, Mexico City; and Mexican Foreign Investment office, Puebla.

Level

The class is an undergraduate honors elective offering, with very competitive admission. We review an essay, indicating what the student expects to gain from the experience, as well as transcripts to select participants. Some Spanish-speaking skills and a demonstrated interest in this region are required as well. We arrange all logistics, but have the student teams manage the on-site visit and ask them to conduct the visit in the native language of the manager, whenever possible.

Number

The class is limited to 18 students, for cost and logistical reasons. The COB subsidizes part of the housing and transportation for the group, so there are limits on the numbers that can participate. The CIBER program in the OSU COB subsidizes this portion of the cost, drawing on CIBER grants and support from the college.

Objectives

The class offers students insight into the global economy and how firms in the 21st century must compete to survive in an internationalized market. The complexity of contemporary international business makes it desirable to provide hands-on experiences whenever possible. The living and working conditions of the labor force in an emerging market must be seen to be fully appreciated.

The notion of competitive advantage is better understood when demonstrated. This is illustrated by our visit this year with a Victoria Secrets (VS) venture partner, Intimark. Intimark's competitive advantage is not low cost. Differentiation, the ability to rapidly adapt to colors that are selling, is valued by VS. Intimark can deliver new garment colors virtually overnight. Intimark's cheaper but longer

delivery time of its Asian competitors require six weeks or more to ship and clear customs. Seeing Exel provide JIT to VW is interesting, but having the local executive explain the fines and penalties in the contract, should there be shortages that stop the production line at VW, is priceless. Watching a German manager from VW's home office deal with the Mexican general manager was a tutorial in cultural differences in management. The labor problems experienced by VW in Puebla mirror this exchange. Seeing the executives at Cutler-Hammer defer to a just-arrived Spanish executive was also a teaching moment that a classroom cannot provide. Timken packages largely purchased parts to sell as kits in Central America, receiving a bigger markup than what they can receive with their bearings.

We can also see the impact on people, in terms of working and living conditions. In Mexico the street rate for labor is a dollar or less. The firms we visit pay less than \$3 per hour, with a third going for benefits (transportation, meals, and modest social services). This is far below U.S. standards but far above local remuneration. We ask our students: Is this good or bad? The debate offers a penetrating look at the world situation. The instructor can pose ethical issues clearly—companies in emerging markets pay more but subject the Mexican worker to the repeated stress syndrome of 1950s U.S. manufacturing. The jobs are fleeting. When another country in Central America enjoying the trade protection of Mexico, such as Honduras, offers cheaper labor rates, firms move on. Mindful of this, policy makers in emerging markets are seeking economic growth through investments that can vault them into world-class manufacturing such as that seen in our visits to world-class fabric weavers in Puebla, which were begun by joint ventures with South Korea and the Fox government. Another excellent teaching moment was when students saw the housing for the Koreans on site at the plant and heard from Mexican executives who said they stayed to get the housing when the Korean oversight people move on.

Emerging markets raise questions about trade agreements and their impact on the U.S. economy, and the strategic management of the market. NAFTA is a natural vehicle to explore trade agreements, particularly with the U.S. perspective that

we teach in business schools. The questions about low or no tariffs for goods made in Mexico and shipped to the U.S. for sales has prompted VW and others to make huge investments in Mexico. Visiting them first hand is a huge educational opportunity. It's instructive to see how P&G uses batch processing and tailors their products such as soap by merely renaming it and using a package that caters to Mexican customs for local consumption.

An excellent approach to seeing why a firm is doing business in an emerging market stems from an assessment of its strategy. This poses questions about what is the sustainable competitive advantage, and how this advantage arises in the emerging market. To take a narrower perspective would limit the insights gained. The strategic study of a firm opens up the analysis to questions about industry influences and firm responses.

Unique Class Features

- Combines the study of companies with visits to see manufacturing first hand, visit with top management, hear the claims of trade office and the counter claims of economic development, and witness the labor force and working conditions.
- Brings together the cultural and the business aspects of global business in the 21st century.
- Links the perspective of the academic approach to strategic management and NAFTA with the wisdom of CEOs who do strategic management and must live with trade laws and their opportunities and threats.
- Gives equal importance to content and how content is offered because it features a real-world situation.
- Uses unique feedback devised to encourage learning and monitor improvement.
- Ties academic recommendations to what is seen as workable in the world of strategic managers.
- Reveals to students the work life experienced by the expatriates who run the companies visited and their nomadic life styles and motivations.
- Poses ethical questions with real situations and lived experiences.
- Offers four opportunities to present in front of a group and get feedback, including the CCME, hosts, and local executives who hear the final team presentations and provide constructive feedback.

