

Building Businesses in Emerging Markets Course Module in International Business

Course Modules help instructors select and sequence material for use as part of a course. Each module represents the thinking of subject matter experts about the best materials to assign and how to organize them to facilitate learning.

Each module recommends four to six items. Whenever possible at least one alternative item for each main recommendation is included, as well as suggested supplemental readings that may provide a broader conceptual context. Cases form the core of many modules but we also include readings from *Harvard Business Review*, background notes, and other course materials.

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1. Overview of suggested content (HBS case unless otherwise noted)

Title	Author	Product Number	Publication Year	Pages	Teaching Note
1. The Macroeconomic Perspective					
Why Study Emerging Markets (HBS note)	Khanna, Palepu, & Carlsson	706422	2005	17p	--
Hermitage's Russian Quandary (A)	Werker, Fisman, & Weber	711054	2011	20p	712043
Alternative 1: Petrobras in Ecuador (A)	Musacchio, Goldberg, & de Pinho	309107	2009	23p	311043
Alternative 2: The IPO of Agricultural Bank of China (ABC) (A)	Jin, Musacchio, & Dawood	712006	2011	21p	---
Alternative 3: Silver Lake and Private Equity in Brazil: Carnival or Calamity?	Musacchio & Goldstein	712004	2011	34p	---
Supplement: End of Corporate Imperialism (HBR classic article)	Pralahad & Lieberthal	R0308G	2003	13p	---
2. Multinationals Seeking the Upper Income Segment					
Microsoft in China and India, 1993-2007	Khanna & Choudhury	708444	2007	19p	708471
Alternative: Novozymes: Cracking the Emerging Markets Code	Palepu & Misztal	112084	2012	22p	--

Supplement: Strategies That Fit Emerging Markets (HBR article)	Khanna, Palepu, Sinha	R0506C	2005	18p	--
3. Emerging Giants					
Bharti Airtel in Africa	Palepu & Bijlani	112096	2012	36p	--
<i>Alternative 1: COFCO Xinjiang Tunhe Co., Ltd.</i>	<i>Bell & Sesia</i>	<i>508079</i>	<i>2008</i>	<i>32p</i>	<i>509045</i>
<i>Alternative 2: Vale: Global Expansion in the Challenging World of Mining</i>	<i>Khanna, Musacchio, & Reisen de Pinho</i>	<i>710054</i>	<i>2010</i>	<i>26p</i>	--
Supplement: Emerging Giants: Building World-Class Companies in Developing Countries (HBR article)	Khanna & Palepu	R0610C	2006	12p	--
4. Reaching the Base of the Pyramid					
Unilever in India: Hindustan Lever's Project Shakti--Marketing FMCG to the Rural Consumer	Rangan & Rajan	505056	2005	24p	507022
<i>Alternative 1: Manila Water Company</i>	<i>V. Kasturi Rangan</i>	<i>508004</i>	<i>2007</i>	<i>21p</i>	--
<i>Alternative 2: Sarvajal: Water for All</i>	<i>Macomber & Sinha</i>	<i>211028</i>	<i>2011</i>	<i>28p</i>	<i>212074</i>
Supplement: Segmenting the Base of the Pyramid (HBR article)	Rangan, Chu, & Petkoski	R1106J	2011	6p	--
Video Supplement: Business at the Base of the Pyramid	Rangan	1486C	2009	58min	--

II. Rationale for selection and sequencing the items in this module

While the emerging market is not a novel development—every developed market was at one time an emerging market—its importance has grown enormously with its absorption of China and India, more than two-and-a-half billion new consumers and producers, and the relative stagnation of developed markets. Not only has it become almost irresistible to businesses as a new source of consumer demand and productive capacity, but it has begun to create its own set of world-class competitors, dazzling consumers and swallowing up companies in the developed world.