Sequencing

The class ends with the trip to Mexico following exam week during the Christmas break. Ten two-hour sessions are offered during the quarter to hear speakers, lectures and videos, and team presentations. The visits call for an equal amount of time from the students to participate in the visits and to assimilate what is learned. Handouts and past papers give samples of what is expected. Student teams are formed on the first day to have a balance of fluency in Spanish, business school majors, and work experience.

The phasing of work in the class begins with presentations on the strategy and the NAFTA material. (I do not require a class in either area as a prerequisite, opening up participation to the best applicants). After the video and lectures on industry analysis and outside presenters, discussing the culture and history of Mexico, a practice case is used to see how a company can be analyzed with the tools, followed by my analysis of the case. I use Nike and others with a strong international presence for this case. Then student teams prepare and present an analysis of the industry that their firm is in—its opportunities and key demands—drawing on the material presented and feedback on the practice case.

Next, students receive videos and lectures on company analysis and an additional presentation by a Mexican CEO living in the U.S. but doing business in Mexico. Students draw on the practice case and the presentations to do a company analysis. Feedback from the class and the instructor follow the format for industry analysis. This is followed by a presentation by a local CEO who has considerable import-export experience, and who offers a U.S. point of view. The last class has teams review their plan for the company visit, and the list of proposed questions, and get suggestions from the class member and the instructor. The team has the responsibility to greet the host and conduct the Q&A sessions on site, including gift presentations from the COB/CIBER for our hosts. This gives the students some valuable leadership experiences.

Presentation

The presentation of material in the class follows conventional methods—lecture, case demonstrations, videos, and outside speakers. What makes the class unique is

the ordering and connection of this material. First the content is introduced, followed by context—the unique features of doing business in Mexico. Here, the class presentations shift from lecture to video to speaker, changing the medium to enhance interest. In the context phase of the class, the instructor brings together the industry analysis and places it in the context of the country and trade laws in the U.S. that facilitate and pose opportunities. The class looks for and documents these opportunities in a five-page report and a presentation.

In phase two, the lecture, video, and outside speaker sequence is repeated for company analysis, which is again followed with a five-page report and formal presentation from each team.

In phase three, we ready the team for their company visit. An outside speaker gives the U.S. CEO perspective, and the team integrates what they have learned about the company and formulates questions. The team presents their plan for the visit and gets suggestions from me, an audience of peers, CIBER people, and any other COB people in attendance. We begin and end the class with a primer on Mexico, what we can do and what we avoid, and the logistics for our travel.

The instructor offers several opportunities to see Mexico, along with extensive slides that cover more than thirty years of my travel for business and pleasure in Mexico.

Effectiveness

Perhaps the best measure of success is demand among our honors group. The class is advertised in the spring. Students with an interest apply by submitting an essay. This requires extra effort, which students normally avoid. Nonetheless, applications for the class far exceed our capacity.

The university uses a tamper-proof course evaluation system. Students collect class evaluation forms, seal the package, and submit them. Because the class extends beyond the quarter a CIBER representative who assists with the visit takes the student role, collecting and sealing the evaluations at the airport as we await the airplane for our return trip. These evaluations use rating scales and have a form for written student comments. The class is the highest rated undergraduate class offered

by the College in the past two years that it has been offered, receiving a nearly 4.9 of a 5.0 maximum rating. Student reactions are important as well. Some select student comments indicate that the class provides great balance between the cultural experience and the professional one, excellent exposure to multinationals, emerging markets, and doing business in Mexico. Students also indicated that the class solidified case writing and speaking skills, gave great exposure to international business NAFTA and the realities of global trade, and provided them with an opportunity to see the companies studied first hand. The class received the undergraduate teaching award from the Fisher College of Business in 2004.

Transferability

The class is readily transferable if one is willing to put in the extra effort required to organize the visits and to recruit outside speakers, and to raise some funds to subsidize a portion of the travel costs. COB's that have a CIBER program or international business support have a ready-made vehicle to offer such classes. These funds are to be allocated for educational purposes, providing a means to cut total costs to the point that many can pay the balance. We charge students \$875. The college allocates \$8,000 and we receive \$7,000 from CIBER grants to cover the balance of the costs and the cost of the instructor's travel and a CIBER person who coordinates logistics of the company visits. For planning purposes, revenues of \$32,500 will easily cover costs for a class of 20. Student surveys find that a student cost of \$1,000 would be readily accepted. It's also wise to have a scholarship available for hardship cases. We plan to move away from foundation funding, which is shrinking and hard to rely on, to ask companies to support the class. We believe that \$30,000 can be raised in most U.S. cities where a university is located.

The effort needed to organize the visits and the outside speakers for the class call for more than one class effort from the instructor. Institutions willing to give some extra credit, particularly when the class is given for the first time, are apt to find volunteers.

Acknowledgement: I am grateful for the assistance of Keong Leong and the support obtained from the international programs office that initiated the class and seed funding. ■