In **Section 1**, the HBS note *Why Study Emerging Markets* recounts the history of the concept of emerging markets and proposes a demarcation that has less to do with the level of income or rate of growth than with what it calls “institutional voids,” or the difficulty of doing business because of the lack of the sorts of institutions that businesses in developed countries take for granted, for raising money, enforcing contracts, disseminating information, transporting products, etc. No business can succeed in an emerging market without filling in these institutional voids. The case *Hermitage’s Russian Quandary (A)* gives flesh to those theoretical insights, demonstrating how quickly and badly things can go when a company enters

a country with weak and arbitrary legal and political institutions. In the first alternative case, *Petrobras in Ecuador*, a business from one developing country is bullied by the government of a neighboring developing country, and the legal tradition is not strong enough to protect it or arbitrate between the two parties. In the second alternative, *The IPO of Agricultural Bank of China (ABC)* case leads students to think like the investment bankers that organized the sale of shares of ABC, the largest IPO in the world up to 2010. These investment bankers, however, cannot sell shares of this Chinese state-owned bank without convincing potential investors that Central and Western China will grow as fast, if not faster, than Eastern China. In the third alternative case, *Silver Lake and Private Equity in Brazil: Carnival or Calamity?* has Silver Lake, a technology private equity fund, thinking about opening an office in Brazil. The case discusses different entry strategies for Silver Lake, but the right entry strategy will depend on how the fund interprets its competitive advantage in relation to macroeconomic conditions and to the institutional voids that prevail in Brazil. The supplementary reading, the classic *Harvard Business Review* article, "The End of Corporate Imperialism," discusses the qualities of emerging markets and how multinationals will have to change in order to succeed in them.

Section 2 looks at businesses that first focus on those customers that are most like their traditional customers when they enter an emerging market, those with a rather high level of income, sophistication, and needs. *Microsoft in China and India, 1993-2007* traces the U.S. software giant's attempt to live up to its potential in China and India over 15 years, navigating the lack of IT infrastructure, weak IP protection, government regulation and interference, and popular apathy towards it. There is a video supplement to the case on DVD featuring the chairman of Microsoft India, Ravi Venkatesan, discussing the case subject matter (708804). The alternative, *Novozymes: Cracking the Emerging Markets Code*, is a B2B case, where the Denmark-based leader in industrial enzymes finds itself battling for market share in China in both high-margin and commoditized contexts. The supplemental article, "Strategies That Fit Emerging Markets," introduces the five contexts framework for mapping out the institutional contexts of any nation, so that businesses can match their strategies to the particular strengths and weaknesses of an emerging market.

Section 3 observes how businesses from emerging markets compete at home and abroad. *Bharti Airtel in Africa* looks at how India's largest mobile services operator takes up the challenge of the African market after having bought the African assets of a Bahraini mobile operator, a vast continent with both deep resemblances and differences from India. There is also a video supplement featuring an interview with the company's CEO (113702). In the alternative, *COFCO Xinjiang Tunhe Co., Ltd.*, China's COFCO acquires a poorly managed tomato processing firm and must create the kind of standards and uniformity among the fragmented mass of small farmers from which it buys its tomatoes that Western consumers require. In the second alternate, *Vale: Global Expansion in the Challenging World of Mining*, the Brazilian iron miner is facing political pressures at home and growing competition from Australia for the all-important Chinese market. The supplementary article, "Emerging Giants: Building World-Class Companies in Developing Countries," gives a more general account of the rise of domestic companies in emerging markets that use the same creativity and flexibility that serve them well in evading voids at home to hold their own in foreign markets.

Section 4 addresses a major obstacle to succeeding in emerging markets, how to reach the base of the pyramid. In the main selection, *Unilever in India: Hindustan Lever's Project Shakti*, the Indian subsidiary of Unilever, which had been able to exploit the Indian government's heavy and arbitrary regulation of business to discourage its competition, was faced with a new government that wanted to take down the barriers and level the playing field. With disappointing revenues and margins, it turns to a previously neglected segment, the bottom of the pyramid, extending the excellent distributional system it had created to compensate for another institutional void, this in logistics and transportation, to build a new competitive advantage. The first alternative case, *Manila Water Company*, describes the structure of profitable business models in the provision of basic services such as water, in this instance in the



Philippines. The example of Manila Water is further developed in the supplementary *Harvard Business Review* article, “Segmenting the Base of the Pyramid,” which shows how to divide the base of the pyramid into tractable segments. The multimedia CD-ROM *Business at the Base of the Pyramid* covers much of the same ground as the HBR article, but in the form of a video lecture. The second alternative case, *Sarvajal: Water for All*, looks at how a group of Indian social entrepreneurs builds a franchise model for providing clean water to rural villages in India.